

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

June 30, 2020

Element Fleet Management Corp.

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

	As at June 30, 2020	As at December 31, 2019
	\$	\$
ASSETS		
Cash	63,665	24,224
Restricted funds (note 6)	567,630	434,128
Finance receivables (note 3 and 16)	11,282,278	11,986,974
Equipment under operating leases (note 4)	1,970,298	2,101,367
Accounts receivable and other assets	201,221	219,676
Derivative financial instruments (note 16)	80,663	41,396
Property, equipment and leasehold improvements, net	129,757	141,626
Intangible assets, net	829,761	793,279
Deferred tax assets	460,557	440,952
Goodwill	1,297,275	1,245,981
	16,883,105	17,429,603
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	937,327	924,936
Derivative financial instruments (note 16)	107,314	39,145
Borrowings (note 6)	11,758,735	11,892,861
Convertible debentures (note 7 and 16)	151,976	711,791
Deferred tax liabilities	48,899	48,225
	13,004,251	13,616,958
Shareholders' equity (note 8)	3,878,854	3,812,645
	16,883,105	17,429,603

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, 2020	Three-month period ended June 30, 2019
	\$	\$
NET REVENUE		
Interest income, net (note 10)	140,708	167,075
Rental revenue and other (note 10)	147,997	184,788
Depreciation of equipment under operating leases (note 4)	(99,371)	(119,581)
	189,334	232,282
Interest expense	88,679	128,737
Net financing revenue	100,655	103,545
Fleet service revenue (note 10)	124,418	135,446
Direct costs of fixed rate service contracts (note 10)	(9,903)	(11,164)
Servicing income, net	114,515	124,282
Syndication revenue, net (note 10)	10,333	21,743
Net revenue	225,503	249,570
OPERATING EXPENSES		
Salaries, wages and benefits	74,859	84,532
General and administrative expenses	28,590	28,592
Depreciation and amortization (note 15)	10,910	10,470
Amortization of convertible debenture discount (note 7)	2,003	4,492
Share-based compensation (note 9)	4,427	5,410
	120,789	133,496
DISPOSITION OF 19TH CAPITAL		
Gain on settlement of debt (note 5)	38,580	—
Loss on sale of assets (note 5)	(52,442)	—
Net loss on disposition	(13,862)	—
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	9,660	9,112
Restructuring and transformation costs (note 17)	18,663	21,949
Gain on investments	(3)	(238)
Income before income taxes from operations	62,532	85,251
Provision for income taxes	3,938	21,190
Net income for the period	58,594	64,061
Basic earnings per share (note 12)	\$ 0.11	\$ 0.12
Diluted earnings per share (note 12)	\$ 0.11	\$ 0.12

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, 2020	Six-month period ended June 30, 2019
	\$	\$
NET REVENUE		
Interest income, net (note 10)	281,390	334,283
Rental revenue and other (note 10)	322,452	376,141
Depreciation of equipment under operating leases (notes 4)	(214,191)	(242,126)
	389,651	468,298
Interest expense	193,691	257,866
Net financing revenue	195,960	210,432
Fleet service revenue (note 10)	260,739	265,350
Direct costs of fixed rate service contracts (note 10)	(20,377)	(22,940)
Servicing income, net	240,362	242,410
Syndication revenue, net (note 10)	36,420	38,955
Net revenue	472,742	491,797
OPERATING EXPENSES		
Salaries, wages and benefits	150,329	164,647
General and administrative expenses	60,381	58,390
Depreciation and amortization (notes 15)	21,566	20,830
Amortization of convertible debenture discount (note 7)	4,558	8,147
Share-based compensation (note 9)	9,864	10,580
	246,698	262,594
DISPOSITION OF 19TH CAPITAL		
Gain on settlement of debt (note 5)	38,580	—
Loss on sale of assets (note 5)	(52,442)	—
Net loss on disposition	(13,862)	—
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	19,883	18,288
Restructuring and transformation costs (note 17)	33,658	28,687
Loss on investments	54	1,092
Income before income taxes from operations	158,587	181,136
Provision for income taxes	20,635	36,602
Net income for the period	137,952	144,534
Basic earnings per share (note 12)	\$ 0.27	\$ 0.28
Diluted earnings per share (note 12)	\$ 0.26	\$ 0.28

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, 2020	Three-month period ended June 30, 2019
	\$	\$
Net income for the period	58,594	64,061
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain (loss)	829	(2,284)
Net unrealized foreign exchange loss	(100,387)	(67,460)
	(99,558)	(69,744)
Provision for (recovery of) income taxes	153	(816)
Total other comprehensive loss	(99,711)	(68,928)
Comprehensive loss for the period	(41,117)	(4,867)

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, 2020	Six-month period ended June 30, 2019
	\$	\$
Net income for the period	137,952	144,534
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges loss	(41,638)	(2,235)
Net unrealized foreign exchange gain (loss)	7,125	(145,273)
	(34,513)	(147,508)
Recovery of income taxes	(11,112)	(2,117)
Total other comprehensive loss	(23,401)	(145,391)
Comprehensive income (loss) for the period	114,551	(857)

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, 2019	3,127,714	680,412	59,603	68,754	(217,900)	94,062	3,812,645
Comprehensive income (loss) for the period	—	—	—	—	137,952	(23,401)	114,551
Dividends - Preferred shares (note 8)	—	—	—	—	(21,812)	—	(21,812)
Dividends - Common shares (note 8)	—	—	—	—	(39,767)	—	(39,767)
Options exercised (notes 8 and 9)	10,545	—	—	(4,285)	—	—	6,260
Issuance of shares, net of share issue costs (note 8)	6,356	—	—	—	—	—	6,356
Employee stock option expense (note 9)	—	—	—	621	—	—	621
Balance, June 30, 2020	3,144,615	680,412	59,603	65,090	(141,527)	70,661	3,878,854
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	—	—	—	—	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 8)	—	—	—	—	(22,328)	—	(22,328)
Dividends - Common shares (note 8)	—	—	—	—	(38,962)	—	(38,962)
Options exercised (notes 8 and 9)	9,948	—	—	(7,330)	—	—	2,618
Issuance of shares, net of share issue costs (note 8)	3,849	—	—	—	—	—	3,849
Issuance of convertible debentures	—	—	18,544	—	—	—	18,544
Deferred income taxes on equity component of convertible debentures	—	—	(4,812)	—	—	—	(4,812)
Employee stock option expense (note 9)	—	—	—	1,859	—	—	1,859
Balance, June 30, 2019	3,105,807	680,412	59,932	70,334	(90,224)	111,093	3,937,354

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, 2020 \$	Six-month period ended June 30, 2019 \$
OPERATING ACTIVITIES		
Net income for the period	137,952	144,534
Items not affecting cash		
Share-based compensation (note 9)	621	1,859
Depreciation of property, equipment and leasehold improvements	14,670	13,627
Amortization of intangible assets, including from acquisitions	26,778	25,491
Amortization of deferred lease costs	13,438	15,115
Amortization of deferred financing costs	20,667	28,905
Depreciation of equipment under operating leases (note 4)	214,191	242,126
Amortization of convertible debenture discount and deferred costs (note 7)	7,385	12,316
Loss on investments	54	1,092
Loss on disposal of 19 th Capital, excluding fees	7,504	—
Provision for credit losses	13,112	1,452
	<u>456,372</u>	<u>486,517</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(2,926,770)	(2,931,725)
Repayments of finance receivables	2,392,928	2,258,280
Investment in equipment under operating leases	(428,469)	(587,275)
Proceeds on disposal of equipment under operating leases	135,853	209,386
Syndications of finance receivables	1,622,859	1,238,606
Cash payments for interest portion of lease liability	(1,485)	(1,220)
Other non-cash operating assets and liabilities	(40,592)	(21,532)
Cash provided by operating activities	<u>1,210,696</u>	<u>651,037</u>
INVESTING ACTIVITIES		
Investments	(532)	(338)
Sale of ECAF I Holdings Ltd.	—	97,476
Sale of 19th Capital Group LLC	63,283	—
Purchase of property, equipment and leasehold improvements	(2,206)	(14,486)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	814	27,900
Purchase of intangible assets	(32,473)	(12,213)
Decrease in notes receivable	1,146	3,617
Cash provided by investing activities	<u>30,032</u>	<u>101,956</u>
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	(5,833)	(5,087)
Decrease in restricted funds	(118,857)	10,342
Increase in deferred financing costs	(14,651)	(20,355)
Issuance of share capital, net	6,260	6,467
Repayments of borrowings, net	(945,855)	(443,433)
Settlement of 19th Capital Group LLC debt	(59,479)	—
Dividends paid	(55,036)	(57,518)
Issuance of senior notes	550,520	—
Repayment of 2014 convertible debenture	—	(345,000)
Issuance of 2019 convertible debenture	—	172,500
Repayment of 2015 convertible debenture	(567,200)	—
Cash used in financing activities	<u>(1,210,131)</u>	<u>(682,084)</u>
Effects of foreign exchange rates on cash	8,844	(1,682)
Net increase in cash during the period	39,441	69,227
Cash, beginning of the period	24,224	21,999
Cash, end of the period	<u>63,665</u>	<u>91,226</u>
Supplemental cash flow information:		
Cash taxes paid	14,395	18,920
Cash interest paid	175,765	236,504

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" 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 \$16.9 billion in assets and operations in the United States ("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, reaching 50 countries worldwide through the Element-Arval Global Alliance. Element 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 5,500 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* ("IAS 34"), 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, 2019, which include 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 28, 2020.

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, 2019, except as discussed below.

Change in presentation - elimination of Non-Core operating segment

Following the sale of 19th Capital Group LLC ("19th Capital") on May 1, 2020, management no longer reviews the performance of the Non-Core segment separately from the Fleet Management segment. As a result, the Company modified its operating segments by eliminating the Non-Core segment effective Q2

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2020 and its results of operations and financial position will be presented as one segment. Prior period comparative information has been restated to conform to this presentation.

The Company will continue to present information by geographic location with no change.

COVID-19

The extent and duration of the impact of COVID-19 on communities and the economy remains unclear. In the preparation of these unaudited interim condensed consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of assets and liabilities and the reported amount of earnings for the reporting periods using the best available information as at June 30, 2020. Actual results could differ from those estimates. The estimates and assumptions that the Company considers critical and/or could be impacted by COVID-19 include those underlying the estimate of any expected credit losses on its net investment in finance receivables, other receivables, and determining the values of financial instruments for disclosure purposes.

Interest Rate Benchmark Reform

During the first quarter of 2020, the Company adopted amendments ("Amendments") to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures (Amendments)*, applicable from November 1, 2019. These Amendments modify certain hedge accounting requirements to provide relief from the effect of uncertainty caused by interest rate benchmark reform ("the Reform") prior to the transition to alternative interest rates. The adoption of the Amendments had no impact to our unaudited interim condensed consolidated financial statements.

The Company will cease to apply these Amendments as interbank offered rate ("IBOR") based cash flows transition to new risk-free rates or when the hedging relationships to which the relief is applied are discontinued.

Hedge accounting

The Company's accounting policies relating to hedge accounting are described in note 2 and note 20 of the Company's consolidated financial statements for the year ended December 31, 2019. The Company applies hedge accounting when designated hedging instruments are highly effective in offsetting changes in the fair value or cash flows of the hedged items at inception and on an ongoing basis. Retrospective assessments are performed to demonstrate that the relationship has been effective since designation of the hedge and prospective assessments to evaluate whether the hedge is expected to be effective over the remaining term of the hedge. While uncertainty due to IBOR reform exists, the Company's prospective effectiveness testing is based on existing hedged cash flows or hedged risks. Any ineffectiveness arising from retrospective testing is recognized in net income.

In addition to potential sources of ineffectiveness outlined in note 20 of the Company's consolidated financial statements for the year ended December 31, 2019, the Reform may result in ineffectiveness as the transition of hedged items and related hedging instruments from IBORs to new risk-free rates may

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occur at different times. This may result in different impacts on the valuation or cash flow variability of hedged items and related hedging instruments.

Cash flow hedges

The Company applies hedge accounting for cash flow hedges when the cash flows giving rise to the risk being hedged have a high probability of occurring. While uncertainty due to IBOR reform exists, the Company applies the relief provided by the Amendments that the IBOR benchmarks, on which the highly probable hedged cash flows are based, are not altered as a result of the Reform. In addition, associated cash flow hedge reserves are not recycled into net income solely due to changes related to the transition from IBOR to new risk-free rates.

Hedging relationships impacted by interest rate benchmark reform

The following table presents the notional amount of the Company's hedging instruments which reference IBOR that will expire after 2021 and will be affected by the Reform. The notional amounts of the Company's hedging instruments also approximate the extent of the risk exposure the Company manage through hedging relationships:

	As at June 30, 2020
	Notional/Principal amount⁽¹⁾
	\$
Interest rate contracts	
USD LIBOR	4,647,385
	4,647,385

1. Excludes interest rate contracts and non-derivative instruments which reference rates to multi-rate jurisdictions, including the Canadian Dollar Offered Rate ("CDOR"), Australian Bank Bill Swap Rates ("BBSW"), and New Zealand Bank Bill Rates ("BBR").

Future accounting changes

Amendments to IAS 1 and IAS 8: *Definition of Material*

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of, nor is there expected to be any future impact to the Company.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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3. FINANCE RECEIVABLES

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

	As at June 30, 2020			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	9,136,936	269,588	248,951	9,655,475
Unguaranteed residual values	2,947	58,969	—	61,916
Gross investment	9,139,883	328,557	248,951	9,717,391
Unearned income	(619,719)	(42,389)	—	(662,108)
Net investment	8,520,164	286,168	248,951	9,055,283
Net realizable value of impaired receivables	109,454	2,584	—	112,038
Unamortized deferred costs and subsidies	(100,459)	—	—	(100,459)
Prepaid lease payments and security deposits	(15,840)	—	(20,985)	(36,825)
Interim funding	1,475,514	—	21,338	1,496,852
Fleet management receivables	398,427	33,822	16,546	448,795
Other receivables	189,289	70,233	67,072	326,594
Allowance for credit losses (Subsection C)	(16,022)	(2,319)	(1,659)	(20,000)
Total finance receivables	10,560,527	390,488	331,263	11,282,278
	As at December 31, 2019			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	10,047,261	258,465	192,605	10,498,331
Unguaranteed residual values	1,150	59,790	—	60,940
Gross investment	10,048,411	318,255	192,605	10,559,271
Unearned income	(837,163)	(39,622)	—	(876,785)
Net investment	9,211,248	278,633	192,605	9,682,486
Net realizable value of impaired receivables	47,972	5,560	—	53,532
Unamortized deferred costs and subsidies	(107,257)	—	—	(107,257)
Prepaid lease payments and security deposits	(40,431)	—	(26,436)	(66,867)
Interim funding	1,311,256	—	110,351	1,421,607
Fleet management receivables	631,720	38,222	21,966	691,908
Other receivables	183,804	77,254	58,939	319,997
Allowance for credit losses (Subsection C)	(6,227)	(1,192)	(1,013)	(8,432)
Total finance receivables	11,232,085	398,477	356,412	11,986,974

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:

	As at June 30, 2020		As at December 31, 2019	
	\$	%	\$	%
31-60 days past due	21,120	0.23	8,410	0.09
61-90 days past due	6,324	0.07	3,433	0.04
91-120 days past due	7,873	0.09	3,024	0.03
Total past due	35,317	0.39	14,867	0.16
Current	9,019,966	99.61	9,667,619	99.84
Total net investment	9,055,283	100.00	9,682,486	100.00

B) Interest rate characteristics of net investment in finance lease receivables and loan receivables

	As at June 30, 2020		As at December 31, 2019	
	Leases	Loans	Leases	Loans
Net investment	\$ 8,936,282	\$ 119,001	\$ 9,579,674	\$ 102,812
Weighted average fixed interest rate	4.68 %	8.29 %	4.76 %	9.09 %
Weighted average floating interest rate	2.87 %	3.03 %	4.33 %	6.48 %
Percentage of portfolio with fixed interest rate	45.90 %	99.55 %	46.29 %	98.49 %

C) Allowance for credit losses

In accordance with IFRS 9, *Financial Instruments*, the Company applies the expected credit loss ("ECL") model to loans that are financially healthy with no sign of increased credit risk (Stage 1), leases and loans that have an increased credit risk when compared to origination but are not credit impaired (Stage 2 or Performing), and Impaired leases and loans (Stage 3 or Impaired) at the end of each reporting period. The ECL model requires consideration of many different factors in making an assessment of the Company's credit risk on its leases and loans and includes forward-looking macroeconomic information such as changes in Gross Domestic Product ("GDP") and its effect on the probability of default ("PD") and forecast used vehicle market and its impact on loss given default ("LGD"). The Company continues to evaluate its inputs to the model to ensure it appropriately reflects current market conditions in light of the global outbreak of COVID-19 and information available to the Company as at June 30, 2020.

PD represents the likelihood that a lease or loan will not be repaid and will go into default. The Company evaluates its credit risk exposure broadly in line with Standard & Poor's and Moody's ratings outlined below and will adjust internal classifications based on additional information the Company has available to it at the time of the assessment. In conjunction with the Company's evaluation of PD as of June 30,

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2020, and consistent with the ECL model, the Company reviewed its classifications and updated its internal assessment of PD based on current information.

LGD is the amount that may not be recovered in the event of a default and is modeled on historical information. The Company's lease and loan portfolio is secured by the underlying assets and, in the event of an obligor bankruptcy, leases are typically affirmed, resulting in continued collection of lease payments. Further, all the vehicles in a client portfolio are cross-collateralized, such that the surplus collateral on (usually older) vehicles can be used to offset under-collateralized positions (usually newer vehicles), such that the net full value of the lease and loan would be recovered. As a result, the Company is often able to recover 100% of the net investment. Additionally, used vehicle pricing improved markedly during the period in all three regions driving a decrease in the LGD as at June 30, 2020. The Company expects that the used vehicle market will continue to hold or strengthen in values in the aftermath of the pandemic as drivers of vehicles keep their cars for longer periods of time (or purchase used vehicles instead of new vehicles), reducing the supply in the used car market and increasing prices. The Company does not believe the rebound seen in the second quarter of 2020 is short lived, although some short term volatility can be expected.

Based on the Company's review of its inputs to the model during the second quarter of 2020, there were immaterial changes to the PD profiles and positive improvements to the LGD indicating favorability in the allowance for credit losses. However, the Company also considered forward-looking macroeconomic information in light of COVID-19 such as projected changes in GDP and the impact potential downward trends in GDP would have on the Company's lease and loan portfolio. The Company has also evaluated multiple scenarios related to COVID-19, including expected time periods of market slow-down and recovery. Given the uncertainty of the pandemic and based on forward-looking macroeconomic expectations, the allowance for credit losses remains \$20,000 as it was for Q1 2020.

The Company's evaluation of the above inputs to its model resulted in a provision for credit losses of \$13,112 for the six months ended June 30, 2020.

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

Finance leases	Performing	Impaired	Total
	\$	\$	\$
Balance as at January 1, 2020	7,537	535	8,072
Transfer to Performing	46	(46)	—
Transfer to Impaired	(827)	827	—
Lease originations	9,253	—	9,253
Changes in models and inputs, derecognition, and repayments	4,186	(382)	3,804
Total	20,195	934	21,129
Charge-offs, net of recoveries	(1,121)	6	(1,115)
Foreign exchange	(346)	180	(166)
Balance as at June 30, 2020	18,728	1,120	19,848

Fleet management receivables	Performing	Impaired	Total
	\$	\$	\$
Balance as at January 1, 2020	50	9	59
Provision for credit losses	50	94	144
Charge-offs, net of recoveries	(63)	(48)	(111)
Foreign exchange	3	1	4
Balance as at June 30, 2020	40	56	96

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance as at January 1, 2020	4	266	31	301
Changes in models and inputs, derecognition, and repayments	(3)	(61)	(25)	(89)
Total	1	205	6	212
Charge-offs, net of recoveries	—	(157)	—	(157)
Foreign exchange	—	1	—	1
Balance as at June 30, 2020	1	49	6	56

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Finance leases	Performing \$	Impaired \$	Total \$	
Balance as at January 1, 2019	8,556	322	8,878	
Transfer to Performing	82	(82)	—	
Transfer to Impaired	(698)	698	—	
Lease originations	9,276	—	9,276	
Changes in models and inputs, derecognition, and repayments	(6,922)	(397)	(7,319)	
Total	10,294	541	10,835	
Charge-offs, net of recoveries	(2,023)	—	(2,023)	
Foreign exchange	(734)	(6)	(740)	
Balance as at December 31, 2019	7,537	535	8,072	
Fleet management receivables	Performing \$	Impaired \$	Total \$	
Balance as at January 1, 2019	19	12	31	
Provision for credit losses	2	123	125	
Charge-offs, net of recoveries	31	(126)	(95)	
Foreign exchange	(2)	—	(2)	
Balance as at December 31, 2019	50	9	59	
Loans	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Balance as at January 1, 2019	3	207	213	423
Changes in models and inputs, derecognition, and repayments	3	166	(169)	—
Total	6	373	44	423
Charge-offs, net of recoveries	—	(109)	—	(109)
Foreign exchange	(2)	2	(13)	(13)
Balance as at December 31, 2019	4	266	31	301

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

	Six-month period ended	Year ended
Allowance for credit losses	June 30, 2020	December 31, 2019
	\$	\$
Allowance for credit losses, beginning of the period	8,432	9,332
Provision for credit losses	13,112	2,082
Charge-offs, net of recoveries	(1,383)	(2,227)
Impact of foreign exchange rates	(161)	(755)
Allowance for credit losses, end of the period	20,000	8,432
Allowance as a percentage of total finance receivables before allowance	0.18 %	0.07%

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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, 2020:

Finance leases	Performing	Impaired	Total	
	\$	\$	\$	
Internal risk rating grade				
Low	4,795,580	—	4,795,580	
Medium	2,982,177	—	2,982,177	
High	1,158,525	—	1,158,525	
Other finance receivables	326,594	—	326,594	
Impaired	—	111,889	111,889	
	9,262,876	111,889	9,374,765	
Allowance for credit losses	(18,728)	(1,120)	(19,848)	
Net carrying value	9,244,148	110,769	9,354,917	
Fleet management receivables				
	Performing	Impaired	Total	
	\$	\$	\$	
Fleet management receivables	443,491	5,304	448,795	
Allowance for credit losses	(40)	(56)	(96)	
Net carrying value	443,451	5,248	448,699	
Loans				
	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Internal risk rating grade				
Low	—	9,934	—	9,934
Medium	9,568	75,300	—	84,868
High	—	24,199	—	24,199
Impaired	—	—	149	149
	9,568	109,433	149	119,150
Allowance for credit losses	(1)	(49)	(6)	(56)
Net carrying value	9,567	109,384	143	119,094

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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, 2019:

Finance leases	Performing	Impaired	Total	
	\$	\$	\$	
Internal risk rating grade				
Low	5,877,562	—	5,877,562	
Medium	3,538,895	—	3,538,895	
High	163,217	—	163,217	
Other finance receivables	319,997	—	319,997	
Impaired	—	52,870	52,870	
	9,899,671	52,870	9,952,541	
Allowance for credit losses	(7,537)	(535)	(8,072)	
Net carrying value	9,892,134	52,335	9,944,469	
Fleet management receivables	Performing	Impaired	Total	
	\$	\$	\$	
Fleet management receivables	688,266	3,642	691,908	
Allowance for credit losses	(50)	(9)	(59)	
Net carrying value	688,216	3,633	691,849	
Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Internal risk rating grade				
Low	6	17,799	—	17,805
Medium	15,106	67,629	—	82,735
High	—	2,248	24	2,272
Impaired	—	—	662	662
	15,112	87,676	686	103,474
Allowance for credit losses	(4)	(266)	(31)	(301)
Net carrying value	15,108	87,410	655	103,173

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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 unaudited interim condensed consolidated statements of financial position. The lease payments received are recognized in income as rental revenue.

	As at June 30, 2020	As at December 31, 2019
	\$	\$
Cost	2,775,649	3,155,540
Accumulated depreciation	805,351	1,054,173
Net carrying amount	1,970,298	2,101,367

5. 19TH CAPITAL

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. At the time of acquisition, 19th Capital was no longer treated as a joint venture and the assets and liabilities of 19th Capital were recorded on the Company's consolidated statement of financial position as a wholly owned subsidiary at the acquisition-date fair value.

During the fourth quarter of 2019, the Company recorded a \$260,000 impairment charge on its truck portfolio as a result of its evaluation of the carrying value of the assets compared to the current market conditions at that time. At December 31, 2019, 19th Capital assets subject to impairment considerations (total assets excluding cash, deferred tax assets and right-of-use ("ROU") assets related to the Company's leases in which it is a lessee) were \$133,000, which was comprised primarily of equipment under operating leases, with third-party debt of \$122,000.

During the first quarter of 2020, the Company continued to shift its efforts to accelerate the run-off of 19th Capital, including ramping-up the pace of liquidation of the entity's assets, immediately reducing the scale of 19th Capital operations and engaging with third-party lenders. At March 31, 2020, 19th Capital assets (excluding cash, deferred tax assets and ROU assets) were \$122,000, which was comprised primarily of equipment under operating leases, with third-party debt of \$99,000.

On May 1, 2020, the Company sold the equipment under operating leases and certain other assets of 19th Capital for \$63,283 resulting in a pre-tax loss on sale of \$52,442. Prior to the sale and during the second

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quarter of 2020, the Company settled all third-party debt at a discount resulting in a pre-tax gain on the settlement of debt of \$38,580. The net pre-tax loss on the sale and settlement of debt is \$13,862 which is recorded in the Company's results of operations for the three and six month periods ended June 30, 2020.

In conjunction with the sale, the Company entered into a transition services agreement whereby the Company performs certain administrative or overhead functions subsequent to the sale through August 1, 2020, in exchange for a fee. The reimbursement of the expenses associated with the transition services agreement is included as a reduction of general and administrative expenses in the unaudited interim condensed consolidated financial statements. The Company will have no continuing involvement in the operations, results or cash flows of 19th Capital.

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6. BORROWINGS

The Company's outstanding borrowings were as follows:

	As at June 30, 2020			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	4,564,215	2.51	4,609,222	49,223
Variable rate borrowings	4,848,619	1.42	5,063,884	65,432
Other	45,473	4.54	45,268	—
Vehicle management asset-backed debt	9,458,307	1.96	9,718,374	114,655
Revolving senior credit facilities ⁽²⁾	1,774,086	1.43	—	—
Senior notes	542,800	3.85	—	—
	11,775,193	1.97	9,718,374	114,655
Deferred financing costs	(40,232)			
Hedge accounting fair value adjustments	23,774			
Total borrowings	11,758,735			

	As at December 31, 2019			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	5,697,575	2.67	6,133,104	58,685
Variable rate borrowings	4,363,677	2.63	4,634,651	53,623
Other	169,485	4.87	175,019	—
Vehicle management asset-backed debt	10,230,737	2.69	10,942,774	112,308
Revolving senior credit facilities ⁽²⁾	1,703,507	2.79	—	—
	11,934,244	2.70	10,942,774	112,308
Deferred financing costs	(48,804)			
Hedge accounting fair value adjustments	7,421			
Total borrowings	11,892,861			

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. Prior to December 11, 2019, the revolving senior credit facilities are secured by a general security agreement in favor of the lenders in respect of all property. The senior credit facilities are unsecured as of the December 11, 2019 amendment.

The Company was in compliance with all financial and reporting covenants with all of its lenders at June 30, 2020.

Vehicle management asset-backed debt

As at June 30, 2020, the Company has available capacity in variable rate borrowings and other of \$2,889,866 (December 31, 2019 – \$3,872,777) under its vehicle management asset-backed debt facilities.

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Subsequent to June 30, 2020, the Company issued USD \$750,000 of vehicle management asset-backed term notes. The proceeds from this issuance were used to pay down variable funding notes, increasing the available capacity in variable note borrowings by a similar amount.

Revolving senior credit facilities

As at June 30, 2020, the Company had access to an additional \$1,754,114 (December 31, 2019 - \$1,672,593) of available financing from the revolving senior credit facilities.

Senior notes

During the three-month period ended June 30, 2020, the Company issued USD \$400,000 in aggregate principal amount of 3.85% senior unsecured notes due June 15, 2025. The senior unsecured notes were priced at \$99.985 per \$100 principal amount for an effective yield of 3.853%. Interest is paid semi-annually in arrears on June 15 and December 15, commencing on December 15, 2020.

Restricted funds

As at June 30, 2020, restricted funds include (i) cash reserves of \$114,655 (December 31, 2019 - \$112,308), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection account of \$416,925 (December 31, 2019 - \$321,820), 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 of \$36,050 (December 31, 2019 - nil) provided to counterparties as collateral against derivatives liabilities.

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7. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

As at June 30, 2020							
Issue Date	Final maturity date	Conversion price per share ⁽¹⁾	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
April 5, 2019	June 30, 2024	12.05	4.250	172,500	(5,157)	(15,367)	151,976

As at December 31, 2019							
Issue Date	Final maturity date	Conversion price per share	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
May 29, 2015	June 30, 2020	17.19	4.250	567,200	(2,252)	(2,914)	562,034
April 5, 2019	June 30, 2024	12.05	4.250	172,500	(5,732)	(17,011)	149,757
				739,700	(7,984)	(19,925)	711,791

1. There was no change to the conversion price from the date of issuance for the April 5, 2019 issuance.
2. Stated interest rate on principal face value.

May 29, 2015 Issuance

On June 30, 2020, the \$567,200 4.25% extendible convertible unsecured subordinated debentures matured and were repaid in full, including accrued interest, by the Company, on June 29, 2020, in accordance with the Trust Indenture.

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8. SHARE CAPITAL

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

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2018	433,204,448	3,092,010
Share issuance	1,655,960	19,037
Exercise of options	1,648,709	16,667
Balance, December 31, 2019	436,509,117	3,127,714
Share issuance	562,952	6,356
Exercise of options	880,675	10,545
Balance, June 30, 2020	437,952,744	3,144,615

Issuance of common shares

On October 1, 2018, Element 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 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. During the three- and six-month periods ended June 30, 2020, the Company issued 150,044 and 562,952 common shares under the DRIP (three- and six-month periods ended June 30, 2019 - 306,678 and 492,737 common shares).

Common share dividends

During the three- and six-month periods ended June 30, 2020, the Company declared \$19,822 and \$39,545, respectively, in common share dividends, or \$0.045 and \$0.09, respectively, per common share (three- and six-month periods ended June 30, 2019 - \$19,468 and \$38,962, respectively, in common shares, or \$0.045 and \$0.09, respectively, per common share).

As at June 30, 2020, the accrued common share dividends were \$19,822 (December 31, 2019 – \$19,738).

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Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at June 30, 2020 consist of the following:

Series	Issue date	Interest rate %	Gross \$	After tax transaction costs \$	Net proceeds \$	Shares #
A	December 17, 2013	6.93 ¹	115,000	4,625	110,375	4,600,000
C	March 7, 2014	6.21 ²	128,160	3,416	124,744	5,126,400
E	June 18, 2014	5.903 ³	133,048	3,054	129,994	5,321,900
G	May 29, 2015	6.50	172,500	3,957	168,543	6,900,000
I	May 5, 2017	5.75	150,000	3,244	146,756	6,000,000

1. On December 20, 2018, Preferred Shares Series A dividend rate was reset from 6.60% to 6.93%.

2. On June 21, 2019, Preferred Shares Series C dividend rate was reset from 6.50% to 6.21%.

3. On September 19, 2019, Preferred Shares Series E dividend rate was reset from 6.40% to 5.903%.

Preferred share dividends

During the three- and six-month periods ended June 30, 2020, the Company declared \$10,906 and \$21,812 in preferred share dividends, respectively (three- and six-month periods ended June 30, 2019 – \$11,164 and \$22,328, respectively).

As at June 30, 2020, the accrued preferred share dividends were \$120 (December 31, 2019 – \$120).

9. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended		Six-month period ended	
	June 30, 2020 \$	June 30, 2019 \$	June 30, 2020 \$	June 30, 2019 \$
(a) Stock options	284	881	621	1,859
(b) Deferred share units	496	556	877	805
(c) Performance share units	1,859	112	4,556	(93)
(d) Restricted share units	1,788	3,861	3,810	8,009
	4,427	5,410	9,864	10,580

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(a) Stock options

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

	Number of options #	Weighted average exercise price \$
Outstanding, December 31, 2018	25,328,610	10.01
Forfeited	(679,657)	11.13
Expired	(4,977,529)	11.58
Exercised ⁽¹⁾	(3,258,991)	6.14
Outstanding, December 31, 2019	16,412,433	10.26
Forfeited	(39,734)	5.73
Expired	(298,113)	11.65
Exercised ⁽¹⁾	(1,165,680)	8.98
Outstanding, June 30, 2020	14,908,906	10.34

1. Weighted average share price of options exercised during the six-month period ended June 30, 2020 was \$12.23 (year ended December 31, 2019 – \$8.61).

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

	Deferred share units #	Performance share units #	Restricted share units #
Outstanding, December 31, 2018	781,637	382,339	2,103,733
Granted	216,964	1,125,467	899,248
Forfeited	—	—	(88,477)
Redeemed	(315,898)	—	(1,017,564)
Outstanding, December 31, 2019	682,703	1,507,806	1,896,940
Granted	93,948	553,734	719,964
Forfeited	—	(1,388)	(64,732)
Redeemed	—	(168,571)	(900,193)
Outstanding, June 30, 2020	776,651	1,891,581	1,651,979

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10. REVENUE

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

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Major service lines				
Interest income, net	140,708	167,075	281,390	334,283
Rental revenue	139,377	171,799	302,752	349,871
Gain on sale of equipment under operating leases	8,620	12,989	19,700	26,270
Depreciation of equipment under operating leases	(99,371)	(119,581)	(214,191)	(242,126)
Financing revenue before interest expense	189,334	232,282	389,651	468,298
Other service revenue, net	89,992	98,463	189,482	189,600
Vehicle sales and end of contract fees	24,523	25,819	50,880	52,810
Service and other revenue, net	114,515	124,282	240,362	242,410
Syndication revenue, net	10,333	21,743	36,420	38,955
Net revenue before interest expense	314,182	378,307	666,433	749,663
Primary geographical markets				
US and Canada	244,566	308,303	523,463	613,276
Australia and New Zealand	42,297	46,929	85,207	90,916
Mexico	27,319	23,075	57,763	45,471
Net revenue before interest expense	314,182	378,307	666,433	749,663
Timing of revenue recognition				
Revenue earned at a point in time	88,129	110,594	202,797	213,031
Revenue earned over time	226,053	267,713	463,636	536,632
Net revenue before interest expense	314,182	378,307	666,433	749,663

Revenue earned at a point in time includes gain on sale of equipment under operating leases, commissions from repairs due to accidents, fuel, title and registration fees, syndication revenue, and vendor commissions. Revenue earned over time includes interest income and rental revenue, fleet maintenance and accident management fees, and telematics fees.

(A) Contract balances

	As at June 30, 2020	As at December 31, 2019
	\$	\$
Contract assets	19,532	23,404

Contract assets represent the costs the Company incurs to enter into service contracts with customers including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 3. During the three- and six-month periods ended June 30, 2020, the Company

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has recorded \$2,453 and \$4,888, respectively, of amortization on its service contract assets (three- and six-month periods ended June 30, 2019 - \$2,749 and \$4,897, respectively).

B) Performance obligations

Fixed-fee Service Contracts. The Company provides separately priced and contracted service contracts to its fleet clients that range 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.

11. INCOME TAXES

The Company calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. IAS 34 requires this annual tax rate to be reviewed each quarter and applied to the profits earned to date.

The effective income tax rate was 6.3% and 13.0% for the three- and six-months ended June 30, 2020, respectively (three- and six-months ended June 30, 2019 - 24.9% and 20.2%, respectively). The year to date effective tax rate is lower than prior years reflecting year-over-year variances in pre-tax net income and other tax related adjustments.

12. EARNINGS PER SHARE

Basic earnings per share is as follows for the three- and six-month periods ended June 30:

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Net income attributable to shareholders	58,594	64,061	137,952	144,534
Cumulative dividends on preferred shares	(10,906)	(11,164)	(21,812)	(22,328)
Net income available to common shareholders	47,688	52,897	116,140	122,206
Weighted average number of common shares outstanding – basic (number)	437,848,713	434,694,229	437,569,721	434,157,978
Basic earnings per share	\$ 0.11	\$ 0.12	\$ 0.27	\$ 0.28

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Diluted earnings per share is as follows for the three- and six-month periods ended June 30:

	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Net income available to common shareholders adjusted for the effects of dilution	47,688	54,445	119,647	123,754
Weighted average number of common shares outstanding – basic (number) ⁽¹⁾	437,848,713	434,694,229	437,569,721	434,157,978
Convertible debentures (number)	—	14,381,556	14,315,353	14,381,556
Dilutive stock options and warrants (number)	1,230,160	491,305	1,522,155	736,907
Weighted average number of common shares outstanding – diluted (number)	439,078,873	449,567,090	453,407,229	449,276,441
Diluted earnings per share	\$ 0.11	\$ 0.12	\$ 0.26	\$ 0.28

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 7,002 and 7,770 shares for the three- and six-month periods ended June 30, 2019, respectively.

Instruments outstanding as at June 30, 2020 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, included 9,223,213 and 9,223,213 stock options for the three- and six-month periods ended June 30, 2020, respectively (three- and six-month periods ended June 30, 2019, 14,137,072 and 14,137,072 stock options, respectively).

In addition, the 2019 convertible debenture (note 7) was excluded from the diluted earnings per share calculation for the three-month period ended June 30, 2020 (the 2015 convertible debenture (note 7) was excluded from the diluted earnings per share calculation for the three- and six-month periods ended June 30, 2019) as it was anti-dilutive.

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13. CAPITALIZATION

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. Element's funding activities are well diversified by facility, geography, investor, and lender and include both secured and unsecured sources.

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

As at	June 30, 2020	December 31, 2019
<i>(in \$000's)</i>	\$	\$
Cash	63,665	24,224
Unsecured debt		
Senior credit facilities	1,774,086	1,703,507
4.250% Convertible Debentures due 2020	—	562,034
4.250% Convertible Debentures due 2024	151,976	149,757
3.850% Senior Notes due 2025	542,800	—
Vehicle Management Asset-Backed Debt		
Term notes amortization	4,564,215	5,697,575
Variable	4,848,619	4,363,677
Other	45,473	169,485
Deferred financing costs	(40,232)	(48,804)
Hedge accounting fair value adjustments	23,774	7,421
Total debt	11,910,711	12,604,652
Shareholders' equity		
Common share capital	3,204,218	3,127,714
Preferred share capital	680,412	680,412
Other	(5,776)	4,519
Total Shareholders' Equity	3,878,854	3,812,645
Total Capitalization	15,789,565	16,417,297

**NOTES TO INTERIM CONDENSED CONSOLIDATED
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(unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts)

14. GEOGRAPHIC INFORMATION

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

Selected geographic assets are as follows:

	As at June 30, 2020				As at December 31, 2019			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	10,560,527	390,488	331,263	11,282,278	11,232,085	398,477	356,412	11,986,974
Equipment under operating leases	47,808	1,253,622	668,868	1,970,298	174,912	1,273,173	653,282	2,101,367
Goodwill and intangible assets	2,094,786	30,988	1,262	2,127,036	2,008,079	30,537	644	2,039,260
Property, equipment and leasehold improvements	97,509	21,034	11,214	129,757	111,163	21,937	8,526	141,626
	12,800,630	1,696,132	1,012,607	15,509,369	13,526,239	1,724,124	1,018,864	16,269,227

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

15. LEASES

The Company leases its office space and certain office equipment. 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 June 30, 2020	As at December 31, 2019
		\$	\$
Assets	Classification		
Right-of-use assets	Buildings, net of accumulated depreciation ⁽¹⁾	91,676	95,354
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	95,524	97,439

1. As at June 30, 2020, right-of-use assets are recorded net of accumulated amortization of \$18,333 (December 31, 2019 - \$12,910).

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	Lease cost	Classification	Three-month period ended		Six-month period ended	
			June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
			\$	\$	\$	\$
Amortization of leased assets		Depreciation and amortization	3,581	3,263	7,211	6,572
Interest on lease liabilities		Interest expense	743	588	1,485	1,220
Net lease cost			4,324	3,851	8,696	7,792

Maturity of lease liabilities	As at June 30, 2020
	\$
2020	5,505
2021	11,584
2022	11,861
2023	10,788
2024	6,866
Thereafter	48,920

Lease Term and Discount Rate	As at June 30, 2020	As at December 31, 2019
Weighted-average remaining lease term (years)	11.9	11.5
Weighted-average discount rate	3.03 %	3.09 %

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 borrowings on finance receivables

The assertion that the carrying value of the finance receivables and 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 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.

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 fair value through profit and loss ("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.

Accounts receivable, accounts payable, and accrued liabilities

The carrying value of the accounts receivable, accounts payable, and accrued liabilities approximates their fair value.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
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(unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts)

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 years 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 year.

	As at June 30, 2020				Total
	Level 1	Level 2	Level 3		
	Quoted market price	Observable market inputs	Non- observable market inputs	Carrying value	
\$	\$	\$	\$	\$	
Financial assets					
Assets not carried at fair value					
Cash	63,665	63,665	—	—	63,665
Finance lease receivables	11,163,277	—	—	11,163,277	11,163,277
Finance loans receivables	119,001	—	—	119,001	119,001
Accounts receivable and other assets	184,183	—	—	184,183	184,183
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	80,577	—	80,577	—	80,577
Interest rate caps	86	—	86	—	86
Investments classified as FVTPL	6,778	—	—	6,778	6,778
Total financial assets	11,617,567	63,665	80,663	11,473,239	11,617,567
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	937,327	—	—	937,327	937,327
Borrowings on finance receivables	11,758,735	—	—	11,758,735	11,758,735
Convertible debentures	151,976	—	164,142	—	164,142
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	105,635	—	105,635	—	105,635
Equity swaps	1,679	—	1,679	—	1,679
Total financial liabilities	12,955,352	—	271,456	12,696,062	12,967,518

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, 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					
Cash	24,224	24,224	—	—	24,224
Finance lease receivables	11,884,162	—	—	11,884,162	11,884,162
Finance loans receivables	102,812	—	—	102,812	102,812
Accounts receivable and other assets	203,834	—	—	203,834	203,834
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	40,555	—	40,555	—	40,555
Interest rate caps	327	—	327	—	327
Equity Swaps	514	—	514	—	514
Investments classified as FVTPL	6,266	—	—	6,266	6,266
Total financial assets	12,262,694	24,224	41,396	12,197,074	12,262,694
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	924,936	—	—	924,936	924,936
Borrowings on finance receivables	11,892,861	—	—	11,892,861	11,892,861
Convertible debentures	711,791	—	737,917	—	737,917
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	39,145	—	39,145	—	39,145
Total financial liabilities	13,568,733	—	777,062	12,817,797	13,594,859

17. RESTRUCTURING AND TRANSFORMATION

During the three- and six-month periods ended June 30, 2020, the Company recorded transformation expenses of \$18,663 and \$33,658, respectively (three- and six-month periods ended June 30, 2019 - \$21,949 and \$28,687, respectively). All amounts have been incurred and paid or expect to be paid by the end of the third quarter of 2020.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Transformation and restructuring expenses during the three- and six-month periods ended June 30:

Nature of expenses	Three-month period ended		Six-month period ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
Severances	5,681	3,954	5,771	4,543
Professional fees and other	12,982	17,995	27,887	24,144
Total	18,663	21,949	33,658	28,687

Remaining un-paid liabilities related to transformation expenses.

Nature of expenses	As at June 30, 2020	As at December 31, 2019
	\$	\$
Severances	3,308	5,883
Professional fees and other	11,245	15,111
Employee bonuses	—	14,220
Total	14,553	35,214

18. SYNDICATIONS

The following represents the detail of the Company's syndicated assets.

Classification		As at June 30, 2020	As at December 31, 2019
		\$	\$
Provision for early termination	Accounts payable and accrued liabilities	8,416	5,779
Deferred servicing fee	Finance receivables	998	1,181

Classification		Three-month period ended		Six-month period ended	
		June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
		\$	\$	\$	\$
Syndication revenue, net	Syndication revenue, net	10,333	21,743	36,420	38,955
Net book value of assets syndicated	n/a	758,555	752,029	1,592,172	1,240,488

19. COMPARATIVE FIGURES

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