

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

March 31, 2020

Element Fleet Management Corp.

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

	As at March 31, 2020	As at December 31, 2019
	\$	\$
ASSETS		
Cash	90,845	24,224
Restricted funds (note 6)	541,948	434,128
Finance receivables (note 3 and 15)	12,451,057	11,986,974
Equipment under operating leases (note 4)	2,017,498	2,101,367
Accounts receivable and other assets	227,605	219,676
Derivative financial instruments (note 15)	93,966	41,396
Property, equipment and leasehold improvements, net	145,703	141,626
Intangible assets, net	847,157	793,279
Deferred tax assets	463,353	440,952
Goodwill	1,341,223	1,245,981
	<u>18,220,355</u>	<u>17,429,603</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	991,607	924,936
Derivative financial instruments (note 15)	118,763	39,145
Borrowings (note 6)	12,399,483	11,892,861
Convertible debentures (note 7 and 15)	715,978	711,791
Deferred tax liabilities	46,246	48,225
	<u>14,272,077</u>	<u>13,616,958</u>
Shareholders' equity (note 8)	<u>3,948,278</u>	<u>3,812,645</u>
	<u>18,220,355</u>	<u>17,429,603</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 March 31, 2020	Three-month period ended March 31, 2019
	\$	\$
NET REVENUE		
Interest income, net (note 10)	140,682	167,208
Rental revenue and other (note 10)	174,455	191,353
Depreciation of equipment under operating leases (note 4)	(114,820)	(122,545)
	200,317	236,016
Interest expense	105,012	129,129
Net financing revenue	95,305	106,887
Fleet service revenue (note 10)	136,321	129,904
Direct costs of fixed rate service contracts (note 10)	(10,474)	(11,776)
Servicing income, net	125,847	118,128
Syndication revenue, net (note 10)	26,087	17,212
Net revenue	247,239	242,227
OPERATING EXPENSES		
Salaries, wages and benefits	75,470	80,115
General and administrative expenses	31,791	29,798
Depreciation and amortization (note 14)	10,656	10,360
Amortization of convertible debenture discount (note 7)	2,555	3,655
Share-based compensation (note 9)	5,437	5,170
	125,909	129,098
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	10,223	9,176
Restructuring and transformation costs (note 16)	14,995	6,738
Loss on investments	57	1,330
Income before income taxes from operations	96,055	95,885
Provision for income taxes	16,697	15,412
Net income for the period	79,358	80,473
Basic earnings per share (note 11)	\$ 0.16	\$ 0.16
Diluted earnings per share (note 11)	\$ 0.16	\$ 0.16

See accompanying notes

Element Fleet Management Corp.

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

	Three-month period ended	Three-month period ended
	March 31, 2020	March 31, 2019
	\$	\$
Net income for the period	79,358	80,473
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges (loss) income	(42,467)	49
Net unrealized foreign exchange gain (loss)	107,512	(77,813)
	65,045	(77,764)
Recovery of income taxes	(11,265)	(1,301)
Total other comprehensive income (loss)	76,310	(76,463)
Comprehensive income for the period	155,668	4,010

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 for the period	—	—	—	—	79,358	76,310	155,668
Dividends - Preferred shares (note 8)	—	—	—	—	(10,906)	—	(10,906)
Dividends - Common shares (note 8)	—	—	—	—	(19,834)	—	(19,834)
Options exercised (notes 8 and 9)	9,539	—	—	(4,055)	—	—	5,484
Issuance of shares, net of share issue costs (note 8)	4,884	—	—	—	—	—	4,884
Employee stock option expense (note 9)	—	—	—	337	—	—	337
Balance, March 31, 2020	3,142,137	680,412	59,603	65,036	(169,282)	170,372	3,948,278
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	—	—	—	—	80,473	(76,463)	4,010
Dividends - Preferred shares (note 8)	—	—	—	—	(11,164)	—	(11,164)
Dividends - Common shares (note 8)	—	—	—	—	(19,494)	—	(19,494)
Net taxes on dividends paid	—	—	—	—	(302)	—	(302)
Options exercised (notes 8 and 9)	8,638	—	—	(5,943)	—	—	2,695
Issuance of shares, net of share issue costs (note 8)	1,386	—	—	—	—	—	1,386
Employee stock option expense (note 9)	—	—	—	978	—	—	978
Balance, March 31, 2019	3,102,034	680,412	46,200	70,840	(123,955)	180,021	3,955,552

See accompanying notes

Element Fleet Management Corp.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, in thousands of Canadian dollars)

	Three-month period ended March 31, 2020	Three-month period ended March 31, 2019
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	79,358	80,473
Items not affecting cash		
Share-based compensation (note 9)	337	978
Depreciation of property, equipment and leasehold improvements	7,282	6,679
Amortization of intangible assets, including from acquisitions	13,597	12,857
Amortization of deferred lease costs	7,037	6,828
Amortization of deferred financing costs	9,458	14,044
Depreciation of equipment under operating leases (note 4)	114,820	122,545
Amortization of convertible debenture discount and deferred costs (note 7)	4,187	5,589
Loss on investments	57	1,330
Provision for credit losses	12,055	1,261
	248,188	252,584
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(1,804,317)	(1,378,775)
Repayments of finance receivables	1,230,102	1,165,907
Investment in equipment under operating leases	(226,683)	(333,925)
Proceeds on disposal of equipment under operating leases	69,697	114,216
Syndications of finance receivables	834,183	487,813
Cash payments for interest portion of lease liability	(742)	(593)
Other non-cash operating assets and liabilities	(42,036)	2,404
Cash provided by operating activities	308,392	309,631
INVESTING ACTIVITIES		
Investments	(532)	395
Purchase of property, equipment and leasehold improvements	(2,375)	(6,824)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	507	21,099
Purchase of intangible assets	(13,551)	(6,947)
Decrease in notes receivable	1,184	1,132
Cash (used in) provided by investing activities	(14,767)	8,855
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	(3,336)	(616)
Decrease in restricted funds	(70,293)	(73,858)
Increase in deferred financing costs	(3,717)	(10,867)
Issuance of share capital, net	5,484	4,081
Repayments of borrowings, net	(130,826)	(185,360)
Dividends paid	(25,775)	(29,272)
Cash used in financing activities	(228,463)	(295,892)
Effects of foreign exchange rates on cash	1,459	(733)
Net increase in cash during the period	66,621	21,861
Cash, beginning of the period	24,224	21,999
Cash, end of the period	90,845	43,860
Supplemental cash flow information:		
Cash taxes paid	9,972	9,888
Cash interest paid	97,158	117,622

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 \$18.2 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*, 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 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 May 11, 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.

COVID-19

The recent outbreak of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The extent and duration of the impact of COVID-19 on communities and

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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 March 31, 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 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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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 March 31, 2020
	Notional/Principal amount⁽¹⁾
	\$
Interest rate contracts	
USD LIBOR	4,870,021
	4,870,021

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**

(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:

	As at March 31, 2020			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	10,289,710	249,974	208,615	10,748,299
Unguaranteed residual values	1,540	56,185	—	57,725
Gross investment	10,291,250	306,159	208,615	10,806,024
Unearned income	(785,291)	(38,595)	—	(823,886)
Net investment	9,505,959	267,564	208,615	9,982,138
Net realizable value of impaired receivables	94,093	2,728	—	96,821
Unamortized deferred costs and subsidies	(114,117)	—	—	(114,117)
Prepaid lease payments and security deposits	(29,493)	—	(22,015)	(51,508)
Interim funding	1,573,669	—	32,948	1,606,617
Fleet management receivables	593,640	35,758	20,374	649,772
Other receivables	170,093	73,995	57,246	301,334
Allowance for credit losses (Subsection C)	(17,960)	(781)	(1,259)	(20,000)
Total finance receivables	11,775,884	379,264	295,909	12,451,057

	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 March 31, 2020		As at December 31, 2019	
	\$	%	\$	%
31-60 days past due	32,742	0.33	8,410	0.09
61-90 days past due	4,001	0.04	3,433	0.04
91-120 days past due	11,083	0.11	3,024	0.03
Total past due	47,826	0.48	14,867	0.16
Current	9,934,312	99.52	9,667,619	99.84
Total net investment	9,982,138	100.00	9,682,486	100.00

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

	As at March 31, 2020		As at December 31, 2019	
	Leases	Loans	Leases	Loans
Net investment	\$ 9,888,001	\$ 94,137	\$ 9,579,674	\$ 102,812
Weighted average fixed interest rate	4.70%	9.61%	4.76%	9.09%
Weighted average floating interest rate	3.63%	4.52%	4.33%	6.48%
Percentage of portfolio with fixed interest rate	44.82%	99.18%	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 the used vehicle index and its impact on loss given default ("LGD"). Given the current volatility in market conditions related to the global outbreak of COVID-19, the Company updated its inputs to the model to reflect information available to the Company as at March 31, 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 March 31, 2020, and

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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 asset 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 cover 100% of the net investment.

The Company also considered forward-looking macroeconomic information in light of COVID-19 such as projected changes in GDP and the impact downward trends in GDP would have on the Company's lease and loan portfolio. The Company has evaluated multiple scenarios related to COVID-19, including expected time periods of market slow-down and recovery, and expects by the end of September 2020 business will reopen with growth levels returning to normal in 6 to 9 months.

Additionally, and consistent with historical evidence, the Company anticipates the used vehicle market will 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 driving up prices.

The Company's evaluation of the above inputs to its model resulted in an additional provision for credit losses of \$12,055 for the three months ended March 31, 2020 culminating in an allowance for credit losses of \$20,000 as at March 31, 2020.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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 Stage 2	29	(29)	—
Transfer to Stage 3	(627)	627	—
Lease originations	4,704	—	4,704
Changes in models and inputs, derecognition, and repayments	7,425	(61)	7,364
Total	19,068	1,072	20,140
Charge-offs, net of recoveries	(715)	—	(715)
Foreign exchange	524	(105)	419
Balance as at March 31, 2020	18,877	967	19,844

Fleet management receivables	Performing	Impaired	Total
	\$	\$	\$
Balance as at January 1, 2020	50	9	59
Provision for credit losses	50	23	73
Charge-offs, net of recoveries	(63)	—	(63)
Foreign exchange	5	1	6
Balance as at March 31, 2020	42	33	75

Loans	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance as at January 1, 2020	4	266	31	301
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	—	—	—	—
Transfer to Stage 3	—	—	—	—
Lease originations	—	—	—	—
Changes in models and inputs, derecognition, and repayments	(3)	(61)	(22)	(86)
Total	1	205	9	215
Charge-offs, net of recoveries	—	(124)	—	(124)
Foreign exchange	—	(9)	(1)	(10)
Balance as at March 31, 2020	1	72	8	81

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Finance leases	Performing \$	Impaired \$	Total \$
Balance as at January 1, 2019	8,556	322	8,878
Transfer to Stage 2	82	(82)	—
Transfer to Stage 3	(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
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	—	—	—	—
Transfer to Stage 3	—	—	—	—
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

**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:

Allowance for credit losses	Three-month period ended	Year ended
	March 31, 2020	December 31, 2019
	\$	\$
Allowance for credit losses, beginning of the period	8,432	9,332
Provision for credit losses	12,055	2,082
Charge-offs, net of recoveries	(902)	(2,227)
Impact of foreign exchange rates	415	(755)
Allowance for credit losses, end of the period	20,000	8,432
Allowance as a percentage of total finance receivables before allowance	0.16%	0.07%

**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 March 31, 2020:

Finance leases	Performing	Impaired	Total	
	\$	\$	\$	
Internal risk rating grade				
Low	5,893,267	—	5,893,267	
Medium	3,396,372	—	3,396,372	
High	598,362	—	598,362	
Other finance receivables	301,334	—	301,334	
Impaired	—	96,352	96,352	
	10,189,335	96,352	10,285,687	
Allowance for credit losses	(18,877)	(967)	(19,844)	
Net carrying value	10,170,458	95,385	10,265,843	
Fleet management receivables				
	\$	\$	\$	
Fleet management receivables	643,736	6,036	649,772	
Allowance for credit losses	(42)	(33)	(75)	
Net carrying value	643,694	6,003	649,697	
Loans				
	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Internal risk rating grade				
Low	—	15,273	—	15,273
Medium	12,796	63,845	—	76,641
High	—	2,223	—	2,223
Impaired	—	—	469	469
	12,796	81,341	469	94,606
Allowance for credit losses	(1)	(72)	(8)	(81)
Net carrying value	12,795	81,269	461	94,525

**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, 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

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

	As at March 31, 2020	As at December 31, 2019
	\$	\$
Cost	3,096,891	3,155,540
Accumulated depreciation	1,079,393	1,054,173
Net carrying amount	2,017,498	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 Group LLC ("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.

During the first quarter of 2020, the Company settled \$21,000 of third-party debt and recorded the gain of \$6,000 as an additional reduction of the equipment under operating leases.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Subsequent to March 31, 2020, the Company sold the assets of 19th Capital and settled third party debt at a discount. The net impact of the sale of 19th Capital's assets and the settlement of debt will result in an expected after-tax loss of approximately \$15,000 (including closing and severance costs) which will be recorded in the Company's interim condensed consolidated financial statements for the second quarter ending June 30, 2020.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

6. BORROWINGS

The Company's outstanding borrowings were as follows:

	As at March 31, 2020			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	5,435,758	2.59	5,720,421	56,257
Variable rate borrowings	5,006,959	2.23	5,220,173	63,784
Other	104,512	4.91	142,540	—
Vehicle management asset-backed debt	10,547,229	2.44	11,083,134	120,041
Revolving senior credit facilities ⁽²⁾	1,869,919	2.11	—	—
	12,417,148	2.39	11,083,134	120,041
Deferred financing costs	(44,200)			
Hedge accounting fair value adjustments	26,535			
Total borrowings	12,399,483			

	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 March 31, 2020.

Vehicle management asset-backed debt

As at March 31, 2020, the Company has available capacity in variable rate borrowings and other of \$3,663,499 (December 31, 2019 – \$3,872,777) under its vehicle management asset-backed debt facilities.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Revolving senior credit facilities

As at March 31, 2020, the Company had access to an additional \$1,788,541 (December 31, 2019 - \$1,672,593) of available financing from the revolving senior credit facilities.

Restricted funds

As at March 31, 2020, restricted funds include (i) cash reserves of \$120,041 (December 31, 2019 - \$112,308), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection account of \$394,121 (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 \$27,786 (December 31, 2019 - nil) provided to counter-parties as collateral against derivatives liabilities.

7. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

As at March 31, 2020							
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	17.19	4.250	567,200	(907)	(1,174)	565,119
April 5, 2019	June 30, 2024	12.05	4.250	172,500	(5,445)	(16,196)	150,859
				739,700	(6,352)	(17,370)	715,978

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. The conversion price was adjusted on December 30, 2019, the ex-dividend date for dividends paid on January 15, 2020, to \$17.19004 for the May 29, 2015 issuance and 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.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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	412,908	4,884
Exercise of options	760,373	9,539
Balance, March 31, 2020	437,682,398	3,142,137

Issuance of common shares

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 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-month period ended March 31, 2020, the Company issued 412,908 common shares under the DRIP (three-month period ended March 31, 2019 - 186,059 common shares).

Common share dividends

During the three-month period ended March 31, 2020, the Company declared \$19,723 in common share dividends or \$0.045 per common share (three-month period ended March 31, 2019 - \$19,494 or \$0.045 per common share).

As at March 31, 2020, the accrued common share dividends were \$19,723 (December 31, 2019 – \$19,738).

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at March 31, 2020 consist of the following:

Series	Issue date	Interest rate %	Gross \$	After tax transaction costs \$	Net proceeds \$	Shares #
A	December 17, 2013	6.93¹	115,000	4,625	110,375	4,600,000
C	March 7, 2014	6.21²	128,160	3,416	124,744	5,126,400
E	June 18, 2014	5.903³	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-month period ended March 31, 2020, the Company declared \$10,906 in preferred share dividends (three-month period ended March 31, 2019 – \$11,164).

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

9. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the three-month period ended March 31:

	2020	2019
	\$	\$
(a) Stock options	337	978
(b) Deferred share units	380	249
(c) Performance share units	2,698	(205)
(d) Restricted share units	2,022	4,148
	5,437	5,170

**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, 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	(152,346)	12.00
Exercised ⁽¹⁾	(1,045,378)	9.27
Outstanding, March 31, 2020	15,174,975	10.32

1. Weighted average share price of options exercised during the three-month period ended March 31, 2020 was \$12.52 (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	37,692	544,330	687,217
Forfeited	—	(1,388)	(42,884)
Redeemed	—	(168,571)	(357,301)
Outstanding, March 31, 2020	720,395	1,882,177	2,183,972

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

10. REVENUE

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

	Three-month period ended March 31, 2020			Three-month period ended March 31, 2019		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Major service lines						
Interest income, net	140,682	—	140,682	166,238	970	167,208
Rental revenue	148,183	15,192	163,375	145,872	32,200	178,072
Gain on sale of equipment under operating leases	10,361	719	11,080	10,761	2,520	13,281
Depreciation of equipment under operating leases	(107,827)	(6,993)	(114,820)	(106,228)	(16,317)	(122,545)
Financing revenue before interest expense	191,399	8,918	200,317	216,643	19,373	236,016
Other service revenue, net	99,490	—	99,490	90,968	169	91,137
Vehicle sales and end of contract fees	26,357	—	26,357	26,991	—	26,991
Service and other revenue, net	125,847	—	125,847	117,959	169	118,128
Syndication revenue, net	26,087	—	26,087	17,212	—	17,212
Net revenue before interest expense	343,333	8,918	352,251	351,814	19,542	371,356
Primary geographical markets						
US and Canada	269,979	8,918	278,897	285,475	19,498	304,973
Australia and New Zealand	42,910	—	42,910	43,943	44	43,987
Mexico	30,444	—	30,444	22,396	—	22,396
Net revenue before interest expense	343,333	8,918	352,251	351,814	19,542	371,356
Timing of revenue recognition						
Revenue earned at a point in time	114,668	—	114,668	102,437	—	102,437
Revenue earned over time	228,665	8,918	237,583	249,377	19,542	268,919
Net revenue before interest expense	343,333	8,918	352,251	351,814	19,542	371,356

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 March 31, 2020	As at December 31, 2019
	\$	\$
Contract assets	23,081	23,404

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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-month period ended March 31, 2020, the Company has recorded \$2,434 of amortization on its service contract assets (three-month period ended March 31, 2019 - \$2,148).

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. EARNINGS PER SHARE

Basic earnings per share is as follows for the three-month period ended March 31:

	2020 \$	2019 \$
Net income attributable to shareholders	79,358	80,473
Cumulative dividends on preferred shares	(10,906)	(11,164)
Net income available to common shareholders	68,452	69,309
Weighted average number of common shares outstanding – basic (number)	437,290,729	433,615,553
Basic earnings per share	\$ 0.16	\$ 0.16

Diluted earnings per share is as follows for the three-month period ended March 31:

	2020 \$	2019 \$
Net income available to common shareholders adjusted for the effects of dilution	70,179	69,309
Weighted average number of common shares outstanding – basic (number) ⁽¹⁾	437,290,729	433,615,553
Convertible debentures (number)	14,315,353	—
Dilutive stock options and warrants (number)	1,060,529	266,282
Weighted average number of common shares outstanding – diluted (number)	452,666,611	433,881,835
Diluted earnings per share	\$ 0.16	\$ 0.16

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 for the 8,330 shares for the three-month period ended March 31, 2019.

Instruments outstanding as at March 31, 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 9,975,067 stock options for the three-month period ended March 31, 2020 (three-month period ended March 31, 2019, 15,478,986 stock options).

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

In addition, the 2015 convertible debenture (note 7) was excluded from the diluted earnings per share calculation as it was anti-dilutive for the three-month period ended March 31, 2020 (all convertible debentures were excluded for the three-month periods ended March 31, 2019).

12. 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	March 31, 2020	December 31, 2019
<i>(in \$000's)</i>	\$	\$
Cash	90,845	24,224
Unsecured debt		
Senior credit facilities	1,869,919	1,703,507
4.250% Convertible Debentures due 2020	565,119	562,034
4.250% Convertible Debentures due 2024	150,859	149,757
Vehicle Management Asset-Backed Debt		
Term notes amortization	5,435,758	5,697,575
Variable	5,006,959	4,363,677
Other	104,512	169,485
Deferred financing costs	(44,200)	(48,804)
Hedge accounting fair value adjustments	26,535	7,421
Total debt	13,115,461	12,604,652
Shareholders' equity		
Common share capital	3,201,740	3,127,714
Preferred share capital	680,412	680,412
Other	66,126	4,519
Total Shareholders' Equity	3,948,278	3,812,645
Total Capitalization	17,063,739	16,417,297

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)

13. 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, and adjusted operating income.

Segmented operating results

	Three-month period ended March 31, 2020			Three-month period ended March 31, 2019		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Net revenue						
Net interest income and rental revenue	191,399	8,918	200,317	216,643	19,373	236,016
Interest expense	94,132	10,880	105,012	114,112	15,017	129,129
Net financing revenue	97,267	(1,962)	95,305	102,531	4,356	106,887
Servicing income, net	125,847	—	125,847	117,959	169	118,128
Syndication revenue, net	26,087	—	26,087	17,212	—	17,212
Net revenue	249,201	(1,962)	247,239	237,702	4,525	242,227
Operating expenses						
Salaries, wages and benefits	73,195	2,275	75,470	78,221	1,894	80,115
General and administrative expenses	31,299	492	31,791	27,748	2,050	29,798
Depreciation and amortization	9,941	715	10,656	9,740	620	10,360
	114,435	3,482	117,917	115,709	4,564	120,273
Net segment operating income (loss) (before tax)	134,766	(5,444)	129,322	121,993	(39)	121,954
Loss on investments	—	57	57	—	1,330	1,330
Net segment income (loss) (before tax)	134,766	(5,501)	129,265	121,993	(1,369)	120,624
Share-based compensation			5,437			5,170
Amortization of convertible debenture discount			2,555			3,655
Amortization of intangible assets from acquisitions			10,223			9,176
Restructuring and transformation costs			14,995			6,738
(Recovery of) provision for income taxes			16,697			15,412
Net income for the period			79,358			80,473

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 March 31, 2020			As at December 31, 2019		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Select consolidated statement of financial position information						
Finance receivables	12,435,514	15,543	12,451,057	11,968,918	18,056	11,986,974
Equipment under operating leases	1,903,437	114,061	2,017,498	1,978,815	122,552	2,101,367
Goodwill and intangible assets	2,188,380	—	2,188,380	2,039,260	—	2,039,260
Total select segment assets	16,527,331	129,604	16,656,935	15,986,993	140,608	16,127,601
Other assets			1,563,420			1,302,002
Total assets			18,220,355			17,429,603

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 March 31, 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	11,775,884	379,264	295,909	12,451,057	11,232,085	398,477	356,412	11,986,974
Equipment under operating leases	164,710	1,202,568	650,220	2,017,498	174,912	1,273,173	653,282	2,101,367
Goodwill and intangible assets	2,158,544	28,845	991	2,188,380	2,008,079	30,537	644	2,039,260
Property, equipment and leasehold improvements	113,305	20,563	11,835	145,703	111,163	21,937	8,526	141,626
	14,212,443	1,631,240	958,955	16,802,638	13,526,239	1,724,124	1,018,864	16,269,227

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

14. 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

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)

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 March 31, 2020	As at December 31, 2019
		\$	\$
Assets	Classification		
Right-of-use assets	Buildings, net of accumulated depreciation ⁽¹⁾	98,404	95,354
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	101,357	97,439

1. As at March 31, 2020, right-of-use assets are recorded net of accumulated amortization of \$16,988 (December 31, 2019 - \$12,910).

		Three-month period ended	
		March 31, 2020	March 31, 2019
		\$	\$
Lease cost	Classification		
Amortization of leased assets	Depreciation and amortization	3,630	3,309
Interest on lease liabilities	Interest expense	742	632
Net lease cost		4,372	3,941

Maturity of lease liabilities

	As at March 31, 2020
	\$
2020	9,396
2021	12,700
2022	11,725
2023	10,507
2024	6,463
Thereafter	50,566

	As at March 31, 2020	As at December 31, 2019
Lease Term and Discount Rate		
Weighted-average remaining lease term (years)	11.6	11.5
Weighted-average discount rate	3.00%	3.09%

15. 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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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 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.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

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.

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.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

	As at March 31, 2020				Total
	Carrying value	Level 1	Level 2	Level 3	
	\$	Quoted market price \$	Observable market inputs \$	Non-observable market inputs \$	
Financial assets					
Assets not carried at fair value					
Cash	90,845	90,845	—	—	90,845
Finance lease receivables	12,356,920	—	—	12,356,920	12,356,920
Finance loans receivables	94,137	—	—	94,137	94,137
Accounts receivable and other assets	209,943	—	—	209,943	209,943
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	93,870	—	93,870	—	93,870
Interest rate caps	96	—	96	—	96
Investments classified as FVTPL	7,326	—	—	7,326	7,326
Total financial assets	12,853,137	90,845	93,966	12,668,326	12,853,137
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	991,607	—	—	991,607	991,607
Borrowings on finance receivables	12,399,483	—	—	12,399,483	12,399,483
Convertible debentures	715,978	—	732,333	—	732,333
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	113,988	—	113,988	—	113,988
Equity swaps	4,775	—	4,775	—	4,775
Total financial liabilities	14,225,831	—	851,096	13,391,090	14,242,186

**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

16. RESTRUCTURING AND TRANSFORMATION

During the three-month period ended March 31, 2020, the Company recorded transformation expenses of \$14,995 (three-month period ended March 31, 2019 - \$6,738). All amounts have been incurred and paid or expect to be paid by the end of the second 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-month period ended March 31:

	2020	2019
Nature of expenses	\$	\$
Severances	90	589
Professional fees and other	14,905	6,149
Total	14,995	6,738

Remaining un-paid liabilities related to transformation expenses.

	As at March 31, 2020	As at December 31, 2019
Nature of expenses	\$	\$
Severances	2,543	5,883
Professional fees and other	14,882	15,111
Employee bonuses	—	14,220
Total	17,425	35,214

17. SYNDICATIONS

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

		As at March 31, 2020	As at December 31, 2019
	Classification	\$	\$
Provision for early termination	Accounts payable and accrued liabilities	7,169	5,779
Deferred servicing fee	Finance receivables	1,153	1,181

		Three-month period ended March 31, 2020	March 31, 2019
	Classification	\$	\$
Syndication revenue, net	Syndication revenue, net	26,087	17,212
Net book value of assets syndicated	n/a	833,617	488,459

18. COMPARATIVE FIGURES

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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

19. SUBSEQUENT EVENTS

Funding for Redemption of 2015 Convertible Debenture

On April 7, 2020, Element established a \$560,000 committed credit facility (the "Interim Facility") to provide interim funding for the redemption of its outstanding \$567,200 aggregate principal amount 4.25% extendible convertible unsecured subordinated debentures (the "2015 Debentures") maturing in June 2020, in the event the Company elects not to issue alternative sources of funding due to the current volatility in market conditions related to the global outbreak of COVID-19. The Interim Facility matures on April 23, 2021.

COVID-19

During the quarter, the outbreak of COVID-19 resulted in governments throughout our operating geographies enacting various emergency measures to combat the spread of the virus. These measures, which include travel bans, mandatory self-quarantine periods and social distancing edicts, have caused material disruption to businesses globally, resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of governments' interventions. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19, the impacts it will have on the Company's clients and, therefore, the impact it will have on the Company's business. Aspects of the Company's business that may be more impacted than others include originations, servicing income, gain on sale of equipment under operating leases, and the provision for credit losses.

Sale of 19th Capital

Subsequent to March 31, 2020, the Company sold the assets of 19th Capital and settled third party debt at a discount. The net impact of the sale of 19th Capital's assets and the settlement of debt will result in an expected after-tax loss of approximately \$15,000 (including closing and severance costs) which will be recorded in the Company's interim condensed consolidated financial statements for the second quarter ending June 30, 2020.