
Element Fleet Management Corp.

Management Discussion and Analysis

March 31, 2020



The following management discussion and analysis ("MD&A") provides information management believes is relevant to an assessment and understanding of the consolidated financial condition and consolidated results of operations of Element Fleet Management Corp. (the "Company", "we" or "Element") as at and for the three-month period ended March 31, 2020 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements as at and for the three-month period ended March 31, 2020 and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2019 (the "Annual Financial Statements") filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. All dollar amounts in this MD&A are expressed in Canadian dollars unless otherwise specified and all numbers are in thousands, unless otherwise specified or for per share amounts or ratios. References to "Q1 2020", "this quarter", or "the quarter" are to the fiscal quarter-ended March 31, 2020 and references to "Q4 2019" and "Q1 2019" are to the fiscal quarters ended December 31, 2019 and March 31, 2019, respectively. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.elementfleet.com.

CAUTIONARY STATEMENT

THIS ANALYSIS HAS BEEN PREPARED TAKING INTO CONSIDERATION INFORMATION AVAILABLE TO MAY 11, 2020. CERTAIN STATEMENTS IN THIS MD&A, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF APPLICABLE SECURITIES LAWS AND MAY CONTAIN FORWARD-LOOKING INFORMATION. SUCH STATEMENTS ARE BASED UPON ELEMENT'S AND ITS MANAGEMENT'S CURRENT INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THESE STATEMENTS MAY INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING THE OPERATIONS, BUSINESS, FINANCIAL CONDITION, EXPECTED FINANCIAL RESULTS, PERFORMANCE, PROSPECTS, OPPORTUNITIES, PRIORITIES, TARGETS, GOALS, ONGOING OBJECTIVES, STRATEGIES AND OUTLOOK OF ELEMENT. FORWARD-LOOKING STATEMENTS INCLUDE STATEMENTS THAT ARE PREDICTIVE IN NATURE, DEPEND UPON OR REFER TO FUTURE EVENTS OR CONDITIONS. IN SOME CASES, WORDS SUCH AS "PLAN", "EXPECT", "INTEND", "BELIEVE", "ANTICIPATE", "ESTIMATE", "TARGET", "PROJECT", "FORECAST", "MAY", "IMPROVE", "WILL", "POTENTIAL", "PROPOSED" AND OTHER SIMILAR WORDS, OR STATEMENTS THAT CERTAIN EVENTS OR CONDITIONS "MAY" OR "WILL" OCCUR ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS AND FORWARD-LOOKING INFORMATION. FORWARD-LOOKING STATEMENTS (INCLUDING THOSE REGARDING FINANCIAL OUTLOOK) ARE PROVIDED FOR THE PURPOSES OF ASSISTING THE READER IN UNDERSTANDING ELEMENT AND ITS BUSINESS, OPERATIONS, RISKS, FINANCIAL PERFORMANCE, FINANCIAL POSITION AND CASH FLOWS AS AT AND FOR THE PERIODS ENDED ON CERTAIN DATES AND TO PRESENT INFORMATION ABOUT MANAGEMENT'S CURRENT EXPECTATIONS AND PLANS RELATING TO THE FUTURE AND THE READER IS CAUTIONED THAT SUCH STATEMENTS MAY NOT BE APPROPRIATE FOR OTHER PURPOSES. THESE STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS OR EVENTS TO DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS OR INFORMATION. UNDUE RELIANCE SHOULD NOT BE PLACED ON THESE FORWARD-LOOKING STATEMENTS, AS THERE CAN BE NO ASSURANCE THAT THE PLANS, INTENTIONS OR EXPECTATIONS UPON WHICH THEY ARE BASED WILL OCCUR. BY ITS NATURE, FORWARD-LOOKING INFORMATION INVOLVES NUMEROUS ASSUMPTIONS, KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, BOTH GENERAL AND SPECIFIC, THAT CONTRIBUTE TO THE POSSIBILITY THAT THE EXPECTATIONS, PREDICTIONS, FORECASTS, PROJECTIONS, CONCLUSIONS OR OTHER FORWARD-LOOKING STATEMENTS WILL NOT OCCUR OR PROVE ACCURATE, THAT ASSUMPTIONS MAY NOT BE CORRECT AND THAT OBJECTIVES, STRATEGIC GOALS AND PRIORITIES WILL NOT BE ACHIEVED. SUCH FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A SPEAK ONLY AS OF THE DATE OF THIS MD&A. THE FORWARD-LOOKING INFORMATION AND STATEMENTS CONTAINED IN THIS MD&A REFLECT SEVERAL MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS OF ELEMENT INCLUDING, WITHOUT LIMITATION: THE IMPACT OF COVID-19 PANDEMIC ON INDUSTRY AND MARKET CONDITIONS; THAT ELEMENT WILL CONDUCT ITS OPERATIONS IN A MANNER CONSISTENT WITH ITS EXPECTATIONS AND, WHERE APPLICABLE, CONSISTENT WITH PAST PRACTICE; ACCEPTABLE NEGOTIATIONS WITH THIRD PARTIES; THE CONTINUANCE OF EXISTING (AND IN CERTAIN CIRCUMSTANCES, THE IMPLEMENTATION OF PROPOSED) TAX AND REGULATORY REGIMES; CERTAIN COST ASSUMPTIONS; THE CONTINUED AVAILABILITY OF ADEQUATE DEBT AND/OR EQUITY FINANCING AND CASH FLOW TO FUND ITS CAPITAL AND OPERATING REQUIREMENTS AS NEEDED; THE EXTENT OF ITS ASSETS AND LIABILITIES; THE COMPANY'S NET INTEREST MARGIN; GROWTH IN LEASE RECEIVABLES AND SERVICE INCOME; RATE OF COST INFLATION; APPLICABLE FOREIGN EXCHANGE RATES AND APPLICABLE INCOME TAX RATES; THE COMPANY'S FUNDING MIX; THE RESET RATES FOR THE COMPANY'S OUTSTANDING PREFERRED SHARES; AND IN THE CASE OF THE FORWARD LOOKING STATEMENTS REGARDING FINANCIAL OUTLOOK, THAT THE COMPANY WILL ACHIEVE THE EXPECTED BENEFITS, COSTS AND TIMING OF ELEMENT'S TRANSFORMATION. ELEMENT BELIEVES

THE MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS REFLECTED IN THE FORWARD-LOOKING INFORMATION AND STATEMENTS ARE REASONABLE BUT NO ASSURANCE CAN BE GIVEN THAT THESE FACTORS, EXPECTATIONS AND ASSUMPTIONS WILL PROVE TO BE CORRECT.

THE COVID-19 PANDEMIC HAS CAST ADDITIONAL UNCERTAINTY ON ELEMENT'S INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THERE CAN BE NO ASSURANCE THAT THEY WILL CONTINUE TO BE VALID. GIVEN THE RAPID PACE OF CHANGE WITH RESPECT TO THE IMPACT OF THE COVID-19 PANDEMIC, IT IS PREMATURE TO MAKE FURTHER ASSUMPTIONS ABOUT THESE MATTERS. THE DURATION, EXTENT AND SEVERITY OF THE IMPACT THE COVID-19 PANDEMIC, INCLUDING MEASURES TO PREVENT ITS SPREAD, WILL HAVE ON ELEMENT'S BUSINESS IS HIGHLY UNCERTAIN AND DIFFICULT TO PREDICT AT THIS TIME.

FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS WITH RESPECT TO: THE IMPACT THAT THE COVID-19 PANDEMIC MAY HAVE ON ELEMENT'S FINANCIAL CONDITION, OPERATING RESULTS AND CASH FLOWS; ELEMENT'S REVENUES, EXPENSES, RUN-RATE AND OPERATIONS, FUTURE CASH FLOWS, FINANCIAL CONDITION, OPERATING PERFORMANCE, FINANCIAL RATIOS, PROJECTED ASSET BASE AND CAPITAL STRUCTURE; ELEMENT'S ABILITY TO RENEW OR REFINANCE CREDIT AND SECURITIZATION FACILITIES; ELEMENT'S TRANSFORMATION PLAN AND THE ANTICIPATED IMPACT AND BENEFITS THEREFROM (INCLUDING ANTICIPATED IMPACT ON CREDIT RATINGS); ELEMENT'S STRATEGY TO IMPROVE AND OPTIMIZE THE CLIENT EXPERIENCE AND CLIENT ACQUISITION AND RETENTION; ELEMENT'S EXPECTATIONS REGARDING SYNDICATION; ELEMENT'S ANTICIPATED CASH NEEDS, CAPITAL REQUIREMENTS AND ITS NEEDS FOR ADDITIONAL FINANCING; THE POTENTIAL IMPACT UNDER EXISTING CREDIT AND SECURITIZATION FACILITIES OF THE TRANSFORMATION PLAN IN WHOLE OR IN PART; ELEMENT'S FUTURE GROWTH PLANS; ELEMENT'S EXPECTATIONS REGARDING ITS ORIGINATION VOLUMES; ELEMENT'S ANTICIPATED DELINQUENCY RATES AND CREDIT LOSSES; ELEMENT'S ABILITY TO ATTRACT AND RETAIN PERSONNEL; ELEMENT'S PRESENT INTENTION TO PAY REGULAR DIVIDENDS ON ITS COMMON SHARES AND PREFERRED SHARES; ELEMENT'S TECHNOLOGY AND DATA, AND EXPECTED USES AND BENEFITS; ELEMENT'S COMPETITIVE POSITION AND ITS EXPECTATIONS REGARDING COMPETITION; ANTICIPATED TRENDS AND CHALLENGES IN ELEMENT'S BUSINESS AND THE MARKETS IN WHICH IT OPERATES; THE EVOLUTION OF ELEMENT'S BUSINESS AND THE FLEET MANAGEMENT INDUSTRY; ELEMENT'S GROWTH PROSPECTS AND THE OBJECTIVES, VISION AND STRATEGIES OF ELEMENT; ELEMENT'S OPERATIONS AND ABILITY TO DRIVE OPERATIONAL EFFICIENCIES; ELEMENT'S EXPECTATIONS REGARDING ITS ASSETS; ELEMENT'S BUSINESS STRATEGY; ELEMENT'S EXPECTATION REGARDING THE AVAILABILITY OF FUNDS FROM OPERATIONS, CASH FLOW GENERATION AND CAPITAL ALLOCATION; ELEMENT'S STRATEGIC ASSESSMENT OF CURRENT AND FUTURE ASSETS; ELEMENT'S STRATEGY FOR ITS NON-CORE ASSETS; ELEMENT'S BUSINESS OUTLOOK AND OTHER EXPECTATIONS REGARDING FINANCING OR OPERATING PERFORMANCE METRICS; THE EVOLUTION OF OPERATIONS AND THE DEVELOPMENT OF PERFORMANCE INDICATORS, AND OTHER FINANCIAL PERFORMANCE METRICS; THE FUTURE FINANCIAL REPORTING OF ELEMENT; ELEMENT'S FUTURE ASSETS AND THE DEMAND FOR ELEMENT'S SERVICES; ELEMENT'S BORROWING BASE; THE EXTENT, NATURE AND IMPACT OF ANY VALUE DRIVER TO CREATE, AND THE ABILITY TO GENERATE, PRE-TAX RUN-RATE OPERATING INCOME; ELEMENT'S ABILITY TO INCREASE TOTAL SHAREHOLDER RETURN; AND ELEMENT'S ABILITY TO PRE-FUND REDEMPTION OF ITS OUTSTANDING CONVERTIBLE DEBENTURES UPON THEIR MATURITY. THE READER IS CAUTIONED TO CONSIDER THESE AND OTHER FACTORS, UNCERTAINTIES AND POTENTIAL EVENTS CAREFULLY AND NOT TO PUT UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS. INFORMATION CONTAINED IN FORWARD-LOOKING STATEMENTS IS BASED UPON CERTAIN MATERIAL ASSUMPTIONS THAT WERE APPLIED IN DRAWING A CONCLUSION OR MAKING A FORECAST OR PROJECTION, INCLUDING MANAGEMENT'S PERCEPTIONS OF HISTORICAL TRENDS, CURRENT CONDITIONS AND EXPECTED FUTURE DEVELOPMENTS, AS WELL AS OTHER CONSIDERATIONS THAT ARE BELIEVED TO BE APPROPRIATE IN THE CIRCUMSTANCES. ALTHOUGH ELEMENT BELIEVES THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, THERE CAN BE NO ASSURANCE THAT SUCH EXPECTATIONS WILL PROVE TO BE CORRECT. ELEMENT CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER ELEMENT NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE FORWARD-LOOKING STATEMENTS AND INFORMATION.

SOME OF THE RISKS AND OTHER FACTORS, SOME OF WHICH ARE BEYOND ELEMENT'S CONTROL, WHICH COULD CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS AND INFORMATION CONTAINED IN THIS MD&A, INCLUDE, BUT ARE NOT LIMITED TO, THOSE SET FORTH UNDER THE HEADING "RISK MANAGEMENT" HEREIN AND UNDER THE HEADING "RISK FACTORS" IN ELEMENT'S ANNUAL INFORMATION FORM FOR THE YEAR ENDED DECEMBER 31, 2019. READERS ARE CAUTIONED THAT SUCH RISK FACTORS ARE NOT EXHAUSTIVE. THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS MD&A ARE EXPRESSLY QUALIFIED BY THIS CAUTIONARY STATEMENT. OTHER THAN AS SPECIFICALLY REQUIRED BY APPLICABLE CANADIAN LAW, ELEMENT UNDERTAKES NO

OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH SUCH STATEMENT IS MADE, OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR RESULTS, OR OTHERWISE.

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Regarding COVID-19

The COVID-19 pandemic has created unprecedented societal and economic disruption around the world. Overwhelmed healthcare systems, volatile financial markets, disrupted supply chains, low commodity prices, highly restricted travel, weakened consumer confidence and social distancing impositions have upended daily life and created tremendous uncertainty for businesses and individuals.

While a great many unknowns remain, we have nonetheless accumulated 8 weeks of data, learnings and insights as to how Element's clients and, in turn, our own business might be impacted by the pandemic. Here is what we know:

Our people are safe, and working productively. As a first priority, we successfully transitioned 98% of our people to remote work arrangements within days of the implications of COVID-19 becoming clear. We have instituted strict protocols to ensure those few Element employees who continue to work from our offices are able to do so safely. And recent feedback from those working from home ("WFH") has been very encouraging regarding both their well-being and productivity.

Our clients are receiving our full support as they address the challenges and opportunities that COVID-19 presents for their businesses. In particular, we continue to help our clients drive down their total cost of fleet ownership and operation, having identified more than \$600 million in cost saving opportunities in the first quarter alone. That said, it is far from business as usual.

- The fleet management supply chain has experienced significant disruption - with the closures of OEM plants, after-market upfitters, remarketing auctions, government registration offices, etc. - making it difficult for Element to deliver the fullness of fleet management services we typically offer. That said, we have worked with governments to ensure that sources for parts and maintenance, fuel and autobody repairs are deemed essential and thus remain open to support our clients' fleets.
- Demand for our fleet management services will be affected in a variety of ways.
 - Originations - While we have seen little in the way of de-fleeting, most clients are postponing new vehicle orders.
 - Service Consumption - With a near-global move to WFH, we have seen an abrupt and material decline in the consumption of maintenance and fuel services as many non-essential fleets were effectively parked. With approximately 80% of our clients' fleets comprised of service vehicles (think: trucks and vans) and with a good number of these vehicles deployed to provide essential services, our exposure is somewhat capped.
 - The gain on sale revenue we earn in Mexico and ANZ has also been negatively impacted in Q2 to date as secondary vehicle market activity remains constrained by social distancing edicts and we elect not to sell into the resulting price trough.

Our business is getting stronger as we accelerate our Transformation agenda. We are using surplus capacity to rapidly advance the necessary changes that will allow us to deliver a consistent, superior client experience and action the \$180 million of annual run-rate profitability improvement we have targeted. And as at March 31st, we are more than 80% of the way to achieving that goal.

Our balance sheet remains investment grade and we continue to have ready access to cost-efficient capital.

- We have \$5.5 billion in committed credit facilities available to us to fund our operations and fleet assets, and we have secured a \$560 million committed credit facility - on attractive terms - to provide interim funding for the redemption of our convertible debenture maturing in June.

- Syndication market demand is healthy: we syndicated over \$800 million of assets in the first quarter and demand has remained constant into the second quarter. That said, the drop in interest rates has caused greater pricing pressures that could suggest lower fee spreads.

Our liquidity, access to funding and earnings potential remain robust.

- Element enjoys abundant liquidity and we are taking prudent steps to ensure it remains so.
 - The business continues to generate predictable organic cashflow enabling it to meet its operating and investing plans.
 - Given we fund the working capital position of our clients regarding maintenance, fuel and other services, softness in the demand for these services actually releases working capital, thereby increasing liquidity.
 - Delinquencies and defaults represent risks to our liquidity. Recognizing this, we were early in our efforts to bolster resources in our credit and collections functions. With increased resources in place, we have enhanced our monitoring of delinquencies. We do expect client defaults to occur as some of our clients in more troubled industry segments struggle to keep their businesses open. However, we are well-positioned to manage the risk of credit losses in these situations given the nature of our assets and cross-collateralization of our leases.
- Our current lease book is fully funded and matched on a maturity, interest rate and currency basis, and the run-off of the existing lease book enlarges our access to contractually committed funding.
- While we will not be unscathed, our analysis is that the revenue impact of this economic crisis on our business will be transitory. Our blue-chip client base will still need mission-critical service and sales vehicles, and our cost-saving service offerings and cost-efficient capital will remain in high demand long-term.

For the first quarter, COVID-19 had limited impact on our business and thus on our financial results. However, given the significant economic disruption that has occurred and the unpredictable duration and severity of same, we believed it prudent to acknowledge the potential for increased credit risk and provision accordingly. To that end, we increased our provision for credit losses ("PCL") this quarter by \$11.4 million over the PCL taken in Q4 2019, increasing Element's balance sheet allowance for credit losses to \$20.0 million at quarter-end, representing 0.16% of total finance receivables before the allowance. The allowance is based on our consideration of multiple factors when applying the expected credit loss model, including macroeconomic factors, the probability of default of our clients and the loss that would likely result on default. To provide context as to the adequacy of this provision, our examination of Element's predecessor companies indicates that the worst level of credit losses experienced in a single year represented 0.09% of net finance receivables in 2009.

As we look to the remainder of 2020, the full impact of the pandemic will likely manifest itself in the following **pressure points**, with **partial offsets**:

Originations	Net financing revenue	Servicing income, net	Syndication revenue, net
Postponements	Lower net earning assets	Lower volumes	Lower core asset supply
Cancellations	Uncertain gain on sale	Delayed remarketing	Lower interest rates
	Lease extensions	Increased maintenance (longer-term)	
	Less working capital		
	Lower interest rates	Very little de-fleeting	

Without the ability to better predict and plan for the nature, duration or severity of the impacts that might accompany this pandemic, we have withdrawn 2020 adjusted EPS guidance. That said, we continue to hold to two targets we have set on exit from 2020:

- \$180 million in actioned run-rate profitability improvements arising from our Transformation, and
- A sub-6.0 tangible leverage ratio.

Although it is currently hard to predict how our world will unfold in the near-term, we believe the consequences of the pandemic are an event and not a ‘new normal’. We intend to manage through the event with a long-term perspective: we remain committed to executing our strategy. Our COVID-impacted financial and operating results to date reinforce our confidence in the essential nature of Element’s services and the fundamental resilience of our business model. Our work since the Fall of 2018 transforming the operating platform, strengthening our investment grade balance sheet, adding syndication to our funding mix and revenue streams, growing with Armada¹, and beginning the organizational pivot to growth has equipped Element to endure the present and positions our business extremely well for the future.

¹ “Armada” is the term Element uses to reference one client in particular that the Company does not name due to the client's desire for confidentiality.

Overview

Element Fleet Management Corp. is a leading global fleet management company providing best-in-class services and financing solutions for commercial vehicle fleets. The fleet management industry is characterized by high barriers to entry, rational competition and long-term, "sticky" client relationships. The industry was established in 1946 and has demonstrated stability and resilience across the business cycle.

With over \$18.2 billion in assets, Element is North America's largest publicly-traded fleet management company. We benefit from a blue-chip client base of strong credit counterparties; significant advantages of scale and expertise; and the financial strength to support the achievement of our and our clients' business objectives. We enjoy market leadership in each of the geographies in which we operate: the U.S., Canada, Mexico, and Australia and New Zealand.

Element's mission is to ensure that our clients' fleets and their drivers are safer, smarter and more productive. Fleet vehicles are essential to our clients' ability to generate and sustain daily revenues. The vehicles also have significant associated capital and operating costs. Through a suite of services that spans the fleet lifecycle, from vehicle acquisition and financing to maintenance, repair and remarketing, we help our clients optimize the productivity and performance of their fleet assets while lowering the total cost and administrative burden of ownership and operation.

In 2018, we completed a comprehensive, end-to-end assessment of Element's business, resulting in a strategic plan to solidify the Company's operating platform and client relationships, strengthen the balance sheet and access to capital, and prepare the business to pivot to growth. This transformational reset is well underway, having effected hundreds of changes to the organization that are resulting in a more consistent, superior client experience; greater operational efficiency and stability; a substantially de-risked and steadily de-leveraging investment grade balance sheet; diversified sources of cost-efficient capital; and meaningfully improved profitability.

The experience of transforming Element over the last 19 months has given our people the skills and confidence to deal with large, complex and deeply nuanced business problems. These capabilities have been tested anew since the final weeks of Q1 2020, when our organization began to quickly and successfully adapt to the new realities of operating through the COVID-19 pandemic. By and large, we stayed our course in Q1, and continue to do so. We address some of the associated challenges and opportunities for our business in greater detail throughout this document.

Element has approximately \$5.5 billion of contractually committed, undrawn liquidity across its revolving and asset-backed credit facilities. These facilities are funded by long-standing syndicates of Canadian and international name-brand banks. Subsequent to quarter-end, we added a \$560 million committed credit facility underwritten by four familiar leading banks, which can be used as required to retire Element's outstanding Convertible Subordinated Debentures maturing in June 2020.

Our progress in transforming Element - fortifying the Company's core operating platform, strengthening its investment grade balance sheet, increasing liquidity and diversifying access to cost-efficient capital - has allowed us to prepare to pivot the business to growth ahead of schedule. The organization performed a comprehensive, in-depth study of the North American fleet management market in late 2019. The resulting insights into segmentation, penetration, pricing and industry dynamics have informed our enhanced go-to-market strategy, which we have begun to implement in 2020. Based on our market insights and Element's client mix and geographic positioning, we believe the Company can generate annual net revenue growth of 4-6% in normal market conditions.

Financial Highlights

Select Q1 2020 Results

Core net revenue	Core servicing income, net / core net revenue	Core after-tax adjusted operating income / share	Consolidated free cash flow / share
\$ 249M	51%	\$ 0.23	\$ 0.29
Profitability improvements actioned to date	Core fleet assets under management	Consolidated tangible leverage ratio	Consolidated return on equity
\$ 146M	\$ 17.8B	7.45x	11.8%

Fleet Management Income Summary

(in \$000's for stated values, except per share amounts)

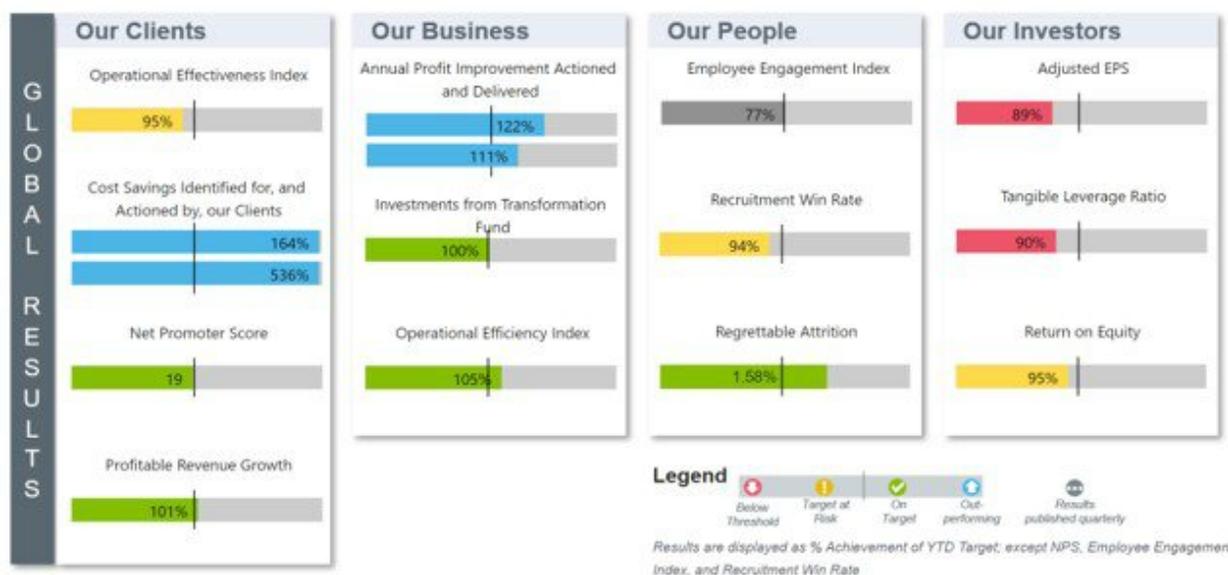
For the three-month period ended March 31, 2020

Net financing revenue	97,267
Servicing income, net	125,847
Syndication revenue, net	26,087
Net revenue	249,201
Adjusted operating expenses	114,435
Adjusted operating income	134,766
After-tax adjusted operating income per share [basic]	0.23

Balanced Scorecard

In 2019, Element implemented a balanced scorecard performance management system, which forges tighter alignment and provides greater focus throughout the Company, resulting in the rapid advancement of our strategic objectives. The balanced scorecard frames the business in four dimensions: Element's clients, business, people, and investors.

The 2020 evolution of Element's balanced scorecard plays the same role, distilling our strategy into a single page. Its broad dissemination throughout the Company allows all our employees to see our progress through clearly defined metrics. We raised the bar significantly for Element's performance as measured by our balanced scorecard in 2020, with many metric targets even well above 2019 results. Element's global balanced scorecard results at March 31, 2020 were as follows:



Achievements and Initiatives in the Period

Our People

Perhaps Element's most significant initiative and laudable achievement in the first quarter was the organization's swift adaptation to operating safely and successfully amid the emerging COVID-19 pandemic. Credit for this belongs to our people.

Our first and foremost concern was and remains the health and well-being of our employees during this extraordinary period. Within days of the pandemic's scale becoming clear, we transitioned 98% of our people to remote work arrangements, and instituted protocols to ensure those Element employees who continue to work from our offices are able to do so as safely as possible.

In spite of the challenging circumstances, our organization has continued to operate smoothly, safely and productively - a credit to the resourcefulness and work ethic of our people. We are delivering Element's consistent, superior client experience on a daily basis, supporting clients as they address the challenges and opportunities that COVID-19 presents for their businesses.

Our people are also cementing the transformation of our operating platform; strengthening and de-leveraging our investment grade balance sheet; carefully managing our funding facilities and operating liquidity; and pivoting our business toward profitable revenue growth.

Prior to the arrival of COVID-19 in the quarter, we rolled out Element's 2020 global balanced scorecard and accompanying pay-for-performance programs across the organization. In doing so, for 2020, we have

- provided strategic clarity and alignment,
- focused the organization on a narrow set of strategic objectives, and
- promoted a culture of performance, accountability, and transparency.

Element's Board of Directors will again use balanced scorecard results to determine the annual short-term incentive compensation of each named executive officer in 2020, with a minimum determinative weighting of 50% on balanced scorecard metrics measuring Element's financial performance. The Company believes that this compensation plan will forge a tight alignment between performance against strategic objectives and executive pay outcomes. Full details of the impact on incentive compensation are available in Element's Management Information Circular dated April 2, 2020 which has been filed on SEDAR at www.sedar.com.

As previously communicated, Element made organizational changes in Q1 that will better position us to capture the many opportunities we identified last year in sizing and mapping the North American market for fleet management services, which has informed our enhanced go-to-market strategy.

We combined our Enterprise and Mid-Market commercial teams in the U.S. and Canada into a single commercial organization this quarter, under the leadership of David Madrigal, appointed Chief Commercial Officer. Mr. Madrigal built Element's high-performing Mexico team from the ground up, delivering double-digit growth in Mexico over the last four years and solidifying the Company's reputation as the industry leader in the region.

The new commercial organization has also been reconfigured, with regional, government and "mega fleet" sales teams focused on profitable revenue growth; a dedicated client account management team within the commercial group; and strengthened salesforce effectiveness and marketing functions.

As previously communicated, Element's Mexico team will be aligned with our global Operations under the leadership of Jim Halliday, our Chief Operating Officer. Manuel Tamayo, Vice President of Mexico Sales, will become the new Head of Mexico and report to Mr. Halliday.

Our Clients

While we have seen some inevitable decline in vehicle use across our client base since the COVID-19 pandemic began in the final weeks of Q1, our business as a whole has proven resilient. We attribute this to certain fundamentals of Element's business model:

- Our largely investment grade (and equivalent) client base is distributed across 5 sizable geographies and more than 700 standard industrial classifications.
- The vast majority of our clients are enterprise- and mid-market-scale businesses many of whom remain in operation during the COVID-19 pandemic, including some first responders and many essential services.
- Approximately 80% of our leases are for service vehicles that are critical to our clients' ability to generate and sustain daily revenues, ensuring continuity of lease payments and service utilization.

Nevertheless, COVID-19 has resulted in some client fleets being grounded or experiencing reduced usage and, accordingly, clients began to require fewer of our services in the last two weeks of Q1 than would otherwise have been the case. Some clients also began deferring otherwise-scheduled originations as the quarter ended. While these trends have begun to show signs of stabilizing, we still expect to see meaningfully reduced originations and net servicing income in Q2 due to the broad public health measures implemented to combat the COVID-19 pandemic. The gain on sale revenue we earn in Mexico and ANZ has also been negatively impacted in Q2 to date as secondary vehicle market activity remains constrained by social distancing edicts and we elect not to sell into the resulting price trough.

Opposite some COVID-driven revenue softness have been opportunities for Element to deepen relationships with our clients by helping them better withstand these challenging times. Supported by our industry-leading team of strategic consultants, our commercial group has increased efforts to engage our clients in evaluating how Element can help further lower their total cost of fleet ownership and operation, and, in some cases, better manage their balance sheet.

A noteworthy example of our client-centricity is the rapid development of a vehicle sanitation service product in Q1. Clients whose vehicles may be driven by different employees on consecutive shifts can now have the interior deep-cleaned to commercial standards between shifts by service providers from Element's network.

Independent of the arrival of COVID-19 in the quarter, we continued to deepen our relationships with our clients. We

- grew client assets under management by 15% over Q1 2019, to \$17.8 billion;
- identified over \$600 million of cost saving opportunities for our clients, who actioned over \$200 million of same; and
- improved our global Net Promoter Score - which is a weighted average of trailing-four-quarter Net Promoter Scores in each of our geographies - from 16 to 19 in Q1.

In 2019, we undertook research and analysis to properly size and map the entire North American market for fleet management services. This was an exhaustive cross-functional effort spanning most of our organization as well as over 50 in-depth interviews with clients, potential clients and industry experts. The resulting insights into segmentation, penetration, pricing and industry dynamics validated both the relevance and sustainability of Element's value proposition, and informed our enhanced go-to-market strategy, which we have begun to implement in 2020.

Based on our market insights, client mix and geographic positioning, we believe Element can generate annual net revenue growth of 4-6% in normal market conditions.

We will do so by (i) holding market share through best-in-class client retention; (ii) improving salesforce effectiveness; (iii) better managing client profitability; (iv) converting self-managed fleets in targeted market segments into Element clients using our strengthened financial position and a compelling value proposition; and (v) leveraging our market leadership in Mexico and Australia / New Zealand. We will also pursue additional, Armada-like “mega fleet” opportunities, the success of which could drive results above 4-6% annual net revenue growth.

Our Business

Element's transformation is grounded in focusing on our clients and ensuring their needs are at the center of everything we do and every decision we make. Nowhere has this been more apparent than in our ongoing response to the arrival of the COVID-19 pandemic.

We are focused on managing, for our clients, all the circumstances within our control, while proactively monitoring and communicating with clients regarding circumstances that are out of our hands.

To that end, we remain in constant contact with our extensive network of supplier partners, whose products and services we procure on behalf of our clients.

- While vehicle production has been interrupted to varying degrees by COVID-19, OEMs have continued to accept our vehicle orders, and we anticipate they will prioritize filling our orders when they resume full production because our commercial clients stand ready to accept those vehicles, in contrast to an uncertain retail environment accessible through the dealer networks. We have seen this play out before in the wake of OEM labour disruptions.
- We have seen some reduction in service availability in our network of upfitters, transportation/delivery service providers and, of course, government offices that register vehicles (DMVs), however this has been manageable thus far. The private businesses, including maintenance and repair shops and parts suppliers, have been recognized as essential services. DMVs are typically accessible for commercial clients like ours who, themselves, often qualify as essential services; and where DMVs are not accessible, governments have extended compliance deadlines.
- Our remarketing channels - consisting primarily of auction houses we use to sell vehicles at end-of-lease - have significantly reduced capacity. Operating almost exclusively online, they are moving approximately 30% of the volume they would in normal circumstances, and at lower prices. In the short-term, this will negatively impact the contribution of remarketing revenue to service income in Canada and the U.S. and gains on sale to net financing revenue from Mexico and ANZ.

Internally, we have not relented on our transformation program objectives and deliverables. The first quarter kicked-off the final year and phase of transformation, which we frame as “Building for the Future”. Key aspects of this phase include:

- Enhancing our value proposition by building unique capabilities that reinforce our differentiation as the premier fleet management company in our markets;
- Advancing our product offering by creating new ways to better serve our clients;
- Optimizing our operating model to ensure we have the right roles in the right locations and filled by the right talent; and
- Enhancing our ways of working by continuing to upgrade our technological infrastructure - including moving more core capabilities to the cloud - and broadening the suite of digital capabilities available to our clients and their drivers.

Achievements and Initiatives in the Period

Element outperformed its transformation-based profit improvement targets in Q1, having actioned a cumulative \$146 million of annual run-rate, pre-tax operating income benefits at March 31, 2020, which we expect to enhance Element's operating income approximately \$104 million in 2020. Transformation initiatives delivered \$29 million of profit enhancement in this quarter.

Subsequent to quarter-end, we surpassed the \$150 million mark for annual run-rate, pre-tax profit improvements actioned by our transformation program. This is a noteworthy milestone, in particular because it was the original end-of-2020 target for the entirety of our transformation program. We increased that target to \$180 million in Q3 2019. We are well on our way to actioning \$180 million of profit improvement initiatives by the end of this year - the final year of Element's transformation program. We made \$15 million incremental one-time investments in our business this quarter as part of transformation. Our intention remains to make the full \$180 million of one-time investments in our transformation before the year is out.

Our Investors

Element's focus on delivering a consistent, superior experience across our blue-chip client base drove solid financial results for the first quarter, demonstrating the positive impacts of our ongoing transformation program and our work to strengthen and de-leverage our investment grade balance sheet, which offset the light initial impacts of COVID-19 on Q1 results.

We originated over \$2.0 billion of assets in the first quarter. Excluding Armada, this reflected quarter-over-quarter growth in all our North American markets and modest quarter-over-quarter decline in Australia and New Zealand, which was driven by economic headwinds. Assets under management grew to \$17.8 billion at quarter-end.

Element generated core adjusted operating income of \$134.8 million in Q1 2020, seasonally solid on a quarter-over-quarter basis, and a 10.5% or \$12.8 million increase over Q1 2019 -- with \$17.6 million of that increase being delivered by transformation. In total, transformation delivered \$29.0 million of operating income benefit this quarter. Core adjusted operating income per share was \$0.23, similarly flat on a quarter-over-quarter basis and up 10% or 2 cents from Q1 2019.

We estimate that COVID-19-related slowdowns in our clients' businesses in the last few weeks of Q1 had a \$2 - \$3 million negative impact on core adjusted operating income for the quarter through reduced service income. In addition, our Q1 results reflect a \$12.1 million provision for credit losses ("PCL"), which negatively impacted net financing revenue. It is important to note that provisions for credit losses are not actual credit losses.

It is difficult for us to predict the impact this pandemic will have on our thousands of clients spread across five geographies and over 700 industries, and thus determine the true potential credit loss risk to Element. We believe the \$20.0 million consolidated allowance for credit losses on our balance sheet at the end of Q1, representing 16 basis points of total finance receivables before the allowance, is a reasonable estimate. The allowance is based on our consideration of multiple factors when applying the expected credit loss model, including macroeconomic factors, the probability of default of our clients and the loss that would likely result on default. The allowance exceeds the highest level of actual credit losses the businesses that now make up Element experienced as a result of the Great Financial Recession, which amounted to less than 10 basis points as a percentage of net finance receivables.

We have withdrawn 2020 adjusted EPS guidance given the breadth of unknowns regarding the economic impact of COVID-19 on our clients, and therefore on our business. Nevertheless, our financial and operating results to date reinforce our confidence in the essential nature of Element's products and services to our clients - a fundamental reason for the resilience of the Company's business model.

The syndication market has remained open to Element throughout the COVID-19 crisis including to date. Element began syndicating higher volumes of core earning assets in 2019 than we had in previous years, as a means of accelerating the de-leveraging and therefore strengthening of our investment grade balance

Achievements and Initiatives in the Period

sheet. We also syndicate 100% of the fleet assets we originate and activate for Armada in order to manage client credit concentration. Syndication has proven a healthy source of recurring revenue for Element, with a degree of variability quarter to quarter. Element syndicated \$834 million of assets in the first quarter, generating \$26.1 million of revenue transacting with familiar as well as new buyers. We are anticipating some level of softness in syndication revenue in the second half of this year as we face a step-down in interest rates.

The balance sheet de-leveraging accelerated by syndication has rapidly matured Element's capital structure. Although we continue to fund assets on Element's investment grade balance sheet, we also continue to use syndication to help manage both leverage and client credit concentration.

Profitability, free cash flow and syndication all contribute to de-leveraging and de-risking Element's balance sheet. Our tangible leverage ratio was 7.45 this quarter-end, an increase of 0.34 from Q4 2019 due solely to the appreciation of the U.S. dollar against our reporting Canadian dollar. Excluding FX volatility, as well as the impact of the Company's non-recourse warehouse credit facility (which exclusively funds pre-syndication assets for Armada), our tangible leverage at March 31, 2020 would have been 6.35x. We continue targeting tangible leverage below 6.0x by the end of this year.

The ongoing improvement of Element's tangible leverage ratio will help us reduce the Company's cost of capital and further improve liquidity over time. In Q4 2019, we received a BBB investment grade rating from S&P, while Fitch affirmed its BBB+ investment grade rating of the Company and improved its outlook to stable. These two U.S. investment grade ratings pave the way for Element to issue bonds in the U.S. unsecured corporate debt market in 2020, which remains our intention while recognizing that market conditions may not be attractive in the short term for the Company's inaugural offering.

Element had approximately \$5.5 billion of contractually committed, undrawn liquidity across its revolving and asset-backed credit facilities at March 31, 2020, which has not changed materially since. These facilities are funded by long-standing syndicates of Canadian and international name-brand banks. Subsequent to quarter-end, we added a \$560 million committed credit facility underwritten by four familiar leading banks, which can be used as required to retire Element's outstanding Convertible Subordinated Debentures maturing in June 2020.

During the first quarter, 19th Capital management continued to shift its efforts to accelerate the run-off of that business, including ramping-up the pace of asset liquidation, reducing the scale of operations and engaging with third-party lenders. 19th Capital settled \$21 million of third-party debt in the quarter and Element recorded the resulting gain of \$6 million as an additional reduction of the entity's asset value. At March 31, 2020, 19th Capital assets (excluding cash, deferred tax assets and right-of-use assets) were valued at \$122 million, which was comprised primarily of equipment under operating leases, with third-party debt of \$99 million.

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 million (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.

Selected Quarterly Consolidated Financial Information

(in \$000's for stated values, except per share amounts)	As at and for the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	\$	\$	\$
Net revenue	247,239	256,509	242,227
Net income (loss)	79,358	(116,978)	80,473
Total assets	18,220,355	17,429,603	18,476,935
Total debt	13,115,461	12,604,652	13,624,200
After tax adjusted operating income ⁽¹⁾	105,397	112,797	100,612
Earnings (loss) per share			
Basic	0.16	(0.29)	0.16
Diluted	0.16	(0.29)	0.16
After tax adjusted operating income per share ⁽¹⁾			
Basic	0.22	0.23	0.21
Pro forma Diluted	0.21	0.22	0.20
Dividends declared, per share			
Common share	0.045000	0.045000	0.045000
Preferred Shares, Series A	0.433313	0.433313	0.433313
Preferred Shares, Series C	0.388130	0.388130	0.406250
Preferred Shares, Series E	0.368938	0.368938	0.400000
Preferred Shares, Series G	0.406250	0.406250	0.406250
Preferred Shares, Series I	0.359375	0.359375	0.359375

(1) For additional information, see "Description of Non-IFRS Measures" section.

Quarterly Results of Operations

Core Fleet Management Business

(in \$000's for stated values, except per share amounts)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	\$	\$	\$
Originations	2,030,988	2,225,909	1,712,849
End-of-period assets under management	17,780,139	16,710,402	15,492,500
Net revenue			
Net interest income and rental revenue	191,399	208,302	216,643
Interest expense	94,132	107,040	114,112
Net financing revenue	97,267	101,262	102,531
Servicing income, net	125,847	128,754	117,959
Syndication revenue, net	26,087	27,538	17,212
Net revenue	249,201	257,554	237,702
Adjusted operating expenses			
Salaries, wages and benefits	73,195	76,002	78,221
General and administrative expenses	31,299	28,818	27,748
Depreciation and amortization	9,941	10,137	9,740
Adjusted operating expenses	114,435	114,957	115,709
Adjusted operating income	134,766	142,597	121,993
Provision for taxes applicable to adjusted operating income	24,932	26,367	21,349
After-tax adjusted operating income	109,834	116,230	100,644
Cumulative preferred share dividends	10,906	11,025	11,164
After-tax adjusted operating income attributable to common shareholders	98,928	105,205	89,480
Weighted average number of shares outstanding [basic]	437,291	435,766	433,616
After-tax adjusted operating income per share [basic]	0.23	0.24	0.21

We originated \$2.0 billion of core assets this quarter, \$195 million less than last quarter and \$318 million more than Q1 2019. The quarter-over-quarter reduction in originations was on account of lower seasonal Armada originations, offset partially by continued strong growth in Mexico and non-Armada U.S. originations. On a year-over-year basis, the 19% increase was fueled by strong growth in the U.S. (including Armada), as well as Mexico and Canada.

Given the temporary closures of several OEM production facilities, we expect our Q2 originations to be meaningfully lower than Q1 2020 and Q2 2019 levels.

Core average net earning assets decreased \$237.7 million quarter-over-quarter and \$1.2 billion year-over-year as a result of our syndication activity. Core end-of-period assets under management ("AUM") growth quarter-over-quarter, on a constant currency basis, was \$200 million: quarter-over-quarter core AUM growth of \$1.1 billion on its face was materially enhanced by foreign exchange. AUM has grown \$1.9 billion or 12% since Q1 2019 on a constant currency basis. AUM growth is broken down further in our Supplementary Information document (available on our website).

Net financing revenue decreased \$4.0 million quarter-over-quarter and \$5.3 million year-over-year due to the incremental \$11.7 million provision for credit losses taken this quarter in response to the COVID-19 pandemic. (Absent COVID-19, the provision for credit losses this quarter would have been \$0.4 million.) Please see our discussion of this provision, and the resulting quarter-end balance sheet allowance for credit losses, under "Allowance for credit losses" in the "Fleet Management Portfolio Details" section of this MD&A.

Excluding the impact of the additional provision for credit losses this quarter, net financing revenue performed well, increasing by \$7.7 million quarter-over-quarter and \$6.5 million year-over-year, benefiting primarily from more efficient financing of working capital.

Quarterly Results of Operations

The following table sets out core net interest and rental revenue margins. Q1 2020 average debt outstanding decreased by \$287 million quarter-over-quarter and \$799 million year-over-year (lower borrowings) while average 1-month LIBOR rates fell 44 bps quarter-over-quarter and 108 bps year-over-year (lower interest rates), lowering our average cost of debt this quarter versus both prior periods. This is also reflected in our lower interest expense (as a percentage of total average net earning assets) on a quarter-over-quarter and year-over-year basis.

Excluding the impact of the additional provision for credit losses this quarter, our net interest and rental revenue margin (or NIM) would have been 3.70%.

(in \$000's for stated values)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Total average net earning assets	\$ 11,773,564	\$ 12,011,258	\$ 12,988,903
Net interest income and rental revenue	6.50%	6.93%	6.67%
Interest expense	3.20%	3.56%	3.51%
Net interest and rental revenue margin or NIM	3.30%	3.37%	3.16%
Average debt outstanding	\$ 12,063,303	\$ 12,350,473	\$ 12,862,541
Average cost of debt (Interest expense / average debt)	3.12%	3.47%	3.55%
Average 1-Month LIBOR rates	1.41%	1.85%	2.49%

While we expect short-term pressure on net financing revenue in Q2 2020 from deferred originations and delayed gain on sale revenue from Mexico and ANZ stemming from COVID-19, this should be partially offset by lower overall interest expenses as the working capital typically required to fund originations - and pay clients' incurred service expenses ahead of billing clients for same - remains undrawn from our senior credit facility.

Net servicing income for Q1 2020 fell \$2.9 million quarter-over-quarter despite the positive impacts of transformation and FX. The decrease was in part due to lower volumes in March as a result of COVID-19 and in part due to normal seasonal volume reduction from Q4 2019 to Q1 2020. On a year-over-year basis, net servicing income improved this quarter by \$7.9 million or 7% over Q1 2019, with both organic business performance in all geographies and transformation contributing to growth across multiple product categories.

Overall, we anticipate a meaningful reduction of net servicing income in Q2 2020 due to the broad public health measures implemented to combat the COVID-19 pandemic. Fewer miles driven by our clients will impact service income from fuel, maintenance, accidents and tolls & violations services, and an oversupply of used vehicles for sale and reduced auction house capacity in the U.S. and Canada will delay the realization of remarketing service income.

The syndication market remains open and we are successfully expanding our universe of investors. We syndicated \$834 million of assets in Q1 2020, \$130 million fewer than in Q4 2019 and \$345 million more than in Q1 2019. Both fluctuations were driven primarily by Armada activations, which were higher in Q4 2019 than our expected steady-state quarterly Armada volume, while Armada activity was relatively nascent in Q1 2019. Syndication revenue decreased \$1.5 million quarter-over-quarter, while improving as a percentage of assets sold. We are anticipating some level of softness in syndication revenue in the second half of this year as we face a step-down in interest rates.

Adjusted operating expenses were effectively flat quarter-over-quarter and down \$1.3 million from Q1 2019. Transformation savings on salaries, wages and benefits were partially offset by merit increases and the growth of our Armada and syndication teams. General and administrative expenses increased on account of investments in the growth of our business in Mexico and capabilities to meet Armada needs, in addition to higher professional service fees in the quarter. The strengthening of the U.S. dollar against the Canadian dollar had a negative impact on quarter-over-quarter operating expenses.

Non-Core Operating Segment

(in \$000's for stated values, except per share amounts)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	\$	\$	\$
Net revenue			
Net interest income and rental revenue	8,918	9,965	19,373
Interest expense	10,880	11,010	15,017
Net financing revenue	(1,962)	(1,045)	4,356
Servicing income, net	—	—	169
Net revenue	(1,962)	(1,045)	4,525
Adjusted operating expenses			
Salaries, wages and benefits	2,275	2,075	1,894
General and administrative expenses	492	283	2,050
Depreciation and amortization	715	808	620
Adjusted operating expenses	3,482	3,166	4,564
Adjusted operating loss	(5,444)	(4,211)	(39)
Recovery of taxes applicable to adjusted operating income	(1,007)	(778)	(7)
After-tax adjusted operating loss	(4,437)	(3,433)	(32)
Weighted average number of shares outstanding [basic]	437,291	435,766	433,616
After-tax adjusted operating loss per share [basic]	(0.01)	(0.01)	—

The Non-Core operating segment effectively represents the operations of 19th Capital. Interest expense in the period of \$10.9 million is comprised of third-party debt of \$3.5 million and allocated interest of \$7.4 million.

During the first quarter, 19th Capital management continued to shift its efforts to accelerate the run-off of that business, including ramping-up the pace of asset liquidation, reducing the scale of operations and engaging with third-party lenders. 19th Capital settled \$21 million of third-party debt in the quarter and Element recorded the resulting gain of \$6 million as an additional reduction of the entity's asset value. At March 31, 2020, 19th Capital assets (excluding cash, deferred tax assets and right-of-use assets) were valued at \$122 million, which was comprised primarily of equipment under operating leases, with third-party debt of \$99 million.

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 million (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.

Consolidated Operations

(in \$000's for stated values, except per share amounts)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	\$	\$	\$
Net revenue			
Net interest income and rental revenue	200,317	218,267	236,016
Interest expense	105,012	118,050	129,129
Net financing revenue	95,305	100,217	106,887
Servicing income, net	125,847	128,754	118,128
Syndication revenue, net	26,087	27,538	17,212
Net revenue	247,239	256,509	242,227
Operating expenses			
Salaries, wages and benefits	75,470	78,077	80,115
General and administrative expenses	31,791	29,101	29,798
Depreciation and amortization	10,656	10,945	10,360
Adjusted operating expenses	117,917	118,123	120,273
Amortization of convertible debenture discount	2,555	2,534	3,655
Share-based compensation	5,437	3,931	5,170
Total operating expenses	125,909	124,588	129,098
Other expenses			
Amortization of intangible assets from acquisition	10,223	9,623	9,176
Restructuring and transformation costs	14,995	28,671	6,738
Impairment on 19 th Capital	—	260,000	—
Loss on investments	57	267	1,330
Total other expenses	25,275	298,561	17,244
Net income (loss) before taxes	96,055	(166,640)	95,885
Income tax expense (recovery)	16,697	(49,662)	15,412
Net income (loss) for the period	79,358	(116,978)	80,473
Earnings (loss) per share [basic]	0.16	(0.29)	0.16
Weighted average number of shares outstanding [basic]	437,291	435,766	433,616

Consolidated Adjusted Results

(in \$000's for stated values, except per share amounts)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	\$	\$	\$
Net revenue	247,239	256,509	242,227
Adjusted operating expenses	117,917	118,123	120,273
Adjusted operating income	129,322	138,386	121,954
Provision for taxes applicable to adjusted operating income	23,925	25,589	21,342
After-tax adjusted operating income	105,397	112,797	100,612
Weighted average number of shares outstanding [basic]	437,291	435,766	433,616
After-tax adjusted operating income per share [basic]	0.22	0.23	0.21

Summary of Consolidated Quarterly Information

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended March 31, 2020. This information has been prepared on the same basis as the Company's audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes to those statements.

(in \$ 000's for stated values, except per share amounts and ratios)	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net revenue	247,239	256,509	245,796	249,570	242,227	221,480	221,255	219,440
Adjusted operating income ⁽¹⁾	129,322	138,386	127,650	125,976	121,954	96,529	98,091	102,564
After-tax adjusted operating income ⁽¹⁾	105,397	112,797	105,311	101,411	100,612	79,154	80,433	84,103
Net income (loss)	79,358	(116,978)	70,145	64,061	80,473	41,145	(341,105)	79,096
Earnings (loss) per share, basic	0.16	(0.29)	0.14	0.12	0.16	0.07	(0.93)	0.18
Earnings (loss) per share, diluted	0.16	(0.29)	0.13	0.12	0.16	0.07	(0.93)	0.18
Adjusted operating income per share, basic ⁽¹⁾	0.27	0.29	0.27	0.26	0.26	0.20	0.23	0.24
After-tax adjusted operating income per share, basic ⁽¹⁾	0.22	0.23	0.22	0.21	0.21	0.16	0.18	0.19
After-tax pro forma diluted adjusted operating income per share ⁽¹⁾	0.21	0.22	0.21	0.22	0.20	0.16	0.18	0.19
Total earning assets	11,999,636	11,783,853	12,388,224	12,714,943	13,141,273	13,662,821	13,180,374	13,734,850
Loan and lease originations	2,030,988	2,225,909	2,106,603	1,806,515	1,712,849	1,819,476	1,486,700	1,714,100
Allowance for credit losses	20,000	8,432	7,810	8,183	10,096	9,332	549,798	76,362
As a % of total finance receivables before allowance	0.16	0.07	0.06	0.07	0.08	0.07	4.20	0.57
Senior revolving credit facilities	1,869,919	1,703,507	1,824,014	2,372,370	2,153,786	2,406,195	2,617,114	2,611,108
Borrowings	10,529,564	10,189,354	10,329,638	9,828,447	10,567,390	10,864,585	9,784,284	10,401,781
Convertible debentures	715,978	711,791	715,399	711,305	903,024	897,435	891,929	886,510

(1) For additional information, see "Description of Non-IFRS Measures" section.

Effect of Foreign Currency Exchange Rate Changes

We are exposed to fluctuations in certain foreign currencies from operations we conduct in Australia, New Zealand, Mexico and, predominantly, the United States where, as at March 31, 2020, 8.3%, 4.0%, 7.2% and 68.9% of the net finance receivables and equipment under operating leases were located, respectively. While Element has certain designated hedges that partially mitigate the effects of FX exposure, our assets, liabilities, and foreign operating results do fluctuate as a result of fluctuations in these currencies against the reporting currency, being the Canadian dollar.

During the first quarter, adjusted operating income was not materially impacted by the change in average exchange rates of the Company's operating currencies against the Canadian dollar compared to adjusted operating income for the quarters ended December 31, 2019 and March 31, 2019. However, assets under management increased by \$991 million and \$521 million at March 31, 2020 compared to December 31, 2019 and March 31, 2019, respectively, due predominately to the increase in the U.S. dollar spot rate utilized at March 31, 2020, which had appreciated significantly as a result of uncertainty in the foreign currency exchange markets related to COVID-19.

The following table sets forth a summary of the Company's results from both Fleet Management and Non-Core operations on a **constant currency** basis:

(in \$000's for stated values)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	\$	\$	\$
Fleet Management net financing revenue	97,267	102,052	101,767
Non-core net financing revenue	(1,962)	(1,066)	4,406
Consolidated net financing revenue	95,305	100,986	106,173
Fleet Management servicing income, net	125,847	130,443	118,280
Non-core servicing income, net	—	—	171
Consolidated servicing income, net	125,847	130,443	118,451
Fleet Management syndication revenue, net	26,087	28,043	17,407
Non-core syndication revenue, net	—	—	—
Consolidated syndication revenue, net	26,087	28,043	17,407
Fleet Management net revenue	249,201	260,537	237,453
Non-Core net revenue	(1,962)	(1,066)	4,577
Consolidated net revenue	247,239	259,471	242,030
Fleet Management adjusted operating expenses	114,435	116,103	115,520
Non-core adjusted operating expenses	3,482	3,223	4,616
Consolidated adjusted operating expenses	117,917	119,326	120,136
Fleet Management adjusted operating income	134,766	144,434	121,933
Non-Core adjusted operating loss	(5,444)	(4,289)	(38)
Consolidated adjusted operating income	129,322	140,145	121,895
Fleet Management after-tax adjusted operating income	109,834	117,714	100,594
Non-Core after-tax adjusted operating loss	(4,437)	(3,496)	(32)
Consolidated after-tax adjusted operating income	105,397	114,218	100,562
Fleet Management net earning assets	11,919,120	12,128,883	13,021,815
Non-core net earning assets	129,837	153,081	445,146
Consolidated net earning assets	12,048,957	12,281,964	13,466,961
Fleet Management average net earning assets	11,773,564	12,536,321	13,311,073
Non-core average net earning assets	136,048	390,037	445,756
Consolidated average net earning assets	11,909,612	12,926,358	13,756,829

Consolidated Balance Sheet

The following table presents a summary of the comparative consolidated financial positions, as at:

(in \$000's for stated values)	March 31, 2020	December 31, 2019	March 31, 2019
	\$	\$	\$
ASSETS			
Cash	90,845	24,224	43,860
Restricted funds	541,948	434,128	568,524
Finance receivables	12,451,057	11,986,974	12,606,855
Equipment under operating leases	2,017,498	2,101,367	2,200,786
Accounts receivable and other current assets	227,605	219,676	392,289
Derivative financial instruments	93,966	41,396	33,253
Property, equipment and leasehold improvements	145,703	141,626	117,483
Intangible assets	847,157	793,279	832,447
Deferred tax assets	463,353	440,952	404,727
Goodwill	1,341,223	1,245,981	1,276,711
	18,220,355	17,429,603	18,476,935
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued liabilities	991,607	924,936	783,777
Derivative financial instruments	118,763	39,145	59,450
Borrowings	12,399,483	11,892,861	12,721,176
Convertible debentures	715,978	711,791	903,024
Deferred tax liabilities	46,246	48,225	53,956
	14,272,077	13,616,958	14,521,383
Shareholders' equity	3,948,278	3,812,645	3,955,552
	18,220,355	17,429,603	18,476,935

Total assets and liabilities increased by \$791 million and \$655 million, respectively over Q4 2019. 73% of Element's assets are U.S. dollar-denominated, as a result of which movements in the value of the U.S. compared to the Canadian dollar have an impact on our balance sheet. We also have assets denominated in Mexican pesos and Australian and New Zealand dollars, although these are smaller tranches of our portfolio. In Q1 2020, the quarter-over-quarter increase of total assets and liabilities was primarily a result of the strengthening of the U.S. dollar against the Canadian dollar. The net impact of all currency variations flows through to Shareholders' Equity as Other Comprehensive Income.

Fleet Management Portfolio Details

Finance Assets

Total finance receivables

The following table breaks down the Company's Fleet Management total finance receivables as at:

(in \$000's for stated values, except ratios)	March 31, 2020	December 31, 2019
	\$	\$
Net investment in finance receivables	9,966,363	9,663,569
Impaired receivables - at net realizable value	96,352	52,870
	10,062,715	9,716,439
Unamortized origination costs and subsidies	(114,117)	(107,257)
Net finance receivables	9,948,598	9,609,182
Prepaid lease payments and Security deposits	(50,834)	(66,158)
Interim funding	1,606,617	1,421,607
Fleet management service receivables	649,772	691,908
Other	301,361	320,022
	12,455,514	11,976,561
Allowance for credit losses	20,000	7,643
Total finance receivables	12,435,514	11,968,918
Ratios		
Allowance for credit losses as a % of total finance receivables before allowance	0.16%	0.06%

Fleet Management total finance receivables as at March 31, 2020 had increased by \$466.6 million compared to December 31, 2019 primarily due to a strengthening U.S. dollar.

Allowance for credit losses

Element's policy is to assess credit risk related to specific client defaults by performing detailed assessments on the value of the underlying security, and the client's financial condition and ability to service the debt, both at loan inception and throughout the term of the loan.

It is difficult for us to perform these assessments in the current dynamic and fluid environment and more difficult to predict the future impact that the COVID-19 pandemic will have on Element's thousands of clients spread across five geographies and over 700 industries, even in the near-term. Regardless, it is clear that the risk of credit losses has increased. At March 31, 2020, we increased Element's core Fleet Management allowance for credit losses as a percentage of total finance receivables before the allowance to 0.16%, 10 bps greater than the percentage at December 31, 2019. The allowance is based on our consideration of multiple factors when applying the expected credit loss model, including macroeconomic factors, the probability of default of our clients and the loss that would likely result on default. Our consolidated allowance for credit losses was \$20.0 million at March 31, 2020 - an increase of \$11.6 million over the \$8.4 million consolidated allowance reported at December 31, 2019.

Specific allowance for credit losses in respect of impaired receivables

A portion of Element's allowance for credit losses is maintained in respect of impaired individual or groups of assets. Individual impairment is assessed by examining contractual delinquency, and the client's financial condition, such as the identification of an approaching bankruptcy or the client being in the process of legal or collateral repossession proceedings with a debtor.

Accounts that are contractually delinquent less than 120 days but nonetheless assessed as impaired are provisioned by applying probability-weighted assumptions consistent with industry standards and our experience with respect to the probability of an identified account resulting in a client default.

Fleet Management Portfolio Details

Accounts over 120 days past due are automatically considered impaired, fully provisioned net of any anticipated recoveries and presented at their net realizable value.

The portion of Element's allowance for credit losses that is maintained in respect of impaired receivables is calculated as the difference between (i) the carrying amounts of the assets on the consolidated statements of financial position and (ii) the present value of the estimated future cash flows on the net finance receivables, discounted at the finance receivables' original effective interest rate.

Fleet Management credit losses and provisions, as at and for each of the respective year end as follows:

(in \$000's for stated values, except ratios)	March 31, 2020	December 31, 2019
	\$	\$
Allowance for credit losses, beginning of period	7,643	8,506
Provision for credit losses	12,055	2,082
Charge-offs, net of recoveries	(130)	(2,227)
Impact of foreign exchange rates	432	(718)
Allowance for credit losses, end of period	20,000	7,643
Allowance for credit losses as a % of total finance receivables before allowance	0.16%	0.06%

Fleet Management delinquencies

The contractual delinquency of Fleet Management net finance receivables at each reporting period is as follows:

(in \$000's for stated values)	March 31, 2020		December 31, 2019	
	\$	%	\$	%
Current	9,805,544	98.56	9,543,077	99.31
31 to 60 days	31,978	0.32	7,559	0.08
61 to 90 days	3,802	0.04	3,042	0.03
91 to 120 days	10,922	0.11	2,634	0.03
Impaired receivables	96,352	0.97	52,870	0.55
Total	9,948,598	100.00	9,609,182	100.00

The increased delinquent account balances for the 31 to 60, 61 to 90 and 91 to 120 days periods are primarily driven by four large clients and not indicative of a broader increase in delinquent client accounts. The four large clients driving the quarter-over-quarter increases are not a continued delinquency risk. Moreover, the values shown in the 31 to 60, 61 to 90 and 91 to 120 day periods in the table above are the net investments in finance receivables associated with the delinquent clients' entire accounts, and not the amount in respect of which the clients are currently delinquent. At March 31, 2020 the total amount in respect of which clients were between 31 and 120 days delinquent is \$4.9 million.

At March 31, 2020, total impaired receivables were \$96.4 million compared to \$52.9 million at December 31, 2019 primarily due to the addition of a single client. We believe the impaired receivables appropriately reflect the net realizable value of the finance receivables before the allowance for credit losses.

Equipment Under Operating Leases

The following table sets forth the Company's Fleet Management equipment under operating leases:

(in \$000's for stated values)	March 31, 2020	December 31, 2019
	\$	\$
Equipment under operating leases, net		
Vehicles	1,830,135	1,891,184
Others	73,302	87,631
	1,903,437	1,978,815

Portfolio Distribution by Geography

The table below sets forth the geographical distribution of the Company's portfolio of Fleet Management net finance receivables and equipment under operating leases, as at:

(in \$000's for stated values)	March 31, 2020		December 31, 2019	
	\$	%	\$	%
United States and Canada	9,521,953	80.3	9,186,928	79.3
Australia and New Zealand	1,471,247	12.4	1,555,180	13.4
Mexico	858,835	7.3	845,889	7.3
Total	11,852,035	100.0	11,587,997	100.0
Allocated as:				
Net finance receivables	9,948,598	83.9	9,609,182	82.9
Equipment under operating leases, net	1,903,437	16.1	1,978,815	17.1
Total	11,852,035	100.0	11,587,997	100.0

Non-Core Portfolio Details

Finance Assets

Total finance receivables

The following table sets forth a breakdown of the Company's Non-Core finance receivables, as at:

(in \$000's for stated values)	March 31, 2020	December 31, 2019
	\$	\$
Net investment in finance receivables	15,775	18,917
Impaired receivables - at net realizable value	469	662
Net finance receivables	16,244	19,579
Prepaid lease payments and Security deposits	(674)	(709)
Other	(27)	(25)
	15,543	18,845
Allowance for credit losses	—	789
Total finance receivables	15,543	18,056

Total Non-Core finance receivables have decreased \$2.5 million since December 31, 2019. The decrease is the result of the run-off of Element's non-core finance receivables.

Non-core delinquencies

The contractual delinquency of net finance receivables as at each reporting period was as follows:

(in \$000's for stated values)	March 31, 2020		December 31, 2019	
	\$	%	\$	%
Current	14,651	90.19	17,285	88.28
31 to 60 days	764	4.70	851	4.35
61 to 90 days	199	1.23	391	2.00
91 to 120 days	161	0.99	390	1.99
Impaired receivables	469	2.89	662	3.38
Total	16,244	100.00	19,579	100.00

Non-core credit losses and provisions, as at and for each of the respective period ends are as follows:

(in \$000's for stated values, except ratios)	March 31, 2020		December 31, 2019	
	\$		\$	
Allowance for credit losses, beginning of period		789		826
Charge-offs, net of recoveries		(772)		—
Impact of foreign exchange rates		(17)		(37)
Allowance for credit losses, end of period		—		789
Allowance for credit losses as a % of total finance receivables before allowance		—%		4.19%

Equipment Under Operating Leases

The following table sets forth the Company's Non-Core equipment under operating leases which are comprised of the 19th Capital assets:

(in \$000's for stated values)	March 31, 2020		December 31, 2019	
	\$		\$	
Equipment under operating leases, net				
Highway Tractors and Trailers		114,061		122,552
		114,061		122,552

Portfolio Distribution by Geography

The table below sets forth the geographical distribution of the Company's Non-Core portfolio of net finance receivables and equipment under operating leases, as at:

(in \$000's for stated values)	March 31, 2020		December 31, 2019	
	\$	%	\$	%
United States	128,692	98.8	139,946	98.5
New Zealand	1,613	1.2	2,185	1.5
Total	130,305	100.0	142,131	100.0

Liquidity

Element's primary sources of liquidity are daily operating cash flow from financing, leasing, syndication and service activities, and committed credit and debt facilities. Our primary uses of cash are the funding of finance receivables and operating leases, and working capital.

Cash Flow

Daily cash flow / liquidity

As part of our business continuity planning in the quarter - in anticipation of the potential scale and consequences of COVID-19 - we instituted a global cash management office to assess and then proactively manage Element's liquidity position and ensure we have robust controls over every source and use of cash flow. The cash management office has also been responsible for stress-testing to identify early indications and sensitivities in terms of maintaining that cash flow, and risks thereto. Every belief and every assumption we have held regarding the stability and resilience of Element's business model has now been stress-tested for legitimacy in any and all circumstances we can envision. The result has been peace of mind and comfort that our liquidity is sustainable "come what may," which has allowed us to better focus on some of the many other challenges that COVID-19 brings to our business and operations.

Operating free cash flow

We present our view of free cash flow from operations in Element's Supplementary Information document, available on the Company's website.

Statement of cash flows

Cash provided by operating activities in the quarter - as presented in our interim condensed consolidated financial statements - was \$308.4 million, a decrease of \$1.2 million from the \$309.6 million provided by operating activities in Q1 2019. The modest decrease was primarily the result of (a) higher investments in finance receivables and (b) lower proceeds of disposal from equipment under operating leases in the quarter than in Q1 2019, offset by (c) higher net interest income and syndication revenue and (d) less investment in equipment under operating leases this quarter than in Q1 2019.

Cash used in investing activities in the quarter was \$14.8 million - a \$23.6 million year over year negative delta to the \$8.9 million of cash provided by investing activities in Q1 2019. The primary reasons for the delta are (i) current quarter purchases of intangible assets were greater than Q1 2019, and (ii) Q1 2019 benefited from cash proceed from the sale of our Eden Prairie, MN office building.

Cash used in financing activities in Q1 2020 was \$228.5 million, compared to \$295.9 million used in financing activities in Q1 2019. The year over year decrease for the quarter is primarily due to a reduction in the net paydown of secured borrowings by comparison to Q1 2019.

Credit and debt facilities - funding sources

Maintaining ready access to diversified sources of cost-efficient capital is a strategic imperative for Element.

We had approximately \$5.5 billion of contractually committed, undrawn liquidity across our revolving unsecured (\$1.8 billion) and vehicle management asset-backed (\$3.7 billion) facilities at March 31, 2020. Commitments under these facilities are provided by long-standing syndicates of Canadian and international name-brand banks.

These sources of financing were as follows:

As at <i>(in \$000's for stated values)</i>	March 31, 2020			
	\$	%	\$	\$
	Committed size	Undrawn amount	Drawn amount	
Senior unsecured revolving credit facilities				
Senior credit facilities	3,658,460	48.9%	1,788,541	1,869,919
Total senior unsecured revolving credit	3,658,460	48.9%	1,788,541	1,869,919
Vehicle management asset-backed debt facilities				
Term notes amortization	5,435,758	—	—	5,435,758
Term notes revolving	—	—	—	—
Variable	8,670,458	42.3%	3,663,499	5,006,959
Other	104,512	—	—	104,512
Total vehicle management asset-backed debt	14,210,728	25.8%	3,663,499	10,547,229
Total cash	—		90,845	—
Total capital available for continuing operations	—		5,542,885	—

As at <i>(in \$000's for stated values)</i>	December 31, 2019			
	\$	%	\$	\$
	Committed size	Undrawn amount	Drawn amount	
Senior unsecured revolving credit facilities				
Senior credit facilities	3,376,100	49.5%	1,672,593	1,703,507
Total senior unsecured revolving credit	3,376,100	49.5%	1,672,593	1,703,507
Vehicle management asset-backed debt facilities				
Term notes amortization	5,697,575	—	—	5,697,575
Term notes revolving	—	—	—	—
Variable	8,236,454	47.0%	3,872,777	4,363,677
Other	169,485	—	—	169,485
Total vehicle management asset-backed debt	14,103,514	27.5%	3,872,777	10,230,737
Total cash			24,224	
Total capital available for continuing operations			5,569,594	

Subsequent to quarter end, the Company established a \$560 million committed credit facility underwritten by four familiar leading banks, which can be used as required to retire Element's outstanding Convertible Subordinated Debentures maturing in June 2020.

We believe the \$5.5 billion of liquidity available to the Company at March 31, 2020, coupled with the new committed credit facility and our dependable operating cash flow is sufficient to fund Element's operations throughout 2020, redeem the upcoming maturity of Convertible Subordinated Debentures, and pay dividends to all preferred and common shareholders.

Capital Resources

Capitalization

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 calculated as follows:

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 still intends to issue senior unsecured term debt in the U.S. bond market, the proceeds of which will be used, together with cash on hand, to retire the Company's outstanding Convertible Subordinated Debentures maturing in June 2020. However, recognizing that bond market conditions may not be attractive in the short term for an inaugural offering, subsequent to quarter-end, we established a \$560 million committed credit facility underwritten by four familiar leading banks that can be used as required to fund redemption of the debentures on an interim basis.

We view both financial and tangible leverage as key indicators of the strength of Element's Consolidated Statements of Financial Position. At March 31, 2020, our financial leverage ratio was 3.32:1 and tangible leverage ratio was 7.45:1. Excluding the impacts of FX volatility and our non-recourse warehouse credit facility, which exclusively funds pre-syndication assets for Armada, Element's tangible leverage ratio at March 31, 2020 would have been 6.35:1.

The Company's financial and tangible leverage is calculated as follows:

As at		March 31, 2020	December 31, 2019
<i>(in \$000's, except ratios)</i>		\$	\$
Borrowings		12,399,483	11,892,861
Convertible debentures		715,978	711,791
Total debt	(a)	13,115,461	12,604,652
Total shareholders' equity	(b)	3,948,278	3,812,645
		17,063,739	16,417,297
Goodwill and intangible assets	(c)	2,188,380	2,039,260
Financial leverage	(a)/(b)	3.32	3.31
Tangible leverage	(a)/[(b)-(c)]	7.45	7.11

The Company was in compliance with all financial and reporting covenants with all of its lenders at March 31, 2020.

Credit ratings

Our ability to access financing on a cost-efficient basis is primarily dependent on maintaining strong investment-grade credit ratings. Credit ratings and outlooks assigned by rating agencies reflect their views and methodologies. The credit ratings are subject to change based on a number of factors, including but not limited to, our financial strength, competitive position, liquidity and other factors not entirely within our control.

Credit Ratings ⁽¹⁾ as at March 31, 2020

Rating agency	Issuer rating	Outlook
DBRS Limited	BBB (high)	Stable
Fitch Ratings	BBB+	Stable
Kroll Bond Rating Agency	A-	Stable
Standard & Poor's	BBB	Stable

(1) Credit ratings are not recommendations to purchase, sell or hold a financial obligation in as much as they do not comment on market price or suitability for a particular investor. Ratings are determined by the rating agencies based on criteria established from time to time by them and are subject to revision or withdrawal at any time by the rating organization.

Standard & Poor's initiated coverage of Element in October 2019 with a BBB investment-grade credit rating, while Fitch Ratings affirmed its BBB+ investment-grade rating of Element and improved its outlook to stable in September 2019. These two U.S. investment-grade ratings pave the way for Element to issue bonds in the U.S. unsecured corporate debt market in 2020.

Outlook and Economic Conditions

Context: Fall 2018 - Present

In the Fall of 2018, the current management team completed a comprehensive, end-to-end assessment of Element's business, resulting in a strategic plan to solidify the Company's operating platform and client relationships, strengthen the balance sheet and access to capital, and prepare the business to pivot to growth. This transformational reset is well underway, having effected hundreds of changes to the organization that are resulting in a more consistent, superior client experience; greater operational efficiency and stability; a substantially de-risked and steadily de-leveraging investment grade balance sheet; diversified sources of cost-efficient capital; and meaningfully improved profitability.

In 2019, Element properly sized and mapped the North American market for fleet management services. This was an exhaustive cross-functional effort spanning most of our organization as well as over 50 in-depth interviews with clients, potential clients and industry experts. The research and analysis validated both the relevance and sustainability of Element's value proposition, and the growth levers available to us atop a fully transformed base and further strengthened balance sheet. Based on our market insights, client mix and geographic positioning, we believe Element can generate annual net revenue growth of 4-6% in normal market conditions.

Element's increasingly solid performance through 2019 and the first quarter of 2020 - prior to the onset of the COVID-19 pandemic in the final weeks of the quarter - demonstrate the exciting prospects for our transformed business.

Present: COVID-19 Pandemic

Although it is currently hard to predict how our world will unfold in the near-term, we believe the consequences of the pandemic are an event and not a 'new normal'. Element is well-equipped to successfully manage the unique challenges of the present and take advantage of opportunities created by this event to accelerate the growth of our business post-COVID-19.

In the meantime, we have withdrawn 2020 adjusted EPS guidance and increased our allowance for credit losses to \$20.0 million given the breadth of unknowns regarding the economic impact of COVID-19 on our clients and therefore our business. Specifically, the allowance is based on our consideration of multiple factors when applying the expected credit loss model, including macroeconomic factors, the probability of default of our clients and the loss that would likely result on default.

While the time horizon and scale of COVID-19's impact across our geographies remains unpredictable, our financial and operating results for Q2 2020 to date provide us a healthy degree of confidence in the resilience and stability of our business model, even in these unprecedented times.

The fundamental attributes of our model that underpin our confidence remain:

1. Our blue-chip client base provides strong counterparty credit.

- Approximately two-thirds of our earning assets are leased to investment grade (or equivalent) rated clients, reducing the risk of defaults. Most of our leases contain cross-default provisions that further reduce the risk of default. There are no *force majeure* clauses in our lease contracts. And it is important to note that, while rare, defaults have never translated into material credit losses given the nature of our assets and cross-collateralization of our leases.
- The highest level of actual credit losses the businesses that now make up Element experienced as a result of the Great Financial Recession amounted to less than 10 basis points as a percentage of net finance receivables.

2. Our vehicles are essential to the revenue-generating operations of our clients.

- Approximately 80% of our fleet assets are service vehicles that are critical to our clients' ability to generate and sustain daily revenues, ensuring continuity of lease payments and use of Element's services.

3. Our clients are distributed across five sizable geographies and over 700 standard industrial classifications, mitigating concentration risks.

4. Our value proposition is our use of scale to lower clients' total cost of fleet ownership and operation. Our scale advantages are (i) ready access to cost-efficient capital, (ii) purchasing / procurement power and (iii) the deepest dataset in the automotive industry.

- We provide our clients data-driven fleet-cost-saving strategies and opportunities, which are especially valuable during periods of economic hardship.

5. Our long-term, "sticky" relationships with our clients have us working closely with them as trusted business partners through this period.

- We view the COVID-19 pandemic as an opportunity to deepen our client relationships.
- Under normal circumstances, our business has approximately 98% year-over-year client revenue retention.
- We believe our clients are even less likely to change fleet management service providers during and in the wake of COVID-19.

6. Our lease contracts and the nature of our assets position us extremely well in the rare case of client insolvency or bankruptcy.

- Our vehicles are essential to the revenue-generating operations of our clients. As a result, our leases are rapidly affirmed for continued payment during insolvency / restructuring proceedings, in order to keep our client vehicles on the road generating revenue.
- We structure our leases such that a client almost invariably has equity in its fleet; our leases are cross-collateralized by the client's entire fleet; and our vehicles are highly liquid assets that can easily be monetized. As a result, we are almost invariably kept whole in the event of a client bankruptcy and liquidation.
- Recall, the highest level of actual credit losses the businesses that now make up Element experienced as a result of the Great Financial Recession amounted to less than 10 basis points as a percentage of net finance receivables.

Future: Post-COVID-19

By virtue of the foregoing attributes of Element's business model, and the work we have done on our transformation, balance sheet and liquidity since Fall 2018, we believe Element is well-positioned for what we anticipate the fleet management business will look like post-COVID-19.

Our blue-chip client base will still need mission-critical service and sales vehicles. We believe an increasing number of our clients will want to outsource more responsibility for their fleet-related issues, such as dealing with vehicle accidents and managing tolls and violations.

Many of our clients will have gained an appreciation for the value of the data-driven insight only Element can provide - and the operating cost savings that follow - from working closely with us to minimize fleet spend during COVID-19.

Others still are currently only service clients of Element - or not yet Element clients at all - but they own their fleet vehicles. This is the \$2 billion untapped annual net revenue potential of self-managed fleets for Element - in the U.S. and Canada alone, in the same market segments we serve today.

To the extent current fleet owners, including governments, wish to free-up balance sheet/budgetary capacity, we have the balance sheet capacity to welcome existing fleets onto our platform - and the syndication capabilities to manage any accompanying concentration risk to Element. We also have the liquidity to effect a sale-and-leaseback transaction with the current fleet owner, and the operating experience to execute a seamless transition of responsibility for their vehicles. We would expect a new client's total cost of fleet 'ownership' and operation to decrease by approximately 20% with Element managing their vehicles - to say nothing of the reduced administrative burden.

Finally, we believe we could see accelerated interest in "mega fleets" as retailers of all stripes recognize the attractiveness of being able to offer online shoppers proprietary home delivery. If working from home and social distancing become greater societal norms post-COVID-19, we believe competition to serve 'stay at home'-oriented consumers will increase.

Risk Management

The Company has risk management processes in place to monitor, evaluate and manage the principal risks it assumes in conducting its business activities. These risks include credit, liquidity, foreign exchange, interest rate, and various sources of operational risk. The Company's primary risk have not changed materially from that described in the "Risk Management" section of the Company's 2019 Annual MD&A other than as noted below.

Global Financial Markets and General Economic Conditions May Adversely Affect Element's Business, Financial Condition, and/or Results of Operations

Events in the financial markets have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, financial developments seemingly unrelated to Element or to its industry may materially adversely affect Element over the course of time. For example, general volatility in the equity markets could hurt Element's ability to raise capital and significantly impact Element's access to funding and liquidity (including access to securitization and syndication markets for Element's originated finance assets). Element may also be negatively impacted by volatility in the equity markets as a result of a number of catastrophic events that are beyond Element's control, including infectious diseases, pandemics or similar health threats, such as the ongoing COVID-19 pandemic or fear of the foregoing.

Moreover, a reduction in credit, combined with reduced economic activity, may materially adversely affect businesses and industries that collectively constitute a significant portion of Element's client base and may make it more difficult for Element to maintain new business origination and the credit quality of new business at the levels currently forecast. As a result, these clients may need to reduce their purchases and reliance on Element's services or Element may experience greater difficulty in receiving payment for its services. Delinquencies, non-accruals and credit losses generally increase during economic slowdowns or recessions. Therefore, to the extent that economic and business conditions are unfavourable, Element's non-performing assets may become elevated and the value of Element's portfolio is likely to decrease.

Adverse economic conditions also may decrease the estimated value of the collateral securing some of Element's loans and leases. Further or prolonged economic slowdowns or recessions, including those caused by catastrophic events as the COVID-19 pandemic, could lead to financial losses in Element's portfolio and a decrease in Element's net finance income, net income and book value. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on Element's business, financial condition and/or results of operations.

Element has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or the possibility of political unrest, legal and regulatory changes in jurisdictions in which Element operates. These factors could negatively affect Element's future results of operations in those markets.

Catastrophic Events, Natural Disasters, Severe Weather and Disease

Element's business may be negatively impacted to varying degrees by a number of events which are beyond its control, including cyber-attacks, unauthorized access, energy blackouts, pandemics, terrorist attacks, acts of war, earthquakes, hurricanes, tornadoes, fires, floods, ice storms or other natural or manmade catastrophes.

While Element engages in emergency preparedness, including business continuity planning, to mitigate risks, such events can evolve very rapidly and their impacts can be difficult to predict. As such, there can be no assurance that in the event of any such catastrophe that Element's operations and ability to carry on business will not be disrupted. Element may still be required to perform its obligations to third parties, notwithstanding the occurrence of any such events. A catastrophic event, including an outbreak of infectious disease, a pandemic or a similar health threat, such as the ongoing COVID-19 pandemic, or fear of any of the foregoing, could adversely impact Element by causing operating or supply chain delays and disruptions, labor shortages, expansion project delays, facility shutdowns and other business disruptions, each of which

could have a negative impact on Element's ability to conduct its business and could increase its costs. In addition, liquidity and volatility, credit availability and market and financial conditions generally could change at any time as a result. Any of these events in isolation or in combination, could have a material negative impact on Element's financial condition, operating results and cash flows.

COVID-19 Pandemic

Element's business has been and will continue to be negatively impacted by the COVID-19 pandemic, which has created, and continues to create, significant societal and economic disruptions. The COVID-19 pandemic has had, and will continue to have, a broad impact across industries and the economy, including by affecting consumer confidence, global financial markets (with global equity markets having experienced significant volatility and weakness), regional and international travel, supply chain distribution of various products for many industries, oil prices, government and private sector operations, the price of consumer goods, countrywide lockdowns in various regions of the world, and numerous other impacts on daily life and commerce. Additionally, the COVID-19 pandemic has led, and may continue to lead, governments around the world to enact measures to combat the spread of the COVID-19 virus, including, but not limited to, the implementation of travel bans, border closings, mandated closure of non-essential services, self-imposed quarantine periods and social and physical distancing policies, which have contributed to the material disruption to businesses globally resulting in a sudden economic slowdown.

The ever-changing and rapidly-evolving effects of the COVID-19 pandemic - the duration, extent and severity of which are currently unknown - on investors, businesses, the economy, society and the financial markets could, among other things, add volatility to the global stock markets, change interest rate environments, and increase lease delinquencies and defaults. Therefore, the COVID-19 pandemic and measures to prevent its spread may negatively impact Element as well as Element's clients, counterparties, employees, third-party service providers and other stakeholders, as applicable, in a number of ways, including, but not limited to, by: (i) adversely affecting local, national or international economies and employment levels, triggering potentially significant inflationary pricing or a recession, affecting Element's clients' and customers' ability to make payments on leases; (ii) adversely affecting the business operations of Element, including access to its funding and financing sources (including securitization and syndication markets); (iii) Element experiencing business interruptions as a result of the strain on existing resources, including information technology systems resulting from senior management and other employees working remotely, an inability to receive required technology or other hardware due to supply chain interruption or lacking necessary staffing needed for daily operations or the completion of extraordinary projects; (iv) disrupting public and private infrastructure, including communications and financial services, which could disrupt Element's or its customers' normal business operations; (v) adversely impacting net financing revenues and liquidity caused by delays in lease payments, changes in levels of lease originations, delays or deferrals in the replacement of vehicles, impact on remarketing of vehicles, client creditworthiness and delinquencies; and (vi) adversely impacting service revenues caused by declines in fleet vehicle mileage and lower fuel, maintenance and other service consumption. Any of these events in isolation or in combination, could have a material negative impact on Element's financial condition, operating results and cash flows.

Element Faces Tax Risks in Multiple Jurisdictions

Element is a Canadian corporation which operates in multiple jurisdictions. As a result, it is subject to the tax laws and regulations of Canadian federal, provincial and local governments and of the governments of foreign jurisdictions in which Element operates, as well as to any income tax treaties between Canada and any such jurisdictions, and to the risk that those tax laws, regulations and treaties may change in the future. Any such changes could adversely affect the taxes payable, including withholding taxes, and the effective tax rate in the jurisdictions in which Element operates.

The determination of Element's provision for income taxes in Canada and elsewhere, including current and deferred tax assets and liabilities on Element's financial statements, requires estimates, interpretation and significant judgment. Various internal and external factors may have favorable or unfavorable effects on future provisions for income taxes and Element's effective income tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, results of audits by tax authorities, changing interpretations of existing tax laws or regulations, changes in estimates of prior years' items, and changes

in overall levels of income before taxes. Furthermore, new accounting pronouncements or new interpretation of existing accounting pronouncements can have a material impact on Element's effective income tax rate.

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. The legislation includes, among other changes, a reduction in the U.S. federal corporate income tax rate, limitations on interest deductibility, a new tax on base erosion payments, and provisions on hybrid arrangements. Throughout 2019 and 2020 the IRS and the Treasury Department have continued to issue draft and final regulations for components of the new tax legislation. In April 2020, the IRS and Treasury Department published final regulations around hybrid arrangements. Preliminary reading of the regulations indicates that there are no material long term negative impacts on Element's financial condition. Final guidance, new regulations or updated interpretations may change this expected conclusion.

Element could be impacted by certain tax treatments for various revenue streams in different tax jurisdictions. If a tax authority has a different interpretation from Element's, it could potentially impose additional taxes, penalties, fines or change the amount and timing of expected tax refunds. This would potentially reduce the amounts of revenue and net income received by Element.

Element, from time to time, has executed or may execute reorganization transactions impacting its tax structure. If a tax authority has a different interpretation from Element's, it could potentially impose additional taxes, penalties or fines on Element.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operation are made with reference to the unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2020. A summary of the Company's significant accounting policies is presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2019. Some of the Company's accounting policies, as required by IFRS, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. Accounting policies that require management's judgment and estimates are described in the "Critical Accounting Policies and Estimates" section of the December 31, 2019 MD&A.

Related Party Transactions

The Company's related parties include the following persons and/or entities: (a) associates, or entities which are controlled or significantly influenced by the Company; (b) key management personnel, which are comprised of directors and/or officers of the Company and those persons having authority and responsibility for planning, directing and controlling the activities of the Company; and (c) entities controlled by key management personnel.

The Company has issued notes receivables that are loans to certain employees and directors of the Company granted in order to help finance the purchase of the Company's common shares. Such loans have been issued at market conditions, bear interest at 3% and are evidenced by individual promissory notes secured by the shares purchased under the loan arrangements. On March 3, 2017 the Board of Directors approved a plan to discontinue this program on a prospective basis.

Recently Adopted Accounting Standards

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 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 approximates 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-rates 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.

Internal Control over Disclosure and Financial Reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures to ensure that material information is being recorded, processed, summarized, and reported to senior management, including the certifying officers and other members of the Board of Directors, on a timely basis, so that appropriate decisions can be made regarding public disclosure. In addition, the CEO and CFO are responsible for establishing and maintaining internal controls over financial reporting to a standard that provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Limitations on the effectiveness of disclosure controls and internal controls over financial reporting

It should be noted that while the Company's CEO and CFO believe that the Company's internal control system and disclosure controls and procedures provide a reasonable level of assurance that the objectives of the control systems are met, they do not expect that the Company's control systems will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurances that any designs will succeed in achieving its stated goals under all potential conditions.

The Company has an established process in place which includes the continuous testing and reporting of the results to senior management and the Board of Directors on the effectiveness of the disclosure controls and internal controls over financial reporting.

IFRS to Non-IFRS Reconciliations

The following table provides a reconciliation of IFRS to non-IFRS measures related to the consolidated operations of the Company:

(in \$000's for stated values)		As at and for the three-month periods ended		
		March 31, 2020	December 31, 2019	March 31, 2019
Reported and adjusted income measures				
Net income (loss)	A	79,358	(116,978)	80,473
Adjustments:				
Amortization of debenture discount		2,555	2,534	3,655
Share-based compensation		5,437	3,931	5,170
Amortization of intangible assets from acquisitions		10,223	9,623	9,176
Restructuring and transformation costs		14,995	28,671	6,738
Impairment on 19 th Capital		—	260,000	—
Provision of (recovery for) income taxes		16,697	(49,662)	15,412
Loss on investments		57	267	1,330
Before-tax adjusted operating income	B	129,322	138,386	121,954
Provision for taxes applicable to adjusted operating income	C	23,925	25,589	21,342
After-tax adjusted operating income	D=B-C	105,397	112,797	100,612
Cumulative preferred share dividends during the period	Y	10,906	11,025	11,164
After-tax adjusted operating income attributable to common shareholders	D1= D-Y	94,491	101,772	89,448
Selected statement of financial position amounts				
Total Finance receivables, before allowance for credit losses	E	12,471,057	11,995,406	12,616,951
Allowance for credit losses	F	20,000	8,432	10,096
Earning assets				
Net investment in finance receivable	G	9,982,138	9,682,486	10,940,487
Equipment under operating leases	H	2,017,498	2,101,367	2,200,786
Total earning assets	I=G+H	11,999,636	11,783,853	13,141,273
Average earning assets, net	J	11,909,612	12,371,416	13,411,672
Goodwill and intangible assets	K	2,188,380	2,039,260	2,109,158
Average goodwill and intangible assets	L	2,118,833	2,061,413	2,094,041
Borrowings	M	12,399,483	11,892,861	12,721,176
Unsecured convertible debentures	N	715,978	711,791	903,024
Total debt	O=M+N	13,115,461	12,604,652	13,624,200
Average debt	P	13,056,159	12,914,664	13,559,757
Total shareholders' equity	Q	3,948,278	3,812,645	3,955,552
Preferred shares	R	680,412	680,412	680,412
Common shareholders' equity	S=Q-R	3,267,866	3,132,233	3,275,140
Average common shareholders' equity	T	3,254,520	3,271,359	3,217,035
Average total shareholders' equity	U	3,934,931	3,951,771	3,897,446

Non-IFRS and IFRS key annualized consolidated operating ratios and per share information of the operations of the Company:

		As at and for the three-month periods ended		
(in \$000's for stated values, except ratios and per share amounts)		March 31, 2020	December 31, 2019	March 31, 2019
Key annualized operating ratios				
Leverage ratios				
Financial leverage ratio	O/Q	3.32	3.31	3.44
Tangible leverage ratio	O/ (Q-K)	7.45	7.11	7.38
Average financial leverage ratio	P/U	3.32	3.27	3.48
Average tangible leverage ratio	P/(U-L)	7.19	6.83	7.52
Other key operating ratios				
Allowance for credit losses as a % of total finance receivables before allowance	F/E	0.16%	0.07%	0.08%
Adjusted operating income on average earning assets	B/J	4.34%	4.47%	3.64%
After-tax adjusted operating income on average tangible total equity of Element	D/(U-L)	23.21%	23.87%	22.32%
Per share information				
Number of shares outstanding	V	437,682	436,509	434,322
Weighted average number of shares outstanding [basic]	W	437,291	435,766	433,616
Pro forma diluted average number of shares outstanding	X	485,662	484,298	493,312
Cumulative preferred share dividends during the period	Y	10,906	11,025	11,164
Other effects of dilution on an adjusted operating income basis	Z	\$ 7,735	\$ 7,053	\$ 9,152
Net income (loss) per share [basic]	(A-Y)/W	\$ 0.16	\$ (0.29)	\$ 0.16
Net income (loss) per share [diluted]		\$ 0.16	\$ (0.29)	\$ 0.16
Book value per share	S/V	\$ 7.47	\$ 7.18	\$ 7.54
After-tax adjusted operating income per share [basic]	(D1)/W	\$ 0.22	\$ 0.23	\$ 0.21
After-tax pro forma diluted adjusted operating income per share	(D1+Z)/ X	\$ 0.21	\$ 0.22	\$ 0.20

The following table provides a reconciliation of the consolidated after-tax adjusted operating income per share and the after-tax pro forma diluted adjusted operating income per share of the operations of the Company for the three-month period ended March 31, 2020:

(in \$000's for stated values, except per share amounts)	Amount \$	Weighted average number of shares outstanding applicable	Amount per share \$
Adjusted operating income before taxes	129,322		0.30
Less:			
Income taxes related to adjusted operating income	(23,925)		(0.05)
Preferred share dividends	(10,906)		(0.02)
After-tax adjusted operating income attributable to common shareholders	94,491	437,290,729	0.22
Dilution items:			
Employee stock option plan	—	1,060,529	—
Convertible debentures (after-tax net interest expense)	7,735	47,311,204	(0.01)
After-tax pro forma diluted adjusted operating income	102,226	485,662,462	0.21

Description of Non-IFRS Measures

Our unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and the accounting policies we adopted in accordance with IFRS. These unaudited interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly our financial position as at March 31, 2020 and December 31, 2019, the results of operations, comprehensive income and cash flows for the three-month period ended March 31, 2020 and March 31, 2019.

Management uses both IFRS and Non-IFRS Measures to monitor and assess the operating performance of the Company's operations. Throughout this MD&A, management uses the following terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations:

Adjusted operating expenses

Adjusted operating expenses are equal to salaries, wages and benefits, general and administrative expenses, and depreciation and amortization.

Adjusted operating income or Before-tax adjusted operating income

Adjusted operating income reflects net income or loss for the period adjusted for the amortization of debenture discount, share-based compensation, amortization of intangible assets from acquisitions, restructuring and transformation costs, impairment on 19th Capital, provision or recovery of income taxes, and loss or income on investments.

Adjusted operating income on average earning assets

Adjusted operating income on average earning assets is the adjusted operating income for the period divided by the average earning assets outstanding throughout the period, presented on an annualized basis.

After-tax adjusted operating income

After-tax adjusted operating income reflects the adjusted operating income after the application of the Company's effective tax rates.

After-tax adjusted operating income attributable to common shareholders

After-tax adjusted operating income attributable to common shareholders is computed as after-tax adjusted operating income less the cumulative preferred share dividends for the period.

After-tax adjusted operating income per share

After-tax adjusted operating income per share is computed as the after-tax adjusted operating income attributable to common shareholders for the period, divided by the basic weighted average number of common shares outstanding during the period.

After-tax adjusted operating income on average tangible total equity of Element

After-tax adjusted operating income on average tangible equity of Element is the after-tax adjusted operating income for the period, divided by the net of the average total shareholders' equity outstanding throughout the period, less average goodwill and intangible assets.

After-tax pro forma diluted adjusted operating income per share

After-tax pro forma diluted adjusted operating income per share computes the diluted after-tax adjusted operating income per share for the period on the assumption that all outstanding options at the end of the period that have an exercise price less than the closing market value on that day, are fully vested on that day and are fully exercised at their exercise price, and a corresponding number of shares are repurchased at the closing market value on that day using the cash proceeds from these option exercises. Convertible debentures are assumed to be converted at the beginning of the period (or at issuance if issued during the period on a time weighted basis) with the other effects of dilution adjusted operating income basis added to the adjusted operating income, if they are dilutive.

Allowance for credit losses as a percentage of total finance receivables

Allowance for credit losses as a percentage of total finance receivables is the allowance for credit losses at the end of the period divided by the total finance receivables (gross of the allowance for credit losses) at the end of the period.

Average cost of borrowing or average cost of debt

Average cost of borrowing or average cost of debt is equal to interest expense divided by the average debt outstanding during the period and is presented on an annualized basis.

Average debt outstanding

Average debt outstanding is calculated as the sum of monthly average borrowings outstanding under all of the Company's borrowings facilities and the convertible debentures outstanding throughout the period.

Average common shareholders' equity

Average common shareholders' equity is calculated as the monthly average common shareholders' equity during the period.

Average financial leverage or average financial leverage ratio

Average financial leverage or average financial leverage ratio is calculated as average debt outstanding during the period, divided by average total shareholders' equity outstanding during the period. Financial leverage refers to the use of debt to acquire/finance additional finance receivables and provides an indication of future potential ability to increase the level of debt when compared to specific industry-standard and or existing debt covenants.

Average outstanding earning assets or average net earning assets

Average outstanding earning assets or average net earning assets is the sum of the average outstanding finance receivable, average equipment under operating leases and average other earning assets. Average outstanding finance receivables or average finance receivables is the sum of [i] the average finance receivables net investment balance (gross investment less unearned income) outstanding during the period and [ii] the average investment in managed fund during the period. Average equipment under operating leases is the monthly average equipment under operating leases outstanding during the period and is calculated net of accumulated depreciation. Average other earning assets is the monthly average of other earning assets outstanding during the period.

Average goodwill and intangible assets

Average goodwill and intangible assets is the monthly average balances of goodwill and intangible assets during the period.

Average shareholders' equity

Average shareholders' equity is calculated as the monthly average balance of shareholders' equity during the period.

Average tangible leverage ratio

The average tangible leverage ratio has been computed as the sum of the average borrowings and average convertible debentures, divided by the net of total average shareholders' equity less average goodwill and intangible assets during the period.

Common shareholders' equity

Common shareholders' equity is total shareholders' equity less principal face value of the preferred shares outstanding.

Consolidated return on equity

Consolidated return on equity is the current period end consolidated after-tax adjusted operating income less preferred share dividends, annualized, divided by the average of the current and prior period ending consolidated total shareholders' equity less preferred share equity.

Core fleet assets under management

Core fleet assets under management are the sum of fleet management earning assets, fleet management interim funding, and the value of core fleet assets syndicated by Element net of depreciation.

Consolidated free cash flow per share

Consolidated free cash flow per share is calculated by adjusting before-tax adjusted operating income for certain non-cash and cash revenue and expenses to get total cash from operations. Cash expenses of common and preferred share dividends and sustaining capital investments are subtracted from cash from operations to arrive at consolidated free cash flow. Consolidated free cash flow is then divided by the weighted average number of outstanding common shares for the period noted. Sustaining capital investments are defined by the Company as expenditures management considers necessary to supporting long-term growth.

Earning assets or total earning assets or finance earning assets

Earning assets are the sum of the total net investment in finance receivables, total carrying value of the equipment under operating leases and carrying value of other earning assets.

Finance assets or total finance assets

Finance assets are the sum of the total finance receivables and total carrying value of the equipment under operating leases.

Financial leverage or financial leverage ratio

Financial leverage or financial leverage ratio is calculated as total debt (the sum of borrowings and convertible debentures) outstanding at the end of the period, divided by total shareholders' equity outstanding at the end of the period. Financial leverage refers to the use of debt to acquire/finance additional finance receivables and provides an indication of future potential ability to increase the level of debt when compared to specific industry-standard and/or existing debt covenants.

Net interest and rental revenue

Net interest and rental revenue is calculated as the sum of net interest income, rental revenue net of depreciation, less interest expense. Net interest and rental revenue refers to net financing income earned from finance receivables, equipment under operating leases, and other earning assets, after considering financing costs and provision for credit losses.

Net interest and rental revenue margin or NIM

Net interest and rental revenue yield to average earning assets or NIM is calculated as net interest and rental revenue divided by average earning assets outstanding throughout the period on an annualized basis.

Other earning assets

Other earning assets are other yield generating assets that are not finance receivables or equipment under operating leases.

Other effects of dilution adjusted operating income basis

Other effects of dilution adjusted operating income basis represents, if dilutive, the add back of the after-tax convertible debt interest and the amortization of deferred financing costs related to the convertible debt, and excludes the add back of the after-tax amortization of the discount of the convertible debt (which is included on an IFRS basis).

Pro forma diluted average number of shares outstanding

Pro forma diluted average number of shares outstanding is the basic weighted average number of shares outstanding, plus the assumption that all outstanding options at the end of the period that have an exercise price less than the closing market value on that day, are fully vested on that day and are fully exercised at their exercise price, and a corresponding number of shares are repurchased at the closing market value on that day using the cash proceeds from these option exercises.

Tangible leverage ratio

The tangible leverage ratio has been computed as the sum of borrowings and convertible debentures divided by the net of total shareholders' equity less goodwill and intangible assets at the period end.

Tangible leverage ratio excluding non-recourse warehouse credit facility

The tangible leverage ratio has been computed as the sum of borrowings and convertible debentures less the non-recourse warehouse credit facility divided by the net of total shareholders' equity less goodwill and intangible assets at the period end.

Updated Share Information

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.

As at May 11, 2020, the Company had 437,835,775 common shares issued and outstanding. In addition, 15,089,426 options were issued and outstanding under the Company's stock option plan as at May 11, 2020. These convertible securities are convertible into, or exercisable for common shares of the Company of which 12,210,047 are exercisable at March 31, 2020 for proceeds to the Company upon exercise of \$136.6 million. In addition, the Company had convertible debentures outstanding that are convertible into an aggregate of 47,311,204 common shares.

As at May 11, 2020, the Company had 4,600,000 Preferred Shares, Series A, 5,126,400 Preferred Shares, Series C, 5,321,900 Preferred Shares, Series E, 6,900,000 Preferred Shares, Series G and 6,000,000 Preferred Shares, Series I issued and outstanding.

This Management's Discussion and Analysis is dated as of the close of business on May 11, 2020.