

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

March 31, 2022

Element Fleet Management Corp.

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

	As at March 31, 2022	As at December 31, 2021
	\$	\$
ASSETS		
Cash	33,206	45,271
Restricted funds (note 5)	479,845	400,930
Finance receivables (notes 3 and 15)	7,112,513	7,436,275
Equipment under operating leases (note 4)	2,423,569	2,297,182
Accounts receivable and other assets	195,170	204,873
Derivative financial instruments (notes 15)	66,703	26,302
Property, equipment and leasehold improvements, net	87,143	93,872
Intangible assets, net	820,319	830,013
Deferred tax assets	395,129	417,708
Goodwill	1,204,050	1,220,986
	<u>12,817,647</u>	<u>12,973,412</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	1,104,910	1,206,550
Derivative financial instruments (notes 15)	56,067	28,575
Borrowings (note 5)	7,921,404	8,038,963
Convertible debentures (notes 6 and 15)	160,321	159,072
Deferred tax liabilities	105,070	89,303
	<u>9,347,772</u>	<u>9,522,463</u>
Shareholders' equity (note 7)	<u>3,469,875</u>	<u>3,450,949</u>
	<u>12,817,647</u>	<u>12,973,412</u>

See accompanying notes

On behalf of the Board:



Director



Director

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month period ended	Three-month period ended
	March 31, 2022	March 31, 2021
	\$	\$
NET REVENUE		
Interest income, net (note 9)	82,929	104,111
Rental revenue and other (note 9)	200,269	172,995
Depreciation of equipment under operating leases (notes 4)	(122,550)	(111,892)
	160,648	165,214
Interest expense	45,467	54,194
Net financing revenue	115,181	111,020
Fleet service revenue (note 9)	143,596	125,814
Direct costs of fixed rate service contracts (note 9)	(11,754)	(11,325)
Servicing income, net	131,842	114,489
Syndication revenue, net (note 9)	13,777	23,089
Net revenue	260,800	248,598
OPERATING EXPENSES		
Salaries, wages and benefits	76,212	73,625
General and administrative expenses	27,797	27,146
Depreciation and amortization (note 14)	13,935	10,526
Amortization of convertible debenture discount (note 6)	933	872
Share-based compensation (note 8)	6,163	5,240
	125,040	117,409
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	8,909	8,906
Loss/(gain) on investments	1,442	(2,801)
Income before income taxes from operations	125,409	125,084
Provision for income taxes	31,805	29,555
Net income for the period	93,604	95,529
Basic earnings per share (note 11)	\$ 0.21	\$ 0.20
Diluted earnings per share (note 11)	\$ 0.21	\$ 0.20

See accompanying notes

Element Fleet Management Corp.

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

	Three-month period ended	Three-month period ended
	March 31, 2022	March 31, 2021
	\$	\$
Net income for the period	93,604	95,529
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain	34,540	9,498
Net unrealized foreign exchange gain (loss)	10,361	(76,595)
	44,901	(67,097)
Provision for income taxes	9,525	2,510
Total other comprehensive gain (loss)	35,376	(69,607)
Comprehensive income for the period	128,980	25,922

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited, thousands of Canadian dollars)

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2021	2,951,596	511,869	13,829	—	(22,536)	(3,809)	3,450,949
Comprehensive income for the period	—	—	—	—	93,604	35,376	128,980
Dividends - Preferred shares (note 7)	—	—	—	—	(8,103)	—	(8,103)
Dividends - Common shares (note 7)	—	—	—	—	(30,982)	—	(30,982)
Options exercised (notes 7 and 8)	4,506	—	—	—	(963)	—	3,543
Shares repurchased for cancellation (note 7)	(43,130)	—	—	—	(31,382)	—	(74,512)
Balance, March 31, 2022	2,912,972	511,869	13,829	—	(362)	31,567	3,469,875
Balance, December 31, 2020	3,180,379	511,869	59,603	51,788	(64,057)	44,535	3,784,117
Comprehensive income (loss) for the period	—	—	—	—	95,529	(69,607)	25,922
Dividends - Preferred shares (note 7)	—	—	—	—	(8,103)	—	(8,103)
Dividends - Common shares (note 7)	—	—	—	—	(28,259)	—	(28,259)
Options exercised (notes 7 and 8)	29,300	—	—	(8,681)	—	—	20,619
Shares repurchased for cancellation (note 7)	(56,814)	—	—	(47,668)	—	—	(104,482)
Employee stock option expense (note 8)	—	—	—	171	—	—	171
Balance, March 31, 2021	3,152,865	511,869	59,603	(4,390)	(4,890)	(25,072)	3,689,985

See accompanying notes

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

(unaudited, thousands of Canadian dollars)

	Three-month period ended	
	March 31, 2022	March 31, 2021
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	93,604	95,529
Items not affecting cash		
Share-based compensation (note 8)	—	171
Depreciation of property, equipment and leasehold improvements	5,604	6,271
Amortization of intangible assets, including from acquisitions	17,240	13,161
Amortization of deferred lease costs	7,146	8,351
Amortization of deferred financing costs	3,901	5,307
Depreciation of equipment under operating leases (note 4)	122,550	111,892
Amortization of convertible debenture discount and deferred costs (note 6)	1,249	1,173
Loss/(gain) on investments	1,442	(2,801)
Provision for credit losses	138	(3,516)
	<u>252,874</u>	<u>235,538</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(1,284,213)	(1,179,024)
Repayments of finance receivables	867,476	1,006,130
Investment in equipment under operating leases	(287,511)	(216,021)
Proceeds on disposal of equipment under operating leases	72,105	64,714
Syndications of finance receivables	671,816	1,037,963
Cash payments for interest portion of lease liability	(506)	(600)
Other non-cash operating assets and liabilities	(42,279)	(28,522)
Cash provided by operating activities	<u>249,762</u>	<u>920,178</u>
INVESTING ACTIVITIES		
Investments	938	(270)
Purchase of property, equipment and leasehold improvements	283	(1,930)
Proceeds on disposals of property, equipment and leasehold improvements and intangible assets	392	503
Purchase of intangible assets, including computer software	(17,270)	(18,766)
Decrease in notes receivable	284	86
Cash used in investing activities	<u>(15,373)</u>	<u>(20,377)</u>
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	(2,368)	(1,853)
Increase in restricted funds	(85,500)	(91,679)
Increase in deferred financing costs	(43)	(7,155)
Issuance of share capital, net	3,543	20,619
Shares repurchased (note 7)	(77,182)	(99,146)
Repayments of borrowings, net	(73,764)	(677,097)
Dividends paid (note 7)	(39,518)	(36,735)
Cash used in financing activities	<u>(274,832)</u>	<u>(893,046)</u>
Effects of foreign exchange rates on cash	<u>28,378</u>	<u>24,993</u>
Net (decrease) increase in cash during the period	<u>(12,065)</u>	<u>31,748</u>
Cash, beginning of the period	<u>45,271</u>	<u>8,789</u>
Cash, end of the period	<u>33,206</u>	<u>40,537</u>
Supplemental cash flow information:		
Cash taxes paid	17,421	22,748
Cash interest paid	<u>45,350</u>	<u>42,901</u>

See accompanying notes

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

1. CORPORATE INFORMATION

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

Element is a publicly traded fleet management company with \$12.8 billion in assets and operations in the United States ("US"), Canada, Mexico, Australia and New Zealand. Element is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, reaching 53 countries worldwide through the Element-Arval Global Alliance. Element provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing – helping approximately 5,500 clients optimize their fleet performance and productivity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2021, which include information necessary or useful in understanding the Company's business and financial statement presentation. The results reported in these unaudited interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 9, 2022.

Accounting policies

These unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2021, except as discussed below.

COVID-19

The extent and duration of the impact of COVID-19 on communities and the economy continues to remain unclear. In the preparation of these unaudited interim condensed consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of assets and liabilities and the reported amount of earnings for the reporting periods using the best available information as at March 31, 2022. Actual results could differ from those estimates. The estimates and assumptions that the Company considers critical and/or could be impacted by COVID-19

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

include those underlying the estimate of any expected credit losses on its net investment in finance receivables, other receivables, and determining the values of financial instruments for disclosure purposes.

Syndication

The Company periodically syndicates certain finance lease receivables, either through transferring ownership of the syndicated lease receivables to the third-party investor or through the transfer of an interest in interest bearing notes to third-party investors with the finance lease receivables as a security against the issued note, as well as all contractual rights to future cash flow, interest rate risk, credit risk and tax benefits, if applicable, related to the syndicated lease receivables. In the event the lessee terminates its lease agreement prior to the lease term, the Company is required to pay the third-party investor the foregone interest it would have earned if there was no early lease termination. For each syndication transaction, the Company evaluates the extent to which the risks and rewards of ownership have been transferred.

When substantially all the risks and rewards of ownership have been transferred, the Company derecognizes the lease receivables. When the Company has neither transferred nor retained substantially all the risk and rewards of ownership, a continuing involvement asset and associated liability are recognized to the extent of the Company's maximum continuing involvement. Element's continuing involvement is the amount of syndication fees earned that would be required to be returned to third-party investors if all vehicle leases, not meeting full derecognition criteria, are terminated as of the balance sheet date. The Company accounts for the likelihood of such early terminations separately from its continuing involvement.

When a syndication either qualifies for derecognition or is transferred with continuing involvement, the resulting gain from the syndication is recorded in the consolidated statements of operations in Syndication revenue, net, and the Company recognizes its estimated obligation for early lease terminations as a liability.

The Company continues to perform certain administrative tasks related to the lease receivables after assets are syndicated including billing and cash collections and remits such cash collections directly to the third-party investor. As a result, the Company retains the management fee billed to its clients to cover charges for the performance of these tasks in the majority of syndications.

The Company will continue to provide fleet management services (including accident management services, maintenance services, and fuel cards) regardless of whether or not the lease receivable is syndicated.

Interest Rate Benchmark Reform

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 interbank offered rate ("IBOR") reform ("the IBOR 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 adopted *Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16* ("Phase 2 Amendments") effective January 1, 2021. The Phase 2 Amendments include additional disclosure requirements for financial instruments that have yet to transition to an alternative interest rate at the end of the reporting period.

The Company will cease to apply the Amendments and Phase 2 Amendments as IBOR based cash flows transition to new alternative interest rates or when the hedging relationships to which the relief is applied to are discontinued.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

Effective December 31, 2021, the publication of LIBOR settings has ceased for the 1-week and 2-month US LIBOR setting. The overnight, one-month, three-month, six-month and 12-month US LIBOR settings is expected to be terminated on June 30, 2023. To manage the IBOR transition, the Company has established a cross functional initiative with dedicated work streams to evaluate and address the key areas of impact on the Company's leases, services, systems, documents, processes, models, funding and liquidity planning, risk management frameworks, and financial reporting with the intention of managing the impact through appropriate mitigating actions. The Company is progressing on its transition plan and incorporating market developments as they arise.

Effective December 31, 2021, the publication of LIBOR settings has ceased for the 1-week and 2-month US LIBOR setting. The overnight, one-month, three-month, six-month and 12-month US LIBOR settings is expected to be terminated on June 30, 2023. To manage the IBOR transition, the Company has established a cross functional initiative with dedicated work streams to evaluate and address the key areas of impact on the Company's leases, services, systems, documents, processes, models, funding and liquidity planning, risk management frameworks, and financial reporting with the intention of managing the impact through appropriate mitigating actions. The Company is progressing on its transition plan and incorporating market developments as they arise.

The following table shows the Company's exposure at March 31, 2022 to IBOR subject to reform that have yet to transition to Secured Overnight Financing Rates. These exposures will remain outstanding as of June 30, 2023 until IBOR ceases and will therefore transition in the future:

	Non-derivative financial assets - carrying value	Non-derivative financial liabilities - carrying value	Derivative Notional/Principal amount ⁽¹⁾
	\$	\$	\$
USD LIBOR (1 month)	2,305,495	—	2,830,465
USD LIBOR (3 month)	757,779	—	—
	3,063,274	—	2,830,465

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

On December 15, 2021, the Canadian Alternative Reference Rate Working Group (CARR) published a whitepaper on the future of CDOR, which recommended the cessation of CDOR after June 30, 2024. On January 31, 2022, Refinitiv Benchmark Services (UK) Ltd. (RBSL) published a public consultation regarding the potential cessation of Canadian Dollar Offered Rate (CDOR). It is expected that the Canadian market will migrate to using the Canadian Overnight Repo Rate Average (CORRA) as a reference rate in the future.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

3. FINANCE RECEIVABLES

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

	As at March 31, 2022			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	5,132,237	248,075	515,153	5,895,465
Unguaranteed residual values	—	62,537	—	62,537
Gross investment	5,132,237	310,612	515,153	5,958,002
Unearned income	(326,588)	(34,788)	(73,043)	(434,419)
Net investment	4,805,649	275,824	442,110	5,523,583
Net realizable value of impaired receivables	2,855	396	—	3,251
Unamortized deferred costs and subsidies	(44,204)	—	—	(44,204)
Prepaid lease payments and security deposits	(10,419)	—	(29,371)	(39,790)
Interim funding	606,428	—	61,779	668,207
Fleet management receivables	555,792	48,456	32,187	636,435
Other receivables	187,352	84,293	91,238	362,883
Continuing involvement asset	12,404	—	—	12,404
Allowance for credit losses (Subsection B)	(7,592)	(1,455)	(1,209)	(10,256)
Total finance receivables	6,108,265	407,514	596,734	7,112,513

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

	As at December 31, 2021			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	5,527,923	248,720	477,520	6,254,163
Unguaranteed residual values	—	61,692	—	61,692
Gross investment	5,527,923	310,412	477,520	6,315,855
Unearned income	(307,650)	(34,792)	(67,436)	(409,878)
Net investment	5,220,273	275,620	410,084	5,905,977
Net realizable value of impaired receivables	2,477	288	—	2,765
Unamortized deferred costs and subsidies	(40,729)	—	—	(40,729)
Prepaid lease payments and security deposits	(34,564)	—	(26,415)	(60,979)
Interim funding	468,512	—	181,643	650,155
Fleet management receivables	546,692	40,232	22,526	609,450
Other receivables	226,572	76,694	76,616	379,882
Allowance for credit losses (Subsection B)	(7,551)	(1,468)	(1,227)	(10,246)
Total finance receivables	6,381,682	391,366	663,227	7,436,275

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

	As at March 31, 2022		As at December 31, 2021	
	Leases	Loans	Leases	Loans
Net investment	\$ 5,322,657	\$ 200,926	\$ 5,724,951	\$ 181,026
Weighted average fixed interest rate	4.78 %	8.42 %	4.74 %	8.39 %
Weighted average floating interest rate	3.12 %	3.48 %	2.74 %	3.32 %
Percentage of portfolio with fixed interest rate	42.41 %	99.97 %	41.05 %	99.97 %

B) Allowance for credit losses

The Company continues to monitor its inputs to the expected credit loss ("ECL") model to ensure it appropriately reflects current market conditions in light of the global COVID-19 pandemic, inflationary environment and information available to the Company as at March 31, 2022.

The Company evaluates its credit risk exposure broadly in line with Standard & Poor's and Moody's ratings outlined below and will adjust internal classifications based on additional information the Company has available to it at the time of the assessment. In conjunction with the Company's evaluation of the probability of default ("PD") as at March 31, 2022, and consistent with the ECL model, the Company reviewed its classifications and updated its internal assessment of PD based on current information.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

The Company's lease and loan portfolio is secured by the underlying assets and, in the event of an obligor bankruptcy, leases are typically affirmed, resulting in continued collection of lease payments. Further, all the vehicles in a client portfolio are cross-collateralized, such that the surplus collateral on (usually older) vehicles can be used to offset under-collateralized positions (usually newer vehicles), such that the net full value of the lease and loan would be recovered. As a result, the Company is often able to recover 100% of the net investment. Additionally, used vehicle pricing remained strong throughout the first quarter of 2022, maintaining continued low loss given default ("LGD") levels as at March 31, 2022. The Company expects the used vehicle market to remain strong through 2022 due to continuing supply/demand imbalance. An increasing number of drivers of vehicles keep their cars for longer periods of time (or purchase used vehicles instead of new vehicles) as a consequence of the pandemic, reducing the supply in the used car market and increasing prices. The microchip shortage remains a vehicle manufacturing industry challenge which continues to impact most OEMs as they are being forced to either slow down or suspend new vehicle production. This impacts new vehicle deliveries, and some of the consumer demand has shifted towards the used vehicle market, further increasing demand and price for used vehicles.

In determining the appropriate allowance for credit losses, the Company considered forward-looking macroeconomic information in light of COVID-19 and the inflationary environment, namely the impact that potential upward or downward trends in Gross Domestic Product ("GDP") and default rates might have on the Company's lease and loan portfolio. The Company has also evaluated multiple scenarios related to this environment, including how it is expected to affect markets and as it pertains to specific industries or customers most susceptible to be impacted by the pandemic or inflation. Considering these potential impacts, the resilience of our clients, the favorable evaluation of our portfolio, and forward-looking macroeconomic expectations, the Company maintained a consistent allowance for credit losses at \$10,256 as at March 31, 2022.

The Company's evaluation of the above inputs to its model resulted in an additional provision for credit losses of \$138 recorded through the unaudited interim condensed consolidated statement of operations for the three-month period ended March 31, 2022.

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

Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Balance as at January 1, 2022	10,218	28	10,246
Transfer to Performing	1	(1)	—
Transfer to Impaired	(3)	3	—
Lease originations	2,934	—	2,934
Changes in models and inputs, derecognition, and repayments	(2,883)	87	(2,796)
Total	10,267	117	10,384
Charge-offs, net of recoveries	—	(84)	(84)
Foreign exchange	(44)	—	(44)
Balance as at March 31, 2022	10,223	33	10,256

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

Finance receivables	Performing \$	Impaired \$	Total \$
Balance as at January 1, 2021	17,457	261	17,718
Transfer to Performing	184	(184)	—
Transfer to Impaired	(3)	3	—
Lease originations	10,383	—	10,383
Changes in models and inputs, derecognition, and repayments	(17,538)	1,620	(15,918)
Total	10,483	1,700	12,183
Charge-offs, net of recoveries	—	(1,639)	(1,639)
Foreign exchange	(265)	(33)	(298)
Balance as at December 31, 2021	10,218	28	10,246

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

	Three-month period ended	Year ended
	March 31, 2022	December 31, 2021
Allowance for credit losses	\$	\$
Allowance for credit losses, beginning of the period	10,246	17,718
Provision for/(recovery of) credit losses	138	(5,535)
Charge-offs, net of recoveries	(84)	(1,639)
Impact of foreign exchange rates	(44)	(298)
Allowance for credit losses, end of the period	10,256	10,246
Allowance as a percentage of total finance receivables before allowance	0.14 %	0.14%

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

C) Credit risk exposure

The following table sets out the credit risk exposure for finance receivables, fleet management service receivables, and the impaired values and allowances for credit losses recorded.

As at March 31, 2022			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽¹⁾			
Low	2,931,346	—	2,931,346
Medium	2,382,570	—	2,382,570
High	209,667	—	209,667
Fleet management receivables	636,121	314	636,435
Other finance receivables	362,883	—	362,883
Impaired	—	3,251	3,251
	6,522,587	3,565	6,526,152
Allowance for credit losses	(10,223)	(33)	(10,256)
Net carrying value	6,512,364	3,532	6,515,896

1. Loan balances of \$2,592, \$198,228 and \$106 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

As at December 31, 2021			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽²⁾			
Low	3,102,417	—	3,102,417
Medium	2,525,526	—	2,525,526
High	278,034	—	278,034
Fleet management receivables	609,108	342	609,450
Other finance receivables	379,882	—	379,882
Impaired	—	2,765	2,765
	6,894,967	3,107	6,898,074
Allowance for credit losses	(10,218)	(28)	(10,246)
Net carrying value	6,884,749	3,079	6,887,828

2. Loan balances of \$8,265, \$172,642 and \$120 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

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

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

4. EQUIPMENT UNDER OPERATING LEASES

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

	As at March 31, 2022	As at December 31, 2021
	\$	\$
Cost	3,517,377	3,271,322
Accumulated depreciation	1,093,808	974,140
Net carrying amount	2,423,569	2,297,182

5. BORROWINGS

The Company's outstanding borrowings were as follows:

	As at March 31, 2022			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	1,793,262	1.37	1,869,632	20,384
Variable funding notes	3,456,098	1.16	3,746,474	24,331
Other	123,540	2.61	122,934	—
Vehicle management asset-backed debt	5,372,900	1.27	5,739,040	44,715
Revolving senior credit facilities	1,464,384	2.32	—	—
Senior notes	1,125,639	2.60	—	—
	7,962,923	1.66	5,739,040	44,715
Deferred financing costs	(23,045)			
Hedge accounting fair value adjustments	(30,878)			
Continuing involvement liability	12,404			
Total borrowings	7,921,404			

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

	As at December 31, 2021			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	2,154,974	1.38	2,278,618	22,506
Variable funding notes	3,605,799	1.03	3,911,834	25,519
Other	61,693	3.05	62,096	—
Vehicle management asset-backed debt	5,822,466	1.19	6,252,548	48,025
Revolving senior credit facilities	1,106,629	2.19	—	—
Senior notes	1,143,015	2.60	—	—
	8,072,110	1.53	6,252,548	48,025
Deferred financing costs	(27,023)			
Hedge accounting fair value adjustments	(6,124)			
Total borrowings	8,038,963			

1. Represents the weighted average stated interest rate of outstanding debt at period-end, and excludes amortization of deferred financing costs, premiums or discounts, stand-by fees and the effects of hedging.

The Company was in compliance with all financial and reporting covenants with all of its lenders at March 31, 2022.

Vehicle management asset-backed debt

As at March 31, 2022, the Company had available capacity in variable funding notes of \$1,199,984 (December 31, 2021 – \$1,073,472) under its vehicle management asset-backed debt facilities.

Revolving senior credit facilities

As at March 31, 2022, the Company had access to \$849,430 (December 31, 2021 - \$1,242,903) of available financing under the revolving senior credit facilities.

Senior notes

As at March 31, 2022, the Company had \$1,125,639 (US \$900,000) in outstanding senior unsecured notes (December 31, 2021 - \$1,143,015 (US \$900,000)).

Restricted funds

As at March 31, 2022, restricted funds include (i) cash reserves of \$44,715 (December 31, 2021 - \$48,025), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection accounts of \$428,334 (December 31, 2021 - \$347,148), which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently utilized in accordance with applicable provisions and other payments received that are due back to clients in accordance with their contracts; and (iii) cash of \$6,796 (December 31, 2021 - \$5,757) provided to counter-parties as collateral against derivative liabilities.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

6. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

As at March 31, 2022							
Issue Date	Final maturity date	Conversion price per share ⁽¹⁾	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
April 5, 2019	June 30, 2024	11.91	4.250	172,500	(3,026)	(9,153)	160,321

As at December 31, 2021							
Issue Date	Final maturity date	Conversion price per share	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
April 5, 2019	June 30, 2024	12.05	4.250	172,500	(3,342)	(10,086)	159,072

1. The conversion price was adjusted on March 31, 2022, the ex-dividend date for dividends to be paid on April 14, 2022, to \$11.9084 for the April 5, 2019 issuance.
2. Stated interest rate on principal face value.

7. SHARE CAPITAL

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

	Common shares	
	Shares #	Amount \$
Balance, December 31, 2020	440,275,293	3,180,379
Share repurchase	(39,002,033)	(284,081)
Exercise of options	3,803,967	55,298
Balance, December 31, 2021	405,077,227	2,951,596
Share repurchase	(5,810,200)	(43,130)
Exercise of options	425,238	4,506
Balance, March 31, 2022	399,692,265	2,912,972

Share repurchase

On November 4, 2020, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"). The NCIB allows the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 10, 2020 and ending on the earlier of November 9, 2021 or the completion of purchases under the NCIB, up to 43,929,594 common shares of the Company, subject to the normal terms and limitations of such bids which include the number of common shares purchased in any 12 month period being limited to 10% of the common shares outstanding at the

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

commencement of such period. On November 10, 2021, the TSX approved Element's notice of intention to renew its NCIB. The renewal allows the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 15, 2021 and ending on the earlier of November 14, 2022 or the completion of purchases under the NCIB, up to 40,968,811 common shares of the Company, subject to the normal terms and limitations of such bids, which include the number of common shares purchased in any 12 month period being limited to 10% of the common shares outstanding at the commencement of such period.

For the three-month period ended March 31, 2022, 5,810,200 common shares have been repurchased for cancellation for \$74,512, including commission, at a volume weighted average price of \$12.82 per common share. For the three-month period ended March 31, 2021, 7,844,886 common shares have been repurchased for cancellation for \$104,482, including commission, at a volume weighted average price of \$13.01 per common share. The Company applies trade date accounting in determining the date on which the share repurchase is reflected in the consolidated financial statements. The trade date is the date on which the Company commits itself to purchase the shares.

Common share dividends

For the three-month period ended March 31, 2022, the Company declared \$30,982 in common share dividends or \$0.0775 per common share (March 31, 2021 - \$28,259 or \$0.065 per common share).

As at March 31, 2022, the accrued common share dividends were \$30,982 (December 31, 2021 – \$31,415).

Increase in common share dividend

On November 10, 2021, the Board approved the increase in the quarterly common share dividend from \$.065 to \$.0775 per share.

Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at March 31, 2022 consist of the following:

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

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

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

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

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

Preferred share dividends

For the three-month period ended March 31, 2022, the Company declared \$8,103 in preferred share dividends (March 31, 2021 – \$8,103).

As at March 31, 2022, the accrued preferred share dividends were \$89 (December 31, 2021 – \$89).

8. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended	
	March 31, 2022	March 31, 2021
	\$	\$
(a) Stock options	—	171
(b) Deferred share units	386	339
(c) Performance share units	4,114	2,012
(d) Restricted share units	1,662	2,718
	6,163	5,240

(a) Stock options

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

	Number of options	Weighted average exercise price
	#	\$
Outstanding, December 31, 2020	11,022,659	10.01
Forfeited	(20,434)	10.21
Expired	(928,221)	12.79
Exercised ⁽¹⁾	(4,549,219)	10.79
Outstanding, December 31, 2021	5,524,785	8.45
Forfeited	(1,667)	12.65
Expired	(174,030)	12.57
Exercised ⁽¹⁾	(425,238)	8.33
Outstanding, March 31, 2022	4,923,850	8.32

1. Weighted average share price of options exercised during the three-month period ended March 31, 2022 was \$12.61 (year ended December 31, 2021 – \$13.67).

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

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

	Deferred share units	Performance share units	Restricted share units
	#	#	#
Outstanding, December 31, 2020	633,971	1,881,250	1,510,207
Granted	137,482	807,642	904,146
Forfeited	—	—	(105,908)
Redeemed	—	(569,552)	(776,521)
Outstanding, December 31, 2021	771,453	2,119,340	1,531,924
Granted	39,866	1,833,498	879,616
Forfeited	—	—	(67,219)
Redeemed	—	(2,135,422)	(454,628)
Outstanding, March 31, 2022	811,319	1,817,416	1,889,693

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

9. REVENUE

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

	Three-month period ended	
	March 31, 2022	March 31, 2021
	\$	\$
Major service lines		
Interest income, net	82,929	104,111
Rental revenue	170,598	153,873
Gain on sale of equipment under operating leases	29,671	19,122
Depreciation of equipment under operating leases	(122,550)	(111,892)
Financing revenue before interest expense	160,648	165,214
Service revenue, net	110,452	89,791
Vehicle sales and end of contract fees	21,390	24,698
Servicing income, net	131,842	114,489
Syndication revenue, net	13,777	23,089
Net revenue before interest expense	306,267	302,792
Primary geographical markets		
US and Canada	199,498	209,608
Australia and New Zealand	62,952	57,791
Mexico	43,817	35,393
Net revenue before interest expense	306,267	302,792
Timing of revenue recognition		
Revenue earned at a point in time	125,034	109,835
Revenue earned over time	181,233	192,957
Net revenue before interest expense	306,267	302,792

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

(A) Contract balances

	As at March 31, 2022	As at December 31, 2021
	\$	\$
Contract assets	11,180	12,619

Contract assets represent the costs the Company incurs to enter into service contracts with clients including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 3. For the three-month period ended March 31, 2022, the Company has recorded \$1,955 of amortization on its service contract assets (March 31, 2021 - \$3,090).

B) Performance obligations

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

10. INCOME TAXES

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

The effective income tax rate was 25.36% for the three-month period ended March 31, 2022 (three-month period ended March 31, 2021 - 23.63%). The effective tax rate is higher than prior years reflecting year-over-year variances in pre-tax income and other tax related adjustments.

11. EARNINGS PER SHARE

Basic earnings per share is as follows:

	Three-month period ended	
	March 31, 2022	March 31, 2021
	\$	\$
Net income attributable to shareholders	93,604	95,529
Cumulative dividends on preferred shares	(8,103)	(8,103)
Net income available to common shareholders	85,501	87,426
Weighted average number of common shares outstanding – basic (number)	401,574,625	438,502,648
Basic earnings per share	\$ 0.21	\$ 0.20

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

Diluted earnings per share is as follows:

	Three-month period ended	
	March 31, 2022 \$	March 31, 2021 \$
Net income available to common shareholders adjusted for the effects of dilution	87,091	89,061
Weighted average number of common shares outstanding – basic (number)	401,574,625	438,502,648
Convertible debentures (number)	14,485,564	14,315,353
Dilutive stock options and warrants (number)	1,756,569	2,089,723
Weighted average number of common shares outstanding – diluted (number)	417,816,758	454,907,724
Diluted earnings per share	\$ 0.21	\$ 0.20

Instruments outstanding as at March 31, 2022 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, included 1,241,554 stock options for the three-month period ended March 31, 2022 (March 31, 2021 - 855,750 stock options).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

12. CAPITALIZATION

The Company's objectives when managing capital are to ensure sufficient liquidity to support its financial objectives and strategic plans, to ensure its financial covenants are met and to maximize shareholder value. Element's funding activities are well diversified by facility, geography, investor, and lender and include both secured and unsecured sources.

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

As at	March 31, 2022	December 31, 2021
	\$	\$
Cash	33,206	45,271
Unsecured debt		
Revolving senior credit facilities	1,464,384	1,106,629
4.250% Convertible Debentures due 2024	160,321	159,072
3.850% Senior Notes due 2025	500,284	508,007
1.600% Senior Notes due 2024	625,355	635,008
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	1,793,262	2,154,974
Variable funding notes	3,456,098	3,605,799
Other	123,540	61,693
Deferred financing costs	(23,045)	(27,023)
Continuing involvement liability	12,404	—
Hedge accounting fair value adjustments	(30,878)	(6,124)
Total debt	8,081,725	8,198,035
Shareholders' equity		
Common share capital	2,912,972	2,951,596
Preferred share capital	511,869	511,869
Other	45,034	(12,516)
Total Shareholders' Equity	3,469,875	3,450,949
Total Capitalization	11,551,600	11,648,984

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

13. GEOGRAPHIC INFORMATION

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

Selected geographic assets are as follows:

	As at March 31, 2022				As at December 31, 2021			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	6,108,265	407,514	596,734	7,112,513	6,381,682	391,366	663,227	7,436,275
Equipment under operating leases	28,360	1,312,309	1,082,900	2,423,569	30,697	1,295,034	971,451	2,297,182
Goodwill and intangible assets	1,986,473	30,808	7,088	2,024,369	2,013,326	30,412	7,261	2,050,999
Property, equipment and leasehold improvements	62,387	12,399	12,357	87,143	68,273	13,255	12,344	93,872
	8,185,485	1,763,030	1,699,079	11,647,594	8,493,978	1,730,067	1,654,283	11,878,328

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

14. LEASES

The Company leases its office space and certain office equipment. The Company accounts for the lease components (fixed payments including rent and variable payments that depend on an index or rate) separately from the non-lease components (e.g. common-area maintenance costs).

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 10 years or more. The exercise of lease renewal options is at the sole discretion of the Company and is included in determining the lease liability and right-of-use asset if the Company assesses it is highly likely to exercise the lease renewal options at the inception of the lease. Subsequent to the inception of the lease, management continues to evaluate the likelihood of exercising the lease renewal options to ensure it aligns with the Company's business strategy. Adjustments to the lease liability and right-of-use asset as a result of a modification to the expected lease term are made in accordance with IFRS 16.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Certain of the Company's leases include rental payments adjusted periodically for inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Management evaluates all facilities to ensure the Company's footprint continues to support business activities, employees and client needs. In support of this and to align with the Company's growth strategy, the Company closed certain facilities in the US, Canada, Australia and New Zealand during the year ended December 31, 2020. The remaining lease liability for the closed facilities is \$2,632 as at March 31, 2022 (December 31, 2021 - \$2,772).

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

		As at March 31, 2022	As at December 31, 2021
		\$	\$
Assets	Classification		
Right-of-use assets	Buildings, net of accumulated depreciation ⁽¹⁾	61,028	64,188
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	69,593	73,059

1. As at March 31, 2022, right-of-use assets are recorded net of accumulated amortization of \$44,409 (December 31, 2021 - \$41,761).

		Three-month period ended	
		March 31, 2022	March 31, 2021
		\$	\$
Lease cost	Classification		
Amortization of leased assets	Depreciation and amortization	2,809	2,918
Interest on lease liabilities	Interest expense	506	600
Net lease cost		3,315	3,518

Maturity of lease liabilities	As at March 31, 2022
	\$
2022	8,709
2023	10,307
2024	5,941
2025	4,430
2026	4,338
Thereafter	35,868

	As at March 31, 2022	As at December 31, 2021
Lease Term and Discount Rate		
Weighted-average remaining lease term (years)	11.4	11.5
Weighted-average discount rate	2.94 %	2.94 %

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

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

Valuation methods and assumptions

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

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

Convertible debentures

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

Derivatives

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

Investments

The fair value through profit and loss ("FVTPL") investments are valued based on bids received in the private market or using valuation techniques and/or inputs that are based on unobservable market data.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

Accounts receivable, accounts payable, and accrued liabilities

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

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

	As at March 31, 2022				Total
	Carrying value	Level 1 Quoted market price	Level 2 Observable market inputs	Level 3 Non-observable market inputs	
	\$	\$	\$	\$	\$
Financial assets					
Assets not carried at fair value					
Cash	33,206	33,206	—	—	33,206
Finance lease receivables ¹	6,899,183	—	—	6,899,183	6,899,183
Finance loans receivables	200,926	—	—	200,926	200,926
Accounts receivable and other assets	184,668	—	—	184,668	184,668
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	46,261	—	46,261	—	46,261
Interest rate caps	76	—	76	—	76
Equity swaps	20,366	—	20,366	—	20,366
Investments classified as FVTPL	10,502	—	—	10,502	10,502
Total financial assets	7,395,188	33,206	66,703	7,295,279	7,395,188
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,104,910	—	—	1,104,910	1,104,910
Borrowings on finance receivables ¹	7,909,000	—	—	7,909,000	7,909,000
Convertible debentures	160,321	—	167,251	—	167,251
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	56,067	—	56,067	—	56,067
Total financial liabilities	9,230,298	—	223,318	9,013,910	9,237,228

1. As at March 31, 2022, the finance lease receivables and borrowings on finance receivables exclude the continuing involvement asset and liability, respectively, of \$12,404.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

	As at December 31, 2021				Total
	Level 1	Level 2	Level 3		
	Quoted market price	Observable market inputs	Non- observable market inputs		
Carrying value	\$	\$	\$	\$	\$
Financial assets					
Assets not carried at fair value					
Cash	45,271	45,271	—	—	45,271
Finance lease receivables	7,255,249	—	—	7,255,249	7,255,249
Finance loans receivables	181,026	—	—	181,026	181,026
Accounts receivable and other assets	191,819	—	—	191,819	191,819
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	20,041	—	20,041	—	20,041
Interest rate caps	17	—	17	—	17
Equity Swaps	6,244	—	6,244	—	6,244
Investments classified as FVTPL	13,054	—	—	13,054	13,054
Total financial assets	7,712,721	45,271	26,302	7,641,148	7,712,721
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,206,550	—	—	1,206,550	1,206,550
Borrowings on finance receivables	8,038,963	—	—	8,038,963	8,038,963
Convertible debentures	159,072	—	166,788	—	166,788
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	28,575	—	28,575	—	28,575
Total financial liabilities	9,433,160	—	195,363	9,245,513	9,440,876

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2022

16. SYNDICATIONS

The following represents the detail of the Company's syndicated assets that qualify for full derecognition:

		As at March 31, 2022	As at December 31, 2021
	Classification	\$	\$
Allowance for early termination	Accounts payable and accrued liabilities	19,142	21,497
Deferred servicing fee	Finance receivables	443	512

The follow represents the detail of the Company's syndicated assets subject to continuing involvement::

		As at March 31, 2022	As at December 31, 2021
	Classification	\$	\$
Continuing involvement in syndicated assets	Finance receivables	12,404	—
Liabilities associated with continuing involvement in syndicated assets	Secured borrowings	12,404	—
Allowance for early termination	Accounts payable and accrued liabilities	2,293	—
Net book value of assets related to deals remaining in continuing involvement	N/A	631,654	—

The following represents the detail of the Company's syndicated assets for the:

		Three-month period ended	
		March 31, 2022	March 31, 2021
	Classification	\$	\$
Syndication revenue, net	Syndication revenue, net	13,777	23,089
Net book value of assets syndicated	n/a	660,698	1,015,654

17. COMPARATIVE FIGURES

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