

Consolidated Financial Statements

Element Fleet Management Corp.

December 31, 2021

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

Element Fleet Management Corp.

Opinion

We have audited the consolidated financial statements of Element Fleet Management Corp. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Valuation of deferred tax assets

Key audit matter

As described in Notes 3 and 15 to the consolidated financial statements, the Company has deferred tax assets of \$417,708 thousand as at December 31, 2021. Deferred tax assets are recognized to the extent that it is probable that they can be utilized to offset future taxable profit. The Company's ability to recognize deferred tax assets on tax losses carried forward is assessed by management at the end of each reporting period, considering forecasts of future taxable profits and the interpretation of taxation legislation for tax planning strategies.

Auditing the valuation of the deferred tax assets required significant judgment in the interpretation of complex tax legislation and jurisprudence as well as the evaluation of management's tax planning strategies and projections of future taxable profits. As a result of the economic impacts of COVID-19, there is a heightened degree of uncertainty in forecasting future taxable profits. The application of these judgments impacts the evaluation of the timeline to realize deferred tax assets.

How our audit addressed the key audit matter

To test the valuation of deferred tax assets, we performed the following audit procedures, among others, with the involvement of our tax specialists:

- a. Obtained an understanding of the Company's overall tax strategies and components of income tax-related account balances by jurisdiction;
- b. Evaluated tax utilization strategies for recognized deferred tax assets in jurisdictions where tax planning is required to support utilization, including consideration of the technical merits of management's tax planning strategies and the amount of expected taxable income/loss using our knowledge of, and experience with, the application of income tax laws by the relevant income tax authorities;
- c. Evaluated management's forecasts of significant inputs and assumptions, including revenue and expense projections, by comparing to current industry and economic trends, comparing to historical cash flow trends, assessing the historical accuracy of management's previous forecasts, and considering the manner in which changes to the company's business model, customer base, or revenue streams had been incorporated into the forecasts; and
- d. Assessed the adequacy of the disclosures related to income taxes.

Other information

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

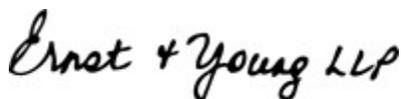
- a. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- e. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- f. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Andrew Morgan.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 1, 2022

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

	As at December 31, 2021 \$	As at December 31, 2020 \$
ASSETS		
Cash	45,271	8,789
Restricted funds (note 10)	400,930	388,978
Finance receivables (notes 4 and 25)	7,436,275	9,561,622
Equipment under operating leases (note 5)	2,297,182	2,157,227
Accounts receivable and other assets	204,873	226,952
Derivative financial instruments (notes 19 and 25)	26,302	53,629
Property, equipment and leasehold improvements, net (note 7)	93,872	112,352
Intangible assets, net (note 8)	830,013	814,378
Deferred tax assets (note 15)	417,708	444,120
Goodwill (note 9)	1,220,986	1,223,341
	<u>12,973,412</u>	<u>14,991,388</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	1,206,550	1,062,610
Derivative financial instruments (notes 19 and 25)	28,575	68,282
Borrowings (note 10)	8,038,963	9,864,336
Convertible debentures (notes 11 and 25)	159,072	154,267
Deferred tax liabilities (note 15)	89,303	57,776
	<u>9,522,463</u>	<u>11,207,271</u>
Shareholders' equity (note 12)	<u>3,450,949</u>	<u>3,784,117</u>
	<u>12,973,412</u>	<u>14,991,388</u>

See accompanying notes

On behalf of the Board:



Director



Director

Element Fleet Management Corp.**CONSOLIDATED STATEMENTS OF OPERATIONS**
(in thousands of Canadian dollars, except for per share amounts)

	Year ended December 31, 2021	Year ended December 31, 2020
	\$	\$
NET REVENUE		
Interest income, net (note 14)	372,110	522,785
Rental revenue and other (note 14)	707,960	647,577
Depreciation of equipment under operating leases (note 5)	<u>(450,256)</u>	<u>(428,464)</u>
	629,814	741,898
Interest expense	<u>192,869</u>	<u>336,211</u>
Net financing revenue	436,945	405,687
Fleet service revenue (note 14)	518,004	524,406
Direct costs of fixed rate service contracts (note 14)	<u>(45,539)</u>	<u>(42,552)</u>
Servicing income, net	472,465	481,854
Syndication revenue, net (note 14)	64,412	75,552
Net revenue	<u>973,822</u>	<u>963,093</u>
OPERATING EXPENSES		
Salaries, wages and benefits	306,884	302,757
General and administrative expenses	104,401	116,336
Depreciation and amortization (notes 7, 8, and 22)	50,537	42,491
Amortization of convertible debenture discount (note 11)	3,580	6,259
Share-based compensation (note 13)	<u>24,120</u>	<u>35,033</u>
	489,522	502,876
DISPOSITION OF 19TH CAPITAL		
Gain on settlement of debt (note 6)	—	38,580
Loss on sale of assets (note 6)	—	<u>(52,442)</u>
Net loss on disposition	—	<u>(13,862)</u>
OTHER EXPENSES		
Amortization of intangible assets from acquisitions (note 8)	35,313	38,291
Restructuring and transformation costs	—	77,508
Loss on investments/(Gain)	<u>(8,689)</u>	<u>(2,497)</u>
Income before income taxes from operations	457,676	333,053
Provision for income taxes (note 15)	<u>101,670</u>	<u>45,961</u>
Net income for the year	<u>356,006</u>	<u>287,092</u>
Basic earnings per share (note 18)	<u>\$ 0.76</u>	<u>\$ 0.56</u>
Diluted earnings per share (note 18)	<u>\$ 0.75</u>	<u>\$ 0.56</u>

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

	Year ended December 31, 2021	Year ended December 31, 2020
	\$	\$
Net income for the year	<u>356,006</u>	<u>287,092</u>
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain (loss) (note 19)	33,297	(31,798)
Net unrealized foreign exchange loss	<u>(72,840)</u>	<u>(24,472)</u>
	(39,543)	(56,270)
Provision for (recovery of) income taxes	<u>8,801</u>	<u>(6,743)</u>
Total other comprehensive loss	<u>(48,344)</u>	<u>(49,527)</u>
Comprehensive income for the year	<u>307,662</u>	<u>237,565</u>

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars)

	Common share capital	Preferred share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2020	3,180,379	511,869	59,603	51,788	(64,057)	44,535	3,784,117
Comprehensive income (loss) for the year	—	—	—	—	356,006	(48,344)	307,662
Dividends - Preferred shares (note 12)	—	—	—	—	(32,412)	—	(32,412)
Dividends - Common shares (note 12)	—	—	—	—	(113,940)	—	(113,940)
Options exercised (notes 12 and 13)	55,298	—	—	(16,927)	—	—	38,371
Matured convertible debentures (note 11)	—	—	(45,774)	45,774	—	—	—
Shares repurchased for cancellation (note 12)	(284,081)	—	—	(80,867)	(168,133)	—	(533,081)
Employee stock option expense (note 13)	—	—	—	232	—	—	232
Balance, December 31, 2021	2,951,596	511,869	13,829	—	(22,536)	(3,809)	3,450,949
Balance, December 31, 2019	3,127,714	680,412	59,603	68,754	(217,900)	94,062	3,812,645
Comprehensive income (loss) for the year	—	—	—	—	287,092	(49,527)	237,565
Dividends - Preferred shares (note 12)	—	—	—	—	(40,820)	—	(40,820)
Dividends - Common shares (note 12)	—	—	—	—	(88,472)	—	(88,472)
Redemption for preferred shares (note 12)	—	(168,543)	—	—	(3,957)	—	(172,500)
Options exercised (notes 12 and 13)	40,025	—	—	(13,045)	—	—	26,980
Issuance of shares, net of share issue costs (note 12)	18,140	—	—	—	—	—	18,140
Shares repurchased for cancellation (note 12)	(5,500)	—	—	(4,511)	—	—	(10,011)
Employee stock option expense (note 13)	—	—	—	590	—	—	590
Balance, December 31, 2020	3,180,379	511,869	59,603	51,788	(64,057)	44,535	3,784,117

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Year ended	
	December 31, 2021	December 31, 2020
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	356,006	287,092
Items not affecting cash		
Share-based compensation (note 13)	232	590
Depreciation of property, equipment and leasehold improvements (note 7)	24,277	27,175
Amortization of intangible assets, including from acquisitions (note 8)	61,573	53,606
Amortization of deferred lease costs	26,740	28,860
Amortization of deferred financing costs	22,218	39,980
Depreciation of equipment under operating leases (note 5)	450,256	428,464
Amortization of convertible debenture discount and deferred costs (note 11)	4,805	9,676
Gain on investments	(8,689)	(2,497)
Loss on disposal of 19 th Capital, excluding fees (note 6)	—	7,504
Impairment of fixed assets (notes 7 and 22)	—	4,113
Provision for credit losses	(5,535)	11,652
	<u>931,883</u>	<u>896,215</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(3,921,658)	(5,144,410)
Repayments of finance receivables	3,551,135	4,561,492
Investment in equipment under operating leases	(974,532)	(859,386)
Proceeds on disposal of equipment under operating leases	285,453	303,016
Syndications of finance receivables	2,715,474	2,849,241
Cash payments for interest portion of lease liability	(2,260)	(2,769)
Other non-cash operating assets and liabilities	(73,393)	181,408
Cash provided by operating activities	<u>2,512,102</u>	<u>2,784,807</u>
INVESTING ACTIVITIES		
Investments	(553)	12,287
Sale of 19 th Capital Group LLC (note 6)	—	63,283
Purchase of property, equipment and leasehold improvements (note 7)	(6,036)	(14,821)
Proceeds on disposals of property, equipment and leasehold improvements and intangible assets	761	6,976
Purchase of intangible assets, including computer software (note 8)	(80,231)	(85,555)
Decrease in notes receivable	110	8,207
Cash used in investing activities	<u>(85,949)</u>	<u>(9,623)</u>
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	(8,671)	(8,111)
(Increase) decrease in restricted funds	(14,213)	38,967
Increase in deferred financing costs	(19,529)	(20,954)
Issuance of share capital, net	38,371	26,980
Shares repurchased (note 12)	(532,336)	(7,134)
Repayments of borrowings, net	(2,339,031)	(2,513,153)
Settlement of 19 th Capital Group LLC debt (note 6)	—	(59,479)
Dividends paid (note 12)	(143,569)	(101,935)
Issuance of senior notes (note 10)	628,750	550,520
Repayment of convertible debenture (note 11)	—	(567,200)
Redemption of preferred shares (note 12)	—	(172,500)
Cash used in financing activities	<u>(2,390,228)</u>	<u>(2,833,999)</u>
Effects of foreign exchange rates on cash	557	43,380
Net increase (decrease) in cash during the year	36,482	(15,435)
Cash, beginning of the year	8,789	24,224
Cash, end of the year	<u>45,271</u>	<u>8,789</u>
Supplemental cash flow information:		
Cash taxes paid	48,432	42,992
Cash interest paid	170,984	307,929

See accompanying notes

Element Fleet Management Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2021

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 \$13.0 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 more than 5,500 clients optimize their fleet performance and productivity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 1, 2022.

Basis of consolidation

COVID-19

The extent and duration of the impact of COVID-19 and its variants on communities and the economy continues to remain unclear. In the preparation of these 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 December 31, 2021. Actual results could differ from those estimates. The estimates and assumptions that the Company considers critical and/or could be impacted by COVID-19 include those underlying the estimate of any expected credit losses on its net investment in finance receivables, other receivables, and determining the values of financial instruments for disclosure purposes.

Subsidiaries

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from the dates of their acquisition. Transactions and balances amongst these entities have been eliminated upon consolidation.

Subsidiaries, which include certain private partnerships and structured entities, are entities over which the Company has control. The Company controls an entity when (1) it has the power over the entity; (2) it has

Element Fleet Management Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2021

exposure, or rights, to variable returns from its involvement with the entity, and (3) it has the ability to use its power over the entity to affect the amount of its returns.

Significant accounting policies

Finance receivables

The Company determines the classification of a lease at its lease inception date.

The Company primarily provides financing to clients through direct financing leases. Direct financing leases transfer substantially all the benefits and risks of equipment ownership to the lessee. These leases are recorded at (i) the aggregate minimum payments plus residual values accruing to the Company, less (ii) unearned finance income, which includes origination fees. These leases are carried at amortized cost using the effective interest rate method (i.e. interest income is allocated over the expected term of the lease by applying the effective interest rate to the carrying amount of the lease).

In certain circumstances, the Company may provide financing to clients through loans. Loans are recorded and carried at amortized cost using the effective interest rate method (i.e. interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan). Unearned finance income includes loan origination fees. The Company does not retain title to the vehicles that are subject to these loans.

Initial direct costs that relate to the origination of the finance receivables are deferred and recognized as yield adjustments using the effective interest rate method over the term of the related financial asset. These costs are incremental to individual leases or loans and comprise certain specific activities related to processing requests for financing, such as the costs to underwrite the transaction and commission payments.

Direct financing leases and loans are recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a direct financing lease or a loan is deemed to be impaired at the earlier of the date it has been individually provided for when timely collection is not assured or when it has been in arrears for 120 days or more. When amounts receivable are considered impaired, their book value is adjusted to their estimated realizable value based on the fair value of any collateral underlying the receivable, net of any costs of realization, by totally or partially writing off the loan and/or establishing an allowance for credit losses.

Also included in finance receivables are secondary receivables, including interim funding (vehicles paid for by the Company but not yet delivered to clients) and fleet management receivables (amounts receivable from lease billings and ancillary fleet service revenues, including fuel cards, accident management services and maintenance). The outstanding receivables are evaluated for recoverability at the end of each reporting period and appropriate reserves are recorded based on the Company's analysis of collectability.

Equipment under operating leases

An operating lease is one that does not transfer substantially all of the risks and rewards of ownership to the lessee.

Operating leases entered into by the Company are reported as "Equipment under operating leases" and are carried at cost less accumulated depreciation and are being depreciated to their estimated residual values using the straight-line method over the lease term or estimated useful life of the asset up to 10 years from the date of manufacture, with an average term of approximately 45 months. The Company retains the residual

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2021

value risk on certain equipment under operating leases and finance receivables for which there is an unguaranteed residual value and, as a result, manages this risk through a combination of its credit policies and the determination of residual value at the inception of the lease. The Company maintains a strict credit review process and over time, has transitioned a large portion of its portfolio to investment-grade clients, reducing potential exposure to non-payment. Additionally, the process of setting the residual value at the inception of the lease is a highly structured, data driven methodology that includes multiple data points including model life, deflation forecast, and trade price to calculate the residual value.

Rental revenue on operating leases is recognized on a straight-line basis over the lease term.

Equipment under operating leases is reviewed for impairment when events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use.

Revenue recognition

The Company recognizes interest income that relates to finance receivables as described above. This income is recognized on an accrual basis using the effective interest rate method for leases and loans that are not considered impaired. The Company also recognizes rental income that relates to equipment under operating leases described above. This revenue is recognized on a straight-line basis over the lease term.

Service and other revenue is recognized when such services are provided to the customer, at a point in time or over time. These services include fuel cards, accident management services and maintenance services. Certain fixed-fee service revenues are recognized over time, on a straight-line basis, as the Company performs the related service and costs are recognized as incurred.

Syndication

The Company periodically syndicates certain finance lease receivables transferring ownership of the syndicated lease receivables to the third-party investor as well as all contractual rights to future cash flow, interest rate risk, credit risk and tax benefits related to the syndicated lease receivables. As a result of these syndications, the Company transfers substantially all the risks and rewards of ownership of the lease receivables, and the net book value of the lease receivables is derecognized. The resulting gain is recorded in the consolidated statements of operations in Syndication revenue, net. 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. The Company recognizes its estimated obligation for early lease terminations as a liability as part of the derecognition transaction.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2021

Allowance for credit losses

The Company assesses its portfolio of leases and loans separately at each consolidated statement of financial position date. The Company segments its lease portfolio into one of two classifications:

- Leases are performing and are not credit impaired. Full lifetime expected credit losses ("ECL") are recognized immediately at a reporting date (Performing); and
- Credit-impaired (Impaired).

The Company has elected, as an accounting policy choice, to apply the simplified approach to its lease receivables to apply lifetime ECL at all times (Performing or Impaired).

Under this approach:

- Leases begin in Performing.
- Leases enter Impaired when there is an event of default. Contractual delinquencies over 120 days are automatically considered defaulted accounts (Impaired) and are fully provisioned (net of any anticipated recoveries) and presented at their net realizable value on the consolidated statements of financial position. Accounts are also considered for transfer to Impaired when internal or external credit ratings indicate a default or when they are under repossession, or when the borrower has filed for bankruptcy or creditor protection. A borrower is generally considered cured and moved out of Impaired when none of these conditions are present for six consecutive months.
- Leases are charged-off when the Company has stopped pursuing the recovery.

The Company segments its loan portfolio into one of three classifications at each consolidated statement of financial position date:

- Financially healthy with no sign of increased credit risk (Stage 1);
- Increased credit risk when compared to origination but not credit impaired. Full lifetime ECL are recognized immediately at a reporting date (Stage 2); and
- Credit-impaired (Stage 3).

Stage 1 and 2 are disclosed as Performing and Stage 3 is disclosed as Impaired in Note 4. Internal risk rating changes and delinquencies are used by the Company to determine when there has been a significant increase or decrease in credit risk of a loan.

Under this approach:

- Loans begin in Stage 1 unless they are initiated or acquired in an impaired state. ECL within the next 12 months are recognized immediately at a reporting date.
- Loans move to Stage 2 when it is determined that a significant increase in credit risk has occurred. ECL over the expected life of the lease or loan are recognized immediately. Loans may return to Stage 1 if a significant decrease in credit risk has occurred.
- Loans enter Stage 3 when there is an event of default. Contractual delinquencies over 120 days are automatically considered defaulted accounts (Stage 3) and are fully provisioned (net of any anticipated recoveries) and presented at their net realizable value on the consolidated statements of financial position. Accounts are also considered for transfer to Stage 3 when internal or external credit ratings indicate a default, or when they are under repossession, or when the borrower has filed for bankruptcy or creditor protection. A borrower is generally considered cured and moved out of Stage 3 when none of these conditions are present for six consecutive months.

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- Loans are charged-off when the Company has stopped pursuing the recovery.

ECLs are calculated based on a range of scenarios (with a base case, an upside, and a downside) and corresponding probability weights. The scenarios take into consideration forward-looking macroeconomic information including changes in forecasted default rates and the impact on probability of default ("PD") and changes in the used vehicle price index and the corresponding impact on loss given default ("LGD"). Local and global macroeconomic factors are considered within each geography.

Restricted funds

Restricted funds represent cash reserve accounts that are held in trust as security for borrowings and cash collection accounts required by the lenders of certain financial assets that can only be used to repay these debts.

Restricted funds also include amounts posted as collateral for derivative contracts.

Derivative financial instruments and hedge accounting

The Company utilizes derivatives to manage interest rate risk and foreign currency exposure, as well as equity price risk exposure related to the Company's stock compensation plans that are accounted for as liabilities. Derivatives are carried at fair value and are reported as assets if they have a positive fair value and as liabilities if they have a negative fair value.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IFRS 9, *Financial Instruments*. The Company's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, which is at least quarterly. Hedge ineffectiveness is recognized immediately in income.

Cash flow hedges

The effective portion of the change in fair value of the derivative instrument is recognized in other comprehensive income ("OCI") until the forecasted cash flows being hedged are recognized in income in future accounting periods. When forecasted cash flows are recognized in income, an appropriate amount of fair value changes of the derivative instrument in accumulated other comprehensive income ("AOCI") is reclassified to income. Any hedge ineffectiveness is immediately recognized in income.

The Company uses interest rate swaps to hedge its exposure to changes in future cash flows due to interest rate risk.

The Company also uses interest rate derivatives, mainly interest rate swap agreements, to hedge its exposure to changes in future cash flows due to interest rate risk on its floating rate debt and assets.

The Company also uses total return swap agreements to hedge its exposure to changes in future cash flows due to changes in the Company's share price on its stock compensation plans that are accounted for as liabilities.

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Fair value hedges

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

Hedges of a net investment

Hedges of a net investment in a foreign operation ("NIFO") are accounted for in a way similar to cash flow hedges. Gains or losses on a hedging instrument relating to the effective portion of the hedge are recognized in OCI while any gains or losses relating to the ineffective portion are recognized in income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in AOCI is transferred to income.

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 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.

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.

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.

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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.

Hedge accounting

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 the 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 19, 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 the 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.

Fair value hedges

The Company also applies hedge accounting for interest rate swaps used to hedge our exposure to changes in a fixed interest rate instrument's fair value caused by changes in interest rates. While uncertainty due to the IBOR Reform exists, as a result of adopting the Amendments, the Company applies hedge accounting to IBOR rates which may not be contractually specified when that rate is separately identifiable and reliably measurable at inception of the hedge relationship.

Interest rate benchmark reform exposure

The following table shows the Company's exposure at December 31, 2021 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:

Element Fleet Management Corp.

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	Non-derivative financial assets - carrying value	Non-derivative financial liabilities - carrying value	Derivative Notional/Principal amount ⁽¹⁾
	\$	\$	\$
USD LIBOR (1 month)	2,128,654	—	2,619,091
USD LIBOR (3 month)	669,833	—	—
	<u>2,798,487</u>	<u>—</u>	<u>2,619,091</u>

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 ("MXIBTIIE").

Borrowings

The Company periodically transfers pools of finance receivables to third parties, including structured entities. Transfers of pools of finance receivables under certain arrangements, including transfers where a security interest or legal ownership is transferred, do not result in derecognition of the finance receivables from the Company's consolidated statements of financial position and continue to be recognized on the Company's consolidated statements of financial position and accounted for as finance receivables, as described above.

As such, these transactions result in the recognition of borrowings when cash is received from the third party or structured entity.

The borrowings are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability.

Deferred financing costs are presented as a reduction of borrowings and relate to costs incurred to establish and maintain the Company's funding facilities. These amounts are accreted to income over a period matching the repayment terms of the borrowing obtained during the commitment period.

Convertible debentures

The convertible debentures are accounted for as a compound financial instrument with a debt component and a separate equity component. The debt component of this compound financial instrument is measured at fair value on initial recognition by discounting the stream of future interest and principal payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The debt component is subsequently deducted from the total carrying value of the compound instrument to derive the equity component. The debt component is subsequently measured at amortized cost using the effective interest rate method. Interest expense based on the coupon rate of the debenture and the accretion of the liability component to the amount that will be payable on redemption are recognized through income as finance costs.

Property, equipment and leasehold improvements

Property, equipment and leasehold improvements are recorded at cost. The Company provides for depreciation using the straight-line method over the estimated useful life of the asset. Land is not depreciated.

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The rates of amortization are as follows:

Office equipment	5 years
Computer equipment	3 - 5 years
Leasehold Improvements Vehicles	Lesser of remaining lease term per the right-of-use asset or 20 years 4 years
Buildings	25 years
Right-of-use assets	Remaining lease term

Impairment is recognized when a fixed asset's estimated recoverable amount is less than the carrying amount.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets, including previously unrecognized intangible assets and liabilities, including contingent liabilities but excluding future restructuring of the acquired business, at fair value.

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ("CGUs") to which it relates. Goodwill is not amortized but is evaluated for impairment against the carrying amount of the CGU annually or more often if events or circumstances indicate that there may be an impairment. The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified. Goodwill is stated at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

Restructuring and transformation costs

The Company presents restructuring and transformation costs separately on the consolidated statements of operations because these costs differ from other expenses in their frequency and predictability, and presenting them separately provides useful information to financial statement users.

The Company defines restructuring costs as incremental costs that are directly associated with strategic initiatives. Examples of restructuring costs include staff rationalization, advisory fees, professional or consulting fees, lease cancellations, and internal compensation costs associated with restructuring. Restructuring and transformation costs are expensed as incurred unless earlier recognition is appropriate under the restructuring provision rules within IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Intangible assets

The Company's intangible assets, which include computer software and customer relationships acquired in business combinations, are measured at cost. Examples of costs that are capitalized related to computer software include internal payroll-related costs directly related to the capital project, internal and external costs of materials and services, and the cost of related software to bring the asset to its intended use. All of the Company's intangible assets have a finite life, are amortized over their useful economic lives, and are assessed for impairment at each reporting period. Changes in the expected useful life are accounted for by

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changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of operations.

The rates of amortization are as follows:

Computer software	Straight line over 3 to 12 years depending on the software application
Customer relationships	Straight line over 25 years from the date of acquisition

Share-based payments

Stock options

The Company issues share-based awards to certain employees and directors. The awards consist of equity-settled stock options and the related cost is measured based on the estimated fair value on the date the awards are granted. The fair value of the stock options is estimated using the Black-Scholes option valuation model. The cost of the stock options issued to employees is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

Deferred share unit plan

The Company has established a Deferred Share Unit ("DSU") plan for directors whereby the Company's Board of Directors (the "Board") may award DSUs as compensation for services rendered. The plan is intended to promote a greater alignment of long-term interests between executives and directors and the shareholders of the Company. The Board determines the amount, timing, and vesting conditions associated with each award of DSUs. Additionally, directors may elect to receive up to 100% of their annual remuneration in DSUs. DSUs granted pursuant to such an election are fully vested on the date of grant.

Each DSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional DSUs based on the amount of the dividend paid on a common share. DSUs mature upon termination of employment or directorship, whereupon the holder is entitled to receive a cash payment that reflects the fair market value of the equivalent number of common shares.

DSUs are recognized on the consolidated statements of financial position as a liability in accounts payable and accrued liabilities and are measured at fair value. Fair value is a function of the number of DSUs outstanding, the value of the Company's common shares and, if applicable, the portion of the associated vesting period that has elapsed.

Performance share unit plan

The Company has established a Performance Share Unit ("PSU") plan for employees of the Company and its subsidiaries, whereby the Board may award PSUs as compensation for services rendered. The Board determines the amount, timing, and vesting conditions associated with each award of PSUs.

The plan is intended to promote a greater alignment of long-term interests between employees and the shareholders of the Company. Each PSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional PSUs based on the amount of the dividend paid on a common share.

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PSUs are recognized on the consolidated statements of financial position as a liability and are measured at fair value. Fair value is a function of the number of PSUs outstanding, the value of the Company's common shares, and, if applicable, the portion of the associated vesting period that has elapsed or expectations with respect to performance criteria as calculated based on the relative total shareholder return compared to the S&P TSX Composite Index. Until the PSUs are settled, the liability is remeasured with any change in the fair value recorded in the consolidated statements of operations as an expense in the relevant financial reporting period.

Restricted share unit plan

The Company has established a Restricted Share Unit ("RSU") plan for employees of the Company and its subsidiaries, whereby the Board may award RSUs as compensation for services rendered. The Board determines the amount, timing, and vesting conditions associated with each award of RSUs.

The plan is intended to promote a greater alignment of long-term interests between employees and the shareholders of the Company. Each RSU has a value that depends on the fair market value of one common share of the Company and, in the event dividends are paid on the Company's common shares, accrues dividend equivalents in the form of additional RSUs based on the amount of the dividend paid on a common share.

RSUs are recognized on the consolidated statements of financial position as a liability and are measured at fair value. Fair value is a function of the number of RSUs outstanding, the value of the Company's common shares, and, if applicable, the portion of the associated vesting period that has elapsed. Until the RSUs are settled in cash, the liability is remeasured with any change in the fair value recorded in the consolidated statements of operations as an expense in the relevant financial reporting period.

Earnings per share

Basic earnings per share are calculated by dividing the net income or loss for the year attributed to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the same method as for basic earnings per share and adjusted for the weighted average number of common shares outstanding during the year to reflect the dilutive impact, if any, of options and warrants assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by the Company when options and warrants are exercised will be used to purchase common shares at the average market price during the reporting period.

Financial assets and liabilities

The Company initially recognizes financial assets and liabilities at fair value and subsequently measures at either fair value or amortized cost based on their classification under IFRS 9 as described below.

Fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities that the Company purchases or incurs, respectively, with the intention of generating earnings in the near term are classified as FVTPL. Such assets and liabilities are carried on the consolidated statements of financial position at fair value, with any subsequent changes to fair value recognized through the consolidated statements of operations. Transaction costs are recognized in the consolidated statements of operations as incurred. The Company accounts for certain investments that it holds under FVTPL.

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Amortized cost

Financial assets held to collect contractual cash flows (in the form of payment of principal and interest earned on the principal outstanding) are carried at amortized cost. The assets are initially recognized at fair value plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method. The Company accounts for its finance receivables under amortized cost.

Other financial instruments

Other financial instruments held or issued by the Company include cash, restricted funds, finance receivables, accounts receivable, notes receivable, accounts payable and accrued liabilities, and borrowings. All of these financial instruments are initially recorded at cost and subsequently measured at amortized cost.

Translation of foreign currencies

The consolidated financial statements of the Company are presented in Canadian dollars, which is the Company's functional and presentation currency. Foreign currency denominated monetary assets and liabilities of the Company and its subsidiaries that have the same functional currency are translated using the closing rate and non-monetary assets and liabilities measured at fair value are translated at the rate of exchange prevailing at the date when the fair value was determined. Revenue and expense items are measured at average exchange rates during the year. Realized and unrealized gains and losses arising from translation into the functional currency are included in the consolidated statements of operations. Foreign currency denominated non-monetary assets and liabilities, measured at historical cost, are translated at the rate of exchange in effect at the transaction date.

Assets and liabilities of foreign operations with a functional currency other than the Canadian dollar, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates prevailing at the year end, while revenue and expenses of these foreign operations are translated into Canadian dollars at the average exchange rates for the year. Exchange gains and losses arising from the translation of these foreign operations and from the results of hedging the net investment in these foreign operations, net of applicable taxes, are included in net foreign currency translation adjustments, which is included in AOCI. A deferred tax asset or liability is not recognized in respect of a translation gain or loss arising from the Company's investment in its foreign operations as it is not expected that such a gain or loss would be realized for tax purposes in the foreseeable future.

Upon disposition of a foreign operation, any cumulative translation adjustment gain or loss, including the impact of hedging, will be reclassified from OCI to the consolidated statements of operations, and included as part of the gain or loss recognized on disposition of the foreign operations.

Income taxes

The Company follows the liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or equity in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

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Leases

After adoption of IFRS 16, *Leases*, the Company applies a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

Right-of-use assets

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

Lease liabilities

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

3. CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates and judgments are made based on information available as at the date the consolidated financial statements are issued. Accordingly, actual results may differ from those recorded amounts. Areas of financial reporting that require management's estimates and judgments are discussed below.

Allowance for credit losses

Judgment is required as to the timing of establishing an allowance for credit losses and the amount of the required allowance taking into consideration counterparty creditworthiness, the fair value of underlying collateral, current economic trends, the expected residual value of the underlying leased assets and past experience.

Deferred tax assets

Deferred tax assets are recognized for unused income tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable profits together with future tax-planning strategies.

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Stock option expense

Compensation expense relating to stock option awards granted by the Company to employees and non-employees in exchange for services rendered is based on the fair value of the option. The stock option fair value is determined using the Black-Scholes option valuation model, which requires the use of assumptions and is, by its nature, subject to measurement uncertainty.

Useful lives and residual values of equipment under operating leases

The Company's equipment under operating leases are recorded at cost and depreciated over their estimated useful lives to an estimated residual value using the straight-line method. The Company determines the economic useful life based on management's estimate of the period which the asset will generate revenue. The residual values are based on historical experience and economic factors. Management will periodically review the appropriateness of the estimated useful lives and residual values based on changes in economic circumstances and other factors. Changes in these estimates would result in a change in future depreciation expense.

Business combinations

Business combinations require management to exercise judgment in measuring the fair value of the assets acquired, equity instrument issued, and liabilities and contingent liabilities incurred or assumed.

Intangible assets valuation - customer relationships

The Company's customer relationships require management to use judgment in estimating the fair value of this intangible asset acquired in a business combination and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. Management also uses judgment in estimating customer attrition rates to determine the appropriate amortization period for the customer relationship intangible asset.

Goodwill valuation

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgment in estimating the recoverable values of the Company's cash generating units ("CGUs") and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

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4. FINANCE RECEIVABLES

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

	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

	As at December 31, 2020			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	8,223,841	268,465	376,170	8,868,476
Unguaranteed residual values	3,178	61,964	—	65,142
Gross investment	8,227,019	330,429	376,170	8,933,618
Unearned income	(529,040)	(39,082)	(56,740)	(624,862)
Net investment	7,697,979	291,347	319,430	8,308,756
Net realizable value of impaired receivables	19,116	6,347	—	25,463
Unamortized deferred costs and subsidies	(78,396)	—	—	(78,396)
Prepaid lease payments and security deposits	(62,475)	—	(22,550)	(85,025)
Interim funding	512,381	—	113,397	625,778
Fleet management receivables	447,089	38,872	19,545	505,506
Other receivables	153,014	76,140	48,104	277,258
Allowance for credit losses (Subsection B)	(13,007)	(2,438)	(2,273)	(17,718)
Total finance receivables	8,675,701	410,268	475,653	9,561,622

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

	As at December 31, 2021		As at December 31, 2020	
	Leases	Loans	Leases	Loans
Net investment	\$ 5,724,951	\$ 181,026	\$ 8,207,238	\$ 101,518
Weighted average fixed interest rate	4.74 %	8.39 %	4.68 %	8.93 %
Weighted average floating interest rate	2.74 %	3.32 %	2.75 %	4.68 %
Percentage of portfolio with fixed interest rate	41.05 %	99.97 %	45.64 %	99.97 %

B) Allowance for credit losses

The Company continues to monitor its inputs to the ECL model to ensure it appropriately reflects current market conditions in light of the global COVID-19 pandemic and information available to the Company as at December 31, 2021.

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 PD as at December 31, 2021, and consistent with the ECL model, the Company reviewed its classifications and updated its internal assessment of PD based on current information.

The Company's lease and loan portfolio is secured by the underlying assets and, in the event of an obligor bankruptcy, leases are typically affirmed, resulting in continued collection of lease payments. Further, all the vehicles in a client portfolio are cross-collateralized, such that the surplus collateral on (usually older) vehicles can be used to offset under-collateralized positions (usually newer vehicles), such that the net full value of the lease and loan would be recovered. As a result, the Company is often able to recover 100% of the net investment. Additionally, used vehicle pricing remained strong throughout the fourth quarter of 2021, maintaining continued low LGD levels as at December 31, 2021. The Company expects the used vehicle market to remain strong into 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 such as 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 COVID-19, including the emergence of the Omicron strain, how it is expected to affect markets and impact industries in which clients operate.

The Company's evaluation of the above inputs to its model resulted in a benefit of \$5,535 in the provision for credit losses through the consolidated statement of operations for the year ended December 31, 2021.

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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, 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
Finance receivables	Performing \$	Impaired \$	Total \$
Balance as at January 1, 2020	7,857	575	8,432
Transfer to Performing	495	(495)	—
Transfer to Impaired	(225)	225	—
Lease originations	16,575	—	16,575
Changes in models and inputs, derecognition, and repayments	(4,933)	10	(4,923)
Total	19,769	315	20,084
Charge-offs, net of recoveries	(1,581)	(48)	(1,629)
Foreign exchange	(731)	(6)	(737)
Balance as at December 31, 2020	17,457	261	17,718

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

Allowance for credit losses	Year ended December 31, 2021	Year ended December 31, 2020
	\$	\$
Allowance for credit losses, beginning of the year	17,718	8,432
(Recovery of) provision for credit losses	(5,535)	11,652
Charge-offs, net of recoveries	(1,639)	(1,629)
Impact of foreign exchange rates	(298)	(737)
Allowance for credit losses, end of the year	10,246	17,718
Allowance as a percentage of total finance receivables before allowance	0.14 %	0.18%

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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 December 31, 2021			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽¹⁾			
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

1. 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.

As at December 31, 2020			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽²⁾			
Low	4,964,294	—	4,964,294
Medium	3,028,747	—	3,028,747
High	315,715	—	315,715
Fleet management receivables	504,005	1,501	505,506
Other finance receivables	277,258	—	277,258
Impaired	—	25,463	25,463
	9,090,019	26,964	9,116,983
Allowance for credit losses	(17,457)	(261)	(17,718)
Net carrying value	9,072,562	26,703	9,099,265

2. Loan balances of \$14,098, \$86,612 and \$809 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and \$25 in Impaired.

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

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

D) Contract maturities

The contractual maturity of the portfolio outstanding as of December 31, excluding impaired receivables and assuming no prepayments, is as follows:

	2021			2020		
	Gross investment	Unearned income	Net investment	Gross investment	Unearned income	Net investment
	\$	\$	\$	\$	\$	\$
Maturity						
Year 1	2,766,805	(147,689)	2,619,116	3,661,161	(229,005)	3,432,156
Year 2	1,811,535	(115,666)	1,695,869	2,513,474	(178,536)	2,334,938
Year 3	1,120,800	(74,894)	1,045,906	1,793,033	(110,687)	1,682,346
Year 4	399,368	(37,722)	361,646	529,230	(50,132)	479,098
Year 5	126,844	(19,721)	107,123	213,588	(30,953)	182,635
Thereafter	90,503	(14,186)	76,317	223,132	(25,549)	197,583
	6,315,855	(409,878)	5,905,977	8,933,618	(624,862)	8,308,756

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5. EQUIPMENT UNDER OPERATING LEASES

The Company acts as a lessor in connection with operating leases and recognizes the leased assets in its 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 December 31, 2021	As at December 31, 2020
	\$	\$
COST		
At the beginning of the year	3,067,363	3,155,540
Additions	974,532	859,386
Transfers	253	(1,128)
Disposals	(631,600)	(1,038,386)
Foreign exchange rate adjustments	(139,226)	91,951
Cost	3,271,322	3,067,363
ACCUMULATED DEPRECIATION		
At the beginning of the year	910,136	1,054,173
Depreciation charge for the year	450,256	428,464
Transfers	2,817	7,498
Disposals	(346,147)	(623,364)
Foreign exchange rate adjustments	(42,922)	43,365
Accumulated depreciation	974,140	910,136
Net carrying amount	2,297,182	2,157,227

The future minimum lease payments arising from non-cancellable operating leases as at December 31 are as follow:

	2021	2020
	\$	\$
Year 1	636,322	565,502
Year 2	437,739	392,500
Year 3	271,524	251,066
Year 4	126,755	119,075
Year 5	51,059	46,118
Thereafter	26,810	23,653
	1,550,209	1,397,914

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6. 19TH CAPITAL

During the second quarter of 2020, the Company continued to shift its efforts to accelerate the run-off of 19th Capital, including ramping-up the pace of liquidation of the entity's assets, immediately reducing the scale of 19th Capital operations. On May 1, 2020, the Company sold the equipment under operating leases and certain other assets of 19th Capital for \$63,283 resulting in a pre-tax loss on sale of \$52,442. Prior to the sale and during the second quarter of 2020, the Company settled all third-party debt at a discount resulting in a pre-tax gain on the settlement of debt of \$38,580. The net pre-tax loss on the sale and settlement of debt is \$13,862 and is recorded in the Company's results of operations for the year ended December 31, 2020. The Company will have no continuing involvement in the operations, results or cash flows of 19th Capital.

7. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	2021					Total \$
	Leasehold improvements \$	Computer equipment \$	Office equipment \$	Right-of-use assets - Buildings \$	Vehicles \$	
Cost						
As at January 1, 2021	17,421	57,420	16,235	107,741	2,713	201,530
Additions	659	3,889	—	41	1,488	6,077
Disposals	(763)	(1,444)	(2,689)	(280)	(1,065)	(6,241)
Other	—	—	—	—	2,878	2,878
Foreign exchange rate adjustments	(203)	(670)	(171)	(1,553)	(110)	(2,707)
As at December 31, 2021	17,114	59,195	13,375	105,949	5,904	201,537
Accumulated depreciation						
As at January 1, 2021	6,255	41,264	9,516	31,134	1,009	89,178
Disposals	(763)	(2,218)	(1,915)	(280)	(304)	(5,480)
Depreciation charge for the year	1,708	9,104	1,237	11,443	785	24,277
Other	—	—	—	—	844	844
Foreign exchange rate adjustments	(83)	(432)	(72)	(536)	(31)	(1,154)
As at December 31, 2021	7,117	47,718	8,766	41,761	2,303	107,665
Net carrying amount	9,997	11,477	4,609	64,188	3,601	93,872

Element Fleet Management Corp.

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	2020					
	Leasehold improvements	Computer equipment	Office equipment	Right-of-use assets - Buildings	Vehicles	Total
	\$	\$	\$	\$	\$	\$
Cost						
As at January 1, 2020	18,282	49,393	14,565	108,264	7,103	197,607
Additions	(86)	8,911	8,692	5,320	(2,696)	20,141
Disposals	(922)	(692)	(6,694)	(5,445)	(1,770)	(15,523)
Impairment	—	(4)	(240)	(45)	—	(289)
Foreign exchange rate adjustments	147	(188)	(88)	(353)	76	(406)
As at December 31, 2020	17,421	57,420	16,235	107,741	2,713	201,530
Accumulated depreciation						
As at January 1, 2020	4,794	29,768	6,415	12,910	2,094	55,981
Disposals	(490)	2,716	974	(2,361)	(1,518)	(679)
Depreciation charge for the year	1,895	9,173	2,330	13,427	350	27,175
Lease modifications	—	—	—	3,120	—	3,120
Impairment	—	(2)	(41)	3,867	—	3,824
Foreign exchange rate adjustments	56	(391)	(162)	171	83	(243)
As at December 31, 2020	6,255	41,264	9,516	31,134	1,009	89,178
Net carrying amount	11,166	16,156	6,719	76,607	1,704	112,352

8. INTANGIBLE ASSETS

	Computer software			Customer relationships			Total
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2021	297,952	(72,444)	225,508	849,975	(261,105)	588,870	814,378
Additions	80,231	—	80,231	—	—	—	80,231
Amortization	—	(30,972)	(30,972)	—	(30,601)	(30,601)	(61,573)
Disposals/write-offs	(2,908)	2,908	—	—	—	—	—
Foreign exchange rate adjustments	(2,595)	984	(1,611)	(1,557)	145	(1,412)	(3,023)
As at December 31, 2021	372,680	(99,524)	273,156	848,418	(291,561)	556,857	830,013
As at January 1, 2020	206,795	(45,113)	161,682	864,966	(233,369)	631,597	793,279
Additions	85,555	—	85,555	—	—	—	85,555
Amortization	—	(20,353)	(20,353)	—	(33,253)	(33,253)	(53,606)
Other	7,280	(7,280)	—	—	—	—	—
Foreign exchange rate adjustments	(1,678)	302	(1,376)	(14,991)	5,517	(9,474)	(10,850)
As at December 31, 2020	297,952	(72,444)	225,508	849,975	(261,105)	588,870	814,378

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9. GOODWILL

	2021	2020
	\$	\$
Balance, beginning of year	1,223,341	1,245,981
Foreign exchange rate adjustments	(2,355)	(22,640)
Balance, end of year	1,220,986	1,223,341

For the purpose of impairment testing, the recoverable amount of the CGU has been determined based on its value in use. The value in use method is based on estimated future cash flows over a five-year period referenced to the most recent financial forecasts approved by management and actual historic results, discounted to a present value. Beyond the initial five-year period, cash flows were estimated to grow at perpetual annual rates of up to 4%. The discount rate the Company applied in determining the recoverable amount was 12.10%, which comprised a risk-free rate, equity risk premium, size premium and company specific premium. These components were based on data from external sources.

In considering the sensitivity of the key assumptions discussed above, management determined that there is no plausible change in any of the above that would result in the carrying value of the Fleet Management CGU to exceed its recoverable value.

10. BORROWINGS

The Company's outstanding borrowings were as follows:

	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			

Element Fleet Management Corp.

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	As at December 31, 2020			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	4,005,371	2.25	4,097,274	48,365
Variable funding notes	3,768,395	1.25	3,974,534	27,667
Other	44,841	4.50	44,406	—
Vehicle management asset-backed debt	7,818,607	1.78	8,116,214	76,032
Revolving senior credit facilities	1,551,939	1.41	—	—
Senior notes	509,080	3.85	—	—
	9,879,626	1.83	8,116,214	76,032
Deferred financing costs	(29,911)			
Hedge accounting fair value adjustments	14,621			
Total borrowings	9,864,336			

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 December 31, 2021.

Vehicle management asset-backed debt

Vehicle management asset-backed debt includes term notes and variable funding notes.

Term notes provide a fixed funding amount at the time of issuance.

For term notes, in amortization period, the monthly collection of lease payments allocable to the series is used in the repayment of principal until the notes are paid in full. The amortization period will continue through the earlier of: (i) 125 to 132 months following the commencement of the amortization period; or (ii) when the respective series of notes are paid in full. As at December 31, 2021, term notes, in amortization period, had a weighted average interest rate of 1.38%, which ranged from 0.33% to 4.21% with expected maturities in 2022 to 2023 (December 31, 2020 - the weighted average interest was 2.25% which ranged from 0.45% to 4.21%). Term notes, in revolving period, contain provisions that allow the outstanding debt to revolve for a specified period of time. During the revolving period, the monthly collection of lease payments allocable to each outstanding series creates availability to fund the acquisition of vehicles and/or equipment to be leased to clients. Upon expiration of the revolving period, notes begin amortizing. As at December 31, 2021 and 2020, there were no term notes in revolving period.

Variable funding notes provide a committed capacity that may be drawn upon as needed during a commitment period, which is primarily one to two years in duration. Similar to revolving term notes, the monthly collections in respect of pledged assets create availability to fund the acquisition of vehicles and/or equipment to be leased to clients. Available committed capacity under variable funding notes may be used to fund growth in net investment in fleet assets during the term of the commitment. Upon expiration of the commitment period, variable funding notes begin amortizing. As at December 31, 2021, variable funding notes had a weighted average floating interest rate of 1.03%, which ranged from 0.84% to 1.64% with

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expected maturities in 2022 to 2023 (December 31, 2020 - the weighted average interest was 1.25%, which ranged from 0.88% to 8.26%).

The notes are secured by either a security interest and/or legal ownership in fleet assets and the Company is also required to maintain certain cash reserves as credit enhancements.

During the year ended December 31, 2021, the Company issued \$952,518 (US \$750,004) of amortizing term notes at an initial weighted average interest rate of 0.51%. The proceeds from this issuance were used to pay down variable funding notes.

As at December 31, 2021, the Company had available capacity in variable funding notes and other of \$1,073,472 (December 31, 2020 - \$1,910,587) under its vehicle management asset-backed debt facilities.

Revolving senior credit facilities

The aggregate capacity under the senior credit facilities is \$2,349,532, composed of (i) a \$1,587,522 committed revolving facility with a maturity date of November 2, 2024, syndicated to a diverse group of Canadian, US and international banks (the "Syndicated Senior Credit Facility") and (ii) a \$762,010, committed revolving facility with a maturity date of September 30, 2026, provided by two Canadian banks. The Syndicated Senior Credit Facility was amended in October 2021, at which time the available capacity was reduced by \$635,009. As at December 31, 2021, \$1,106,629 was drawn on these senior credit facilities (December 31, 2020 - \$1,551,939). As at December 31, 2021, both facilities bear interest at the prime rate plus 0.125% or 1-month bankers' acceptance rate plus 1.125% per annum on outstanding Canadian dollar denominated balances (December 31, 2020 - 0.20% and 1.20% per annum, respectively) and US base rate plus 0.125% per annum or 1-month LIBOR rate plus 1.125% per annum on outstanding US dollar denominated balances (December 31, 2020 - 0.20% and 1.20% per annum, respectively). Additionally, the facilities bear interest at the 1-month Bank Bill Swap Bid Rate plus 1.125% per annum on outstanding Australian dollar denominated balances and the 1-month Bank Bill Reference Rate plus 1.125% per annum on outstanding New Zealand dollar denominated balances (December 31, 2020 - 1.20% and 1.20% per annum, respectively) and 28-day TIE rate plus 1.125% per annum on outstanding Mexican peso denominated balances (December 31, 2020 - not applicable).

As at December 31, 2021, the Company had access to \$1,242,903 (December 31, 2020 - \$1,120,731) of available financing under the revolving senior credit facilities.

Senior notes

During the year ended December 31, 2021, the Company issued \$635,099 (US \$500,000) in aggregate principal amount of 1.60% senior unsecured notes due April 6, 2024. The senior unsecured notes were priced at \$99.883 per \$100 principal amount for an effective yield of 1.64%. Interest is paid semi-annually in arrears on April 6 and October 6, commencing on October 6, 2021.

As at December 31, 2021, the Company had \$1,143,015 (US \$900,000) in outstanding senior unsecured notes (December 31, 2020 - \$509,080 (US \$400,000)).

Restricted funds

As at December 31, 2021, restricted funds include (i) cash reserves of \$48,025 (December 31, 2020 - \$76,032), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the

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collection account of \$347,148 (December 31, 2020 - \$297,373), which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently utilized in accordance with applicable provisions; and (iii) cash of \$5,757 (December 31, 2020 - \$15,573) provided to counterparties as collateral against derivative liabilities.

Contractual maturity of borrowings

The contractual maturity of the borrowings gross of interest costs outstanding as at December 31, compared to the maturity of the gross investment in finance receivables and future minimum payments received on equipment under operating leases, is as follows:

Maturity	2021			2020		
	Borrowings gross of interest costs ⁽¹⁾	Finance receivables and equipment under operating leases ⁽²⁾		Borrowings gross of interest costs ⁽¹⁾	Finance receivables and equipment under operating leases ⁽²⁾	
	\$	\$	%	\$	\$	%
Within 1 year	2,768,842	3,827,568	72.3 %	3,552,846	4,587,092	77.5 %
In 1 to 3 years	2,749,762	3,641,598	75.5 %	4,026,993	4,950,073	81.4 %
In 3 to 5 years	376,284	704,026	53.4 %	370,377	908,011	40.8 %
After 5 years	5,672	117,313	4.8 %	14,914	246,785	6.0 %
	5,900,560	8,290,505	71.2 %	7,965,130	10,691,961	74.5 %
Interest costs	(78,094)			(146,523)		
Net of interest costs	5,822,466			7,818,607		
Revolving senior credit facility	1,106,629			1,551,939		
Senior notes	1,143,015			509,080		
	8,072,110			9,879,626		

1. Maturity schedule for borrowings gross of interest costs has been calculated based on interest expense rates as at the respective year ends and excludes the impact of hedging, and assumes the interest rate remains unchanged for the remaining life of the debt, including floating rate credit facilities.
2. Maturity schedule for finance receivables is based on the gross investment balance, certain fleet management service receivables, and certain interim funding balances. For equipment under operating leases, the schedule is based on the existing contractual future minimum lease payments.

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11. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

As at December 31, 2021							
Issue Date	Final maturity date	Conversion price per share ⁽¹⁾	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
April 5, 2019	June 30, 2024	12.05	4.250	172,500	(3,342)	(10,086)	159,072

As at December 31, 2020							
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	(4,567)	(13,666)	154,267

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

April 5, 2019 Issuance

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

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

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

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

The Company may redeem, subject to specified conditions and notice, on or after June 30, 2022 and prior to June 30, 2023, the 2019 Debentures in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted trading price of the

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common shares on the TSX for the 20 consecutive days preceding the date on which notice of redemption is given is not less than 125% of the 2019 Conversion Price.

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

May 29, 2015 Issuance

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

12. 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, 2019	436,509,117	3,127,714
Share issuance	1,677,274	18,140
Share repurchase	(762,100)	(5,500)
Exercise of options	2,851,002	40,025
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

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 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

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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 year ended December 31, 2021, 39,002,033 common shares have been repurchased for cancellation for \$533,081, including commission, at a volume weighted average price of \$13.67 per common share. For the year ended December 31, 2020, 762,100 common shares have been repurchased for cancellation for \$10,011, including commission, at a volume weighted average price of \$13.14 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.

Issuance of common shares

On October 27, 2020, the Board approved the termination of the dividend reinvestment plan ("DRIP") which was originally announced on October 1, 2018. The DRIP provided eligible shareholders the opportunity to reinvest their eligible cash dividends for additional common shares at a discount of 2% to the prevailing market price of the common shares on the TSX. Eligible shareholders were required to reside in Canada. Dividends declared after October 27, 2020 are not eligible for the DRIP.

For the year ended December 31, 2021, the Company issued nil common shares under the DRIP (December 31, 2020 - 1,677,274 common shares).

Common share dividends

For the year ended December 31, 2021, the Company declared \$113,940 in common share dividends or \$0.273 per common share (December 31, 2020 - \$88,059 or \$0.201 per common share).

As at December 31, 2021, the accrued common share dividends were \$31,415 (December 31, 2020 – \$28,623).

Increase in common share dividend

On November 10, 2021, the Board approved the increase in the quarterly common share dividend from \$0.065 to \$0.0775 per share.

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Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at December 31, 2021 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%.

For each five-year period, holders of the respective Series are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year.

Preferred Shares, Series I

The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.64%, provided that, in any event, the annual fixed dividend rate shall not be less than 5.75%. The Company will have the right to redeem the Series I shares on June 30, 2022, and on June 30 every five years thereafter for \$25 per Series I share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series I shares, the holders of the Series I shares will have the right on June 30, 2022, and on June 30 every five years thereafter, to convert all or any of the Series I shares into Series J shares, on the basis of one Series J share for each Series I share converted. Holders of Series J shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.64%.

Preferred Shares, Series E

The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.72%. The Company will have the right to redeem the Series E shares on September 30, 2024, and on September 30 every five years thereafter for \$25 per Series E share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series E shares, the holders of the Series E shares will have the right on September 30, 2020, and on September 30 every five years thereafter, to convert all or any of the Series E shares into Series F shares, on the basis of one Series F share for each Series E share converted. Holders of Series F shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.72%.

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Preferred Shares, Series C

The annual dividend rate will reset at each five year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.81%. The Company had the right to redeem the Series C shares on June 30, 2024, and will so on June 30 every five years thereafter for \$25 per Series C share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series C shares, the holders of the Series C shares had the right on June 30, 2024, and will so on June 30 every five years thereafter, to convert all or any of the Series C shares into Series D shares, on the basis of one Series D share for each Series C share converted. Holders of Series D shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.81%.

Preferred Shares, Series A

The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.71%. The Company will have the right to redeem the Series A shares on December 31, 2023, and on December 31 every five years thereafter for \$25 per Series A share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series A shares, the holders of the Series A shares will have the right on December 31, 2023, and on December 31 every five years thereafter, to convert all or any of the Series A shares into Series B shares, on the basis of one Series B share for each Series A share converted. Holders of Series B shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.71%.

Series G Preferred Shares Redemption

On September 30, 2020, the Company redeemed all of its 6,900,000 Series G Preferred Shares for a redemption price equal to \$25.00 per share for a total of \$172,500 together with all accrued and unpaid dividends.

Preferred share dividends

For the year ended December 31, 2021, the Company declared \$32,412 in preferred share dividends (December 31, 2020 – \$40,820).

As at December 31, 2021, the accrued preferred share dividends were \$89 (December 31, 2020 – \$89).

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13. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Year ended	
	December 31, 2021	December 31, 2020
	\$	\$
(a) Stock options	232	590
(b) Deferred share units	1,295	2,001
(c) Performance share units	12,582	21,559
(d) Restricted share units	10,011	10,883
	24,120	35,033

(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, 2019	16,412,433	10.26
Forfeited	(62,984)	8.69
Expired	(1,565,163)	12.13
Exercised ⁽¹⁾	(3,761,627)	10.22
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

1. Weighted average share price of options exercised during the year ended December 31, 2021 was \$13.67 (year ended December 31, 2020 – \$12.45).

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As at December 31, 2021, the following employee and director stock options to purchase common shares were outstanding:

Range of exercise prices	Weighted avg remaining life (in years)	Options Outstanding ¹ #
\$5.01 to \$10.00	3.16	3,513,144
\$10.01 to \$15.00	1.17	1,978,307
\$15.01 and over	0.70	33,334
	2.43	5,524,785

1. All options have vested as at December 31, 2021.

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

	Deferred share units #	Performance share units #	Restricted share units #
Outstanding, December 31, 2019	682,703	1,507,806	1,896,940
Granted	176,534	578,018	786,848
Forfeited	—	(1,388)	(102,527)
Redeemed	(225,266)	(203,186)	(1,071,054)
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

(i) Deferred share units ("DSUs")

As at December 31, 2021, the fair value of DSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was \$9,936 (December 31, 2020 – \$8,483).

(ii) Performance share units ("PSUs")

As at December 31, 2021, 2,119,340 PSUs remain unvested and outstanding, and the amortized fair value of PSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was \$33,236 (December 31, 2020 – 1,881,250 PSUs and \$27,239 of liabilities). Certain PSUs issued during 2021, 2020, and 2019 contain a multiplier factor and the final number of PSUs that will vest will range from 50% to 200% of the initial number awarded based on certain performance targets. The PSUs outstanding will vest on achievement of specific performance conditions over 2021, 2022 and 2023.

(iii) Restricted share units ("RSUs")

As at December 31, 2021, 1,531,924 RSUs remain unvested and outstanding, and the amortized fair value of RSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was \$10,810 (December 31, 2020 – 1,510,207 RSUs and \$12,618 of liabilities). The RSUs outstanding will vest over one, two and three years.

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(iv) Hedging of DSUs, PSUs and RSUs

As at December 31, 2021, the Company has hedged 2,619,300 referenced share units with net derivative assets of \$6,244, which will be applied to the settlement of PSU, RSU and DSU awards (December 31, 2020 – 2,569,991 referenced share units hedged and net derivative assets of \$6,894). For the year ended December 31, 2021, derivative mark to market adjustments were netted against share-based compensation expense of \$112 (December 31, 2020 - \$5,709).

14. REVENUE

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

	Year ended	
	December 31, 2021	December 31, 2020
	\$	\$
Major service lines		
Interest income, net	372,110	522,785
Rental revenue	627,515	595,372
Gain on sale of equipment under operating leases	80,445	52,205
Depreciation of equipment under operating leases	(450,256)	(428,464)
Financing revenue before interest expense	629,814	741,898
Service revenue, net	380,013	379,141
Vehicle sales and end of contract fees	92,452	102,713
Servicing income, net	472,465	481,854
Syndication revenue, net	64,412	75,552
Net revenue before interest expense	1,166,691	1,299,304
Primary geographical markets		
US and Canada	791,014	991,979
Australia and New Zealand	221,402	186,224
Mexico	154,275	121,101
Net revenue before interest expense	1,166,691	1,299,304
Timing of revenue recognition		
Revenue earned at a point in time	368,234	424,085
Revenue earned over time	798,457	875,219
Net revenue before interest expense	1,166,691	1,299,304

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

(A) Contract balances

	As at December 31, 2021	As at December 31, 2020
	\$	\$
Contract assets	<u>12,619</u>	<u>15,214</u>

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 4. For the year ended December 31, 2021, the Company has recorded \$9,450 of amortization on its service contract assets (December 31, 2020 - \$9,452).

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.

15. INCOME TAXES

The major components of the provision for income taxes for the years ended December 31 are as follows:

	2021	2020
	\$	\$
Consolidated statements of operations		
Current income tax expense	45,915	45,988
Foreign withholding tax expense	5,928	3,736
Origination and reversal of temporary differences	49,827	(3,763)
Income tax expense reported in the consolidated statements of operations	<u>101,670</u>	<u>45,961</u>

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Reconciliation of the effective tax rate for the years ended December 31:

	2021	2020
	\$	\$
Income before income taxes	457,676	333,053
Combined statutory Canadian federal and provincial tax rate	25.95 %	25.95 %
Income tax expense based on statutory rate	118,767	86,427
Income taxes adjusted for the effect of:		
Non-deductible and non-taxable items	(17,233)	(26,855)
Foreign rate differential	698	1,982
Adjustments of prior year taxes and other	(562)	(15,593)
Income tax expense	101,670	45,961

Deferred taxes as at December 31 relate to the following:

	2021	2020
	\$	\$
Deferred tax assets		
Share and convertible debentures issuance costs	900	1,986
Tax loss carryforwards	1,121,493	1,047,890
Transaction and integration costs	25,978	28,554
Capital assets, intangibles, and other	64,595	—
Deferred share units	19,903	18,470
	1,232,869	1,096,900
Deferred tax liabilities		
Finance receivables	862,130	583,202
Intangible assets arising from acquisitions	12,118	11,499
Convertible debentures	2,618	3,547
Capital assets, intangibles and other	—	98,723
Unrealized gain or loss on foreign exchange and derivatives	27,598	13,585
	904,464	710,556
Net deferred tax asset position	328,405	386,344

Deferred tax assets and liabilities are assessed by the Company for presentation in the consolidated statement of financial position. As a result, as at December 31, the deferred tax assets and liabilities are reported as:

	2021	2020
	\$	\$
Deferred tax assets	417,708	444,120
Deferred tax liabilities	89,303	57,776
Net deferred tax asset position	328,405	386,344

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Reconciliation of the net deferred tax asset for the years ended December 31 is as follows:

	2021	2020
	\$	\$
Balance, beginning of the year	386,344	392,727
Tax (expense) benefit recognized in profit or loss	(49,827)	3,763
Tax expense recognized through shareholders' equity	(1,086)	(1,086)
Tax expense recognized through OCI	(7,026)	(9,060)
Balance, end of the year	328,405	386,344

Management has concluded the deferred tax asset of \$417,708 meets the relevant recognition criteria under IFRS. Management's conclusion is supported by forecasted taxable profits, embedded profits in existing finance receivables and the future reversal of existing taxable temporary differences which are expected to produce sufficient taxable income to realize the deferred tax asset.

The Company has incurred capital losses for tax purposes of \$271,529 (2020 - \$247,668), which are available to reduce future capital gains.

There are no other unused tax losses and temporary differences that have not been recognized for the year ended December 31, 2021.

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16. SUBSIDIARIES

(a) List of significant subsidiaries

The table below provides details of the significant subsidiaries of the Company, all of which are wholly owned:

	Principal place of business
Element Fleet Management (US) Corp.	US
Element Fleet Management (US) Holdings Inc.	US
Element Vehicle Management Services Group LLC	US
Element Fleet Corporation	US
Chesapeake Finance Holdings II LLC	US
Element Fleet Management Inc.	Canada
Element Fleet Lease Receivable LP	Canada
FLR LP Inc.	Canada
EFN (Netherlands) International B.V.	Netherlands
EFN (Netherlands) B.V.	Netherlands
EFN (Netherlands) 2 B.V.	Netherlands
Element Fleet Services Australia PTY Ltd.	Australia
EFN (Australia) Pty Limited	Australia
Element Financial (Australia) Pty Limited	Australia
EFN (New Zealand) Limited	New Zealand
Custom Fleet NZ	New Zealand
Element Fleet Management Corporation Mexico S.A. de C.V.	Mexico

(b) Subsidiaries with restrictions

The Company's operations have restrictions on its ability to access or use its assets and settle its liabilities in Chesapeake Finance Holdings II LLC, Chesapeake Funding II LLC, and Element Fleet Lease Receivable LP. These subsidiaries facilitate the transfer of financial assets and related property or interests, in connection with funding facilities, and the activities of these entities are governed by their constituting agreements and debt agreements. Assets held as collateral by these subsidiaries for such funding facilities are not available to satisfy the claims of creditors of the Company. The carrying amounts of assets and liabilities in these subsidiaries as at December 31, 2021 were \$5,162,212 and \$4,509,666, respectively (December 31, 2020 - \$7,601,339 and \$6,575,363, respectively).

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17. RELATED PARTY

Compensation of directors and key management

The remuneration of directors and key management personnel of the Company were as follows for the years ended December 31 excluding retirement payments of \$2,225 (2020 - \$1,995):

	2021 \$	2020 \$
Salaries, bonuses and benefits	11,487	10,731
Share-based compensation	12,396	9,630
	23,883	20,361

18. EARNINGS PER SHARE

Basic earnings per share is as follows:

	Year ended	
	December 31, 2021 \$	December 31, 2020 \$
Net income attributable to shareholders	356,006	287,092
Cumulative dividends on preferred shares	(32,412)	(40,820)
Net income available to common shareholders	323,594	246,272
Weighted average number of common shares outstanding – basic (number) ⁽¹⁾	423,070,096	438,571,139
Basic earnings per share	\$ 0.76	\$ 0.56

Diluted earnings per share is as follows:

	Year ended	
	December 31, 2021 \$	December 31, 2020 \$
Net income available to common shareholders adjusted for the effects of dilution	330,073	253,308
Weighted average number of common shares outstanding – basic (number) ⁽¹⁾	423,070,096	438,571,139
Convertible debentures (number)	14,315,353	14,315,353
Dilutive stock options and warrants (number)	2,102,948	906,934
Weighted average number of common shares outstanding – diluted (number)	439,488,397	453,793,426
Diluted earnings per share	\$ 0.75	\$ 0.56

1. Prior year weighted average number of common shares outstanding has been adjusted for the impact of the issuance of shares under the DRIP by 9,732 shares for the year ended December 31, 2020.

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Instruments outstanding as at December 31, 2021 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 608,162 stock options for the year ended December 31, 2021 (December 31, 2020 - 949,083 stock options).

19. DERIVATIVE AND HEDGING INSTRUMENTS

Hedge accounting

In the normal course of business and consistent with its risk management program, the Company enters into interest rate derivatives to manage interest rate risk, foreign exchange forward agreements to manage foreign currency exposure, and total return swaps to manage exposure to share-based compensation.

Interest rate risk

The majority of the Company's derivative contracts used to hedge certain exposures to benchmark interest rate risk are interest rate swaps. For cash flow hedges, the Company converts certain exposures to cash flow variability from its variable rate instruments to fixed interest rate exposures. The Company also has a smaller number of outstanding interest rate caps to manage these variable interest rate exposures. For fair value hedges, the Company converts fixed interest rate exposures from the hedged financial instruments to floating interest rate exposures.

Foreign currency risk

For cash flow hedges, the Company may use foreign exchange forwards to hedge and manage anticipated foreign currency obligations. For NIFO hedges, the Company uses foreign currency denominated debt to manage the foreign currency exposure of our NIFOs with a functional currency other than the Canadian dollar.

Equity price risk

The Company uses cash settled total return swaps in designated cash flow hedge relationships to hedge changes in Element's share price in respect of certain cash-settled share-based compensation awards. Note 13 provides details on cash-settled share-based compensation plans. The average share price of the outstanding hedging derivatives as at December 31, 2021 was \$10.50 (December 31, 2020 - \$10.89).

For the hedge relationships above, hedge effectiveness is assessed at the inception of the hedge relationship and on an ongoing basis, primarily using the dollar offset method. The sources of hedge ineffectiveness may be attributed to the following:

- Differences in fixed rates, when contractual coupons of the fixed rate hedged items are designated;
- Differences in the discounting factors between the hedged item and the hedging instruments arising from different rate reset frequencies and timing of cash flows; and
- Employee forfeitures and quarterly interest payments on the equity swaps.

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Designated hedging instruments

The following table provides a summary of financial instruments designated as hedging instruments:

As at December 31, 2021	Notional amount of the hedging instrument	Maturity range			Fair value of the hedge derivatives		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
		Less than 1 year	1-5 years	Over 5 years	Assets	Liabilities	
	\$	\$	\$	\$	\$	\$	\$
Cash flow hedges							
Interest rate risk							
Interest rate swaps	4,942,080	1,324,392	2,417,376	1,200,312	12,273	19,041	30,428
Interest rate caps	50,338	49	42,114	8,175	17	—	(17)
Equity share price risk							
Equity swaps	33,737	33,737	—	—	6,244	—	763
	5,026,155	1,358,178	2,459,490	1,208,487	18,534	19,041	31,174
Fair value hedges							
Interest rate swaps	2,114,758	486,573	1,597,017	31,168	7,768	9,534	(17,381)
	2,114,758	486,573	1,597,017	31,168	7,768	9,534	(17,381)
NIFO hedges							
Borrowings	2,109,783	966,765	1,143,018	—	n/a	n/a	11,591
	2,109,783	966,765	1,143,018	—	n/a	n/a	11,591

As at December 31, 2020	Notional amount of the hedging instrument	Maturity range			Fair value of the hedge derivatives		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
		Less than 1 year	1-5 years	Over 5 years	Assets	Liabilities	
	\$	\$	\$	\$	\$	\$	\$
Cash flow hedges							
Interest rate risk							
Interest rate swaps	6,652,868	1,507,247	4,314,648	830,973	30,983	68,075	(30,625)
Interest rate caps	118,591	788	81,434	36,369	80	—	80
Equity share price risk							
Equity swaps	34,386	34,386	—	—	6,894	—	(2,853)
	6,805,845	1,542,421	4,396,082	867,342	37,957	68,075	(33,398)
Fair value hedges							
Interest rate swaps	1,231,907	—	1,231,907	—	15,672	207	7,202
	1,231,907	—	1,231,907	—	15,672	207	7,202
NIFO hedges							
Borrowings	1,984,627	1,475,547	509,080	—	n/a	n/a	45,956
	1,984,627	1,475,547	509,080	—	n/a	n/a	45,956

n/a Not applicable

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The following table provides the average rate or price of the hedging derivatives:

As at December 31, 2021	Average fixed interest rate	
Cash flow hedges		
Interest rate risk		
Interest rate swaps	CAN	1.36 %
	USD	0.99 %
	NZD	1.98 %
	AUD	0.82 %
	MXN	7.34 %
Interest rate caps	USD	3.20 %
Fair value hedges		
Interest rate risk		
Interest rate swaps	USD	0.99 %
As at December 31, 2020	Average fixed interest rate	
Cash flow hedges		
Interest rate risk		
Interest rate swaps	CAN	1.56 %
	USD	1.65 %
	NZD	1.33 %
	AUD	1.14 %
Interest rate caps	USD	2.53 %
Fair value hedges		
Interest rate risk		
Interest rate swaps	USD	1.21 %

n/a Not applicable

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Designated hedged items

The following table provides information on designated hedged items:

As at December 31, 2021	Carrying amount of the hedged item		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	
	\$	\$	\$
Cash flow hedges			
Interest rate risk			
Floating Rate Leases	1,730,725	—	(4,620)
Borrowings	—	3,261,693	(25,791)
Equity share price risk			
Share-based payment	—	33,737	(763)
	1,730,725	3,295,430	(31,174)
Fair value hedges			
Interest rate risk			
Unsecured borrowings	—	627,933	7,077
Secured borrowings	—	802,438	13,672
Fixed rate lease assets	667,006	—	(3,368)
	667,006	1,430,371	17,381
NIFO hedges			
Net investment in foreign subsidiaries	2,109,783	—	(11,591)
	2,109,783	—	(11,591)
As at December 31, 2020	Carrying amount of the hedged item		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	
	\$	\$	\$
Cash flow hedges			
Interest rate risk			
Floating Rate Leases	2,450,495	—	(24,260)
Borrowings	—	4,320,964	54,805
Equity share price risk			
Share-based payment	—	34,386	2,853
	2,450,495	4,355,350	33,398
Fair value hedges			
Interest rate risk			
Secured borrowings	—	1,239,109	(7,202)
	—	1,239,109	(7,202)
NIFO hedges			
Net investment in foreign subsidiaries	1,984,627	—	(45,956)
	1,984,627	—	(45,956)

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Hedge accounting gains (losses) on the consolidated statement of operations and consolidated statement of comprehensive income

Year Ended December 31, 2021	Beginning balance of AOCI - hedge reserve (after-tax)	Change in the value of the hedging instrument recognized in OCI (before-tax)	Amount reclassified from accumulated OCI to income (before-tax)	Tax benefit (expense)	Ending balance of AOCI hedge reserve (after-tax)	Hedge ineffectiveness gains (losses) recognized in income
	\$	\$	\$	\$	\$	\$
Cash flow hedges						
Foreign exchange risk	10,262	—	(2,288)	—	7,974	—
Interest rate risk	12,284	(30,411)	165	8,531	(9,431)	—
Equity share price risk	493	(763)	—	270	—	—
	23,039	(31,174)	(2,123)	8,801	(1,457)	—
NIFO hedges						
Net investment in foreign subsidiaries	(187,359)	(11,591)	—	—	(198,950)	—
	(187,359)	(11,591)	—	—	(198,950)	—
Year Ended December 31, 2020	Beginning balance of AOCI - hedge reserve (after-tax)	Change in the value of the hedging instrument recognized in OCI (before-tax)	Amount reclassified from accumulated OCI to income (before-tax)	Tax benefit (expense)	Ending balance of AOCI hedge reserve (after-tax)	Hedge ineffectiveness gains (losses) recognized in income
	\$	\$	\$	\$	\$	\$
Cash flow hedges						
Foreign exchange risk	4,392	7,424	(1,554)	—	10,262	—
Interest rate risk	(7,560)	30,545	(3,779)	(6,922)	12,284	—
Equity share price risk	(2,539)	2,853	—	179	493	—
	(5,707)	40,822	(5,333)	(6,743)	23,039	—
NIFO hedges						
Net investment in foreign subsidiaries	(141,403)	(45,956)	—	—	(187,359)	—
	(141,403)	(45,956)	—	—	(187,359)	—

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Offsetting of derivative assets and liabilities

The following table presents a summary of the Company's derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the consolidated statements of financial position; the net amounts presented in the consolidated statements of financial position; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount mentioned above; and the amount of cash collateral received or pledged.

	Gross amounts of recognized financial instruments before netting on the Consolidated Statements of Financial Position	Gross amounts of recognized financial instruments set-off in the Consolidated Statements of Financial Position	Net amount of financial instruments presented in the Consolidated Statements of Financial Position	Amounts subject to an enforceable master netting arrangement or similar agreement that are not set-off in the Consolidated Statements of Financial Position		
				Amounts subject to an enforceable master netting agreement	Collateral	Net amount
	\$	\$	\$	\$	\$	\$
As at December 31, 2021						
Derivative financial instrument assets	26,302	—	26,302	13,880	—	12,422
Derivative financial instrument liabilities	28,575	—	28,575	13,880	5,757	8,938
As at December 31, 2020						
Derivative financial instrument assets	53,629	—	53,629	21,552	—	32,077
Derivative financial instrument liabilities	68,282	—	68,282	21,552	15,573	31,157

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20. 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	December 31, 2021	December 31, 2020
	\$	\$
Cash	45,271	8,789
Unsecured debt		
Revolving senior credit facilities	1,106,629	1,551,939
4.250% Convertible Debentures due 2024	159,072	154,267
3.850% Senior Notes due 2025	508,007	509,080
1.600% Senior Notes due 2024	635,008	—
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	2,154,974	4,005,371
Variable funding notes	3,605,799	3,768,395
Other	61,693	44,841
Deferred financing costs	(27,023)	(29,911)
Hedge accounting fair value adjustments	(6,124)	14,621
Total debt	8,198,035	10,018,603
Shareholders' equity		
Common share capital	2,951,596	3,180,379
Preferred share capital	511,869	511,869
Other	(12,516)	91,869
Total Shareholders' Equity	3,450,949	3,784,117
Total Capitalization	11,648,984	13,802,720

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21. 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 December 31, 2021				As at December 31, 2020			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	6,381,682	391,366	663,227	7,436,275	8,675,701	410,268	475,653	9,561,622
Equipment under operating leases	30,697	1,295,034	971,451	2,297,182	43,255	1,334,370	779,602	2,157,227
Goodwill and intangible assets	2,013,326	30,412	7,261	2,050,999	2,002,565	32,090	3,064	2,037,719
Property, equipment and leasehold improvements	68,273	13,255	12,344	93,872	82,572	17,478	12,302	112,352
	8,493,978	1,730,067	1,654,283	11,878,328	10,804,093	1,794,206	1,270,621	13,868,920

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

22. 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. As a result, the Company recorded an impairment charge of \$4,113 through Transformation on the right of use, property, plant, and equipment assets at the closed facilities for the year ended December 31, 2020. The remaining lease liability for the closed facilities is \$2,772 as at December 31, 2021 (December 31, 2020 - \$3,580).

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		As at December 31, 2021	As at December 31, 2020
		\$	\$
Assets	Classification		
Right-of-use assets	Buildings, net of accumulated depreciation ⁽¹⁾	64,188	76,607
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	73,059	84,970

1. As at December 31, 2021, right-of-use assets are recorded net of accumulated amortization of \$41,761 (December 31, 2020 - \$31,134).

		Year ended	
		December 31, 2021	December 31, 2020
		\$	\$
Lease cost	Classification		
Amortization of leased assets	Depreciation and amortization	11,443	13,427
Interest on lease liabilities	Interest expense	2,260	2,769
Net lease cost		13,703	16,196

Maturity of lease liabilities	As at December 31, 2021
	\$
2021	11,654
2022	10,398
2023	5,975
2024	4,445
2025	4,349
Thereafter	36,238

	As at December 31, 2021	As at December 31, 2020
Lease Term and Discount Rate		
Weighted-average remaining lease term (years)	11.5	11.6
Weighted-average discount rate	2.94 %	2.95 %

23. COMMITMENTS

The Company enters into commitments to extend credit and provide lease or loan financing to its clients in the ordinary course of business, or commits to purchase equipment for leases. The funding of these commitments is subject to the customer satisfying various conditions and contractual requirements prior to funding. As a result, the total commitments outstanding do not necessarily reflect actual future cash flow

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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requirements. As at December 31, 2021, the Company had \$2,898,752 of commitments outstanding to provide financing or purchase equipment, and expire or settle on various dates through to December 31, 2023.

24. FINANCIAL INSTRUMENT RISKS

Credit risk

Credit risk is the risk that the Company will incur a loss because its clients and counterparties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties on direct financing leases and loans. Counterparty limits are established by the use of both external and internal credit risk classification systems, which assign each counterparty a risk rating. The Company also manages credit risk through the existence of asset collateral held against both direct financing leases and loans. The Company maintains insurance coverage over these assets to further mitigate risk of loss. In situations where the Company takes possession of collateral under the terms of the direct finance lease or loan agreement, the asset is sold and a gain or loss on disposal is recognized.

The Company also monitors the diversification of its lending across asset class, geography and transaction size. As a result of transaction sizes and collateral arrangements, no individual customer represents a significant credit risk to the Company.

The Company's maximum exposure to credit risk for components of the consolidated statements of financial position as at December 31, 2021 and 2020 is the carrying amounts as disclosed on the consolidated statements of financial position.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's management oversees the Company's liquidity to ensure the Company has access to enough readily available funds to cover its financial obligations as they come due and sustain and grow its assets and operations under both normal and stress conditions.

The most significant exposure to liquidity risk relates to the repayment of borrowings (Note 10). This exposure is managed as the cash flows generated by the Company's net investment in leases and loans, syndication, and future minimum payments on equipment under operating leases are term matched to meet the repayment requirements, and its capacity to expand its existing secured and unsecured borrowings facilities and its access to bank term funding.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In order to mitigate interest rate risk, the Company structures its borrowing arrangements to maintain a fixed interest rate spread between the interest paid on both the term funding facilities and the revolving loan facilities and the interest received on the underlying finance receivables. This fixed interest rate spread is achieved by match funding transactions on both a duration and interest rate basis. In some instances, the Company enters into interest rate swaps in order to align the interest rate variability.

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The Company does experience short-term interest rate risk on these finance receivables during the period between fixing the contractual rate under the finance contracts with its clients and the locking of the interest rate under its funding facilities. During this time, an upward movement in benchmark rates can negatively impact the spread on the transaction. In order to mitigate this risk, the Company carefully monitors its borrowing costs to ensure its rates reflect appropriate spreads to insulate against sudden unexpected interest rate movements. In order to further mitigate risk, the Company undertakes regular securitizations under its borrowing arrangements to ensure its finance contracts are appropriately match-funded by its borrowings, which reduces the warehouse period and the likelihood that a significant movement in bond rates will negatively impact the spreads on such transactions.

After considering the fixed interest rate spread on the borrowing programs and exposure to fixed rate finance receivables described above, the Company's interest rate risk is generally limited to cash and restricted cash, floating-rate finance receivables that are neither hedged nor part of a match-funded borrowing arrangement, senior revolving credit facility, and floating-rate finance receivables that are hedged with interest rate caps and these interest rate caps are out-of-the-money. Based on its exposure as at December 31, 2021, the Company estimates that a 50 basis point increase would decrease net income before taxes by approximately \$2,358 and a 50 basis point decrease in interest rates would increase net income before taxes by approximately \$2,360.

Foreign currency risk

Foreign currency risk is the risk of exposure to foreign currency movements on the Company's lending and/or net investment in foreign subsidiaries, whereby there is a risk the exchange rates will be materially different when a loan or finance receivable is remeasured for accounting purposes, matures or when a foreign subsidiary is divested. The Company mitigates and manages this risk on the Company's lending portfolio by entering into foreign exchange forward contracts to reduce or hedge its exposure to foreign currency risk. The Company currently partially hedges its net investment in foreign subsidiaries. As at December 31, 2021, the Company did not have a significant un-hedged exposure to this type of foreign currency risk, which would have an impact to net income.

The Company is also exposed to foreign currency risk related to net income generated from foreign currency denominated assets and operations. This risk represents the impact of fluctuations to the average Canadian and foreign currency exchange rate used to translate the Company's foreign currency denominated net income into Canadian dollar equivalent during each year. The Company may mitigate and manage this type of foreign currency risk by entering into foreign currency forward contracts to reduce or hedge this exposure to foreign currency risk. If future net income before income taxes is consistent with results generated in 2021, each \$0.01 of depreciation (appreciation) in the value of the Canadian dollar against all of the U.S. dollar, Mexican peso, Australian dollar, and New Zealand dollar simultaneously would be expected to increase (decrease) net income before transformation costs and income taxes for the year by approximately \$23,699 in the absence of hedging transactions.

25. 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.

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- 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.

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Investments

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

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.

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	As at December 31, 2021				Total
	Carrying value	Level 1	Level 2	Level 3	
	\$	Quoted market price \$	Observable market inputs \$	Non-observable market inputs \$	
Financial assets					
Assets not carried at fair value					
Cash	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

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	As at December 31, 2020				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	8,789	8,789	—	—	8,789
Finance lease receivables	9,460,104	—	—	9,460,104	9,460,104
Finance loans receivables	101,518	—	—	101,518	101,518
Accounts receivable and other assets	221,129	—	—	221,129	221,129
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	46,655	—	46,655	—	46,655
Interest rate caps	80	—	80	—	80
Equity Swaps	6,894	—	6,894	—	6,894
Investments classified as FVTPL	5,823	—	—	5,823	5,823
Total financial assets	9,850,992	8,789	53,629	9,788,574	9,850,992
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,062,610	—	—	1,062,610	1,062,610
Borrowings on finance receivables	9,864,336	—	—	9,864,336	9,864,336
Convertible debentures	154,267	—	165,000	—	165,000
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	68,282	—	68,282	—	68,282
Total financial liabilities	11,149,495	—	233,282	10,926,946	11,160,228

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26. SYNDICATIONS

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

	Classification	As at December 31, 2021	As at December 31, 2020
		\$	\$
Allowance for early termination	Accounts payable and accrued liabilities	21,497	12,835
Deferred servicing fee	Finance receivables	512	814

	Classification	Year ended	
		December 31, 2021	December 31, 2020
		\$	\$
Syndication revenue, net	Syndication revenue, net	64,412	75,552
Net book value of assets syndicated	n/a	2,651,967	2,811,598

27. COMPARATIVE FIGURES

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