

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

September 30, 2023

Element Fleet Management Corp.

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

	As at September 30, 2023	As at December 31, 2022
	\$	\$
ASSETS		
Cash	99,809	68,876
Restricted funds (note 5)	452,060	433,327
Finance receivables (notes 3 and 15)	9,561,738	8,069,386
Equipment under operating leases (note 4)	3,290,669	2,806,841
Accounts receivable and other assets	243,526	215,817
Derivative financial instruments (note 15)	111,866	131,943
Property, equipment and leasehold improvements, net	137,178	80,899
Intangible assets, net	852,918	864,611
Deferred tax assets	297,424	365,430
Goodwill	1,291,296	1,295,088
	<u>16,338,484</u>	<u>14,332,218</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	1,637,965	1,465,198
Derivative financial instruments (notes 15)	49,581	81,730
Borrowings (note 5)	10,373,479	8,807,859
Convertible debenture (notes 6 and 15)	167,983	163,933
Deferred tax liabilities	150,046	132,525
	<u>12,379,054</u>	<u>10,651,245</u>
Shareholders' equity (note 7)	<u>3,959,430</u>	<u>3,680,973</u>
	<u>16,338,484</u>	<u>14,332,218</u>

See accompanying notes

On behalf of the Board:



Director



Director

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month period ended September 30, 2023	Three-month period ended September 30, 2022
	<u>\$</u>	<u>\$</u>
NET REVENUE		
Interest income, net (note 9)	190,733	127,511
Rental revenue and other (note 9)	281,057	199,359
Depreciation of equipment under operating leases (notes 4 and 9)	(171,266)	(123,771)
	<u>300,524</u>	<u>203,099</u>
Interest expense	159,967	78,240
Net financing revenue	140,557	124,859
Fleet service revenue (note 9)	188,694	162,049
Direct costs of fixed rate service contracts (note 9)	(12,805)	(12,118)
Servicing income, net	175,889	149,931
Syndication revenue, net (note 9 and 16)	17,326	15,998
Net revenue	<u>333,772</u>	<u>290,788</u>
OPERATING EXPENSES		
Salaries, wages and benefits	92,193	80,708
General and administrative expenses	38,911	29,654
Depreciation and amortization (note 14)	17,832	15,020
Amortization of convertible debenture discount (note 6)	1,033	966
Share-based compensation (note 8)	7,335	12,885
	<u>157,304</u>	<u>139,233</u>
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	9,369	9,144
Gain on investments	(247)	—
Income before income taxes from operations	167,346	142,411
Provision for income taxes (note 10)	38,553	38,708
Net income for the period	<u>128,793</u>	<u>103,703</u>
Basic earnings per share (note 11)	<u>\$ 0.32</u>	<u>\$ 0.25</u>
Diluted earnings per share (note 11)	<u>\$ 0.31</u>	<u>\$ 0.24</u>

See accompanying notes

Element Fleet Management Corp.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Nine-month period ended September 30, 2023	Nine-month period ended September 30, 2022
	\$	\$
NET REVENUE		
Interest income, net (note 9)	511,082	309,341
Rental revenue and other (note 9)	790,873	604,590
Depreciation of equipment under operating leases (notes 4 and 9)	(472,104)	(371,056)
	829,851	542,875
Interest expense	414,516	179,583
Net financing revenue	415,335	363,292
Fleet service revenue (note 9)	540,217	467,356
Direct costs of fixed rate service contracts (note 9)	(38,322)	(35,546)
Servicing income, net	501,895	431,810
Syndication revenue, net (note 9 and 16)	43,567	44,619
Net revenue	960,797	839,721
OPERATING EXPENSES		
Salaries, wages and benefits	269,248	234,706
General and administrative expenses	112,244	86,395
Depreciation and amortization (notes 14)	50,833	44,411
Amortization of convertible debenture discount (note 6)	3,048	2,849
Share-based compensation (note 8)	32,489	24,259
	467,862	392,620
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	28,180	27,011
(Gain)/Loss on investments	(217)	2,764
Income before income taxes from operations	464,972	417,326
Provision for income taxes (note 10)	109,664	108,899
Net income for the period	355,308	308,427
Basic earnings per share (note 11)	\$ 0.86	\$ 0.72
Diluted earnings per share (note 11)	\$ 0.84	\$ 0.70

See accompanying notes

Element Fleet Management Corp.

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

	Three-month period ended September 30, 2023	Three-month period ended September 30, 2022
	\$	\$
Net income for the period	128,793	103,703
OTHER COMPREHENSIVE (LOSS) INCOME		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges (loss) gain	(7,605)	6,069
Net unrealized foreign exchange (loss) gain	(23,821)	152,393
	(31,426)	158,462
Provision for income taxes	754	1,603
Total other comprehensive (loss) income	(32,180)	156,859
Comprehensive income for the period	96,613	260,562

See accompanying notes

Element Fleet Management Corp.

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

	Nine-month period ended September 30, 2023	Nine-month period ended September 30, 2022
	\$	\$
Net income for the period	355,308	308,427
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges (loss) gain	(9,160)	63,654
Net unrealized foreign exchange gain	170,125	198,650
	160,965	262,304
Provision for income taxes	1,293	17,479
Total other comprehensive income	159,672	244,825
Comprehensive income for the period	514,980	553,252

See accompanying notes

Element Fleet Management Corp.

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

	Common share capital	Preferred share capital	Equity component of convertible debentures	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	\$	\$	\$	\$	\$	\$
Balance, December 31, 2022	2,868,078	365,113	13,799	129,290	304,693	3,680,973
Comprehensive income for the period	—	—	—	355,308	159,672	514,980
Dividends - Preferred shares (note 7)	—	—	—	(17,839)	—	(17,839)
Dividends - Common shares (note 7)	—	—	—	(117,055)	—	(117,055)
Issuance of shares (notes 6 and 7)	9	—	(1)	—	—	8
Options exercised (notes 7 and 8)	6,930	—	—	(38,109)	—	(31,179)
Shares repurchased for cancellation (note 7)	(28,393)	—	—	(42,065)	—	(70,458)
Balance, September 30, 2023	2,846,624	365,113	13,798	269,530	464,365	3,959,430
Balance, December 31, 2021	2,951,596	511,869	13,829	(22,536)	(3,809)	3,450,949
Comprehensive income for the period	—	—	—	308,427	244,825	553,252
Dividends - Preferred shares (note 7)	—	—	—	(22,129)	—	(22,129)
Dividends - Common shares (note 7)	—	—	—	(92,380)	—	(92,380)
Redemption for preferred shares (note 7)	—	(146,756)	—	(3,244)	—	(150,000)
Options exercised (notes 7 and 8)	18,175	—	—	(4,739)	—	13,436
Issuance of shares, net of share issue costs (note 7)	173	—	(18)	—	—	155
Shares repurchased for cancellation (note 7)	(92,301)	—	—	(75,113)	—	(167,414)
Balance, September 30, 2022	2,877,643	365,113	13,811	88,286	241,016	3,585,869

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Nine-month period ended	
	September 30, 2023	September 30, 2022
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	355,308	308,427
Items not affecting cash		
Depreciation of property, equipment and leasehold improvements	16,812	15,640
Amortization of intangible assets, including from acquisitions	62,201	55,782
Amortization of deferred lease costs	25,135	21,891
Amortization of deferred financing costs	13,178	11,390
Depreciation of equipment under operating leases	472,104	371,056
Amortization of convertible debenture discount and deferred costs (note 6)	4,058	3,808
(Gain) loss on investments	(217)	2,764
Provision for credit losses	(325)	(199)
	<u>948,254</u>	<u>790,559</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(6,535,920)	(4,260,428)
Repayments of finance receivables	2,775,451	2,300,556
Investment in equipment under operating leases	(1,159,279)	(818,070)
Proceeds on disposal of equipment under operating leases	263,088	219,857
Syndications of finance receivables	2,444,491	2,087,480
Cash payments for interest portion of lease liability	(2,910)	(1,477)
Other non-cash operating assets and liabilities	76,169	262,934
Cash (used in) provided by operating activities	<u>(1,190,656)</u>	<u>581,411</u>
INVESTING ACTIVITIES		
Investments	(721)	938
Purchase of property, equipment and leasehold improvements	(17,029)	(2,942)
Proceeds on disposals of property, equipment and leasehold improvements and intangible assets	485	1,323
Purchase of intangible assets, including computer software	(53,497)	(45,805)
Decrease in notes receivable	—	384
Cash used in investing activities	<u>(70,762)</u>	<u>(46,102)</u>
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	(4,582)	(7,275)
Increase in restricted funds	(19,984)	3,008
Increase in deferred financing costs	(20,411)	(2,448)
Issuance of share capital, net	(31,179)	13,436
Shares repurchased (note 7)	(69,819)	(171,036)
Issuance of term facilities (note 5)	—	375,334
Repayments of borrowings, net	544,269	(349,485)
Dividends paid (note 7)	(135,219)	(115,349)
Issuance of senior notes (note 5)	996,810	—
Redemption of preferred shares (note 7)	—	(150,000)
Cash provided by (used in) financing activities	<u>1,259,885</u>	<u>(403,815)</u>
Effects of foreign exchange rates on cash	<u>32,466</u>	<u>(121,644)</u>
Net increase in cash during the period	<u>30,933</u>	<u>9,850</u>
Cash, beginning of the period	<u>68,876</u>	<u>45,271</u>
Cash, end of the period	<u>99,809</u>	<u>55,121</u>
Supplemental cash flow information:		
Cash taxes paid	54,116	42,333
Cash interest paid	<u>407,882</u>	<u>177,932</u>

See accompanying notes

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

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 \$16.3 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 services and financings for commercial vehicle and equipment fleets, reaching 56 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 with approximately 1.5 million fleet vehicles under management which include all leased vehicles, including syndicated leases and interim funding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2022, which include information necessary or useful in understanding the Company's business and financial statement presentation. The results reported in these unaudited interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 6, 2023.

Accounting policies

These unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2022, except as discussed below.

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 the Company's unaudited interim condensed consolidated financial statements.

The Company adopted Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 ("Phase 2 Amendments") effective January 1, 2021. The Phase 2 Amendments include

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

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 ceased to apply the amendments on June 30, 2023.

Effective December 31, 2021, the publication of LIBOR settings 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 terminated on June 30, 2023. Effective January 1, 2023, the Company migrated all floating rate leases tied to LIBOR to the Secured Overnight Financing Rate ("SOFR"). All derivatives tied to LIBOR were transitioned to SOFR effective June 30, 2023.

The following table shows the Company's exposure for financial asset and liabilities at September 30, 2023 and December 31, 2022 subject to IBOR reform that have yet to transition to SOFR.

	As at September 30, 2023		
	Non-derivative financial assets - carrying value	Non-derivative financial liabilities - carrying value	Derivative Notional/Principal amount ⁽¹⁾
	\$	\$	\$
USD LIBOR (1 month)	—	—	—
USD LIBOR (3 month)	—	—	—
	—	—	—

	As at December 31, 2022		
	Non-derivative financial assets - carrying value	Non-derivative financial liabilities - carrying value	Derivative Notional/Principal amount ⁽¹⁾
	\$	\$	\$
USD LIBOR (1 month)	1,154,829	—	3,687,647
USD LIBOR (3 month)	542,600	—	—
	1,697,429	—	3,687,647

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

On May 16, 2022, Refinitiv Benchmark Services (UK) Ltd. ("RBSL"), the administrator of the Canadian Dollar Offered Rate ("CDOR"), announced that the calculation and publication of all tenors of CDOR will permanently cease following a final publication on June 28, 2024. The Company has determined that its exposure to CDOR is immaterial.

Income Taxes

On May 23, 2023, the International Accounting Standards Board issued narrow scope amendments to International Accounting Standard 12, Income Taxes, ("IAS 12"). The IAS 12 amendments give entities a temporary exception from accounting for the deferred tax impacts resulting from the jurisdictional implementation of Pillar Two model rules published by the Organization for Economic Co-operation and Development. The IAS 12 amendments also require affected entities to make certain disclosures about the exposure to Pillar Two rules. The Company applied the temporary exemption and will continue to monitor the Company's financial and disclosure requirements related to Pillar Two model rule.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

3. FINANCE RECEIVABLES

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

	As at September 30, 2023			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	6,562,033	272,284	796,241	7,630,558
Unguaranteed residual values	—	74,458	—	74,458
Gross investment	6,562,033	346,742	796,241	7,705,016
Unearned income	(935,445)	(48,725)	(118,114)	(1,102,284)
Net investment (Subsection A)	5,626,588	298,017	678,127	6,602,732
Net realizable value of impaired receivables	3,389	1,230	—	4,619
Unamortized deferred costs and subsidies	(73,499)	—	1,368	(72,131)
Prepaid lease payments and security deposits	(19,694)	—	(53,871)	(73,565)
Interim funding	1,382,435	—	191,749	1,574,184
Fleet management receivables	730,140	47,881	43,147	821,168
Other receivables	340,145	93,813	185,857	619,815
Continuing involvement asset	94,296	—	—	94,296
Allowance for credit losses (Subsection B)	(7,020)	(1,499)	(861)	(9,380)
Total finance receivables	8,076,780	439,442	1,045,516	9,561,738

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

	As at December 31, 2022			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	5,296,256	245,716	703,992	6,245,964
Unguaranteed residual values	—	67,915	—	67,915
Gross investment	5,296,256	313,631	703,992	6,313,879
Unearned income	(585,459)	(38,982)	(102,022)	(726,463)
Net investment (Subsection A)	4,710,797	274,649	601,970	5,587,416
Net realizable value of impaired receivables	2,432	4,173	—	6,605
Unamortized deferred costs and subsidies	(38,294)	—	—	(38,294)
Prepaid lease payments and security deposits	(19,502)	—	(35,458)	(54,960)
Interim funding	962,274	—	222,588	1,184,862
Fleet management receivables	729,701	49,302	23,806	802,809
Other receivables	329,370	89,352	118,422	537,144
Continuing involvement asset	54,173	—	—	54,173
Allowance for credit losses (Subsection B)	(6,837)	(1,934)	(1,598)	(10,369)
Total finance receivables	6,724,114	415,542	929,730	8,069,386

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

	As at September 30, 2023		As at December 31, 2022	
	Leases	Loans	Leases	Loans
Net investment	\$ 6,254,352	\$ 348,380	\$ 5,284,600	\$ 302,816
Weighted average fixed interest rate	6.31 %	10.32 %	5.42 %	9.35 %
Weighted average floating interest rate	7.87 %	7.99 %	6.92 %	6.84 %
Percentage of portfolio with fixed interest rate	47.57 %	99.99 %	49.33 %	99.98 %

B) Allowance for credit losses

The Company continues to monitor its inputs to the expected credit loss ("ECL") model to ensure it appropriately reflects current market conditions in light of a potential recession, current inflationary environment, rising interest rates, supply chain disruptions, and information available to the Company as at September 30, 2023.

The Company evaluates its credit risk exposure broadly in line with Standard & Poor's and Moody's ratings outlined below and will adjust internal classifications based on additional information the Company has available to it at the time of the assessment. In conjunction with the Company's evaluation of the probability of default ("PD") as at September 30, 2023, and consistent with the ECL model, the Company reviewed its classifications and updated its internal assessment of PD based on current information.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

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. Although used vehicle prices have steadily declined starting in the second quarter of 2022 attributable to a shift in consumer confidence, along with rising interest rates leading to lower levels of vehicle affordability, prices remain high from a historical basis leading to continued low loss given default ("LGD") levels as at September 30, 2023. The Company expects the used vehicle market to moderate over the remainder of 2023 as inventory levels are generally balanced between supply and demand. Under a recessionary scenario, we expect to continue seeing an increasing number of drivers of vehicles keep their cars for longer periods of time (or purchase used vehicles instead of new vehicles) consequently pressuring the supply in the used car market which would contribute to elevated used vehicle demand and prices.

In determining the appropriate allowance for credit losses, the Company considered forward-looking macroeconomic information, pointing to an increasing possibility of an economic recession given the inflationary environment and rising interest rates, namely the impact that potential upward or downward trends in Gross Domestic Product ("GDP") and default rates might have on the Company's lease and loan portfolio. The Company has also evaluated multiple scenarios related to this environment, including how it is expected to affect markets and as it pertains to specific industries or customers most susceptible to be impacted by recession. Despite unfavorable forward-looking macroeconomic expectations, the creditworthiness of our clients and the favorable evolution of our portfolio allowed Element to modestly reduce the Company's allowance for credit losses to \$9,380 as at September 30, 2023.

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, 2023	10,302	67	10,369
Transfer to Performing	1	(1)	—
Transfer to Impaired	(9)	9	—
Lease originations	11,389	—	11,389
Changes in models and inputs, derecognition, and repayments	(12,429)	715	(11,714)
Total	9,254	790	10,044
Charge-offs, net of recoveries	—	(742)	(742)
Foreign exchange	80	(2)	78
Balance as at September 30, 2023	9,334	46	9,380

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

Finance receivables	Performing \$	Impaired \$	Total \$
Balance as at January 1, 2022	10,218	28	10,246
Transfer to Performing	4	(4)	—
Transfer to Impaired	(46)	46	—
Lease originations	14,239	—	14,239
Changes in models and inputs, derecognition, and repayments	(14,695)	431	(14,264)
Total	9,720	501	10,221
Charge-offs, net of recoveries	—	(431)	(431)
Foreign exchange	582	(3)	579
Balance as at December 31, 2022	10,302	67	10,369

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

	Nine-month period ended	Year ended
Allowance for credit losses	September 30, 2023	December 31, 2022
	\$	\$
Allowance for credit losses, beginning of the period	10,369	10,246
Recovery of credit losses	(325)	(25)
Charge-offs, net of recoveries	(742)	(431)
Impact of foreign exchange rates	78	579
Allowance for credit losses, end of the period	9,380	10,369
Allowance as a percentage of total finance receivables before allowance	0.10 %	0.13%

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

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 September 30, 2023			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽¹⁾			
Low	4,141,618	—	4,141,618
Medium	2,335,772	—	2,335,772
High	125,342	—	125,342
Fleet management receivables	820,216	952	821,168
Other finance receivables	619,815	—	619,815
Impaired	—	4,619	4,619
	8,042,763	5,571	8,048,334
Allowance for credit losses	(9,334)	(46)	(9,380)
Net carrying value	8,033,429	5,525	8,038,954

1. Loan balances of \$13,481, \$334,898 and \$1 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

As at December 31, 2022			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽²⁾			
Low	3,375,906	—	3,375,906
Medium	2,064,243	—	2,064,243
High	147,267	—	147,267
Fleet management receivables	802,050	759	802,809
Other finance receivables	537,144	—	537,144
Impaired	—	6,605	6,605
	6,926,610	7,364	6,933,974
Allowance for credit losses	(10,302)	(67)	(10,369)
Net carrying value	6,916,308	7,297	6,923,605

2. Loan balances of \$15,670, \$287,142 and \$4 are included in the Performing category in internal risk rating grade low, medium, and high, respectively, and nil in Impaired.

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

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

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

4. EQUIPMENT UNDER OPERATING LEASES

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

	As at September 30, 2023	As at December 31, 2022
	\$	\$
Cost	4,781,082	4,078,247
Accumulated depreciation	1,490,413	1,271,406
Net carrying amount	3,290,669	2,806,841

5. BORROWINGS

The Company's outstanding borrowings were as follows:

	As at September 30, 2023			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	2,506,329	4.88	2,983,263	29,613
Variable funding notes	3,960,944	6.09	4,521,749	38,961
Other	46,859	4.71	45,676	—
Vehicle management asset-backed debt	6,514,132	5.63	7,550,688	68,574
Revolving senior credit facilities	1,246,341	8.75	—	—
Senior notes	2,227,731	4.27	—	—
Term facilities	341,765	6.58	—	—
	10,329,969	5.75	7,550,688	68,574
Deferred financing costs	(26,394)			
Hedge accounting fair value adjustments	(24,392)			
Continuing involvement liability	94,296			
Total borrowings	10,373,479			

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

	As at December 31, 2022			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	1,115,459	1.50	1,353,553	18,448
Variable funding notes	4,120,361	5.04	4,737,687	29,379
Other	83,639	4.08	82,483	—
Vehicle management asset-backed debt	5,319,459	4.29	6,173,723	47,827
Revolving senior credit facilities	1,893,323	6.61	—	—
Senior notes	1,219,032	2.60	—	—
Term facilities	387,034	5.30	—	—
	8,818,848	4.60	6,173,723	47,827
Deferred financing costs	(19,227)			
Hedge accounting fair value adjustments	(45,935)			
Continuing involvement liability	54,173			
Total borrowings	8,807,859			

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 September 30, 2023.

Vehicle management asset-backed debt

As at September 30, 2023, the Company had available capacity in variable funding notes of \$1,496,350 (December 31, 2022 – \$1,462,068) under its vehicle management asset-backed debt facilities.

Revolving senior credit facilities

As at September 30, 2023, the Company had available capacity under the revolving senior credit facilities of \$2,297,777 (December 31, 2022 - \$612,465).

Senior notes

As at September 30, 2023, the Company had \$2,227,731 (US \$1,650,000) in outstanding senior unsecured notes (December 31, 2022 - \$1,219,032 (US \$900,000)).

On June 26, 2023, the Company issued \$994,455 (US \$750,000) in aggregate principal amount of 6.271% senior unsecured notes due June 26, 2026. The notes were issued at par. Interest is paid semi-annually in arrears on June 26 and December 26, commencing on December 26, 2023. The proceeds received at the time of closing were used for working capital and general corporate purposes.

Term facilities

As at September 30, 2023, the Company had \$341,765 in outstanding term facilities (December 31, 2022 - \$387,034).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

Restricted funds

As at September 30, 2023, restricted funds include (i) cash reserves of \$68,574 (December 31, 2022 - \$47,827), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection accounts of \$383,486 (December 31, 2022 - \$385,500), which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently utilized in accordance with applicable provisions and other payments received that are due back to clients in accordance with their contracts; and (iii) cash of nil (December 31, 2022 - nil) provided to counter-parties as collateral against derivative liabilities.

6. CONVERTIBLE DEBENTURE

Convertible debentures consist of:

As at September 30, 2023							
Issue Date	Final maturity date	Conversion price per share ⁽¹⁾	Interest rate ⁽²⁾	Face value	Deferred costs	Discount	Net carrying value
		\$	%	\$	\$	\$	\$
April 5, 2019	June 30, 2024	11.77	4.250	172,224	(1,045)	(3,196)	167,983

As at December 31, 2022							
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	11.91	4.250	172,232	(2,055)	(6,244)	163,933

1. The conversion price was adjusted on June 30, 2023, the ex-dividend date for dividends to be paid on July 14, 2023, to \$11.77391 for the April 5, 2019 issuance.

2. Stated interest rate on principal face value.

Conversions

During January 2023, holders of the April 2019 Convertible Debentures ("2019 Debentures") redeemed \$8 at a conversion price equal to \$11.90841 per share, representing a conversion ratio of approximately 83.97427 shares per \$1,000 principal amount of the 2019 Debentures. As a result of the conversion, holders of the 2019 Debentures received an interest payment of nil and 671 common shares.

During December 2022, holders of the 2019 Debentures redeemed \$106 at a conversion price equal to \$11.90841 per share, representing a conversion ratio of approximately 83.97427 shares per \$1,000 principal amount of the 2019 Debentures. As a result of the conversion, holders of the 2019 Debentures received an interest payment of \$2 and 8,899 common shares.

During September 2022, holders of the 2019 Debentures redeemed \$162 at a conversion price equal to \$11.90841 per share, representing a conversion ratio of approximately 83.97427 shares per \$1,000 principal amount of the 2019 Debentures. As a result of the conversion, holders of the 2019 Debentures received an interest payment of \$1 and 13,603 common shares.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

7. SHARE CAPITAL

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

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2021	405,077,227	2,951,596
Convertible debenture	22,502	287
Share repurchase	(13,906,200)	(103,267)
Exercise of options	1,301,758	19,462
Balance, December 31, 2022	392,495,287	2,868,078
Convertible debenture	671	9
Share repurchase	(3,804,149)	(28,393)
Exercise of options	526,491	6,930
Balance, September 30, 2023	389,218,300	2,846,624

Share repurchase

On November 11, 2022, the TSX approved the Company's notice of intention to renew its Normal Course Issuer Bid ("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, 2022 and ending on the earlier of November 14, 2023 or the completion of purchases under the NCIB, up to 39,228,719 common shares of the Company, subject to the normal terms and limitations of such bids, which include the number of common shares purchased in any 12 month period being limited to 10% of the common shares outstanding at the commencement of such period.

For the three- and nine-month periods ended September 30, 2023, 748,276 and 3,804,149, respectively, common shares have been repurchased for cancellation for \$15,027 and \$70,458, respectively, including commission, at a volume weighted average price of \$20.08 and \$18.52, respectively, per common share. For the three- and nine-month periods ended September 30, 2022 4,158,500 and 12,449,600, respectively, common shares have been repurchased for cancellation for \$61,725 and \$167,414, respectively, including commission, at a volume weighted average price of \$14.84 and \$13.45, respectively, per common share. The Company applies trade date accounting in determining the date on which the share repurchase is reflected in the interim condensed consolidated financial statements. The trade date is the date on which the Company commits itself to purchase the shares.

Common share dividends

For the three- and nine-month periods ended September 30, 2023, the Company declared \$38,927 and \$117,055, respectively, in common share dividends or \$0.10 and \$0.30, respectively, per common share (September 30, 2022 - \$30,598 and \$92,380, respectively, or \$0.0775 and \$0.233, respectively, per common share).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

As at September 30, 2023, the accrued common share dividends were \$38,927 (December 31, 2022 – \$39,252).

Increase in common share dividend

On November 8, 2022, the Board approved an increase in the quarterly common share dividend from \$0.0775 to \$0.10 per share.

Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at September 30, 2023 consist of the following:

Series	Issue date	Interest rate	Gross	After tax transaction costs	Net proceeds	Shares
		%	\$	\$	\$	#
A	December 17, 2013	6.93¹	115,000	4,625	110,375	4,600,000
C	March 7, 2014	6.21²	128,160	3,416	124,744	5,126,400
E	June 18, 2014	5.903³	133,048	3,054	129,994	5,321,900

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%.

Series I Preferred Shares Redemption

On June 30, 2022, the Company redeemed all of its 6,000,000 Series I Preferred Shares for a redemption price equal to \$25.00 per share for a total of \$150,000 together with all accrued and unpaid dividends.

Preferred share dividends

For the three- and nine-month periods ended September 30, 2023, the Company declared \$5,946 and \$17,839, respectively, in preferred share dividends (September 30, 2022 – \$5,923 and \$22,129, respectively).

As at September 30, 2023, the accrued preferred share dividends were \$65 (December 31, 2022 – \$65).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

8. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2023	2022	2023	2022
	\$	\$	\$	\$
(b) Deferred share units	335	1,060	1,649	1,859
(c) Performance share units	4,086	9,173	19,470	15,766
(d) Restricted share units	2,914	2,652	11,370	6,634
	7,335	12,885	32,489	24,259

(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, 2021	5,524,785	8.45
Forfeited	(1,667)	12.65
Expired	(411,412)	12.49
Exercised ⁽¹⁾	(1,301,758)	10.94
Outstanding, December 31, 2022	3,809,948	7.17
Expired	(120,447)	13.02
Exercised ⁽¹⁾	(3,026,491)	6.51
Outstanding, September 30, 2023	663,010	9.10

1. Weighted average share price of options exercised during the nine-month period ended September 30, 2023 was \$20.19 (year ended December 31, 2022 – \$14.92).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

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

	Deferred share units	Performance share units	Restricted share units
	#	#	#
Outstanding, December 31, 2021	771,453	2,119,340	1,531,924
Granted	136,526	1,863,612	928,360
Forfeited	—	(95,050)	(162,909)
Redeemed	(119,797)	(2,135,422)	(521,461)
Outstanding, December 31, 2022	788,182	1,752,480	1,775,914
Granted	82,987	1,112,818	739,208
Forfeited	—	—	(54,898)
Redeemed	(70,810)	(976,528)	(649,301)
Outstanding, September 30, 2023	800,359	1,888,770	1,810,923

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

9. REVENUE

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

	Three-month period ended		Nine-month period ended	
	September 30,	September 30,	September 30,	September 30,
	2023	2022	2023	2022
	\$	\$	\$	\$
Major service lines				
Interest income, net	190,733	127,511	511,082	309,341
Rental revenue	249,383	175,349	687,686	521,145
Gain on sale of equipment under operating leases	31,674	24,010	103,187	83,445
Depreciation of equipment under operating leases	(171,266)	(123,771)	(472,104)	(371,056)
Financing revenue before interest expense	300,524	203,099	829,851	542,875
Service revenue, net	142,972	122,889	412,230	358,022
Vehicle sales and end of contract fees	32,917	27,042	89,665	73,788
Servicing income, net	175,889	149,931	501,895	431,810
Syndication revenue, net	17,326	15,998	43,567	44,619
Net revenue before interest expense	493,739	369,028	1,375,313	1,019,304
Primary geographical markets				
US and Canada	332,014	255,305	919,479	685,312
Australia and New Zealand	68,073	61,042	208,528	187,123
Mexico	93,652	52,681	247,306	146,869
Net revenue before interest expense	493,739	369,028	1,375,313	1,019,304
Timing of revenue recognition				
Revenue earned at a point in time	156,675	134,220	459,059	398,060
Revenue earned over time	337,064	234,808	916,254	621,244
Net revenue before interest expense	493,739	369,028	1,375,313	1,019,304

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

A) Contract balances

	As at September 30, 2023	As at December 31, 2022
	\$	\$
Contract assets	17,814	21,574

Contract assets represent the costs the Company incurs to enter into service contracts with clients including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 3. For the three- and nine-month periods ended September 30, 2023, the Company has recorded \$3,030 and \$9,156, respectively, of amortization on its service contract assets (September 30, 2022 - \$2,471 and \$6,726, respectively).

B) Performance obligations

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

10. INCOME TAXES

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

The effective income tax rate was 23.02% and 23.58% for the three- and nine-month periods ended September 30, 2023, respectively (three- and nine-month periods ended September 30, 2022 - 27.18% and 26.09%, respectively). The effective tax rate is lower than prior years reflecting year-over-year variances in pre-tax income and other tax related adjustments.

11. EARNINGS PER SHARE

Basic earnings per share is as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net income attributable to shareholders	\$ 128,793	\$ 103,703	\$ 355,308	\$ 308,427
Cumulative dividends on preferred shares	(5,946)	(5,923)	(17,839)	(22,129)
Net income available to common shareholders	\$ 122,847	\$ 97,780	\$ 337,469	\$ 286,298
Weighted average number of common shares outstanding – basic (number)	389,511,424	395,116,726	390,695,744	398,287,479
Basic earnings per share	\$ 0.32	\$ 0.25	\$ 0.86	\$ 0.72

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

Diluted earnings per share is as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net income available to common shareholders adjusted for the effects of dilution	\$ 124,498	\$ 99,387	\$ 342,413	\$ 291,100
Weighted average number of common shares outstanding – basic (number)	389,511,424	395,116,726	390,695,744	398,287,479
Convertible debentures (number)	14,627,599	14,471,960	14,627,599	14,471,960
Dilutive stock options (number)	369,725	2,080,729	353,580	1,823,218
Weighted average number of common shares outstanding – diluted (number)	404,508,748	411,669,415	405,676,923	414,582,657
Diluted earnings per share	\$ 0.31	\$ 0.24	\$ 0.84	\$ 0.70

Instruments outstanding as at September 30, 2023 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 nil and nil stock options for the three- and nine-month periods ended September 30, 2023, respectively (September 30, 2022 - nil and nil stock options, respectively).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

12. CAPITALIZATION

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

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

As at	September 30, 2023	December 31, 2022
	\$	\$
Cash	99,809	68,876
Unsecured debt		
Revolving senior credit facilities	1,246,341	1,893,323
4.250% Convertible Debentures due 2024	167,983	163,933
1.600% Senior Notes due 2024	675,070	677,240
3.850% Senior Notes due 2025	540,056	541,792
6.271% Senior Notes due 2026	1,012,605	—
Term facilities	341,765	387,034
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	2,506,329	1,115,459
Variable funding notes	3,960,944	4,120,361
Other	46,859	83,639
Deferred financing costs	(26,394)	(19,227)
Continuing involvement liability	94,296	54,173
Hedge accounting fair value adjustments	(24,392)	(45,935)
Total debt	10,541,462	8,971,792
Shareholders' equity		
Common share capital	2,846,624	2,868,078
Preferred share capital	365,113	365,113
Other	747,693	447,782
Total Shareholders' Equity	3,959,430	3,680,973
Total Capitalization	14,500,892	12,652,765

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

13. GEOGRAPHIC INFORMATION

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

Selected geographic assets are as follows:

	As at September 30, 2023				As at December 31, 2022			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	8,076,780	439,442	1,045,516	9,561,738	6,724,114	415,542	929,730	8,069,386
Equipment under operating leases	27,313	1,303,900	1,959,456	3,290,669	35,329	1,318,913	1,452,599	2,806,841
Goodwill and intangible assets	2,098,913	31,266	14,035	2,144,214	2,118,822	30,307	10,570	2,159,699
Property, equipment and leasehold improvements	102,787	20,401	13,990	137,178	57,341	10,391	13,167	80,899
	10,305,793	1,795,009	3,032,997	15,133,799	8,935,606	1,775,153	2,406,066	13,116,825

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

14. LEASES

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

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

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

Management evaluates all facilities to ensure the Company's footprint continues to support business activities, employees and client needs. In support of this and to align with the Company's growth strategy, the Company closed certain facilities in the US, Canada, Australia and New Zealand during the year ended December 31, 2020. The remaining lease liability for the closed facilities is \$1,527 as at September 30, 2023 (December 31, 2022 - \$2,135).

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

Assets	Classification	As at September 30, 2023	As at December 31, 2022
		\$	\$
Right-of-use assets	Buildings, net of accumulated depreciation ⁽¹⁾	101,771	55,748
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	112,365	64,272

1. As at September 30, 2023, right-of-use assets are recorded net of accumulated amortization of \$59,337 (December 31, 2022 - \$54,324).

Lease cost	Classification	Three-month period ended		Nine-month period ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
		\$	\$	\$	\$
Amortization of leased assets	Depreciation and amortization	3,562	2,857	10,147	8,482
Interest on lease liabilities	Interest expense	1,134	480	2,910	1,477
Net lease cost		4,696	3,337	13,057	9,959

Maturity of lease liabilities	As at September 30, 2023
	\$
2023	2,109
2024	7,072
2025	6,998
2026	7,084
2027	7,582
Thereafter	81,520

Lease Term and Discount Rate	As at September 30, 2023	As at December 31, 2022
Weighted-average remaining lease term (years)	14.5	11.7
Weighted-average discount rate	3.82 %	2.91 %

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

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

Valuation methods and assumptions

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

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

Convertible debentures

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

Derivatives

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

Investments

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

Accounts receivable, accounts payable, and accrued liabilities

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

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

	As at September 30, 2023				Total
	Level 1	Level 2	Level 3		
Carrying value	Quoted market price	Observable market inputs	Non-observable market inputs		
\$	\$	\$	\$		\$
Financial assets					
Assets not carried at fair value					
Cash	99,809	99,809	—	—	99,809
Finance lease receivables ¹	9,119,062	—	—	9,119,062	9,119,062
Finance loans receivables	348,380	—	—	348,380	348,380
Accounts receivable and other assets	234,357	—	—	234,357	234,357
Assets held at fair value					
Derivative financial assets					
Foreign exchange contracts	507	—	507		507
Interest rate swaps	85,794	—	85,794	—	85,794
Equity swaps	25,565	—	25,565	—	25,565
Investments classified as FVTPL	9,169	—	—	9,169	9,169
Total financial assets	9,922,643	99,809	111,866	9,710,968	9,922,643
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,637,965	—	—	1,637,965	1,637,965
Borrowings on finance receivables ¹	10,279,183	—	—	10,279,183	10,279,183
Convertible debentures	167,983	—	169,900	—	169,900
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	49,581	—	49,581	—	49,581
Total financial liabilities	12,134,712	—	219,481	11,917,148	12,136,629

1. As at September 30, 2023, the finance lease receivables and borrowings on finance receivables exclude the continuing involvement asset and liability, respectively, of \$94,296.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

	As at December 31, 2022				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	68,876	68,876	—	—	68,876
Finance lease receivables	7,712,397	—	—	7,712,397	7,712,397
Finance loans receivables	302,816	—	—	302,816	302,816
Accounts receivable and other assets	206,267	—	—	206,267	206,267
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	109,833	—	109,833	—	109,833
Interest rate caps	170	—	170	—	170
Equity Swaps	21,940	—	21,940	—	21,940
Investments classified as FVTPL	9,550	—	—	9,550	9,550
Total financial assets	8,431,849	68,876	131,943	8,231,030	8,431,849
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,465,198	—	—	1,465,198	1,465,198
Borrowings on finance receivables	8,753,686	—	—	8,753,686	8,753,686
Convertible debentures	163,933	—	168,432	—	168,432
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	81,730	—	81,730	—	81,730
Total financial liabilities	10,464,547	—	250,162	10,218,884	10,469,046

1. As at December 31, 2022, the finance lease receivables and borrowings on finance receivables exclude the continuing involvement asset and liability, respectively, of \$54,173.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

16. SYNDICATIONS

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

		As at September 30, 2023	As at December 31, 2022
	Classification	\$	\$
Allowance for early termination	Accounts payable and accrued liabilities	3,741	7,518
Deferred servicing fee	Finance receivables	206	323

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

		As at September 30, 2023	As at December 31, 2022
	Classification	\$	\$
Continuing involvement in syndicated assets	Finance receivables	94,296	54,173
Liabilities associated with continuing involvement in syndicated assets	Secured borrowings	94,296	54,173
Allowance for early termination	Accounts payable and accrued liabilities	14,884	9,181
Net book value of assets related to deals remaining in continuing involvement	N/A	3,265,191	2,339,900

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

		Three-month period ended		Nine-month period ended	
	Classification	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
		\$	\$	\$	\$
Syndication revenue, net	Syndication revenue, net	17,326	15,998	43,567	44,619
Net book value of assets syndicated	n/a	1,020,242	599,161	2,398,437	2,050,981

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2023

17. SUBSEQUENT EVENTS

Share Repurchase

On November 6, 2023, the Board approved the extension of its normal course issuer bid to repurchase EFN common shares over the next 12 months subject to TSX approval and the terms and limitations applicable to such bid.

Increase in Common Share Dividend

On November 6, 2023, the Board approved an increase in the quarterly common share dividend from \$0.10 to \$0.12 per share.

Preferred Share redemption

On November 6, 2023, the Board approved the redemption of its Series A preferred shares on December 31, 2023.

Strategic Initiatives

Centralization of U.S. and Canadian leasing operations

On November 6, 2023, the Company announced a plan to centralize its U.S. and Canadian leasing operations under a single Element executive located in a new office in Dublin, Ireland in 2024, consolidating leasing functions that are currently spread across U.S. and Canadian operations and locations.

Establishing a strategic sourcing presence in Asia

On November 6, 2023, the Company announced the establishment of a strategic sourcing and relationship management presence in Asia by opening a new office in Singapore in early 2024.

Neither announcement is expected to have a material impact on the financial statements during 2023 and additional disclosure will be provided as the initiatives are implemented.