

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

June 30, 2023

Element Fleet Management Corp.

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

	As at June 30, 2023	As at December 31, 2022
	\$	\$
ASSETS		
Cash	74,503	68,876
Restricted funds (note 5)	429,378	433,327
Finance receivables (notes 3 and 15)	9,278,405	8,069,386
Equipment under operating leases (note 4)	3,159,966	2,806,841
Accounts receivable and other assets	227,655	215,817
Derivative financial instruments (note 15)	123,694	131,943
Property, equipment and leasehold improvements, net	126,743	80,899
Intangible assets, net	840,781	864,611
Deferred tax assets	325,863	365,430
Goodwill	1,270,071	1,295,088
	<u>15,857,059</u>	<u>14,332,218</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	1,502,675	1,465,198
Derivative financial instruments (notes 15)	59,567	81,730
Borrowings (note 5)	10,060,280	8,807,859
Convertible debenture (notes 6 and 15)	166,609	163,933
Deferred tax liabilities	147,701	132,525
	<u>11,936,832</u>	<u>10,651,245</u>
Shareholders' equity (note 7)	<u>3,920,227</u>	<u>3,680,973</u>
	<u>15,857,059</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	Three-month period ended
	June 30, 2023	June 30, 2022
	\$	\$
NET REVENUE		
Interest income, net (note 9)	173,038	98,901
Rental revenue and other (note 9)	264,390	204,962
Depreciation of equipment under operating leases (notes 4 and 9)	(157,857)	(124,735)
	279,571	179,128
Interest expense	137,673	55,876
Net financing revenue	141,898	123,252
Fleet service revenue (note 9)	182,129	161,711
Direct costs of fixed rate service contracts (note 9)	(12,322)	(11,674)
Servicing income, net	169,807	150,037
Syndication revenue, net (note 9)	11,361	14,844
Net revenue	323,066	288,133
OPERATING EXPENSES		
Salaries, wages and benefits	91,444	77,786
General and administrative expenses	36,775	28,944
Depreciation and amortization (note 14)	16,704	15,456
Amortization of convertible debenture discount (note 6)	1,016	950
Share-based compensation (note 8)	8,755	5,211
	154,694	128,347
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	9,378	8,958
(Gain)/loss on investments	(707)	1,322
Income before income taxes from operations	159,701	149,506
Provision for income taxes (note 10)	39,670	38,386
Net income for the period	120,031	111,120
Basic earnings per share (note 11)	\$ 0.29	\$ 0.26
Diluted earnings per share (note 11)	\$ 0.29	\$ 0.25

See accompanying notes

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

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

	Six-month period ended	Six-month period ended
	June 30, 2023	June 30, 2022
	\$	\$
NET REVENUE		
Interest income, net (note 9)	320,349	181,830
Rental revenue and other (note 9)	509,816	405,231
Depreciation of equipment under operating leases (note 4)	(300,838)	(247,285)
	529,327	339,776
Interest expense	254,549	101,343
Net financing revenue	274,778	238,433
Fleet service revenue (note 9)	351,523	305,307
Direct costs of fixed rate service contracts (note 9)	(25,517)	(23,428)
Servicing income, net	326,006	281,879
Syndication revenue, net (note 9)	26,241	28,621
Net revenue	627,025	548,933
OPERATING EXPENSES		
Salaries, wages and benefits	177,055	153,998
General and administrative expenses	73,333	56,741
Depreciation and amortization (notes 14)	33,001	29,391
Amortization of convertible debenture discount (note 6)	2,015	1,883
Share-based compensation (note 8)	25,154	11,374
	310,558	253,387
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	18,811	17,867
Loss on investments	30	2,764
Income before income taxes from operations	297,626	274,915
Provision for income taxes (note 10)	71,111	70,191
Net income for the period	226,515	204,724
Basic earnings per share (note 11)	\$ 0.55	\$ 0.47
Diluted earnings per share (note 11)	\$ 0.54	\$ 0.46

See accompanying notes

Element Fleet Management Corp.

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

	Three-month period ended	Three-month period ended
	June 30, 2023	June 30, 2022
	\$	\$
Net income for the period	120,031	111,120
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain	10,065	23,045
Net unrealized foreign exchange gain	53,819	35,896
	63,884	58,941
Provision for income taxes	5,414	6,351
Total other comprehensive income	58,470	52,590
Comprehensive income for the period	178,501	163,710

See accompanying notes

Element Fleet Management Corp.

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

	Six-month period ended	Six-month period ended
	June 30, 2023	June 30, 2022
	\$	\$
Net income for the period	226,515	204,724
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges (loss) gain	(1,555)	57,585
Net unrealized foreign exchange gain	193,946	46,257
	192,391	103,842
Provision for income taxes	539	15,876
Total other comprehensive income	191,852	87,966
Comprehensive income for the period	418,367	292,690

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	—	—	—	226,515	191,852	418,367
Dividends - Preferred shares (note 7)	—	—	—	(11,893)	—	(11,893)
Dividends - Common shares (note 7)	—	—	—	(78,128)	—	(78,128)
Issuance of shares (note 6 and 7)	9	—	(1)	—	—	8
Options exercised (notes 7 and 8)	3,833	—	—	(37,502)	—	(33,669)
Shares repurchased for cancellation (note 7)	(22,835)	—	—	(32,596)	—	(55,431)
Balance, June 30, 2023	2,849,085	365,113	13,798	195,686	496,545	3,920,227
Balance, December 31, 2021	2,951,596	511,869	13,829	(22,536)	(3,809)	3,450,949
Comprehensive income for the period	—	—	—	204,724	87,966	292,690
Dividends - Preferred shares (note 7)	—	—	—	(16,206)	—	(16,206)
Dividends - Common shares (note 7)	—	—	—	(61,782)	—	(61,782)
Redemption for preferred shares (note 7)	—	(146,756)	—	(3,244)	—	(150,000)
Options exercised (notes 7 and 8)	7,213	—	—	(1,697)	—	5,516
Shares repurchased for cancellation (note 7)	(61,495)	—	—	(44,194)	—	(105,689)
Balance, June 30, 2022	2,897,314	365,113	13,829	55,065	84,157	3,415,478

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Six-month period ended	
	June 30, 2023	June 30, 2022
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	226,515	204,724
Items not affecting cash		
Depreciation of property, equipment and leasehold improvements	10,693	10,834
Amortization of intangible assets, including from acquisitions	41,119	36,424
Amortization of deferred lease costs	16,165	14,779
Amortization of deferred financing costs	8,023	7,642
Depreciation of equipment under operating leases	300,838	247,285
Amortization of convertible debenture discount and deferred costs (note 6)	2,684	2,519
Loss on investments	30	2,764
Provision for credit losses	160	(432)
	<u>606,227</u>	<u>526,539</u>
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(4,422,176)	(3,029,946)
Repayments of finance receivables	1,858,916	1,649,936
Investment in equipment under operating leases	(724,902)	(539,663)
Proceeds on disposal of equipment under operating leases	168,316	131,904
Syndications of finance receivables	1,405,245	1,474,020
Cash payments for interest portion of lease liability	(1,776)	(997)
Other non-cash operating assets and liabilities	(47,684)	115,581
Cash (used in) provided by operating activities	<u>(1,157,834)</u>	<u>327,374</u>
INVESTING ACTIVITIES		
Investments	(721)	938
Purchase of property, equipment and leasehold improvements	(10,452)	(2,245)
Proceeds on disposals of property, equipment and leasehold improvements and intangible assets	415	1,404
Purchase of intangible assets, including computer software	(32,518)	(31,725)
Decrease in notes receivable	—	384
Cash used in investing activities	<u>(43,276)</u>	<u>(31,244)</u>
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	(3,508)	(4,777)
Increase in restricted funds	(5,324)	(49,778)
Increase in deferred financing costs	(14,658)	(717)
Issuance of share capital, net	(33,669)	5,516
Shares repurchased (note 7)	(55,788)	(109,312)
Issuance of term facilities (note 5)	—	375,334
Repayments of borrowings, net	331,621	(245,586)
Dividends paid (note 7)	(90,302)	(78,604)
Issuance of senior notes (note 5)	996,810	—
Redemption of preferred shares (note 7)	—	(150,000)
Cash provided by (used in) financing activities	<u>1,125,182</u>	<u>(257,924)</u>
Effects of foreign exchange rates on cash	<u>81,555</u>	<u>(12,896)</u>
Net increase in cash during the period	<u>5,627</u>	<u>25,310</u>
Cash, beginning of the period	<u>68,876</u>	<u>45,271</u>
Cash, end of the period	<u>74,503</u>	<u>70,581</u>
Supplemental cash flow information:		
Cash taxes paid	31,025	30,131
Cash interest paid	<u>226,621</u>	<u>101,048</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)

June 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 \$15.9 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 August 8, 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

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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 June 30, 2023 and December 31, 2022 subject to IBOR reform that have yet to transition to SOFR.

	As at June 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

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June 30, 2023

3. FINANCE RECEIVABLES

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

	As at June 30, 2023			
	US and Canada	Australia and New Zealand	Mexico	Total
	\$	\$	\$	\$
Minimum lease payments	6,033,340	258,453	832,975	7,124,768
Unguaranteed residual values	—	71,552	—	71,552
Gross investment	6,033,340	330,005	832,975	7,196,320
Unearned income	(818,604)	(44,348)	(127,719)	(990,671)
Net investment (Subsection A)	5,214,736	285,657	705,256	6,205,649
Net realizable value of impaired receivables	49,955	848	—	50,803
Unamortized deferred costs and subsidies	(69,786)	—	1,359	(68,427)
Prepaid lease payments and security deposits	(12,577)	—	(46,507)	(59,084)
Interim funding	1,592,962	—	152,148	1,745,110
Fleet management receivables	660,771	52,570	42,326	755,667
Other receivables	325,617	83,154	175,241	584,012
Continuing involvement asset	74,770	—	—	74,770
Allowance for credit losses (Subsection B)	(7,158)	(1,360)	(1,577)	(10,095)
Total finance receivables	7,829,290	420,869	1,028,246	9,278,405

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 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 June 30, 2023		As at December 31, 2022	
	Leases	Loans	Leases	Loans
Net investment	\$ 5,832,658	\$ 372,991	\$ 5,284,600	\$ 302,816
Weighted average fixed interest rate	6.05 %	10.24 %	5.42 %	9.35 %
Weighted average floating interest rate	7.68 %	7.81 %	6.92 %	6.84 %
Percentage of portfolio with fixed interest rate	48.10 %	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 June 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 June 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

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June 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 June 30, 2023. The Company expects the used vehicle market to stabilize through 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 \$10,095 as at June 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	(468)	468	—
Lease originations	8,061	—	8,061
Changes in models and inputs, derecognition, and repayments	(8,293)	392	(7,901)
Total	9,603	926	10,529
Charge-offs, net of recoveries	—	(416)	(416)
Foreign exchange	(16)	(2)	(18)
Balance as at June 30, 2023	9,587	508	10,095

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)

June 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:

	Six-month period ended	Year ended
Allowance for credit losses	June 30, 2023	December 31, 2022
	\$	\$
Allowance for credit losses, beginning of the period	10,369	10,246
Provision/(recovery) of credit losses	160	(25)
Charge-offs, net of recoveries	(416)	(431)
Impact of foreign exchange rates	(18)	579
Allowance for credit losses, end of the period	10,095	10,369
Allowance as a percentage of total finance receivables before allowance	0.11 %	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)

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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 June 30, 2023			
Finance receivables	Performing	Impaired	Total
	\$	\$	\$
Internal risk rating grade ⁽¹⁾			
Low	3,869,324	—	3,869,324
Medium	2,211,126	—	2,211,126
High	125,199	—	125,199
Fleet management receivables	754,713	954	755,667
Other finance receivables	584,012	—	584,012
Impaired	—	50,803	50,803
	7,544,374	51,757	7,596,131
Allowance for credit losses	(9,587)	(508)	(10,095)
Net carrying value	7,534,787	51,249	7,586,036

1. Loan balances of \$14,821, \$358,167 and \$3 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.

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

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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

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 June 30, 2023	As at December 31, 2022
	\$	\$
Cost	4,600,161	4,078,247
Accumulated depreciation	1,440,195	1,271,406
Net carrying amount	3,159,966	2,806,841

5. BORROWINGS

The Company's outstanding borrowings were as follows:

	As at June 30, 2023			
	Balance outstanding	Weighted average interest rate ⁽¹⁾	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Revolving term notes in amortization	1,724,301	3.85	2,408,692	18,109
Variable funding notes	4,023,962	5.92	4,975,525	28,849
Other	58,080	4.76	56,579	—
Vehicle management asset-backed debt	5,806,343	5.30	7,440,796	46,958
Revolving senior credit facilities	1,708,328	7.92	—	—
Senior notes	2,187,801	4.27	—	—
Term facilities	339,224	6.42	—	—
	10,041,696	5.57	7,440,796	46,958
Deferred financing costs	(25,669)			
Hedge accounting fair value adjustments	(30,517)			
Continuing involvement liability	74,770			
Total borrowings	10,060,280			

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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June 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 June 30, 2023.

Vehicle management asset-backed debt

As at June 30, 2023, the Company had available capacity in variable funding notes of \$1,380,069 (December 31, 2022 – \$1,462,068) under its vehicle management asset-backed debt facilities.

Revolving senior credit facilities

As at June 30, 2023, the Company had access to \$1,772,265 (December 31, 2022 - \$612,465) of available financing under the revolving senior credit facilities.

Senior notes

As at June 30, 2023, the Company had \$2,187,801 (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 June 30, 2023, the Company had \$339,224 in outstanding term facilities (December 31, 2022 - \$387,034).

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June 30, 2023

Restricted funds

As at June 30, 2023, restricted funds include (i) cash reserves of \$46,958 (December 31, 2022 - \$47,827), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection accounts of \$381,293 (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 \$1,127 (December 31, 2022 - nil) provided to counter-parties as collateral against derivative liabilities.

6. CONVERTIBLE DEBENTURE

Convertible debentures consist of:

As at June 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	(1,386)	(4,229)	166,609

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.

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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	(3,055,873)	(22,835)
Exercise of options	263,391	3,833
Balance, June 30, 2023	389,703,476	2,849,085

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 six-month periods ended June 30, 2023, 1,959,340 and 3,055,873, respectively, common shares have been repurchased for cancellation for \$35,398 and \$55,431, respectively, including commission, at a volume weighted average price of \$18.07 and \$18.14, respectively, per common share. For the three- and six-month periods ended June 30, 2022, 2,480,900 and 8,291,100, respectively, common shares have been repurchased for cancellation for \$31,177 and \$105,689, respectively, including commission, at a volume weighted average price of \$12.57 and \$12.75, 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 six-month periods ended June 30, 2023, the Company declared \$38,971 and \$78,128, respectively, in common share dividends or \$0.10 and \$0.20, respectively, per common share (June 30, 2022 - \$30,800 and \$61,782, respectively, or \$0.0775 and \$0.155, respectively, per common share).

As at June 30, 2023, the accrued common share dividends were \$38,971 (December 31, 2022 - \$39,252).

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Increase in common share dividend

On November 8, 2022, the Board approved an increase in the quarterly common share dividend from \$.0775 to \$0.10 per share.

Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at June 30, 2023 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

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 six-month periods ended June 30, 2023, the Company declared \$5,947 and \$11,893, respectively, in preferred share dividends (June 30, 2022 – \$8,103 and \$16,206, respectively).

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

8. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following:

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
(b) Deferred share units	241	413	1,314	799
(c) Performance share units	5,872	2,478	15,384	6,593
(d) Restricted share units	2,642	2,320	8,456	3,982
	8,755	5,211	25,154	11,374

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June 30, 2023

(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	(76,834)	12.28
Exercised ⁽¹⁾	(2,763,391)	6.23
Outstanding, June 30, 2023	969,723	9.43

1. Weighted average share price of options exercised during the six-month period ended June 30, 2023 was \$20.34 (year ended December 31, 2022 – \$14.92).

(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	57,055	1,103,839	681,281
Forfeited	—	—	(53,094)
Redeemed	(70,810)	(976,528)	(644,114)
Outstanding, June 30, 2023	774,427	1,879,791	1,759,987

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June 30, 2023

9. REVENUE

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

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	\$	\$	\$	\$
Major service lines				
Interest income, net	173,038	98,901	320,349	181,830
Rental revenue	230,564	175,198	438,303	345,796
Gain on sale of equipment under operating leases	33,826	29,764	71,513	59,435
Depreciation of equipment under operating leases	(157,857)	(124,735)	(300,838)	(247,285)
Financing revenue before interest expense	279,571	179,128	529,327	339,776
Service revenue, net	138,832	124,681	269,258	235,133
Vehicle sales and end of contract fees	30,975	25,356	56,748	46,746
Servicing income, net	169,807	150,037	326,006	281,879
Syndication revenue, net	11,361	14,844	26,241	28,621
Net revenue before interest expense	460,739	344,009	881,574	650,276
Primary geographical markets				
US and Canada	309,647	230,509	587,465	430,007
Australia and New Zealand	66,682	63,129	140,455	126,081
Mexico	84,410	50,371	153,654	94,188
Net revenue before interest expense	460,739	344,009	881,574	650,276
Timing of revenue recognition				
Revenue earned at a point in time	151,893	138,806	302,384	263,840
Revenue earned over time	308,846	205,203	579,190	386,436
Net revenue before interest expense	460,739	344,009	881,574	650,276

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

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June 30, 2023

A) Contract balances

	As at June 30, 2023	As at December 31, 2022
	\$	\$
Contract assets	18,401	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 six-month periods ended June 30, 2023, the Company has recorded \$2,994 and \$6,126, respectively, of amortization on its service contract assets (June 30, 2022 - \$2,300 and \$4,255, 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 24.84% and 23.89% for the three- and six-month periods ended June 30, 2023, respectively (three- and six-month periods ended June 30, 2022 - 25.68% and 25.53%, 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		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net income attributable to shareholders	\$ 120,031	\$ 111,120	\$ 226,515	\$ 204,724
Cumulative dividends on preferred shares	(5,946)	(8,103)	(11,893)	(16,206)
Net income available to common shareholders	\$ 114,085	\$ 103,017	\$ 214,622	\$ 188,518
Weighted average number of common shares outstanding – basic (number)	390,385,377	398,242,052	391,297,719	399,899,132
Basic earnings per share	\$ 0.29	\$ 0.26	\$ 0.55	\$ 0.47

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Diluted earnings per share is as follows:

	Three-month period ended		Six-month period ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net income available to common shareholders adjusted for the effects of dilution	\$ 115,721	\$ 104,609	\$ 217,913	\$ 191,700
Weighted average number of common shares outstanding – basic (number)	390,385,377	398,242,052	391,297,719	399,899,132
Convertible debentures (number)	14,627,599	14,485,564	14,627,599	14,485,564
Dilutive stock options (number)	491,913	1,710,145	487,569	1,704,118
Weighted average number of common shares outstanding – diluted (number)	405,504,889	414,437,761	406,412,887	416,088,814
Diluted earnings per share	\$ 0.29	\$ 0.25	\$ 0.54	\$ 0.46

Instruments outstanding as at June 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 six-month periods ended June 30, 2023, respectively (June 30, 2022 - 490,503 and 490,503 stock options, respectively).

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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	June 30, 2023	December 31, 2022
	\$	\$
Cash	74,503	68,876
Unsecured debt		
Revolving senior credit facilities	1,708,328	1,893,323
4.250% Convertible Debentures due 2024	166,609	163,933
3.850% Senior Notes due 2025	530,376	541,792
1.600% Senior Notes due 2024	662,970	677,240
6.271% Senior Notes due 2026	994,455	—
Term facilities	339,224	387,034
Vehicle Management Asset-Backed Debt		
Revolving term notes in amortization	1,724,301	1,115,459
Variable funding notes	4,023,962	4,120,361
Other	58,080	83,639
Deferred financing costs	(25,669)	(19,227)
Continuing involvement liability	74,770	54,173
Hedge accounting fair value adjustments	(30,517)	(45,935)
Total debt	10,226,889	8,971,792
Shareholders' equity		
Common share capital	2,849,085	2,868,078
Preferred share capital	365,113	365,113
Other	706,029	447,782
Total Shareholders' Equity	3,920,227	3,680,973
Total Capitalization	14,147,116	12,652,765

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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 June 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	7,829,290	420,869	1,028,246	9,278,405	6,724,114	415,542	929,730	8,069,386
Equipment under operating leases	29,687	1,265,635	1,864,644	3,159,966	35,329	1,318,913	1,452,599	2,806,841
Goodwill and intangible assets	2,067,473	30,272	13,107	2,110,852	2,118,822	30,307	10,570	2,159,699
Property, equipment and leasehold improvements	99,990	12,145	14,608	126,743	57,341	10,391	13,167	80,899
	10,026,440	1,728,921	2,920,605	14,675,966	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 \$1,672 as at June 30, 2023 (December 31, 2022 - \$2,135).

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June 30, 2023

		As at June 30, 2023	As at December 31, 2022
		\$	\$
Assets	Classification		
Right-of-use assets	Buildings, net of accumulated depreciation ⁽¹⁾	95,410	55,748
Liabilities	Classification		
Lease liabilities	Accounts payable and accrued liabilities	104,670	64,272

1. As at June 30, 2023, right-of-use assets are recorded net of accumulated amortization of \$55,288 (December 31, 2022 - \$54,324).

		Three-month period ended		Six-month period ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
		\$	\$	\$	\$
Lease cost	Classification				
Amortization of leased assets	Depreciation and amortization	3,627	2,816	6,585	5,625
Interest on lease liabilities	Interest expense	1,207	491	1,776	997
Net lease cost		4,834	3,307	8,361	6,622

Maturity of lease liabilities	As at June 30, 2023
	\$
2023	4,592
2024	6,540
2025	6,324
2026	6,342
2027	6,760
Thereafter	74,112

	As at June 30, 2023	As at December 31, 2022
Lease Term and Discount Rate		
Weighted-average remaining lease term (years)	14.8	11.7
Weighted-average discount rate	3.76 %	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.

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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.

Investments

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

Element Fleet Management Corp.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 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 June 30, 2023				Total \$
	Level 1	Level 2	Level 3		
	Quoted market price \$	Observable market inputs \$	Non- observable market inputs \$		
Carrying value \$					
Financial assets					
Assets not carried at fair value					
Cash	74,503	74,503	—	—	74,503
Finance lease receivables ¹	8,830,644	—	—	8,830,644	8,830,644
Finance loans receivables	372,991	—	—	372,991	372,991
Accounts receivable and other assets	218,894	—	—	218,894	218,894
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	96,519	—	96,519	—	96,519
Interest rate caps	—	—	—	—	—
Equity swaps	27,175	—	27,175	—	27,175
Investments classified as FVTPL	8,761	—	—	8,761	8,761
Total financial assets	9,629,487	74,503	123,694	9,431,290	9,629,487
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	1,502,675	—	—	1,502,675	1,502,675
Borrowings on finance receivables ¹	9,985,510	—	—	9,985,510	9,985,510
Convertible debentures	166,609	—	169,402	—	169,402
Liabilities held at fair value					
Derivative financial liabilities					
Foreign exchange contracts	141	—	141	—	141
Interest rate swaps	59,426	—	59,426	—	59,426
Total financial liabilities	11,714,361	—	228,969	11,488,185	11,717,154

1. As at June 30, 2023, the finance lease receivables and borrowings on finance receivables exclude the continuing involvement asset and liability, respectively, of \$74,770.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2023

	As at December 31, 2022				Total
	Level 1	Level 2	Level 3	Total	
	Quoted market price	Observable market inputs	Non- observable market inputs		
Carrying value \$	\$	\$	\$	\$	
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)

June 30, 2023

16. SYNDICATIONS

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

	Classification	As at June 30, 2023	As at December 31, 2022
		\$	\$
Allowance for early termination	Accounts payable and accrued liabilities	5,869	7,518
Deferred servicing fee	Finance receivables	239	323

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

	Classification	As at June 30, 2023	As at December 31, 2022
		\$	\$
Continuing involvement in syndicated assets	Finance receivables	74,770	54,173
Liabilities associated with continuing involvement in syndicated assets	Secured borrowings	74,770	54,173
Allowance for early termination	Accounts payable and accrued liabilities	11,260	9,181
Net book value of assets related to deals remaining in continuing involvement	N/A	2,757,297	2,339,900

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

	Classification	Three-month period ended		Six-month period ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
		\$	\$	\$	\$
Syndication revenue, net	Syndication revenue, net	11,361	14,844	26,241	28,621
Net book value of assets syndicated	n/a	688,590	791,122	1,378,195	1,451,820