Consolidated Financial Statements

Element Fleet Management Corp.

December 31, 2019

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

Element Fleet Management Corp.

Opinion

We have audited the consolidated financial statements of Element Fleet Management Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations, consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

February 25, 2020

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	As at December 31, 2019	As at December 31, 2018
	$	$
ASSETS		
Cash	**24,224**	21,999
Restricted funds (note 11)	**434,128**	504,454
Finance receivables (note 4)	**11,986,974**	13,203,588
Equipment under operating leases (note 5)	**2,101,367**	2,161,663
Accounts receivable and other assets (notes 6 and 18)	**219,676**	409,048
Derivative financial instruments (note 20)	**41,396**	34,752
Property, equipment and leasehold improvements, net (note 8)	**141,626**	60,969
Intangible assets, net (note 9)	**793,279**	854,433
Deferred tax assets (note 16)	**440,952**	410,864
Goodwill (note 10)	**1,245,981**	1,302,236
	17,429,603	18,964,006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	**924,936**	706,720
Derivative financial instruments (note 20)	**39,145**	68,467
Borrowings (note 11)	**11,892,861**	13,270,780
Convertible debentures (note 12)	**711,791**	897,435
Deferred tax liabilities (note 16)	**48,225**	45,119
	13,616,958	14,988,521
Shareholders' equity	**3,812,645**	3,975,485
	17,429,603	18,964,006

See accompanying notes

On behalf of the Board:

Director Director

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands of Canadian dollars, except for per share amounts)

	Year ended December 31, 2019	Year ended December 31, 2018
	$	$
NET REVENUE		
Interest income, net (note 15)	**646,479**	656,081
Rental revenue and other (note 15)	**744,224**	608,614
Depreciation of equipment under operating leases (notes 5 and 15)	**(482,002)**	(408,309)
	908,701	856,386
Interest expense	**497,521**	451,779
Net financing revenue	**411,180**	404,607
Fleet service revenue (note 15)	**537,791**	499,194
Direct costs of fixed rate service contracts (note 15)	**(44,446)**	(42,179)
Servicing income, net	**493,345**	457,015
Syndication revenue, net (note 15)	**89,577**	11,897
Net revenue	**994,102**	873,519
OPERATING EXPENSES		
Salaries, wages and benefits	**322,628**	329,311
General and administrative expenses	**115,256**	132,786
Depreciation and amortization (notes 8, 9 and 23)	**42,252**	24,279
Amortization of convertible debenture discount (note 12)	**13,185**	14,038
Share-based compensation (note 14)	**18,871**	23,642
	512,192	524,056
OTHER EXPENSES		
Amortization of intangible assets from acquisitions (note 9)	**36,859**	44,744
Restructuring and transformation costs (note 27)	**91,413**	112,732
Impairment on 19th Capital (note 7)	**260,000**	480,000
Loss on investments	**1,599**	32,473
	389,871	669,949
Income (loss) before income taxes from operations	**92,039**	(320,486)
Recovery of income taxes (note 16)	**(5,662)**	(121,382)
Net income (loss) for the year	**97,701**	(199,104)
Basic earnings (loss) per share (note 19)	**$ 0.12**	$ (0.62)
Diluted earnings (loss) per share (note 19)	**$ 0.12**	$ (0.62)

See accompanying notes

Element Fleet Management Corp.

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

	Year ended December 31, 2019	Year ended December 31, 2018
	$	$
Net income (loss) for the year	**97,701**	(199,104)
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain (loss) (note 20)	**20,753**	(20,335)
Net unrealized foreign exchange (loss) gain	**(182,762)**	337,501
	(162,009)	317,166
Provision for income taxes	**413**	324
Total other comprehensive (loss) income	**(162,422)**	316,842
Comprehensive (loss) income for the year	**(64,721)**	117,738

See accompanying notes

Element Fleet Management Corp.

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

	Common share capital $	Preferred share capital $	Equity component of convertible debentures $	Contributed surplus $	Retained earnings (deficit) $	Accumulated other comprehensive income (loss) $	Total shareholders' equity $
Balance, December 31, 2018	**3,092,010**	**680,412**	**46,200**	**75,805**	**(175,426)**	**256,484**	**3,975,485**
Impact on adopting IFRS 16 (note 2)	—	—	—	—	**1,958**	—	**1,958**
Restated opening balance under IFRS 16 (notes 2 and 23)	**3,092,010**	**680,412**	**46,200**	**75,805**	**(173,468)**	**256,484**	**3,977,443**
Comprehensive income (loss) for the year	—	—	—	—	**97,701**	**(162,422)**	**(64,721)**
Dividends - Preferred shares (note 13)	—	—	—	—	**(44,424)**	—	**(44,424)**
Dividends - Common shares (note 13)	—	—	—	—	**(97,709)**	—	**(97,709)**
Options exercised (notes 13 and 14)	**16,667**	—	—	**(9,929)**	—	—	**6,738**
Issuance of shares, net of share issue costs (note 13 and 14)	**19,037**	—	**(427)**	—	—	—	**18,610**
Issuance of convertible debentures (note 12)	—	—	**18,544**	—	—	—	**18,544**
Deferred income taxes on equity component of convertible debentures	—		**(4,714)**	—	—	—	**(4,714)**
Employee stock option expense (note 14)	—	—	—	**2,878**	—	—	**2,878**
Balance, December 31, 2019	**3,127,714**	**680,412**	**59,603**	**68,754**	**(217,900)**	**94,062**	**3,812,645**
Balance, December 31, 2017	2,755,536	680,412	46,200	69,450	248,843	(60,358)	3,740,083
Impact on adopting IFRS 9	—	—	—	—	(65,304)	—	(65,304)
Restated opening balance under IFRS 9	2,755,536	680,412	46,200	69,450	183,539	(60,358)	3,674,779
Comprehensive (loss) income for the year	—	—	—	—	(199,104)	316,842	117,738
Dividends - Preferred shares (note 13)	—	—	—	—	(44,273)	—	(44,273)
Dividends - Common shares (note 13)	—	—	—	—	(114,159)	—	(114,159)
Net taxes on dividends paid (note 16)	—	—	—	—	(1,429)	—	(1,429)
Options exercised (notes 13 and 14)	2,625	—	—	(1,653)	—	—	972
Issuance of shares, net of share issue costs (note 13)	333,849	—	—	—	—	—	333,849
Employee stock option expense (note 14)	—	—	—	8,008	—	—	8,008
Balance, December 31, 2018	3,092,010	680,412	46,200	75,805	(175,426)	256,484	3,975,485

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

	Year ended December 31, 2019	Year ended December 31, 2018
	$	$
OPERATING ACTIVITIES		
Net income (loss) for the year	**97,701**	(199,104)
Items not affecting cash		
Share-based compensation (note 14)	**2,878**	8,008
Depreciation of property, equipment and leasehold improvements (note 8)	**27,127**	13,419
Amortization of intangible assets, including from acquisitions (note 9)	**51,984**	55,604
Amortization of deferred lease costs	**29,694**	24,851
Amortization of deferred financing costs	**48,839**	44,711
Depreciation of equipment under operating leases (note 5)	**482,002**	408,309
Amortization of convertible debenture discount and deferred costs (note 12)	**20,554**	21,517
Impairment of intangible assets	**—**	2,200
Loss on investments	**5,677**	22,376
Impairment on 19th Capital (note 7)	**260,000**	480,000
Impairment of fixed assets	**—**	2,957
Provision for credit losses	**2,082**	(1,913)
	1,028,538	882,935
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	**(6,825,495)**	(5,243,412)
Repayments of finance receivables	**4,630,904**	4,665,261
Investment in equipment under operating leases	**(1,018,505)**	(1,240,555)
Proceeds on disposal of equipment under operating leases	**265,801**	353,241
Syndications of finance receivables	**2,903,385**	510,286
Cash payments for interest portion of lease liability	**(2,596)**	—
Other non-cash operating assets and liabilities	**56,883**	(197,663)
Cash provided by (used in) operating activities	**1,038,915**	(269,907)
INVESTING ACTIVITIES		
Business acquisition	**—**	(5,220)
Investments	**6,622**	(16,149)
Sale of ECAF I Holdings Ltd. (note 6)	**97,476**	—
Purchase of property, equipment and leasehold improvements (note 8)	**(22,206)**	(9,908)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	**21,786**	5,552
Purchase of intangible assets (note 9)	**(26,314)**	(36,269)
Decrease in notes receivable	**4,998**	5,972
Cash provided by (used in) investing activities	**82,362**	(56,022)
FINANCING ACTIVITIES		
Cash payments for principal portion of lease liability	**(10,847)**	—
Decrease in restricted funds	**49,157**	16,070
Increase in deferred financing costs	**(39,124)**	(32,684)
Issuance of share capital, net	**6,738**	334,821
(Repayments) issuance of borrowings, net	**(839,516)**	111,416
Dividends paid (note 13)	**(111,416)**	(158,432)
Repayment of 2014 convertible debenture (note 12)	**(345,000)**	—
Issuance of 2019 convertible debenture (note 12)	**172,500**	—
Cash (used in) provided by financing activities	**(1,117,508)**	271,191
Effects of foreign exchange rates on cash	**(1,544)**	100
Net increase (decrease) in cash during the year	**2,225**	(54,638)
Cash, beginning of the year	**21,999**	76,637
Cash, end of the year	**24,224**	21,999
Supplemental cash flow information:		
Cash taxes paid	**45,789**	41,168
Cash interest paid	**451,232**	402,982

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

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 approximately $17.4 billion in assets and operations in the United States ("US"), Canada, Mexico, Australia and New Zealand. Element is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, reaching 50 countries worldwide through the Element-Arval Global Alliance. Element provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing – helping more than 5,500 clients optimize their fleet performance and productivity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 25, 2020.

Basis of consolidation

Changes in the presentation of the consolidated statements of operations and geographic location

The Company modified the presentation and classification of the Net revenue section within the consolidated statements of operations with the overarching principle of disaggregating revenue into three distinct revenue streams: 1) financing revenue, 2) syndication revenue, and 3) servicing revenue.

The primary reclassifications are as follows:

- Reclassification of gain on sale of disposition of equipment under operating leases from Service revenue and other to Rental revenue and other,
- Reclassification of syndication revenue from Service revenue and other to its own line item,
- Reclassification of certain US financing leases to Equipment under operating leases, and
- Reclassification of certain contract costs from Interest income, net to Servicing income, net.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

Additionally, the Company modified its geographic locations from the US, Canada, and Other to the US and Canada, Australia and New Zealand, and Mexico to align with how management operates and evaluates the business.

The changes in presentation have been applied retrospectively to the 2018 comparative amounts in the consolidated statements of financial position, operations, and cash flows and the geographic locations disclosed in the following notes to the consolidated financial statements.

The following tables illustrate the reclassifications of the Company's consolidated financial statements for the year.

Consolidated statement of operations

	For the year ended December 31, 2018		
	As previously reported	Adjustments	As reclassified
	$	$	$
Interest income, net	652,911	3,170	656,081
Rental revenue and other	545,372	63,242	608,614
Depreciation of equipment under operating leases	(400,790)	(7,519)	(408,309)
	797,493	58,893	856,386
Interest expense	451,779	—	451,779
Net financing revenue	345,714	58,893	404,607
Fleet service revenue	569,984	(70,790)	499,194
Direct costs of fixed rate service contracts	(42,179)	—	(42,179)
Servicing income, net	527,805	(70,790)	457,015
Syndication revenue, net	—	11,897	11,897
Net revenue	873,519	—	873,519

Consolidated statement of financial position

	As at December 31, 2018		
	As previously reported	Adjustments	As reclassified
	$	$	$
Finance receivables	13,231,146	(27,558)	13,203,588
Equipment under operating leases	2,134,105	27,558	2,161,663

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

Consolidated statement of cash flows

	For the year ended December 31, 2018		
	As previously reported	Adjustments	As reclassified
	$	$	$
OPERATING ACTIVITIES			
Items not affecting cash			
Depreciation of equipment under operating leases	400,790	7,519	408,309
Changes in non-cash operating assets and liabilities			
Investment in finance receivables	(5,337,512)	94,100	(5,243,412)
Repayments of finance receivables	4,680,613	(15,352)	4,665,261
Investment in equipment under operating leases	(1,154,288)	(86,267)	(1,240,555)
Proceeds on disposal of equipment under operating leases	266,418	86,823	353,241
Syndications of finance receivables	597,109	(86,823)	510,286

Subsidiaries

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

Subsidiaries, which include certain private partnerships and structured entities, are entities over which the Company has control. The Company controls an entity when (1) it has the power over the entity; (2) it has exposure, or rights, to variable returns from its involvement with the entity, and (3) it has the ability to use its power over the entity to affect the amount of its returns.

Significant accounting policies

Finance receivables

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

The Company primarily provides financing to clients through direct financing leases and loans. Direct financing leases, which are contracts under terms that provide for the transfer of substantially all the benefits and risks of the equipment ownership to clients, are carried at amortized cost. These leases are recorded at the aggregate minimum payments plus residual values accruing to the Company less unearned finance income. Unearned finance income includes origination fees earned.

Loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. Unearned finance income includes loan origination fees earned.

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

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

Also included in finance receivables are secondary receivables, including interim funding (vehicles paid for by the Company but not yet delivered to clients) and fleet management receivables (amounts receivable from lease billings and ancillary fleet service revenues, including fuel cards, accident management services and maintenance).

Equipment under operating leases

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

Operating leases entered into by the Company are reported as "Equipment under operating leases" and are carried at cost less accumulated depreciation and are being depreciated to their estimated residual values using the straight-line method over the lease term or estimated useful life of the asset up to 10 years from the date of manufacture, with an average term of approximately 45 months. The Company retains the residual value risk on certain equipment under operating leases and finance receivables for which there is an unguaranteed residual value and, as a result, manages this risk through a combination of its credit policies and the determination of residual value at the inception of the lease. The Company maintains a strict credit review process and over time, has transitioned a large portion of its portfolio to investment-grade clients, reducing potential exposure to non-payment. Additionally, the process of setting the residual value at the inception of the lease is a highly structured, data driven methodology that includes multiple data points including model life, deflation forecast, and trade price to calculate the residual value.

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

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

Revenue recognition

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

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

Syndication

The Company periodically syndicates certain finance lease receivables transferring ownership of the syndicated lease receivables to the third-party investor as well as all contractual rights to future cash flow, interest rate risk, credit risk and tax benefits related to the syndicated lease receivables. As a result of these syndications, the Company transfers substantially all the risks and rewards of ownership of the lease receivables, and the net book value of the lease receivables is derecognized. The resulting gain is recorded in the consolidated statements of operations in Syndication revenue, net. In the event the lessee terminates its lease agreement prior to the lease term, the Company is required to pay the third-party investor the foregone interest it would have earned if there was no early lease termination. The Company recognizes its estimated obligation for early lease terminations as a liability as part of the derecognition transaction.

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

The Company may also continue to provide services including accident management services, maintenance services, and fuel cards, which remain unchanged regardless of whether or not the lease receivable is syndicated.

Allowance for credit losses

The Company is required to assess and segment its lease and loan portfolio into one of three classifications at each consolidated statement of financial position date:

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

Internal risk rating changes and delinquencies are used by the Company to determine when there has been a significant increase or decrease in credit risk of a lease or loan. The Company has elected, as an accounting policy choice, to apply the simplified approach to its lease receivables to apply lifetime ECL at all times (Stage 2 or Stage 3; Stage 1 is not applicable).

Under this approach:

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

ECLs are calculated based on a range of scenarios (with a base case, an upside, and a downside) and placement in the range takes into account forward-looking macroeconomic information such as changes in Gross Domestic Product ("GDP") and its effect on the probability of default ("PD") and the used vehicle index and its impact on loss given default ("LGD"). Separate ranges are maintained for each geography, with local and global macroeconomic factors considered.

Restricted funds

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

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

Derivative financial instruments and hedge accounting

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

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

Cash flow hedges

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

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

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

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

Fair value hedges

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

Hedges of a net investment

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

Borrowings

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

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

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

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

Convertible debentures

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

Property, equipment and leasehold improvements

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

The rates of amortization are as follows:

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

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

Business combinations and goodwill

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

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

Restructuring and transformation costs

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

The Company defines restructuring costs as incremental costs that are directly associated with strategic initiatives. Examples of restructuring costs include staff rationalization, advisory fees, professional or consulting fees, lease cancellations, and internal compensation costs associated with restructuring. The Company defines transformation costs as costs that are directly associated with the transformation initiatives the Company has been implementing since transformation was announced in October 2018. Examples of transformation costs include staff rationalization, advisory fees, professional or consulting fees, and internal compensation costs associated with transformation. Restructuring and transformation costs are expensed as incurred unless earlier recognition is appropriate under the restructuring provision rules within IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Intangible assets

The Company's intangible assets include computer software and customer relationships and are measured at cost. Examples of costs that are capitalized related to computer software include internal payroll-related costs directly related to the capital project, internal and external costs of materials and services, and the cost of related software to bring the asset to its intended use. All of the Company's intangible assets have a finite life, are amortized over their useful economic lives, and are assessed for impairment at each reporting period. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of operations.

The rates of amortization are as follows:

Computer software	Straight line over 3 to 12 years depending on the software application
Customer relationships	Declining balance 5% per annum

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

Share-based payments

Stock options

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

Deferred share unit plan

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

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

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

Performance share unit plan

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

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

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

Restricted share unit plan

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

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

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

Earnings per share

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

Financial assets and liabilities

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

Fair value through profit or loss ("FVTPL")

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

Amortized cost

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

Other financial instruments

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

Translation of foreign currencies

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

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

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

Income taxes

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

December 31, 2019

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

Effective January 1, 2019, the Company adopted IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23") which was issued in June 2017. IFRIC 23 was applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments including whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. Adoption of IFRIC 23 did not have a significant impact on the Company's consolidated financial statements.

Leases

Effective January 1, 2019, the Company adopted IFRS 16, issued by the IASB, using the modified retrospective method with the cumulative effect of initially applying the standard recognized as an adjustment to opening retained earnings. This adoption methodology does not require restatement of prior periods. Under the modified retrospective method, the Company has recognized a right-of-use asset as of January 1, 2019 at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. In addition, the Company elected several practical expedients permitted under the transition guidance. For all lease arrangements, Element has elected to use the transition practical expedient not to reassess whether a contract is, or contains, a lease as at January 1, 2019. For leases where Element is the lessor, the election to carry forward the historical lease classification has been made. For leases where Element is the lessee, the following elections have been made: use of hindsight to determine the lease term for existing leases; and use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

In the application of hindsight, the Company evaluated its current real estate strategies where it is the lessee, which resulted in the determination that certain renewal terms are reasonably certain to be exercised and were therefore included in the expected lease term when calculating the lease liability and right-of-use asset. The consideration of lease renewals for existing leases as of January 1, 2019 resulted in a higher lease liability than the lease commitments disclosed in the Company's December 31, 2018 annual consolidated financial statements. However, the commitments disclosed as of December 31, 2018 also included the lease related to the new building in Minnesota which did not commence until September 2019 and was recorded under the new accounting standard at that time.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments. This resulted in the recording of additional lease assets and lease liabilities of approximately $79,700 as of January 1, 2019. Lessor accounting under the new standard was mostly left unchanged and did not impact the Company's vehicle leases with its clients. The adoption of this standard had no impact on aggregate cash flows.

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

Right-of-use assets

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

Lease liabilities

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

Future accounting changes

The following new IFRS pronouncement has been issued but is not yet effective and may have a future impact on the Company's consolidated financial statements.

On September 26, 2019, the IASB published *Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7* (the "amendments") in response to the effects of Interbank Offered Rates ("IBOR") reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate ("RFR"). With phase one completed, the IASB is now shifting its focus to address issues when an existing interest rate benchmark is replaced with an RFR. The effective date of the amendments is for annual periods beginning on or after January 1, 2020, with early application permitted. The Company will adopt the new standard on the effective date and does not expect any significant impact.

3. CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGMENTS

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

Allowance for credit losses

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

Deferred tax assets

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

Stock option expense

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

Useful lives and residual values of equipment under operating leases

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

Business combinations

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

Intangible assets valuation - customer relationships

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

Goodwill valuation

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

4. FINANCE RECEIVABLES

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

	December 31, 2019			
	US and Canada	**Australia and New Zealand**	**Mexico**	**Total**
	$	**$**	**$**	**$**
Minimum lease payments	**10,047,261**	**258,465**	**192,605**	**10,498,331**
Unguaranteed residual values	**1,150**	**59,790**	**—**	**60,940**
Gross investment	**10,048,411**	**318,255**	**192,605**	**10,559,271**
Unearned income	**(837,163)**	**(39,622)**	**—**	**(876,785)**
Net investment	**9,211,248**	**278,633**	**192,605**	**9,682,486**
Net realizable value of impaired receivables	**47,972**	**5,560**	**—**	**53,532**
Unamortized deferred costs and subsidies	**(107,257)**	**—**	**—**	**(107,257)**
Prepaid lease payments and security deposits	**(40,431)**	**—**	**(26,436)**	**(66,867)**
Interim fundings	**1,311,256**	**—**	**110,351**	**1,421,607**
Fleet management service receivables	**631,720**	**38,222**	**21,966**	**691,908**
Other receivables	**183,804**	**77,254**	**58,939**	**319,997**
Allowance for credit losses (Subsection C)	**(6,227)**	**(1,192)**	**(1,013)**	**(8,432)**
Total finance receivables	**11,232,085**	**398,477**	**356,412**	**11,986,974**

	December 31, 2018			
	US and Canada	Australia and New Zealand	Mexico	Total
	$	$	$	$
Minimum lease payments	12,228,537	258,052	109,587	12,596,176
Unguaranteed residual values	4,704	72,435	—	77,139
Gross investment	12,233,241	330,487	109,587	12,673,315
Unearned income	(1,128,602)	(43,555)	—	(1,172,157)
Net investment	11,104,639	286,932	109,587	11,501,158
Net realizable value of impaired receivables	8,064	25,263	—	33,327
Unamortized deferred costs and subsidies	(106,178)	—	—	(106,178)
Prepaid lease payments and security deposits	(42,167)	(236)	(26,936)	(69,339)
Interim fundings	770,542	—	100,266	870,808
Fleet management service receivables	718,297	32,176	15,245	765,718
Other receivables	109,286	83,485	24,655	217,426
Allowance for credit losses (Subsection C)	(6,667)	(2,039)	(626)	(9,332)
Total finance receivables	12,555,816	425,581	222,191	13,203,588

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

A) Delinquency status of net investment in finance receivables

The following table presents the delinquency status of the net investment in finance receivables, by contract balance:

	December 31, 2019		December 31, 2018	
	$	**%**	$	%
31-60 days past due	**8,410**	**0.09**	5,349	0.05
61-90 days past due	**3,433**	**0.04**	6,080	0.05
Greater than 90 days past due	**3,024**	**0.03**	4,286	0.04
Total past due	**14,867**	**0.16**	15,715	0.14
Current	**9,667,619**	**99.84**	11,485,443	99.86
Total net investment	**9,682,486**	**100.00**	11,501,158	100.00

B) Interest rate characteristics of net investment in finance receivables

	December 31, 2019		December 31, 2018	
	Leases	**Loans**	Leases	Loans
Net investment	**$ 9,579,674**	**$ 102,812**	$ 11,387,535	$ 113,623
Weighted average fixed interest rate	**4.76%**	**9.09%**	4.57%	8.77%
Weighted average floating interest rate	**4.33%**	**6.48%**	5.04%	8.13%
Percentage of portfolio with fixed interest rate	**46.29%**	**98.49%**	48.35%	98.56%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

C) Allowance for credit losses

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

Loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Balance at January 1, 2019	**3**	**207**	**213**	**423**
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	—	—	—	—
Transfer to Stage 3	—	—	—	—
Changes in models and inputs, derecognition, and repayments	**3**	**166**	**(169)**	—
Total	**6**	**373**	**44**	**423**
Charge-offs, net of recoveries	—	**(109)**	—	**(109)**
Foreign exchange	**(2)**	**2**	**(13)**	**(13)**
Balance at December 31, 2019	**4**	**266**	**31**	**301**

Finance leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Balance at January 1, 2019	—	**8,556**	**322**	**8,878**
Transfer to Stage 2	—	**82**	**(82)**	—
Transfer to Stage 3	—	**(698)**	**698**	—
Lease originations	—	**9,276**	—	**9,276**
Changes in models and inputs, derecognition, and repayments	—	**(6,922)**	**(397)**	**(7,319)**
Total	—	**10,294**	**541**	**10,835**
Charge-offs, net of recoveries	—	**(2,023)**	—	**(2,023)**
Foreign exchange	—	**(734)**	**(6)**	**(740)**
Balance at December 31, 2019	—	**7,537**	**535**	**8,072**

Fleet management service receivables	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Balance at January 1, 2019	—	**19**	**12**	**31**
Provision for credit losses	—	**2**	**123**	**125**
Charge-offs, net of recoveries	—	**31**	**(126)**	**(95)**
Foreign exchange	—	**(2)**	—	**(2)**
Balance at December 31, 2019	—	**50**	**9**	**59**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

Loans	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at January 1, 2018	22	65,193	340	65,555
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	—	—	—	—
Transfer to Stage 3	—	(65,060)	65,060	—
Changes in models and inputs, derecognition, and repayments	(19)	15	479,622	479,618
Total	3	148	545,022	545,173
Charge-offs, net of recoveries (1)	—	—	(552,500)	(552,500)
Foreign exchange	—	59	7,691	7,750
Balance at December 31, 2018	3	207	213	423

Finance leases	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at January 1, 2018	—	7,544	39	7,583
Transfer to Stage 2	—	31	(31)	—
Transfer to Stage 3	—	(325)	325	—
Lease originations	—	9,136	—	9,136
Changes in models and inputs, derecognition, and repayments	—	(6,850)	(5)	(6,855)
Total	—	9,536	328	9,864
Charge-offs, net of recoveries	—	(1,398)	—	(1,398)
Foreign exchange	—	418	(6)	412
Balance at December 31, 2018	—	8,556	322	8,878

Fleet management service receivables	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Balance at January 1, 2018	—	7	13	20
Provision for credit losses	—	13	1	14
Charge-offs, net of recoveries	—	(1)	(2)	(3)
Foreign exchange	—	—	—	—
Balance at December 31, 2018	—	19	12	31

1. On October 19, 2018, the Company purchased the equity interest held by its joint venture partner thereby obtaining 100% ownership and control over 19th Capital. At the time of acquisition, the loans receivable from 19th Capital were derecognized and the assets and liabilities of 19th Capital were recorded on the Company's consolidated statement of financial position at the acquisition-date fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

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

Allowance for credit losses	**Year ended December 31, 2019**	Year ended December 31, 2018
	$	$
Allowance for credit losses, beginning of the year	**9,332**	4,304
IFRS 9 adjustment	—	68,854
Provision for credit losses	**2,082**	1,913
Provision for 19th Capital	—	480,000
Charge-offs, net of recoveries	**(2,227)**	(553,901)
Impact of foreign exchange rates	**(755)**	8,162
Allowance for credit losses, end of the year	**8,432**	9,332
Allowance as a percentage of finance receivables	**0.07%**	0.07%
Finance receivables in arrears (90 days and over)	**$ 3,024**	$ 4,286
Arrears (90 days and over) as a percentage of net investment in finance receivables	**0.03%**	0.04%

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

December 31, 2019

D) Credit risk exposure

The following table sets out the credit risk exposure for loans, finance leases and fleet management service receivables, and the impaired values and allowances for credit losses recorded as at December 31, 2019:

Loans	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Internal risk rating grade				
Low	**6**	**10,451**	—	**10,457**
Medium	**15,106**	**6,298**	—	**21,404**
High	—	**2,248**	**24**	**2,272**
Not rated	—	**68,679**	—	**68,679**
Impaired	—	—	**662**	**662**
	15,112	**87,676**	**686**	**103,474**
Allowance for credit losses	**(4)**	**(266)**	**(31)**	**(301)**
Net carrying value	**15,108**	**87,410**	**655**	**103,173**

Finance leases	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Internal risk rating grade				
Low	—	**5,829,489**	—	**5,829,489**
Medium	—	**3,463,041**	—	**3,463,041**
High	—	**163,217**	—	**163,217**
Not rated	—	**123,927**	—	**123,927**
Other finance receivables	—	**319,997**	—	**319,997**
Impaired	—	—	**52,870**	**52,870**
	—	**9,899,671**	**52,870**	**9,952,541**
Allowance for credit losses	—	**(7,537)**	**(535)**	**(8,072)**
Net carrying value	—	**9,892,134**	**52,335**	**9,944,469**

Fleet management service receivables	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Not rated	—	**688,266**	**3,642**	**691,908**
Allowance for credit losses	—	**(50)**	**(9)**	**(59)**
Net carrying value	—	**688,216**	**3,633**	**691,849**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

The following table sets out the credit risk exposure for loans, finance leases and fleet management service receivables, and the impaired values and allowances for credit losses recorded as at December 31, 2018:

Loans	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Internal risk rating grade				
Low	15	13,558	—	13,573
Medium	39,688	9,742	—	49,430
High	—	11,922	—	11,922
Not rated	—	38,698	—	38,698
Impaired	—	—	1,157	1,157
	39,703	73,920	1,157	114,780
Allowance for credit losses	(3)	(207)	(213)	(423)
Net carrying value	39,700	73,713	944	114,357

Finance leases	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Internal risk rating grade				
Low	—	7,318,012	—	7,318,012
Medium	—	3,713,739	—	3,713,739
High	—	284,895	—	284,895
Not rated	—	70,889	—	70,889
Other finance receivables	—	217,426	—	217,426
Impaired	—	—	32,170	32,170
	—	11,604,961	32,170	11,637,131
Allowance for credit losses	—	(8,556)	(322)	(8,878)
Net carrying value	—	11,596,405	31,848	11,628,253

Fleet management service receivables	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Not rated	—	763,636	2,082	765,718
Allowance for credit losses	—	(19)	(12)	(31)
Net carrying value	—	763,617	2,070	765,687

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

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

E) Contractual maturities

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

	2019			2018		
	Gross investments	**Unearned income**	**Net investments**	Gross investments	Unearned income	Net investments
	$	**$**	**$**	$	$	$
Maturity						
Year 1	**4,466,525**	**(327,220)**	**4,139,305**	5,420,827	(424,499)	4,996,328
Year 2	**2,937,278**	**(265,630)**	**2,671,648**	3,441,590	(338,560)	3,103,030
Year 3	**2,141,169**	**(166,130)**	**1,975,039**	2,454,972	(216,748)	2,238,224
Year 4	**687,807**	**(59,591)**	**628,216**	788,646	(89,947)	698,699
Year 5	**172,426**	**(29,028)**	**143,398**	288,121	(51,101)	237,020
Thereafter	**154,066**	**(29,186)**	**124,880**	279,159	(51,302)	227,857
	10,559,271	**(876,785)**	**9,682,486**	12,673,315	(1,172,157)	11,501,158

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

5. EQUIPMENT UNDER OPERATING LEASES

The Company acts as a lessor in connection with operating leases and recognizes the leased assets in its consolidated statements of financial position. The lease payments received are recognized in income as rental revenue.

	December 31, 2019	December 31, 2018
	$	$
COST		
At the beginning of the year	**2,922,964**	2,108,163
Additions	**1,018,505**	878,480
Business acquisitions	**—**	369,093
Transfers	**(27,140)**	(7,395)
Disposals	**(640,221)**	(564,104)
Foreign exchange rate adjustments	**(118,568)**	138,727
Cost	**3,155,540**	2,922,964
ACCUMULATED DEPRECIATION		
At the beginning of the year	**761,301**	483,715
Depreciation charge for the year	**482,002**	408,309
Transfers	**(29,623)**	(7,762)
Disposals	**(374,420)**	(211,043)
Impairment of 19th Capital (note 7)	**244,028**	—
Foreign exchange rate adjustments	**(29,115)**	88,082
Accumulated depreciation	**1,054,173**	761,301
Net carrying amount	**2,101,367**	2,161,663

The future minimum lease payments arising from non-cancellable operating leases of as at December 31 are shown in the following table:

	2019	2018
	$	$
Year 1	**525,614**	376,912
Year 2	**355,863**	207,279
Year 3	**223,171**	246,215
Year 4	**110,354**	137,270
Year 5	**43,210**	60,031
Thereafter	**25,199**	59,024
	1,283,411	1,086,731

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

6. INVESTMENTS

ECAF I Holdings Ltd.

On June 22, 2015, the Company acquired a 32.5% interest in ECAF I Holdings Ltd., which is the parent holding company of ECAF I LuxCo S.à r.l., an entity that has invested in Class E-1 notes of ECAF I Ltd., a rated pooled-aircraft asset-backed securities issuer. On April 12, 2019, the Company sold its 32.5% interest in ECAF I Holdings Ltd., for $97,476 (USD $72,864) which approximated the current carrying value of the investment.

7. 19TH CAPITAL

On October 19, 2018, the Company purchased the equity interest held by its joint venture partner for $5,220, (USD $4,000) thereby obtaining 100% ownership and control over 19th Capital Group LLC ("19th Capital"). At the time of acquisition, 19th Capital was no longer treated as a joint venture and the assets and liabilities of 19th Capital were recorded on the Company's consolidated statement of financial position as a wholly owned subsidiary at the acquisition-date fair value. The acquisition-date fair value included the existing debt interest in 19th Capital as noted in the table below.

The following table summarizes the fair value assigned to the assets acquired and liabilities assumed as of the acquisition date:

	October 19, 2018 $
Assets acquired	
Cash	1,424
Restricted cash	2,103
Accounts receivable	17,697
Equipment under operating leases	367,198
Inventory	84,873
Property, plant, and equipment and other assets	2,121
	475,416
Liabilities assumed	
Third-party debt	207,357
Existing debt interest in 19th Capital	250,629
Accounts payable and accrued liabilities	12,210
	470,196
	5,220

Prior to the acquisition of 19th Capital, the loans receivable from 19th Capital were transferred from Stage 2 to Stage 3 for ECL measurement purposes based on the outcome of the strategic review, described below, which resulted in a material reduction in the present value of expected cash flows from the investment, which constituted an event of default. Prior to the transfer, interest income recognized on the loans to 19th Capital for the year ended December 31, 2018 was $34,454.

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

The transfer to Stage 3 was concurrent with the completion of the Company's strategic review process, whereby it was concluded that the value of the loans would not be recovered through the continuing operations of the 19th Capital joint venture, but rather would be realized through a run-off strategy. The run-off strategy includes acquisition of control of 19th Capital, run-off of the existing lease portfolio, and disposal of idle and end-of-lease truck inventory.

The carrying value of the loans receivable from 19th Capital was reduced to \$251,669, as of September 30, 2018 and a related provision for credit loss of \$480,000 was recorded in the consolidated statement of operations for the year ended December 31, 2018. Deferred income tax of \$120,000 has been recorded, such that the after-tax impact of this impairment has reduced reported net income by \$360,000 and increased the deferred tax asset by \$120,000.

During the fourth quarter of 2019, the Company performed an impairment analysis on the carrying value of its non-core truck portfolio, primarily composed of 19th Capital assets, as a result of a noticeable deterioration in the current market conditions during this time period, after initiating a formal process to expedite the sale of 19th Capital. The calculation of the fair value of the truck portfolio required significant management judgment and assumptions, including cash flow projections on the collection and utilization rates associated with existing lease contracts, expected proceeds from the sale of both idle and end-of-lease trucks and trailers, maintenance and sale preparation costs, and the amount and duration of the liquidation activities. A discount rate of 15% was used to present value these projections. The valuation of the truck portfolio is categorized within level 3 of the fair value hierarchy as significant inputs used for valuation are non-observable. In addition to cash flow projections, the Company also considered offers received from potential buyers during the sales process initiated during the fourth quarter of 2019 as another data point in determining fair value. Due to the market conditions and results of the sales process, the Company has shifted its efforts to accelerate the run-off of 19th Capital, including ramping-up the pace of liquidation of the entity's assets. Given that a sale is not highly probable, management has not classified 19th Capital as held for sale.

Based on the results of the impairment analysis, the carrying value of the truck portfolio exceeded the fair value by \$260,000, at which time an impairment was recorded in the consolidated statement of operations to bring the carrying value of the portfolio in line with fair value. Deferred income tax of \$66,000 has been recorded, such that the after-tax impact of the impairment has reduced reported net income by \$194,000. The Company believes that the tangible assets of 19th Capital of \$133,000 post-impairment, which are comprised primarily of equipment under operating leases and exclude deferred tax assets, reflect expected future cash flows. 19th Capital also has \$122,000 of third-party debt, included in Borrowings in the consolidated Statement of Financial Position.

The below table reflects the location of the impairment in the consolidated Statement of Financial Position:

Financial Statement Line Item	**$**
Finance receivables and other	**12,281**
Equipment Under Operating Leases	**244,028**
Net unrealized foreign exchange loss	**3,691**
Total	**260,000**

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

8. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	2019						
	Leasehold improvements	**Computer equipment**	**Office equipment**	**Land and buildings**	**Right-of-use assets - Buildings**	**Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Cost							
As at January 1, 2019	**10,579**	**50,914**	**8,997**	**20,327**	**—**	**5,802**	**96,619**
Additions	**9,253**	**1,902**	**6,686**	**—**	**111,504**	**4,365**	**133,710**
Disposals	**(1,284)**	**(1,048)**	**(595)**	**(19,959)**	**(905)**	**(2,792)**	**(26,583)**
Foreign exchange rate adjustments	**(266)**	**(2,375)**	**(523)**	**(368)**	**(2,335)**	**(272)**	**(6,139)**
As at December 31, 2019	**18,282**	**49,393**	**14,565**	**—**	**108,264**	**7,103**	**197,607**
Accumulated depreciation							
As at January 1, 2019	**3,683**	**22,581**	**5,071**	**2,879**	**—**	**1,436**	**35,650**
Disposals	**(116)**	**(635)**	**(346)**	**(2,984)**	**(255)**	**(461)**	**(4,797)**
Depreciation charge for the year	**1,344**	**9,028**	**1,926**	**155**	**13,443**	**1,231**	**27,127**
Foreign exchange rate adjustments	**(117)**	**(1,206)**	**(236)**	**(50)**	**(278)**	**(112)**	**(1,999)**
As at December 31, 2019	**4,794**	**29,768**	**6,415**	**—**	**12,910**	**2,094**	**55,981**
Net carrying amount	**13,488**	**19,625**	**8,150**	**—**	**95,354**	**5,009**	**141,626**

	2018					
	Leasehold improvements	Computer equipment	Office equipment	Land and buildings	Vehicles	Total
	$	$	$	$	$	$
Cost						
As at January 1, 2018	8,299	45,202	8,081	21,514	6,341	89,437
Additions	2,295	2,928	385	—	4,300	9,908
Business acquisition	—	—	1,880	—	—	1,880
Disposals	(310)	(78)	(2,045)	—	(4,914)	(7,347)
Impairment	—	—	—	(2,957)	—	(2,957)
Foreign exchange rate adjustments	295	2,862	696	1,770	75	5,698
As at December 31, 2018	10,579	50,914	8,997	20,327	5,802	96,619
Accumulated depreciation						
As at January 1, 2018	2,461	12,029	3,938	1,895	1,705	22,028
Disposals	(22)	239	(546)	—	(1,237)	(1,566)
Depreciation charge for the year	1,148	9,233	1,333	784	921	13,419
Foreign exchange rate adjustments	96	1,080	346	200	47	1,769
As at December 31, 2018	3,683	22,581	5,071	2,879	1,436	35,650
Net carrying amount	6,896	28,333	3,926	17,448	4,366	60,969

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

9. INTANGIBLE ASSETS

	Computer software			Customer relationships			Total
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$	$	$	$
As at January 1, 2019	**189,965**	**(28,572)**	**161,393**	**902,326**	**(209,286)**	**693,040**	**854,433**
Additions	**26,314**	**—**	**26,314**	**—**	**—**	**—**	**26,314**
Amortization	**—**	**(20,084)**	**(20,084)**	**—**	**(31,900)**	**(31,900)**	**(51,984)**
Foreign exchange rate adjustments	**(9,484)**	**3,543**	**(5,941)**	**(37,360)**	**7,817**	**(29,543)**	**(35,484)**
As at December 31, 2019	**206,795**	**(45,113)**	**161,682**	**864,966**	**(233,369)**	**631,597**	**793,279**
As at January 1, 2018	145,707	(13,212)	132,495	840,795	(153,982)	686,813	819,308
Additions	36,269	—	36,269	—	—	—	36,269
Amortization	—	(10,860)	(10,860)	—	(44,744)	(44,744)	(55,604)
Disposals/write-offs	(446)	266	(180)	—	—	—	(180)
Impairment	(2,200)	—	(2,200)	—	—	—	(2,200)
Foreign exchange rate adjustments	10,635	(4,766)	5,869	61,531	(10,560)	50,971	56,840
As at December 31, 2018	189,965	(28,572)	161,393	902,326	(209,286)	693,040	854,433

10. GOODWILL

	2019	2018
	$	$
Balance, beginning of year	**1,302,236**	1,209,344
Foreign exchange rate adjustments	**(56,255)**	92,892
Balance, end of year	**1,245,981**	1,302,236

Goodwill has been allocated to the Fleet Management CGU as at December 31, 2019 and 2018. For the purpose of impairment testing, the recoverable amount of the Fleet Management CGU has been determined based on its value in use. The value in use method is based on estimated future cash flows over a five-year period referenced to the most recent financial forecasts approved by management and actual historic results, discounted to a present value. Beyond the initial five-year period cash flows were estimated to grow at perpetual annual rates of up to 4%. The discount rate the Company applied in determining the recoverable amount was 12.13%, which comprised a risk-free rate, equity risk premium, size premium and company specific premium. These components were based on data from external sources.

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

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

11. BORROWINGS

The Company's outstanding borrowings were as follows:

	December 31, 2019			
	Balance outstanding	**Weighted average interest rate(1)**	**Pledged finance receivables and equipment under operating leases**	**Cash reserves**
	$	**%**	**$**	**$**
Term notes, in amortization period	**5,697,575**	**2.67**	**6,133,104**	**58,685**
Variable rate borrowings	**4,363,677**	**2.63**	**4,634,651**	**53,623**
Other	**169,485**	**4.87**	**175,019**	**—**
Vehicle management asset-backed debt	**10,230,737**	**2.69**	**10,942,774**	**112,308**
Revolving senior credit facilities(2)	**1,703,507**	**2.79**	**—**	**—**
	11,934,244	**2.70**	**10,942,774**	**112,308**
Deferred financing costs	**(48,804)**			
Hedge accounting fair value adjustments	**7,421**			
Total borrowings	**11,892,861**			

	December 31, 2018			
	Balance outstanding	Weighted average interest rate(1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	$	%	$	$
Term notes, in amortization period	5,390,660	2.52	5,569,745	58,277
Term notes, in revolving period	1,907,920	3.23	1,971,304	19,652
Variable rate borrowings	3,380,147	3.28	3,560,286	27,301
Other	246,036	4.86	246,035	—
Vehicle management asset-backed debt	10,924,763	2.93	11,347,370	105,230
Revolving senior credit facilities(2)	2,406,195	3.54	—	—
	13,330,958	3.04	11,347,370	105,230
Deferred financing costs	(60,178)			
Total borrowings	13,270,780			

1. Represents the weighted average stated interest rate of outstanding debt at year-end, and excludes amortization of deferred financing costs, premiums or discounts, stand-by fees and the effects of hedging.
2. Prior to December 11, 2019, the revolving senior credit facilities are secured by a general security agreement in favor of the lenders in respect of all property. The senior credit facilities are unsecured as of the December 11, 2019 amendment.

The Company was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2019.

Vehicle management asset-backed debt

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

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

For term notes, in amortization period, the monthly collection of lease payments allocable to the series is used in the repayment of principal until the notes are paid in full. The amortization period will continue through the earlier of: (i) 125 to 132 months following the commencement of the amortization period; or (ii) when the respective series of notes are paid in full. As at December 31, 2019, term notes, in amortization period had a weighted average interest rate of 2.67%, which ranged from 1.91% to 4.21% with expected maturities in 2021 to 2023 (December 31, 2018 - the weighted average interest was 2.52% which ranged from 1.88% to 4.35%).

Term notes, in revolving period, contain provisions that allow the outstanding debt to revolve for a specified period of time. During the revolving period, the monthly collection of lease payments allocable to each outstanding series creates availability to fund the acquisition of vehicles and/or equipment to be leased to clients. Upon expiration of the revolving period, notes begin amortizing. As at December 31, 2019, there were no term notes in revolving period. As at December 31, 2018 - the weighted average interest was 3.23%, which ranged from 2.87% to 4.21%.

Variable rate borrowings provide a committed capacity that may be drawn upon as needed during a commitment period, which is primarily one to two years in duration. Similar to revolving term notes, the monthly collections in respect of pledged assets create availability to fund the acquisition of vehicles and/or equipment to be leased to clients. Available committed capacity under variable rate borrowings may be used to fund growth in net investment in fleet assets during the term of the commitment. Upon expiration of the commitment period, variable rate borrowings begin amortizing. As at December 31, 2019, variable rate borrowings had a weighted average floating interest rate of 2.63%, which ranged from 2.02% to 9.12% with expected maturities in 2021 to 2023 (December 31, 2018 - the weighted average interest was 3.28%, which ranged from 3.10% to 10.29%).

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

Included in the variable rate borrowings are amounts drawn pursuant to two new variable rate, revolving, asset-backed financing arrangements, as established in 2019. In aggregate, these two new facilities provide committed capacity of $1,817,900.

For the year ended December 31, 2019, $1,817,900 of revolving notes were converted into amortizing term notes.

As at December 31, 2019, the Company has available capacity in variable rate borrowings and other of $3,872,777 (December 31, 2018 – $3,894,043) under its vehicle management asset-backed debt facilities.

Revolving senior credit facilities

The aggregate capacity under the senior credit facilities is $3,376,100, composed of (i) a $2,921,625 committed revolving facility with a maturity date of November 2, 2022, syndicated to a group of 19 Canadian, US and international banks (the "Syndicated Senior Credit Facility") and (ii) a $454,475, bi-lateral committed revolving facility with a maturity date of September 30, 2020. The Syndicated Senior Credit Facility was amended in December 2019, at which time the available capacity was reduced by $973,875 and both facilities became unsecured. As at December 31, 2019, $1,703,507 was drawn on these senior credit facilities

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

(December 31, 2018 - $2,406,195). Both facilities bear interest at the prime rate plus 0.20% or 1-month bankers' acceptance rate plus 1.20% per annum on outstanding Canadian dollar denominated balances (December 31, 2018 - 0.20% and 1.20% per annum, respectively) and US base rate plus 0.20% per annum or 1-month LIBOR rate plus 1.20% per annum on outstanding US dollar denominated balances (December 31, 2018 - 0.20% and 1.20% per annum, respectively). Additionally, the facilities bear interest at the 1-month Bank Bill Swap Bid Rate plus 1.20% per annum on outstanding Australian dollar denominated balances and the 1-month Bank Bill Reference Rate plus 1.20% per annum on outstanding New Zealand dollar denominated balances (December 31, 2018 - 1.20% and 1.20% per annum, respectively).

As at December 31, 2019, the Company had access to an additional $1,672,593 (December 31, 2018 - $1,682,205) of available financing from the revolving senior credit facilities.

Restricted funds

As at December 31, 2019, restricted funds include (i) cash reserves of $112,308 (December 31, 2018 - $105,230), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection account of $321,820 (December 31, 2018 - $367,094), which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates; and (iii) cash provided to counter-parties as collateral against derivatives liabilities is nil (December 31, 2018 - $32,130).

Contractual maturity of borrowings

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

	2019			2018		
Maturity	**Borrowings gross of interest costs[(1)]**	**Finance receivables and equipment under operating leases[(2)]**		Borrowings gross of interest costs[(1)]	Finance receivables and equipment under operating leases[(2)]	
	$	**$**	**%**	$	$	%
Within 1 year	**5,291,639**	**6,250,080**	**84.7**	4,123,326	5,794,373	71.1
In 1 to 3 years	**4,828,879**	**5,657,480**	**85.4**	5,941,285	6,350,057	93.5
In 3 to 5 years	**383,626**	**1,013,797**	**37.8**	1,145,059	1,274,067	89.7
After 5 years	**27,476**	**179,265**	**15.3**	104,296	338,183	30.7
	10,531,620	**13,100,622**	**80.4**	11,313,966	13,756,680	82.2
Interest costs	**(300,883)**			(389,203)		
Net of interest costs	**10,230,737**			10,924,763		
Revolving senior credit facilities	**1,703,507**			2,406,195		
	11,934,244			13,330,958		

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

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

12. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

	December 31, 2019						
Issue Date	**Final maturity date**	**Conversion price per share(1)**	**Interest rate(2)**	**Face value**	**Deferred costs**	**Discount**	**Net carrying value**
		$	**%**	**$**	**$**	**$**	**$**
May 29, 2015	**June 30, 2020**	**17.19**	**4.250**	**567,200**	**(2,252)**	**(2,914)**	**562,034**
April 5, 2019	**June 30, 2024**	**12.05**	**4.250**	**172,500**	**(5,732)**	**(17,011)**	**149,757**
				739,700	**(7,984)**	**(19,925)**	**711,791**

	December 31, 2018						
Issue Date	Final maturity date	Conversion price per share	Interest rate(2)	Face value	Deferred costs	Discount	Net carrying value
		$	%	$	$	$	$
June 18, 2014	June 30, 2019	13.13	5.125	345,000	(1,324)	(4,009)	339,667
May 29, 2015	June 30, 2020	17.51	4.250	575,000	(7,459)	(9,773)	557,768
				920,000	(8,783)	(13,782)	897,435

1. The conversion price was adjusted on December 30, 2019, the ex-dividend date for dividends to be paid on January 15, 2020, to $17.19004 for the May 29, 2015 issuance and there was no change to the conversion price from the date of issuance for the April 5, 2019 issuance.
2. Stated interest rate on principal face value.

April 5, 2019 Issuance

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

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

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

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

The Company may redeem, subject to specified conditions and notice, on or after June 30, 2022 and prior to June 30, 2023, the 2019 Debentures in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted trading price of the common shares on the TSX for the 20 consecutive days preceding the date on which notice of redemption is given is not less than 125% of the 2019 Conversion Price. As at December 31, 2019, the Company has not redeemed any of the 2019 Debentures.

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

May 29, 2015 Issuance

On May 29, 2015, the Company closed an offering of $575,000, 4.25% extendible convertible unsecured subordinated debentures (the "2015 Debentures"). To determine the initial amount of the respective debt and equity components of the 2015 Debentures issued on May 29, 2015, the carrying amount of the financial liability was first calculated by discounting the stream of future principal and interest payments at the rate of 5.50%, which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of $519,886 (net of transaction costs of $23,757) and the equity component was assigned a value of $30,356 (net of after-tax transaction costs of $1,002, and before the impact of deferred taxes).

The 2015 Debentures bear interest at an annual coupon rate of 4.25% payable semi-annually on the last day of June and December in each year, commencing on December 31, 2015. The maturity date for the 2015 Debentures was initially December 31, 2015 and was extended to June 30, 2020 on the closing of the acquisition of GE Capital's fleet operations.

Each 2015 Debenture is convertible into common shares at the option of the holder of a Debenture at any time prior to 5:00 p.m. (Toronto time) on June 30, 2020, initially at a conversion price of $23.80 per common share (the "2015 Conversion Price"), subject to adjustment in accordance with the indenture agreement. As a result of the separation from ECN Capital Corp. in 2016, the conversion price was adjusted to $19.10317, and subsequently adjusted to $17.19004 for cumulative dividends paid on common shares on December 31, 2019. Holders converting their 2015 Debentures will be entitled to receive, in addition to the applicable number of common shares to be received on conversion, accrued and unpaid interest thereon in cash for the period from the last interest payment date on their 2015 Debentures to, but excluding, the date of conversion.

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

On November 27, 2019, holders of the 2015 Debentures redeemed $7,800 at a conversion price equal to $17.41275 per share, representing a conversion ratio of approximately 57.42918 shares per $1,000 principal amount of the 2015 Debentures. As a result of the conversion, holders of the 2015 Debentures received an interest payment of $135 and 447,947 common shares.

The Company may redeem, subject to specified conditions and notice, on or after June 30, 2018 and prior to June 30, 2020, the 2015 Debentures in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted trading price of the common shares on the TSX for the 20 consecutive days preceding the date on which notice of redemption is given is not less than 125% of the 2015 Conversion Price. As at December 31, 2019 the Company has not redeemed any of the 2015 Debentures.

Subject to required regulatory approvals and provided that there is not a current 2015 Debentures event of default, the Company may, at its option and with notice, elect to repay, in whole or in part, the principal amount of the 2015 Debentures that are to be redeemed or that have matured by issuing common shares to the holders of the 2015 Debentures. Payment would be satisfied by delivering that number of common shares obtained by dividing the principal amount of the 2015 Debentures to be redeemed or that have matured, by 95% of the current market price of the common shares on the redemption date or maturity date. Any accrued and unpaid interest will be paid in cash.

June 18, 2014 Issuance

On June 30, 2019, the $345,000, 5.125% extendible convertible unsecured subordinated debentures matured and were repaid in full, including accrued interest, by the Company, on June 28, 2019, in accordance with the Trust Indenture.

13. 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, 2018	**433,204,448**	**3,092,010**
Share issuance	**1,655,960**	**19,037**
Exercise of options	**1,648,709**	**16,667**
Balance, December 31, 2019	**436,509,117**	**3,127,714**
Balance, December 31, 2017	380,355,836	2,755,536
Share issuance	52,325,000	333,849
Exercise of options	523,612	2,625
Balance, December 31, 2018	433,204,448	3,092,010

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

Issuance of common shares

On November 27, 2019, holders of the 2015 Debentures redeemed $7,800 at a conversion price equal to $17.41275 per share, representing a conversion ratio of approximately 57.42918 shares per $1,000 principal amount of the 2015 Debentures. As a result of the conversion, holders of the 2015 Debentures received an interest payment of $135 and 447,947 common shares.

On October 1, 2018, Element Fleet announced the adoption of a dividend reinvestment plan ("DRIP"). The DRIP provides eligible shareholders an opportunity to reinvest their eligible cash dividends for additional common shares at a discount of 2% to the prevailing market price of the common shares on the TSX, which discount may be changed or eliminated by the Board of Element from time to time. To be eligible to participate in the DRIP, shareholders must be resident in Canada. Shareholders residing outside of Canada are not eligible to participate in the DRIP. There were no common shares issued under the DRIP for the year ended December 31, 2018. For the year ended December 31, 2019, the Company issued 1,208,013 common shares under the DRIP.

On October 11, 2018, the Company closed on its offering of 45,500,000 common shares at a price of $6.60 per share realizing net proceeds of $286,431 after expenses of the issue. The underwriters were provided the option to purchase up to 6,825,000 additional shares at the issue price for a period of 30 days following the closing date. On November 6, 2018, the underwriters exercised in full their over-allotment option to purchase an additional 6,825,000 common shares at a price of $6.60 per share realizing net proceeds of $43,243 after expenses of the issue.

Common share dividends

For the year ended December 31, 2019, the Company declared $78,214 in common share dividends or $0.179 per common share (December 31, 2018 - $105,127 or $0.24 per common share).

As at December 31, 2019, the accrued common share dividends were $19,738 (December 31, 2018 – nil).

Preferred shares

The Company's cumulative 5-Year rate reset Preferred Shares series as at December 31, 2019 and 2018 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**
G	**May 29, 2005**	**6.50**	**172,500**	**3,957**	**168,543**	**6,900,000**
I	**May 5, 2017**	**5.75**	**150,000**	**3,244**	**146,756**	**6,000,000**

1. On December, 20, 2018, Preferred Shares Series A dividend rate was reset from 6.60% to 6.93%.
2. On June 21, 2019, Preferred Shares Series C dividend rate was reset from 6.50% to 6.21%.
3. On September 19, 2019, Preferred Shares Series E dividend rate was reset from 6.40% to 5.903%.

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

Preferred Shares, Series I

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

Preferred Shares, Series G

The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 5.34%. The Company will have the right to redeem the Series G shares on September 30, 2020, and on September 30 every five years thereafter for $25 per Series G share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series G shares, the holders of the Series G shares will have the right on September 30, 2020, and on September 30 every five years thereafter, to convert all or any of the Series G shares into Series H shares, on the basis of one Series H share for each Series G share converted. Holders of Series H shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 5.34%.

Preferred Shares, Series E

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

December 31, 2019

Preferred Shares, Series C

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

Preferred Shares, Series A

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

Preferred share dividends

For the year ended December 31, 2019, the Company incurred $44,424 in preferred share dividends (December 31, 2018 – $44,395).

As at December 31, 2019, the accrued preferred share dividends were $120 (December 31, 2018 – nil).

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

14. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the years ended December 31:

	2019	2018
	$	$
(a) Stock options	**2,878**	8,008
(b) Deferred share units	**1,849**	(159)
(c) Performance share units	**1,071**	5,514
(d) Restricted share units	**13,897**	11,816
	19,695	25,179
Allocated as:		
Share-based compensation	**18,871**	23,642
Restructuring and transformation costs	**824**	1,537
	19,695	25,179

(a) Stock options

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

	Number of options	**Weighted average exercise price**
	#	$
Outstanding, December 31, 2017	21,368,293	10.92
Granted[1]	5,949,443	6.04
Forfeited	(670,368)	11.94
Expired	(430,424)	10.82
Exercised[2]	(888,334)	3.79
Outstanding, December 31, 2018	**25,328,610**	**10.01**
Forfeited	**(679,657)**	**11.13**
Expired	**(4,977,529)**	**11.58**
Exercised[2]	**(3,258,991)**	**6.14**
Outstanding, December 31, 2019	**16,412,433**	**10.26**

1. 4,100,000 options granted during 2018 contain performance vesting criteria; an additional 1,849,443 options granted during 2018 vest as described in each tranche of the award.
2. Weighted average share price of options exercised during the year ended December 31, 2019 was $8.61 (year ended December 31, 2018 – $6.51).

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

The fair value of the options granted during the years ended December 31 was determined using the Black-Scholes option valuation model with inputs to the model as follows:

	Unit	**2019**	2018
Weighted average share price	$	**n/a**	5.76
Average term to exercise	Years	**n/a**	1.8
Share price volatility	%	**n/a**	37.7
Weighted average expected annual dividend	$	**n/a**	0.30
Risk-free interest rate	%	**n/a**	2.47
Forfeiture rate	%	**n/a**	1.02

As at December 31, 2019, the following employee and director stock options to purchase common shares were outstanding:

		Options outstanding		
Range of exercise prices	**Weighted average remaining life (in years)**	**Vested** #	**Unvested** #	**Total** #
$0.00 to $5.00	**0.63**	**8,333**	**—**	**8,333**
$5.01 to $10.00	**4.31**	**3,224,312**	**3,172,111**	**6,396,423**
$10.01 to $15.00	**1.73**	**9,881,868**	**75,809**	**9,957,677**
$15.01 and over	**2.62**	**50,000**	**—**	**50,000**
	2.74	**13,164,513**	**3,247,920**	**16,412,433**

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

	Deferred share units #	**Performance share units** #	**Restricted share units** #
Outstanding, December 31, 2017	1,393,987	268,934	1,255,415
Granted	360,185	606,247	2,210,714
Forfeited	—	(24,538)	(106,925)
Redeemed	(972,535)	(468,304)	(1,255,471)
Outstanding, December 31, 2018	**781,637**	**382,339**	**2,103,733**
Granted	**216,964**	**1,125,467**	**899,248**
Forfeited	**—**	**—**	**(88,477)**
Redeemed	**(315,898)**	**—**	**(1,017,564)**
Outstanding, December 31, 2019	**682,703**	**1,507,806**	**1,896,940**

(i) Deferred share units ("DSUs")

As at December 31, 2019, the fair value of DSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $7,571 (December 31, 2018 – $5,401).

(ii) Performance share units ("PSUs")

As at December 31, 2019, 1,507,806 PSUs remain unvested and outstanding, and the amortized fair value of PSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $6,211 (December 31, 2018 – 382,339 PSUs and $1,133 of liabilities). Certain PSUs issued during 2019 and 2018 contain a multiplier factor and the final number of PSUs that will vest will range from 50% to 200% of the initial number awarded based on certain performance targets. The PSUs outstanding will vest on achievement of specific performance conditions over 2020 and 2021.

(iii) Restricted share units ("RSUs")

As at December 31, 2019, 1,896,940 RSUs remain unvested and outstanding, and the amortized fair value of RSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $10,128 (December 31, 2018 – 2,103,733 RSUs and $6,116 of liabilities). The RSUs outstanding will vest over one, two and three years.

(iv) Hedging of DSUs, PSUs and RSUs

As at December 31, 2019, the Company has hedged 2,525,344 referenced share units with net derivative assets of $514, which will be applied to the settlement of PSU, RSU and DSU awards (December 31, 2018 – 2,474,437 referenced share units hedged and net derivative liabilities of $3,641 for PSU and RSU awards). For the year ended December 31, 2019, derivative mark to market adjustments were netted against share-based compensation expense of $7,232 (December 31, 2018 - $3,061).

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

15. REVENUE

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

	Year ended December 31, 2019			Year ended December 31, 2018		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	$	$	$	$	$	$
Major service lines						
Interest income, net	**645,004**	**1,475**	**646,479**	614,542	41,539	656,081
Rental revenue	**595,119**	**97,330**	**692,449**	536,095	21,013	557,108
Gain on sale of equipment under operating leases	**43,696**	**8,079**	**51,775**	49,656	1,850	51,506
Depreciation of equipment under operating leases	**(432,944)**	**(49,058)**	**(482,002)**	(397,798)	(10,511)	(408,309)
Financing revenue before interest expense	**850,875**	**57,826**	**908,701**	802,495	53,891	856,386
Other service revenue, net	**386,580**	**215**	**386,795**	348,914	1,630	350,544
Vehicle sales and end of contract fees	**106,550**	**—**	**106,550**	106,471	—	106,471
Service and other revenue, net	**493,130**	**215**	**493,345**	455,385	1,630	457,015
Syndication revenue, net	**89,577**	**—**	**89,577**	11,897	—	11,897
Net revenue before interest expense	**1,433,582**	**58,041**	**1,491,623**	1,269,777	55,521	1,325,298
Primary geographical markets						
US and Canada	**1,148,872**	**57,775**	**1,206,647**	1,018,434	52,512	1,070,946
Australia and New Zealand	**180,032**	**266**	**180,298**	182,793	3,009	185,802
Mexico	**104,678**	**—**	**104,678**	68,550	—	68,550
Net revenue before interest expense	**1,433,582**	**58,041**	**1,491,623**	1,269,777	55,521	1,325,298
Timing of revenue recognition						
Revenue earned at a point in time	**442,299**	**—**	**442,299**	361,332	—	361,332
Revenue earned over time	**991,283**	**58,041**	**1,049,324**	908,445	55,521	963,966
Net revenue before interest expense	**1,433,582**	**58,041**	**1,491,623**	1,269,777	55,521	1,325,298

Revenue earned at a point in time includes commissions from repairs due to accidents, fuel, and title and registration fees, and vendor commissions. Revenue earned over time includes interest income, fleet management and accident management fees, including maintenance fees, and telematics services.

(A) Contract balances

	December 31, 2019	December 31, 2018
	$	$
Contract assets	**23,404**	16,750

Contract assets represent the costs the Company incurs to enter into service contracts with customers including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within note 4. For the year ended December 31, 2019, the Company has recorded $9,878 of amortization on its service contract assets (December 31, 2018 - $9,940).

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

B) Performance obligations

Fixed-fee Service Contracts. The Company provides separately priced and contracted service contracts to its fleet clients that range from 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.

16. INCOME TAXES

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

	2019	2018
	$	$
Consolidated statements of operations		
Current income tax expense	**42,783**	54,426
Foreign withholding tax expense	**3,456**	10,814
Origination and reversal of temporary differences	**(51,901)**	(186,622)
Income tax benefit reported in the consolidated statements of operations	**(5,662)**	(121,382)
Income tax expense reported in the consolidated statements of changes in shareholders' equity	**—**	1,429

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

	2019	2018
	$	$
Income (loss) before income taxes	**92,039**	(320,486)
Combined statutory Canadian federal and provincial tax rate[1]	**26.46%**	26.64%
Income tax expense (recovery) based on statutory rate	**24,354**	(85,377)
Income taxes adjusted for the effect of:		
Non-deductible and non-taxable items	**(32,867)**	(38,885)
Foreign rate differential	**4,868**	(1,010)
Future statutory rate reductions	**(469)**	—
Adjustments of prior year taxes and other	**(1,548)**	3,890
Recovery of income taxes	**(5,662)**	(121,382)

1. The reduction in applicable tax rates from 26.64% in fiscal 2018 to 26.46% represents the impact of an Alberta corporate income tax rate reduction enacted in fiscal 2019.

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

Deferred taxes as at December 31 relate to the following:

	2019	2018
	$	$
Deferred tax assets		
Shares and special warrants issuance and tax costs	**3,072**	9,231
Tax loss carryforwards	**1,237,748**	1,042,985
Transaction and integration costs	**31,387**	34,625
Deferred share units	**12,162**	12,315
	1,284,369	1,099,156
Deferred tax liabilities		
Finance receivables	**866,945**	701,841
Intangible assets arising from acquisitions	**10,845**	23,180
Convertible debentures	**5,170**	3,672
Capital assets, intangibles and other	**4,261**	784
Unrealized gain or loss on foreign exchange and derivatives	**4,421**	3,934
	891,642	733,411
Net deferred tax asset position	**392,727**	365,745

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

	2019	2018
	$	$
Deferred tax assets	**440,952**	410,864
Deferred tax liabilities	**48,225**	45,119
Net deferred tax asset position	**392,727**	365,745

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

	2019	2018
	$	$
Balance, beginning of the year	**365,745**	147,275
Tax (expense) benefit recognized in profit or loss	**51,901**	186,622
Tax expense recognized through shareholders' equity	**(10,850)**	(4,765)
Tax (expense) benefit recognized through OCI	**(14,069)**	14,090
Tax benefit recognized due to distributed operations	—	22,523
Balance, end of the year	**392,727**	365,745

Management has concluded the deferred tax asset of $440,952 meets the relevant recognition criteria under IFRS. Management's conclusion is supported by forecasted taxable profits, embedded profits in existing finance receivables and the future reversal of existing taxable temporary differences which are expected to produce sufficient taxable income to realize the deferred tax asset.

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

The Company has incurred capital losses for tax purposes of $182,137 (2018 - $274,633), which are available to reduce future capital gains. No deferred income tax asset has been recognized in respect of the loss carryforwards of the capital losses.

There are no other unused tax losses and temporary differences that have not been recognized for the year ended December 31, 2019.

17. SUBSIDIARIES

(a) List of significant subsidiaries

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

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

(b) Subsidiaries with restrictions

The Company's operations have restrictions on its ability to access or use its assets and settle its liabilities in Chesapeake Finance Holdings II LLC, Chesapeake Funding II LLC, and Element Fleet Lease Receivable LP. These subsidiaries facilitate the transfer of financial assets and related property or interests, in connection with funding facilities, and the activities of these entities are governed by their constituting agreements and debt agreements. Assets held as collateral by these subsidiaries for such funding facilities are not available to satisfy the claims of creditors of the Company. The carrying amounts of assets and liabilities in these subsidiaries as at December 31, 2019 were $9,451,726 and $8,025,401, respectively (December 31, 2018 - $11,676,812 and $10,049,820, respectively).

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

18. RELATED PARTY

Compensation of directors and key management

The remuneration of directors and key management personnel of the Company were as follows for the years ended December 31 excluding retirement payments of $2,293 (2018 - $24,404):

	2019	2018
	$	$
Salaries, bonuses and benefits	**15,428**	12,173
Share-based compensation	**11,076**	18,775
	26,504	30,948

19. EARNINGS PER SHARE

Basic earnings (loss) per share are as follows for the years ended December 31:

	2019	2018
	$	$
Net income (loss) attributable to shareholders	**97,701**	(199,104)
Cumulative dividends on preferred shares	**(44,424)**	(44,273)
Net income (loss) available to common shareholders	**53,277**	(243,377)
Weighted average number of common shares outstanding – basic (number)(1)	**434,805,443**	391,658,627
Basic earnings (loss) per share	**$ 0.12**	$ (0.62)

Diluted earnings (loss) per share is as follows for the years ended December 31:

	2019	2018
	$	$
Net income (loss) available to common shareholders adjusted for the effects of dilution	**53,277**	(243,377)
Weighted average number of common shares outstanding – basic (number) (1)	**434,805,443**	391,658,627
Dilutive stock options and warrants (number)	**726,360**	—
Weighted average number of common shares outstanding – diluted (number)	**435,531,803**	391,658,627
Diluted earnings (loss) per share	**$ 0.12**	$ (0.62)

1. Prior year weighted average number of common shares outstanding has been adjusted for the impact of the issuance of shares under the DRIP by 6,366 shares for the year ended December 31, 2018.

Instruments outstanding as at December 31, 2019 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 8,965,628 stock options for the year ended December 31, 2019 (December 31, 2018, 25,328,610 stock options).

In addition, the convertible debentures (note 12) were excluded from the diluted earnings (loss) per share calculation as these were anti-dilutive for the years ended December 31, 2019 and 2018.

20. DERIVATIVE AND HEDGING INSTRUMENTS

Hedge accounting

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

Interest rate risk

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

Foreign currency risk

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

Equity price risk

The Company uses cash settled total return swaps in designated cash flow hedge relationships to hedge changes in Element's share price in respect of certain cash-settled share-based compensation awards. Note 14 provides details on cash-settled share-based compensation plans.

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

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

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

December 31, 2019

Designated hedging instruments

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

As at December 31, 2019	**Notional amount of the hedging instrument**	**Maturity range**			**Fair value of the hedge derivatives**		**Gain (losses) on changes in fair value used for calculating hedge ineffectiveness[1]**
		Less than 1 year	**1-5 years**	**Over 5 years**	**Assets**	**Liabilities**	
	$	$	$	$	$	$	$
Cash flow hedges							
Interest rate risk							
Interest rate swaps	**9,213,998**	**1,603,950**	**6,141,983**	**1,468,065**	**31,074**	**37,944**	**12,599**
Interest rate caps	**237,981**	**—**	**130,967**	**107,014**	**327**	**—**	**327**
Equity share price risk							
Equity swaps	**28,006**	**28,006**	**—**	**—**	**514**	**—**	**3,731**
	9,479,985	**1,631,956**	**6,272,950**	**1,575,079**	**31,915**	**37,944**	**16,657**
Fair value hedges							
Interest rate swaps	**1,006,854**	**—**	**1,006,854**	**—**	**9,481**	**1,201**	**7,420**
	1,006,854	**—**	**1,006,854**	**—**	**9,481**	**1,201**	**7,420**
NIFO hedges							
Borrowings	**1,614,416**	**1,614,416**	**—**	**—**	**n/a**	**n/a**	**(14,048)**
	1,614,416	**1,614,416**	**—**	**—**	**n/a**	**n/a**	**(14,048)**

As at December 31, 2018	Notional amount of the hedging instrument	Maturity range			Fair value of the hedge derivatives		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness[1]
		Less than 1 year	1-5 years	Over 5 years	Assets	Liabilities	
	$	$	$	$	$	$	$
Cash flow hedges							
Foreign exchange risk							
Foreign exchange forwards	298,288	298,288	—	—	—	18,288	(18,288)
Interest rate risk							
Interest rate swaps	10,928,762	1,497,875	8,374,611	1,056,276	28,700	39,684	6,363
Interest rate caps	535,167	500	146,625	388,042	6,052	—	(6,052)
Equity share price risk							
Equity swaps	17,098	17,098	—	—	—	10,394	(2,358)
	11,779,315	1,813,761	8,521,236	1,444,318	34,752	68,366	(20,335)
NIFO hedges							
Borrowings	1,100,369	1,100,369	—	—	n/a	n/a	(135,356)
	1,100,369	1,100,369	—	—	n/a	n/a	(135,356)

n/a Not applicable

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

December 31, 2019

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

As at December 31, 2019	**Average fixed interest rate**	**Average share price**
Cash flow hedges		
Interest rate risk		
Interest rate swaps	**1.92%**	**n/a**
	2.17%	**n/a**
	1.52%	**n/a**
	1.70%	**n/a**
Interest rate caps	**2.13%**	**n/a**
Equity share price risk		
Equity swaps	**n/a**	**$ 10.89**
Fair value hedges		
Interest rate risk		
Interest rate swaps	**2.07%**	**n/a**

As at December 31, 2018		Average exchange rate [1]		Average fixed interest rate	Average share price
Cash flow hedges					
Foreign exchange risk					
Foreign exchange forwards	USD - CAD	$ 1.28		n/a	n/a
Interest rate risk					
Interest rate swaps		n/a	CAN	1.51%	n/a
		n/a	USD	2.25%	n/a
		n/a	NZD	3.39%	n/a
		n/a	AUD	2.14%	n/a
Interest rate caps		n/a	USD	1.78%	n/a
Equity share price risk					
Equity swaps		n/a		n/a	$ 11.11

1. Includes average foreign exchange rates and interest rates relating to significant hedging relationships.
n/a Not applicable

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

Designated hedged items

The following table provides information on designated hedged items:

As at December 31, 2019	**Carrying amount of the hedged item – Assets**	**Carrying amount of the hedged item – Liabilities**	**Gain (losses) on changes in fair value used for calculating hedge ineffectiveness**
	$	**$**	**$**
Cash flow hedges			
Interest rate risk			
Floating Rate Leases	**3,620,075**	**—**	**12,831**
Borrowings	**—**	**5,535,391**	**(25,554)**
Equity share price risk			
Share-based payment	**—**	**28,006**	**(3,731)**
	3,620,075	**5,563,397**	**(16,454)**
Fair value hedges			
Interest rate risk			
Borrowings	**—**	**1,014,274**	**(7,420)**
	—	**1,014,274**	**(7,420)**
NIFO hedges			
Net investment in foreign subsidiaries	**1,614,416**	**—**	**14,048**
	1,614,416	**—**	**14,048**

As at December 31, 2018	Carrying amount of the hedged item – Assets	Carrying amount of the hedged item – Liabilities	Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
	$	$	$
Cash flow hedges			
Foreign exchange risk			
Forecasted USD borrowings	n/a	n/a	18,288
Interest rate risk			
Floating Rate Leases	5,901,507	—	(3,436)
Borrowings	—	5,562,422	3,125
Equity share price risk			
Share-based payment	—	17,098	2,358
	5,901,507	5,579,520	20,335
NIFO hedges			
Net investment in foreign subsidiaries	1,100,369	—	135,356
	1,100,369	—	135,356

n/a Not applicable

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

December 31, 2019

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

Year Ended December 31, 2019	Beginning balance of AOCI - hedge reserve (after-tax)	Change in the value of the hedging instrument recognized in OCI (before-tax)	Amount reclassified from accumulated OCI to income (before-tax)	Tax benefit (expense)	Ending balance of AOCI hedge reserve (after-tax)	Hedge ineffectiveness gains (losses) recognized in income
	$	$	$	$	$	$
Cash flow hedges						
Foreign exchange risk	**18,288**	**(13,463)**	**(433)**	**—**	**4,392**	**—**
Interest rate risk	**(5,015)**	**(12,723)**	**9,597**	**581**	**(7,560)**	**203**
Equity share price risk	**2,186**	**(3,731)**	**—**	**(994)**	**(2,539)**	**—**
	15,459	**(29,917)**	**9,164**	**(413)**	**(5,707)**	**203**
NIFO hedges						
Net investment in foreign subsidiaries	**(155,451)**	**14,048**	**—**	**—**	**(141,403)**	**—**
	(155,451)	**14,048**	**—**	**—**	**(141,403)**	**—**

Year Ended December 31, 2018	Beginning balance of AOCI - hedge reserve (after-tax)	Change in the value of the hedging instrument recognized in OCI (before-tax)	Amount reclassified from accumulated OCI to income (before-tax)	Tax benefit (expense)	Ending balance of AOCI hedge reserve (after-tax)	Hedge ineffectiveness gains (losses) recognized in income
	$	$	$	$	$	$
Cash flow hedges						
Foreign exchange risk	—	18,288	—	—	18,288	—
Interest rate risk	(6,891)	(311)	1,883	304	(5,015)	—
Equity share price risk	456	2,358	—	(628)	2,186	—
	(6,435)	20,335	1,883	(324)	15,459	—
NIFO hedges						
Net investment in foreign subsidiaries	(290,807)	135,356	—	—	(155,451)	—
	(290,807)	135,356	—	—	(155,451)	—

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

December 31, 2019

Offsetting of derivative assets and liabilities

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

				Amounts subject to an enforceable master netting arrangement or similar agreement that are not set-off in the Consolidated Statements of Financial Position		
	Gross amounts of recognized financial instruments before netting on the Consolidated Statements of Financial Position	Gross amounts of recognized financial instruments set-off in the Consolidated Statements of Financial Position	Net amount of financial instruments presented in the Consolidated Statements of Financial Position	Amounts subject to an enforceable master netting agreement	Collateral	Net amount
	$	$	$	$	$	$
As at December 31, 2019						
Derivative financial instrument assets	**41,396**	**—**	**41,396**	**25,181**	**—**	**16,215**
Derivative financial instrument liabilities	**39,145**	**—**	**39,145**	**25,181**	**—**	**13,964**
As at December 31, 2018						
Derivative financial instrument assets	34,752	—	34,752	3,976	—	30,776
Derivative financial instrument liabilities	68,467	—	68,467	22,263	32,130	14,074

21. 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.

The Company's capitalization is as follows, as at December 31:

	2019	2018
	$	$
Borrowings	**11,892,861**	13,270,780
Convertible debentures	**711,791**	897,435
Total debt	**12,604,652**	14,168,215
Shareholders' equity	**3,812,645**	3,975,485
	16,417,297	18,143,700

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

22. SEGMENTED INFORMATION

Operating segments

The Company operates and reports in two separate segments (a) the Fleet Management segment and, (b) the Non-Core segment, to reflect differing characteristics of assets and operations from core fleet management. The segments are evaluated on reported and adjusted measures such as net revenue, adjusted operating expenses, and adjusted operating income.

Segmented operating results

	Year ended December 31, 2019			Year ended December 31, 2018		
	Fleet Management	**Non-Core**	**Total**	Fleet Management	Non-Core	Total
	$	**$**	**$**	$	$	$
Net revenue						
Net interest income and rental revenue	**850,875**	**57,826**	**908,701**	802,495	53,891	856,386
Interest expense	**445,397**	**52,124**	**497,521**	404,603	47,176	451,779
Net financing revenue	**405,478**	**5,702**	**411,180**	397,892	6,715	404,607
Servicing income, net	**493,130**	**215**	**493,345**	455,385	1,630	457,015
Syndication revenue, net	**89,577**	**—**	**89,577**	11,897	—	11,897
Net revenue	**988,185**	**5,917**	**994,102**	865,174	8,345	873,519
Operating expenses						
Salaries, wages and benefits	**314,447**	**8,181**	**322,628**	326,716	2,595	329,311
General and administrative expenses	**113,157**	**2,099**	**115,256**	127,076	5,710	132,786
Depreciation and amortization	**39,519**	**2,733**	**42,252**	24,279	—	24,279
	467,123	**13,013**	**480,136**	478,071	8,305	486,376
Net segment operating income (loss) (before tax)	**521,062**	**(7,096)**	**513,966**	387,103	40	387,143
Loss on investments	**—**	**1,599**	**1,599**	—	32,473	32,473
Net segment income (loss) (before tax)	**521,062**	**(8,695)**	**512,367**	387,103	(32,433)	354,670
Share-based compensation			**18,871**			23,642
Amortization of convertible debenture discount			**13,185**			14,038
Impairment on 19th Capital			**260,000**			480,000
Amortization of intangible assets from acquisitions			**36,859**			44,744
Restructuring and transformation costs			**91,413**			112,732
Recovery of income taxes			**(5,662)**			(121,382)
Net income (loss) for the year			**97,701**			(199,104)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

Segmented financial position

	As at December 31, 2019			As at December 31, 2018		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	$	$	$	$	$	$
Select consolidated statement of financial position information						
Finance receivables	**11,968,918**	**18,056**	**11,986,974**	13,147,971	55,617	13,203,588
Equipment under operating leases	**1,978,815**	**122,552**	**2,101,367**	1,778,868	382,795	2,161,663
Other investments(1)	—	—	—	—	99,590	99,590
Goodwill and intangible assets	**2,039,260**	—	**2,039,260**	2,156,669	—	2,156,669
Total select segment assets	**15,986,993**	**140,608**	**16,127,601**	17,083,508	538,002	17,621,510
Other assets			**1,302,002**			1,342,496
Total assets			**17,429,603**			18,964,006

1. Investments in the comparable period included the 32.5% interest in ECAF I Holdings Ltd., ("ECAF") which was accounted for using the effective interest rate method and considered an earning asset. Upon adoption of IFRS 9 on January 1, 2018 by the Company, the investment is accounted for using FVTPL and no longer considered an earning asset. The ECAF investment was sold on April 12, 2019.

Geographic information

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

Select geographic assets are as follows:

As at	December 31, 2019				December 31, 2018			
	US and Canada	Australia and New Zealand	Mexico	Total	US and Canada	Australia and New Zealand	Mexico	Total
	$	$	$	$	$	$	$	$
Select assets								
Finance receivables	**11,232,085**	**398,477**	**356,412**	**11,986,974**	12,555,816	425,581	222,191	13,203,588
Equipment under operating leases	**174,912**	**1,273,173**	**653,282**	**2,101,367**	410,356	1,313,434	437,873	2,161,663
Goodwill and intangible assets	**2,006,377**	**32,239**	**644**	**2,039,260**	2,123,244	33,425	—	2,156,669
Property, equipment and leasehold improvements	**103,743**	**29,357**	**8,526**	**141,626**	49,506	8,671	2,792	60,969
	13,517,117	**1,733,246**	**1,018,864**	**16,269,227**	15,138,922	1,781,111	662,856	17,582,889

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

23. LEASES

The Company leases its office space and certain office equipment. For existing leases as of January 1, 2019 and leases commencing on or after January 1, 2019, 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). On September 1, 2019, the Company began leasing a new facility in Hopkins, MN which resulted in the recording of a right-of-use asset and operating lease liability of $32,874.

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. 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.

		As at January 1, 2019	**As at December 31, 2019**
		$	**$**
Assets	**Classification**		
Right-of-use assets	Buildings, net of accumulated depreciation[1]	79,688	**95,354**
Liabilities	**Classification**		
Lease liabilities	Accounts payable and accrued liabilities	79,688	**97,439**

1. As at December 31, 2019, right-of-use assets are recorded net of accumulated amortization of $12,910. Refer to note 8 for the amortization on the right-of-use assets.

		Year ended December 31, 2019
Lease cost	**Classification**	**$**
Amortization of leased assets	Depreciation and amortization	**13,443**
Interest on lease liabilities	Interest expense	**2,596**
Net lease cost		**16,039**

Maturity of lease liabilities	**As at December 31, 2019**
	$
2020	**12,012**
2021	**12,245**
2022	**11,378**
2023	**10,151**
2024	**6,390**
Thereafter	**45,263**

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

December 31, 2019

Lease Term and Discount Rate	As at January 1, 2019	**As at December 31, 2019**
Weighted-average remaining lease term (years)	7.8	**11.5**
Weighted-average discount rate	3.39%	**3.09%**

24. COMMITMENTS

The Company enters into commitments to extend credit and provide lease or loan financing to its clients in the ordinary course of business, or commits to purchase equipment for leases. The funding of these commitments is subject to the customer satisfying various conditions and contractual requirements prior to funding. As a result, the total commitments outstanding do not necessarily reflect actual future cash flow requirements. As at December 31, 2019, the Company had $729,298 of commitments outstanding to provide financing or purchase equipment, and expire or settle on various dates through to December 31, 2020.

25. FINANCIAL INSTRUMENT RISKS

Credit risk

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

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

The Company's maximum exposure to credit risk for components of the consolidated statements of financial position as at December 31, 2019 and 2018 is the carrying amounts as disclosed on the consolidated statements of financial position.

Liquidity risk

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

The most significant exposure to liquidity risk relates to the repayment of borrowings (note 11). This exposure is managed as the cash flows generated by the Company's net investment in leases and loans, and future minimum payments on equipment under operating leases are term matched to meet the repayment requirements.

Interest rate risk

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

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

After considering the fixed interest rate spread on the borrowing programs and high exposure to fixed rate finance receivables described above, the Company's interest rate risk is limited to cash and restricted cash, floating-rate finance receivables that are neither hedged nor part of a match-funded borrowing arrangement, senior revolving credit facility, and floating-rate finance receivables that are hedged with interest rate caps and these interest rate caps are out-of-the-money. Based on its exposure as at December 31, 2019, the Company estimates that a 50 basis point increase would decrease net income before taxes by approximately $2,244 and a 50 basis point decrease in interest rates would increase net income before taxes by approximately $2,701.

Foreign currency risk

Foreign currency risk is the risk of exposure to foreign currency movements on the Company's lending and/or net investment in foreign subsidiaries, whereby there is a risk the exchange rates will be materially different when a loan or finance receivable is remeasured for accounting purposes, matures or when a foreign subsidiary is divested. The Company mitigates and manages this risk on the Company's lending portfolio by entering into foreign exchange forward contracts to reduce or hedge its exposure to foreign currency risk. The Company currently partially hedges its net investment in foreign subsidiaries. As at December 31, 2019, the Company did not have a significant un-hedged exposure to this type of foreign currency risk, which would have an impact to net income.

The Company is also exposed to foreign currency risk related to net income generated from foreign currency denominated assets and operations. This risk represents the impact of fluctuations to the average Canadian and foreign currency exchange rate used to translate the Company's foreign currency denominated net income into Canadian dollar equivalent during each year. The Company may mitigate and manage this type of foreign currency risk by entering into foreign currency forward contracts to reduce or hedge this exposure to foreign currency risk. If future net income before transformation costs and income taxes is consistent with results generated in 2019, each $0.01 of depreciation (appreciation) in the value of the Canadian dollar against all of the U.S. dollar, Mexican peso, Australian dollar, and New Zealand dollar simultaneously would be expected to increase (decrease) net income before transformation costs and income taxes for the year by approximately $6,992 in the absence of hedging transactions.

26. 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.

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

Accounts receivable, accounts payable, and accrued liabilities

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

The tables below summarizes the Company's fair value measurement hierarchy for its financial assets and financial liabilities. There were no transfers between Level 2 and Level 3 during 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.

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

December 31, 2019

	As at December 31, 2019				
		Level 1	Level 2	Level 3	
	Carrying value	Quoted market price	Observable market inputs	Non-observable market inputs	Total
	$	$	$	$	$
Financial assets					
Assets not carried at fair value					
Cash	**24,224**	**24,224**	—	—	**24,224**
Finance lease receivables	**11,884,162**	—	—	**11,884,162**	**11,884,162**
Finance loans receivables	**102,812**	—	—	**102,812**	**102,812**
Accounts receivable and other assets	**203,834**	—	—	**203,834**	**203,834**
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	**40,555**	—	**40,555**	—	**40,555**
Interest rate caps	**327**	—	**327**	—	**327**
Equity swaps	**514**	—	**514**	—	**514**
Investments classified as FVTPL	**6,266**	—	—	**6,266**	**6,266**
Total financial assets	12,262,694	24,224	41,396	12,197,074	12,262,694
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	**924,936**	—	—	**924,936**	**924,936**
Borrowings on finance receivables	**11,892,861**	—	—	**11,892,861**	**11,892,861**
Convertible debentures	**711,791**	—	**737,917**	—	**737,917**
Liabilities held at fair value					
Derivative financial liabilities					
Interest rate swaps	**39,145**	—	**39,145**	—	**39,145**
Total financial liabilities	13,568,733	—	777,062	12,817,797	13,594,859

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2019

	As at December 31, 2018				
		Level 1	Level 2	Level 3	
	Carrying value	Quoted market price	Observable market inputs	Non-observable market inputs	Total
	$	$	$	$	$
Financial assets					
Assets not carried at fair value					
Cash	21,999	21,999	—	—	21,999
Finance lease receivables	13,089,965	—	—	13,089,965	13,089,965
Finance loans receivables	113,623	—	—	113,623	113,623
Accounts receivable and other assets	284,695	—	—	284,695	284,695
Assets held at fair value					
Derivative financial assets					
Interest rate swaps	28,700	—	28,700	—	28,700
Interest rate caps	6,052	—	6,052	—	6,052
Investments classified as FVTPL	109,138	—	—	109,138	109,138
Total financial assets	13,654,172	21,999	34,752	13,597,421	13,654,172
Financial liabilities					
Liabilities not carried at fair value					
Accounts payable and accrued liabilities	706,720	—	—	706,720	706,720
Borrowings on finance receivables	13,270,780	—	—	13,270,780	13,270,780
Convertible debentures	897,435	—	959,065	—	959,065
Liabilities held at fair value					
Derivative financial liabilities					
Foreign exchange forwards	18,288	—	18,288	—	18,288
Interest rate swaps	39,684	—	39,684	—	39,684
Equity swaps	10,495	—	10,495	—	10,495
Total financial liabilities	14,943,402	—	1,027,532	13,977,500	15,005,032

27. RESTRUCTURING AND TRANSFORMATION

For the year ended December 31, 2019, the Company recorded transformation expenses of $91,413. All amounts have been incurred and paid or expect to be paid by the end of the first quarter of 2020. For the year ended December 31, 2018, the Company recorded restructuring expenses of $72,000 and transformation expenses of $38,600.

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

Transformation and restructuring expenses for the years ended December 31:

Nature of expenses	**2019** **$**	2018 $
Restructuring		
Severances	—	34,000
Professional fees	—	20,500
Office closure	—	5,500
Other	—	12,000
Total restructuring	—	72,000
Transformation		
Severances	**11,095**	18,000
Professional fees	**50,541**	18,000
Employee bonuses	**14,220**	—
Other	**15,557**	2,600
Total transformation	**91,413**	38,600
Total	**91,413**	110,600

Remaining un-paid liabilities related to transformation expenses as at December 31:

Nature of expenses	**2019** **$**	2018 $
Severances	**5,883**	14,900
Professional fees	**14,512**	19,500
Employee bonuses	**14,220**	—
Other	**599**	3,000
Total	**35,214**	37,400

28. SYNDICATIONS

The following represents the detail of the Company's syndicated assets for the years ended December 31:

	Classification	**2019** **$**	2018 $
Net book value of assets syndicated	n/a	**2,898,498**	587,859
Syndication revenue, net	Syndication revenue, net	**89,577**	11,897
Provision for early termination	Accounts payable and accrued liabilities	**5,779**	—
Deferred servicing fee	Finance receivables	**1,181**	1,543

29. COMPARATIVE FIGURES

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