



## **Management Discussion and Analysis**

**March 31, 2017**

The following management discussion and analysis (“MD&A”) provides information management believes is relevant to an assessment and understanding of the consolidated financial condition and consolidated results of operations of Element Fleet Management Corp. (the “Company” or “Element”) (formerly, Element Financial Corporation) as at and for the three-month period ended March 31, 2017 and should be read in conjunction with the Company’s unaudited interim condensed consolidated financial statements as at and for the three-month period ended March 31, 2017 and the MD&A and audited consolidated financial statements and accompanying notes for the year ended December 31, 2016. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.elementfleet.com](http://www.elementfleet.com)

## **CAUTIONARY STATEMENT**

**THIS ANALYSIS HAS BEEN PREPARED TAKING INTO CONSIDERATION INFORMATION AVAILABLE TO MAY 9, 2017. CERTAIN STATEMENTS CONTAINED IN THIS REPORT CONSTITUTE “FORWARD LOOKING STATEMENTS”. IN SOME CASES THE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY WORDS OR PHRASES SUCH AS “MAY”, “WILL”, “EXPECT”, “PLAN”, “ANTICIPATE”, “INTEND”, “POTENTIAL”, “ESTIMATE”, “BELIEVE” OR THE NEGATIVE OF THESE TERMS, OR OTHER SIMILAR EXPRESSIONS INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS, INCLUDING, AMONG OTHERS, STATEMENTS REGARDING ELEMENT’S BUSINESS GROWTH, DEVELOPING STRATEGY, ELEMENT’S ABILITY TO CREATE VALUE FOR SHAREHOLDERS, THE TRANSITION OF THE NATURE OF ELEMENT’S BUSINESS, THE AVAILABILITY OF FUNDS FROM OPERATIONS AND CAPITAL ALLOCATION, BUSINESS INTEGRATION AND THE XCELERATE PLATFORM, THE EVOLUTION OF OPERATIONS AND THE DEVELOPMENT OF PERFORMANCE INDICATORS, AND OTHER FINANCIAL PERFORMANCE AND METRICS. SUCH STATEMENTS REFLECT OUR CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND ARE SUBJECT TO INHERENT RISKS, UNCERTAINTIES AND NUMEROUS ASSUMPTIONS, INCLUDING, WITHOUT LIMITATION, GENERAL ECONOMIC CONDITIONS, TECHNOLOGICAL DEVELOPMENT, RELIANCE ON DEBT FINANCING, DEPENDENCE ON BORROWERS, INABILITY TO SUSTAIN RECEIVABLES, COMPETITION, INTEREST RATES, REGULATION, INSURANCE, FAILURE OF KEY SYSTEMS, DEBT SERVICE, FUTURE CAPITAL NEEDS AND SUCH OTHER RISKS OR FACTORS DESCRIBED FROM TIME TO TIME IN REPORTS OF ELEMENT.**

**BY THEIR NATURE, FORWARD LOOKING STATEMENTS INVOLVE NUMEROUS ASSUMPTIONS, KNOWN AND UNKNOWN, RISKS AND UNCERTAINTIES, BOTH GENERAL AND SPECIFIC, WHICH CONTRIBUTE TO THE POSSIBILITY THAT PREDICTIONS, FORECASTS, PROJECTIONS AND OTHER FORMS OF FORWARD LOOKING INFORMATION MAY NOT BE ACHIEVED. MANY FACTORS COULD CAUSE OUR ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS THAT MAY BE EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS AND READERS ARE CAUTIONED THAT THE LIST OF FACTORS IN THE FOREGOING PARAGRAPH IS NOT EXHAUSTIVE. SHOULD ONE OR MORE OF THESE RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD ASSUMPTIONS UNDERLYING THE FORWARD LOOKING STATEMENTS PROVE INCORRECT, ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE DESCRIBED HEREIN AS INTENDED, PLANNED, ANTICIPATED, BELIEVED, ESTIMATED OR EXPECTED. ACCORDINGLY, READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON FORWARD LOOKING STATEMENTS OR INTERPRET OR REGARD FORWARD-LOOKING STATEMENTS AS GUARANTEES OF FUTURE OUTCOMES. EXCEPT AS MAY BE REQUIRED BY APPLICABLE CANADIAN SECURITIES LAWS, WE DO NOT INTEND, AND DISCLAIM ANY OBLIGATION TO UPDATE OR REWRITE ANY FORWARD LOOKING STATEMENTS WHETHER ORAL OR WRITTEN AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.**

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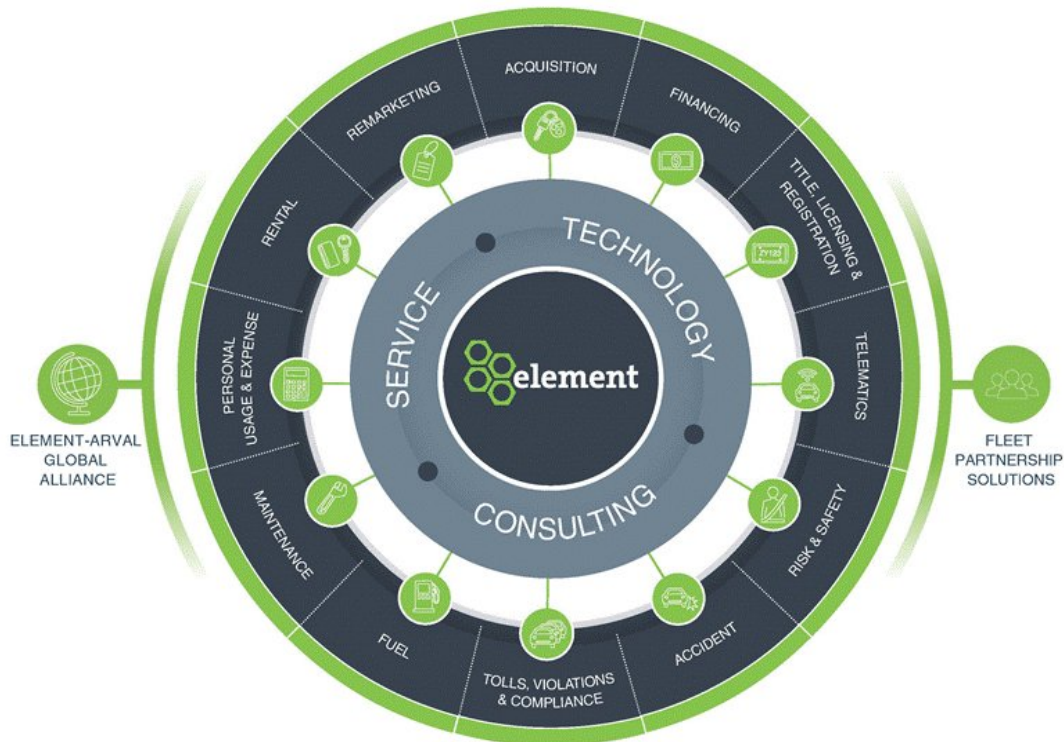
## **Overview**

Element Fleet Management Corp. (“Element” or the “Company”) is a leading global fleet management company, providing world class services and financing for commercial vehicle fleets. Element is the largest fleet management company in North America and the largest publicly traded fleet company in the world. With more than \$18 billion in assets, unprecedented scale, scope, focus and experience, the Company is transforming from a fleet financing and management business to a leading fleet-focused business services provider, driven by technology and advanced analytics, and benefiting from a large-scale stable leasing and integrated services platform. Element is investing in people, processes and technology to drive dynamic long-term growth and lead the transformation of the fleet management industry.

Element was founded in 2007 as Element Financial Corporation (Element Financial), an independent financial services company that originated, co-invested in and managed asset-based financings and related services programs. Through solid business execution over the years and a series of transformational acquisitions, Element Financial had over \$25 billion in assets by the end of 2015. On February 16, 2016, the board of directors of Element Financial approved a plan to separate Element Financial into two publicly traded companies (the “Separation”): ECN Capital Corp. and the Company. As a result of the Separation, the Company was renamed Element Fleet Management Corp., and was established as the world’s largest publicly traded fleet management company.

Element’s mission is to make the Company’s customers’ fleets and their drivers, safer, smarter and more productive, with a suite of services that spans the total fleet lifecycle, from acquisition and financing to program management and remarketing - helping customers optimize performance and improve productivity.

## Our services



Element's comprehensive suite of products and services are supported by industry leading services, professional consulting and state of the art technology. The Company made a significant investment in data analytics and its related technology platform to enable insightful analysis and reporting for Element's customers.

### **The Separation**

The Separation (as discussed previously) was implemented through a court approved plan of arrangement and was approved at a special meeting of the Element Financial shareholders on September 20, 2016, and received final court approval on September 21, 2016. The Separation became effective on October 3, 2016.

As a result of the Separation, the Company adopted IFRS 5, Non-current Assets Held for Sale and Discontinued Operations and IFRIC 17, Distribution of Non-Cash Assets to Owners. In accordance with IFRS 5, the Company has presented assets and liabilities of distributed operations separately from other assets and liabilities in the statement of financial position at December 31, 2016 and September 30, 2016, and the Company has not reclassified or re-presented amounts for periods prior to September 30, 2016. For the statement of operations, the Company, has separated distributed operations as a single amount from continuing operations and has reclassified and re-presented each period and related note disclosure.

Management believes both the assumptions and the allocations underlying the Element Fleet financial statements for the comparative period ended March 31, 2016 are reasonable. However, as a result of the basis of presentation described above, the March 31, 2016 financial statements may not be indicative of Element Fleet's results of operations and cash flows would have been if the business had operated as a stand-alone company.

***Impact of Foreign Currency Exchange Rate Changes***

As we have indicated in previous quarters, the Company is exposed to fluctuations in certain foreign currencies as a result of the operations it conducts in Australia, New Zealand, Mexico and, predominantly, the United States where, as at March 31, 2017, 7.3%, 4.0%, 2.2% and 76.7% of the net finance receivables and equipment under operating leases were located, respectively. While the Company hedges for currencies, assets and liabilities do fluctuate against each other as a result of fluctuation in these currencies against the reporting currency, being the Canadian dollar. Fluctuations in these currencies also affect the reported income when foreign operating results are then converted back to the Canadian dollar.

During the first quarter of 2017, the weighted average changes in average exchange rates of the Company's operating currencies against the Canadian dollar affected adjusted operating income negatively by approximately 0.63% and 2.46% over the immediately preceding quarter and the first quarter in 2016, respectively.

***Changes in Presentation***

Historically, Element reported Service and other revenue net of internal operating expenses directly related to providing certain fleet services, as disclosed in the footnotes to the Company's historical consolidated financial statements. To enhance the presentation of its financial statements, the Company decided to remove these expenses from the revenue line and add them to Salaries, wages, and benefits, as well as General and administrative expenses, as appropriate. This reclassification was implemented retroactively, and the prior periods were adjusted accordingly.



**Selected Quarterly Information - March 31, 2017, December 31, 2016 and March 31, 2016**

The table below sets out key financial metrics that show operating results together with related per share figures, for continuing operations as well as those that include the contribution of Distributed Operations:

(in \$000's for stated values, except ratios and per share amounts)	As at and for the three-month periods ended		
	March 31, 2017	December 31, 2016	March 31, 2016
	\$	\$	\$
Net revenue from continuing operations (4)	234,152	233,546	269,799
Net income from continuing operations	51,845	4,014	74,706
Net income	51,845	175,368	101,269
Total assets (2) (3)	18,786,235	18,420,664	23,922,462
Total debt (3)	14,132,395	13,839,223	17,866,376
Before tax adjusted operating income from continuing operations (1)	123,065	119,942	145,457
After tax adjusted operating income from continuing operations (1)	100,025	99,914	111,163
Earnings (loss) per share from continuing operations			
Basic	0.11	(0.01)	0.17
Diluted	0.11	(0.01)	0.17
Earnings per share			
Basic	0.11	0.43	0.24
Diluted	0.11	0.43	0.24
After tax adjusted operating income per share from continuing operations(1)			
Basic	0.24	0.24	0.26
Pro forma diluted	0.22	0.22	0.26
After tax adjusted operating income per share (1)			
Basic	0.24	0.24	0.35
Pro forma Diluted	0.22	0.22	0.33
Dividends declared, per share			
Common share	0.07500	0.02500	0.02500
Preferred Shares, Series A	0.41250	0.41250	0.41250
Preferred Shares, Series C	0.40625	0.40625	0.40625
Preferred Shares, Series E	0.40000	0.40000	0.40000
Preferred Shares, Series G	0.40625	0.40625	0.40625

(1) For additional information, see "Description of Non-IFRS Measures" section.

(2) March 31, 2016 has been retrospectively adjusted to reflect finalization of the assessment of the fair value of assets acquired and liabilities assumed at the acquisition date of the GE Fleet Operations.

(3) Total assets and debt includes assets and debt included in distributed operations for March 31, 2016; excluding distributed operations, total assets were \$18.1 billion and total debt was \$13.7 billion.

(4) The comparative periods have been reclassified to reflect removing internal expenses related to service delivery from service and other revenue to operating expenses (salaries, wages and benefits, and general and administrative expenses).



**Consolidated Results of Continuing Operations – For the three months ended March 31, 2017, December 31, 2016 and March 31, 2016**

The following table sets forth a summary of the Company’s consolidated results of continuing operations:

	For the three-month periods ended				
	March 31, 2017	December 31, 2016	March 31, 2016	Change over Dec 31, 2016	Change over Mar 31, 2016
(in \$000's for stated values, except per share amounts)	\$	\$	\$	%	%
<b>Net Revenue</b>					
Service and other revenue (1)	143,256	140,229	150,120	2.2	(4.6)
Net interest income and rental revenue (2)	179,984	184,006	203,872	(2.2)	(11.7)
	323,240	324,235	353,992	(0.3)	(8.7)
Interest expense	89,088	90,689	84,193	(1.8)	5.8
<b>Net Revenue</b>	<b>234,152</b>	<b>233,546</b>	<b>269,799</b>	<b>0.3</b>	<b>(13.2)</b>
<b>Operating Expenses</b>					
Salaries, wages and benefits	70,806	72,152	75,359	(1.9)	(6.0)
General and administration expenses	40,281	41,452	48,983	(2.8)	(17.8)
Amortization of convertible debenture synthetic discount	3,206	3,155	3,003	1.6	6.8
Share-based compensation	6,036	2,850	7,813	111.8	(22.7)
<b>Total operating expenses</b>	<b>120,329</b>	<b>119,609</b>	<b>135,158</b>	<b>0.6</b>	<b>(11.0)</b>
<b>Business Acquisition and Separation Costs</b>					
Amortization of intangibles from acquisition	14,821	15,730	16,126	(5.8)	(8.1)
Transaction and integration costs	36,046	68,592	31,369	(47.4)	14.9
Separation costs	—	45,936	—	(100.0)	n/a
<b>Total business acquisition and separation costs</b>	<b>50,867</b>	<b>130,258</b>	<b>47,495</b>	<b>(60.9)</b>	<b>7.1</b>
Share of loss from joint venture	10,244	—	—	n/a	n/a
<b>Net income (loss) before taxes</b>	<b>52,712</b>	<b>(16,321)</b>	<b>87,146</b>	<b>(423.0)</b>	<b>(39.5)</b>
Income tax expense (recovery)	867	(20,335)	12,440	(104.3)	(93.0)
<b>Net income for the period from continuing operations</b>	<b>51,845</b>	<b>4,014</b>	<b>74,706</b>	<b>1,191.6</b>	<b>(30.6)</b>
Earnings (loss) per share [basic] - continuing operations	0.11	(0.01)	0.17	(1,200.0)	(35.3)
Earnings (loss) per share [diluted] - continuing operations	0.11	(0.01)	0.17	(1,200.0)	(35.3)

(1) The comparative periods have been reclassified to reflect removing internal expenses related to service delivery from service and other revenue to operating expenses (salaries, wages and benefits, and general and administrative expenses).

(2) Net interest income and rental revenue is equal to interest income, less provision for credit losses and rental income earned on equipment under operating leases, less depreciation on equipment under operating leases.

The following table provides a reconciliation of Non-IFRS Measures for consolidated adjusted operating expense, consolidated adjusted operating income and consolidated after-tax adjusted operating income from continuing operations:

	<b>For the three-month periods ended</b>				
	<b>March 31, 2017</b>	December 31, 2016	March 31, 2016	Change over Dec 31, 2016	Change over Mar 31, 2016
(in \$000's for stated values, except per share amounts)	\$	\$	\$	%	%
<b>Net Revenue</b>					
Service and other revenue (4)	<b>143,256</b>	140,229	150,120	2.2	(4.6)
Net interest and rental revenue (3)	<b>90,896</b>	93,317	119,679	(2.6)	(24.1)
<b>Net revenue</b>	<b>234,152</b>	233,546	269,799	0.3	(13.2)
<b>Adjusted operating expenses</b>					
Salaries, wages and benefits	<b>70,806</b>	72,152	75,359	(1.9)	(6.0)
General and administration expenses	<b>40,281</b>	41,452	48,983	(2.8)	(17.8)
<b>Adjusted operating expenses (1)</b>	<b>111,087</b>	113,604	124,342	(2.2)	(10.7)
<b>Adjusted operating income - continuing operations (1)</b>	<b>123,065</b>	119,942	145,457	2.6	(15.4)
Provision for taxes applicable to adjusted operating income - continuing operations	<b>23,040</b>	20,028	34,294	15.0	(32.8)
<b>After-tax adjusted operating income - continuing operations (1) (2)</b>	<b>100,025</b>	99,914	111,163	0.1	(10.0)
Less: Cumulative preferred share dividends	<b>8,912</b>	8,912	8,912	—	—
<b>After-tax adjusted operating income from continuing operations attributable to common shareholders (1)</b>	<b>91,113</b>	91,002	102,251	0.1	(10.9)
Weighted average number of shares outstanding [basic]	<b>387,711</b>	386,930	386,135	0.2	0.4
Before-tax adjusted operating income per share [basic] - continuing operations (1)	<b>0.29</b>	0.29	0.35	—	(17.1)
After-tax adjusted operating income per share [basic] - continuing operations (1)	<b>0.24</b>	0.24	0.26	—	(7.7)

(1) For additional information, see "Description of Non-IFRS Measures" section.

(2) For reconciliation from IFRS Net Income to After-tax adjusted operating income, see page 26.

(3) Net interest and rental revenue is equal to interest income, less provision for credit losses and rental income earned on equipment under operating leases, less depreciation on equipment under operating leases, and less interest expense.

(4) The comparative periods have been reclassified to reflect removing internal expenses related to service delivery from service and other revenue to operating expenses (salaries, wages and benefits, and general and administrative expenses).

Service and other revenue for the three-month period ended March 31, 2017 ("Q1 2017") was \$143.3 million, a decrease of 4.6% and an increase of 2.2% from those reported in the three-month period ended March 31, 2016 ("Q1 2016") and December 31, 2016 ("Q4 2016"), respectively. On a constant currency basis, Service and other revenue declined by 2.4% and increased by 2.8% compared to those reported in Q1 2016 and Q4 2016, respectively. The decline compared to the prior year was partly related to a catch-up accrual in Q1 2016 related to prior year other revenues. The majority of the services revenue is recurring in nature, and are billed to customers as a combination of fixed monthly charges, per unit monthly charge and/or on a per usage basis. A portion of the services fee is transactional in nature and may fluctuate from time to time, based on customer activity and the level of transactions completed by the Company in the quarter.

Net interest and rental revenue for Q1 2017 was \$90.9 million, a decrease of 24.1% from the \$119.7 million reported in Q1 2016, and a decrease of 2.6% from the \$93.3 million reported in Q4 2016. On a constant currency basis, Net interest income and rental revenue decreased by 8.6% and 2.0% compared to what was

reported in Q1 2016 and Q4 2016, respectively. The decrease compared to Q1 2016 was due to a decline in average earning assets that was partly due to the continued depletion, as planned, in the acquired equipment finance portfolio in New Zealand. The decline was partially offset by higher yield on our assets in the US given the increase in benchmark rates. On a sequential basis, Net interest and rental revenue decreased mainly due to a 3.4% decline, constant currency, in average earning assets, due to the backlog of orders in interim funding. Including interim funding, total finance assets increased in the quarter from \$14.9 billion in Q4 2016 to \$15.2 billion in Q1 2017. The decrease compared to Q1 2016 also reflected the impact of the widening spreads on financings during the first half of 2016, increasing LIBOR, and partially offset by improved pricing on the Company's senior debt facility. The decrease over Q4 2016, also reflected the higher debt advance rate (average debt divided by average earning assets) of 102.0% compared to 98.8% during Q4 2016, as activations were delayed due to integration.

The following table sets out Net interest and rental revenue margin ("NIM") calculation, together with references to key benchmarks and metrics:

	For the three-month periods ended		
	March 31, 2017	December 31, 2016	March 31, 2016
(in \$000's for stated values)	%	%	%
Net interest income and rental revenue	5.34	5.24	5.67
Interest expense	2.64	2.58	2.34
Net interest and rental revenue margin or NIM (1)	2.70	2.66	3.33
Average cost of debt (Interest expense / average debt) (1)	2.59	2.61	2.35
Average 1-Month LIBOR rates	0.85	0.64	0.43
Total average earning assets (1)	\$ 13,479,102	\$ 14,056,388	\$ 14,393,176
Average debt outstanding (1)	\$ 13,744,990	\$ 13,894,628	\$ 14,337,080
New originations	\$ 1,675,841	\$ 1,652,023	\$ 1,636,472

(1) For additional information, see "Description of Non-IFRS Measures" section.

NIM was 2.70% during the three-month period ended March 31, 2017, a decrease from the 3.33% reported for Q1 2016 and an increase from the 2.66% reported in Q4 2016. The decrease and increase compared to Q1 2016 and Q4 2016, respectively, are consistent and due to factors discussed previously.

Average cost of debt increased to 2.59% during the three-month period ended March 31, 2017, from 2.35% in Q1 2016 and decreased marginally from 2.61% from the immediately preceding quarter. The increase and decrease compared to Q1 2016 and Q4 2016, respectively, were in line with the movement in net interest income over the time period. The increase over Q1 2016 was the result of higher cost of debt and higher cost of funds related to a new permanent financing structure and related hedging strategies. In addition, the average 1-Month LIBOR rates increased from 0.43% during Q1 2016 to 0.85% during Q1 2017.

Adjusted operating expenses were \$111.1 million for Q1 2017 compared to \$124.3 million for the comparable quarter of 2016 and \$113.6 million for the immediate preceding quarter. On a constant currency basis, operating expenses declined by 8.0% compared to Q1 2016 and by 1.6% compared to Q4 2016. The decrease from Q1 2016 was primarily related to lower transition services agreement costs ("TSA") related to the GE Acquisition. The decrease compared to Q4 2016 was primarily due to reduction in accruals for wages and benefits in the current period and lower TSA costs. Overall, the Company continues to benefit from synergy savings as part of integration and the Company manages its expenses in relation to revenue performance.



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The following table summarizes adjusted operating expenses as a percentage of net revenue:

	For the three-month periods ended		
	March 31, 2017	December 31, 2016	March 31, 2016
	%	%	%
Adjusted operating expenses as a percentage of net revenue	47.44	48.64	46.09

Share-based compensation, included in total operating expenses, decreased to \$6.0 million for Q1 2017 compared to \$7.8 million for the comparable quarter of 2016 and increased from \$2.9 million for Q4 2016. The decrease over the comparative quarter in 2016 was due to the cessation of the amortization of stock compensation expenses related to employees who became employees of ECN Capital on the Separation, and offset by new grants in late 2016 and early 2017. The increase over the immediately preceding quarter was primarily due to amortization expense of new grants in late 2016.

Amortization of convertible debenture synthetic discount, also included in total operating expenses, represented the accretion of the convertible debenture discount created from the bifurcation of the convertible debenture between debt and share capital.

Transaction and integration cost was \$36.0 million in Q1 2017, compared to \$31.4 million in Q1 2016 and \$68.6 million in Q4 2016. The decrease during the quarter compared to Q4 2016 was due to higher integration activities towards the end of the prior year. While the integration in the US is primarily complete, the Company continues to execute post IT migration activities in the US. The integration in Mexico is progressing as planned.

The amortization of intangibles acquired as part of business acquisitions was \$14.8 million in Q1 2017, down from the \$16.1 million in Q1 2016 and the \$15.7 million in Q4 2016.

Separation cost was \$45.9 million during the immediately preceding quarter, which included final expenses to effect the separation, included an accrual of \$24.9 million (which was the Company's portion under the separation agreement) related to employment arrangements for certain former Element Financial Corporation executives who are now executives at ECN Capital.

The Company's share of start-up losses from its interest in the 19th Capital joint venture entered into on December 30, 2016 was \$10.2 million before taxes. The market for this type of asset (Class 8 trucks) remained slower than normal, and together with the relatively higher maintenance cost, this resulted in a loss for this period. While the joint venture continues to execute on its business plan of becoming a leading operation in the North American fleet trucking industry, recovery in the industry is expected to be slower and as such, the Company expects that non-cash losses will continue for the start-up phase in 2017.

Net income before income taxes from continuing operations for Q1 2017 was \$52.7 million compared to net income before income taxes from continuing operations of \$87.1 million reported for Q1 2016 and net loss before income taxes from continuing operations of \$16.3 million reported for Q4 2016. The decrease in pre-tax income over Q1 2016 was primarily due to lower net revenue offset by lower operating expenses. The increase from Q4 2016, was primarily from lower business acquisition and separation costs incurred in the current period.

Net income from continuing operations was \$51.8 million for Q1 2017, compared to net income from continuing operations of \$74.7 million for Q1 2016 and net income from continuing operations of \$4.0 million for Q4 2016, largely consistent with the changes in net income before taxes from continuing operations.

Basic and diluted earnings per share from continuing operations were \$0.11 and \$0.11, respectively, for the three-month periods ended March 31, 2017, compared to basic and diluted income per share of \$0.17 and \$0.17, respectively, for the quarter ended March 31, 2016, and basic and diluted loss per share of \$0.01 and \$0.01, respectively, for the immediately preceding quarter ended December 31, 2016. Variances in earnings per share figures were related to the same factors that impacted net income (loss) from continuing operations as described above.

As indicated previously, management believes that adjusted operating income, a Non-IFRS Measure, is the most appropriate operating measure of the Company's operating performance as it excludes non-cash items related to the Company's share of start-up losses from the joint venture, share-based compensation, and business acquisition costs which do not relate to maintaining operating activities. Adjusted operating income from continuing operations for Q1 2017 was \$123.1 million, a decrease of \$22.4 million or 15.4% over the amount reported for Q1 2016 and an increase of \$3.2 million or 2.6% over the amount reported during the immediately preceding quarter. The decrease over the Q1 2016 comparative quarter was primarily the result of lower net revenue as discussed above, while the increase over the immediately preceding quarter was primarily due to an increase in net revenue and a decrease in adjusted operating expenses.

## Consolidated Financial Position

The following table presents a summary of the comparative consolidated financial position:

	<b>As at</b>		
	<b>March 31, 2017</b>	December 31, 2016	Change
(in \$000's for stated values)	\$	\$	%
<b>Assets</b>			
Finance assets			
Finance receivables	<b>13,690,479</b>	13,454,011	1.8
Equipment under operating leases	<b>1,491,415</b>	1,421,637	4.9
<b>Total finance assets</b>	<b>15,181,894</b>	14,875,648	2.1
<b>Other assets</b>	<b>1,457,515</b>	1,381,953	5.5
<b>Goodwill and intangible assets</b>	<b>2,146,826</b>	2,163,063	(0.8)
<b>Total Assets</b>	<b>18,786,235</b>	18,420,664	2.0
<b>Liabilities</b>			
Debt			
Secured borrowings	<b>13,271,766</b>	12,983,535	2.2
Convertible debentures	<b>860,629</b>	855,688	0.6
<b>Total debt</b>	<b>14,132,395</b>	13,839,223	2.1
<b>Other liabilities</b>	<b>675,125</b>	600,087	12.5
<b>Total liabilities</b>	<b>14,807,520</b>	14,439,310	2.6
<b>Shareholders' equity</b>	<b>3,978,715</b>	3,981,354	(0.1)
<b>Total liabilities and shareholders' equity</b>	<b>18,786,235</b>	18,420,664	2.0

Total assets and liabilities increased by 2.0% and 2.6%, respectively, mainly as a result of an increase in total finance assets and related debt, offset by a decrease in the US dollar compared to the Canadian dollar. The Company was also exposed to other currencies that primarily appreciated against the Canadian dollar during the period. The net impact of these currency variations flows as Other Comprehensive Income through Shareholders' Equity.

## Portfolio Finance Asset Details

### Finance receivables

The following table sets forth a breakdown of the Company's consolidated finance receivables:

	March 31, 2017	December 31, 2016	As at Change
	\$	\$	%
<i>(in \$000's for stated values, except ratios)</i>			
Net investment in finance receivables	12,048,343	12,372,533	(2.6)
Impaired receivables - at net realizable value	5,952	3,163	88.2
	<b>12,054,295</b>	12,375,696	(2.6)
Unamortized origination costs and subsidies	(128,171)	(129,829)	(1.3)
Net finance receivables	<b>11,926,124</b>	12,245,867	(2.6)
Prepaid lease payments and Security deposits	(65,972)	(27,568)	139.3
Interim funding	1,033,482	483,079	113.9
Fleet management service receivables	663,861	623,848	6.4
Other	138,962	134,866	3.0
	<b>13,696,457</b>	13,460,092	1.8
Allowance for credit losses	5,978	6,081	(1.7)
	<b>13,690,479</b>	13,454,011	1.8
<b>Ratios</b>			
Allowance for credit losses as a percentage of finance receivables	<b>0.04%</b>	0.05%	

Total finance receivables from continuing operations have increased by 1.8% compared to December 31, 2016, due to originations that resulted in higher interim fundings following a delay in activations due to integration activities, offset by the US dollar retraction compared to the Canadian dollar as mentioned previously.

#### Allowance for credit losses

Management maintains an allowance for credit losses, which it establishes to provide for impairment of individual or groups of assets. Individual impairment is assessed by examining contractual delinquency, and the individual borrower's financial condition, such as the identification of a borrower entering bankruptcy, or the company being in the process of legal or collateral repossession proceedings with a debtor. Accounts over 120 days past due are automatically considered to be impaired and are fully provisioned net of any anticipated recoveries and are presented at their net realizable value. Accounts that are contractually delinquent less than 120 days are provisioned by applying probability-weighted assumptions consistent with industry standards and the Company's own experience with respect to the probability of an identified account resulting in a borrower default. The amount of allowance for credit losses is measured as the difference between the carrying amounts of the assets on the consolidated statements of financial position and the present value of the estimated future cash flows on the financial receivables, discounted at the finance receivables' original effective interest rate.



The Company's policy is to assess credit risk related to specific customer defaults, by performing detailed assessments on the value of the underlying security, the customer's financial condition and ability to service the debt, both at loan inception and throughout the term of the loan.

The Company's allowance for credit losses was \$6.0 million as at March 31, 2017, a decrease of \$0.1 million or 1.7% over the \$6.1 million reported at December 31, 2016. The allowance for credit losses as a percentage of finance receivables as at March 31, 2017 was 0.04%, a decrease from 0.05% as at December 31, 2016. The declines reflect the lower net investment balances at the current period end.

Please refer to sections titled "Geographic Portfolio Segmentation", "Asset Class Portfolio Distribution" and "Delinquencies and Losses" of this MD&A for additional information.

### Delinquencies and losses

The contractual delinquency of the net finance receivables at each reporting period is as follows:

	As at			
	March 31, 2017		December 31, 2016	
	\$	%	\$	%
(in \$000's for stated values)				
<b>Current</b>	<b>11,899,368</b>	<b>99.78</b>	12,240,037	99.95
<b>31 to 60 days</b>	<b>11,257</b>	<b>0.09</b>	2,057	0.02
<b>61 to 90 days</b>	<b>7,031</b>	<b>0.06</b>	250	—
<b>91 to 120 days</b>	<b>2,516</b>	<b>0.02</b>	360	—
<b>Impaired receivables</b>	<b>5,952</b>	<b>0.05</b>	3,163	0.03
<b>Total</b>	<b>11,926,124</b>	<b>100.00</b>	12,245,867	100.00

Credit losses and provisions, as at and for each of the respective periods are as follows:

	Three-month period ended March 31, 2017	Year ended December 31, 2016
	\$	\$
(in \$000's for stated values, except ratios)		
Allowance for credit losses, beginning of period	6,081	13,397
Provision for credit losses	—	(3,834)
Charge-offs, net of recoveries	(93)	(2,654)
Impact of foreign exchange rates	(10)	(828)
Allowance for credit losses, end of period	5,978	6,081
Allowance for credit losses as a percentage of finance receivables	0.04%	0.05%

The allowance for credit losses of \$6.0 million as at March 31, 2017 represented 0.04% of the finance receivables outstanding, a reduction from the 0.05% reported at December 31, 2016. The charge offs, net of recoveries during the 2016 fiscal year, reflects the realization of amounts that were specifically provided for as part of the GE Acquisition, and excluding these amounts there would have been a net recovery of \$0.3 million. Overall, the allowance was in-line with management's expectation of losses from the business and the mix of assets, including the addition of finance receivables acquired from the GE Acquisition.

### Equipment under operating leases

The following table sets forth the Company's equipment under operating leases for continuing operations:

	<b>As at</b>		
	<b>March 31, 2017</b>	December 31, 2016	Change
(in \$000's for stated values)	\$	\$	%
Equipment under operating leases, net			
Fleet Vehicles	<b>1,491,415</b>	1,421,637	4.9
	<b>1,491,415</b>	1,421,637	4.9

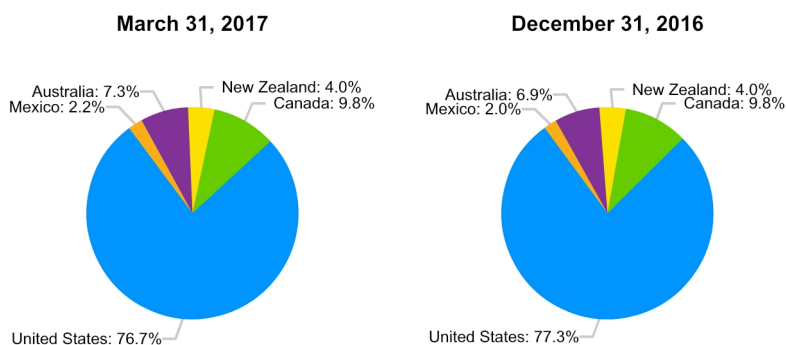
Fleet vehicle assets are amortized up to 10 years, with an average amortization period of approximately 45 months.

### Portfolio Distribution

#### Geographic Portfolio Segmentation

The table below sets forth the geographical distribution of the Company's portfolio of net finance receivables and equipment under operating leases:

	<b>As at</b>			
	<b>March 31, 2017</b>		December 31, 2016	
(in \$000's for stated values)	\$	%	\$	%
<b>United States</b>	<b>10,286,537</b>	<b>76.7</b>	10,567,964	77.3
<b>Canada</b>	<b>1,315,559</b>	<b>9.8</b>	1,344,546	9.8
<b>Australia</b>	<b>985,067</b>	<b>7.3</b>	931,481	6.9
<b>New Zealand</b>	<b>537,089</b>	<b>4.0</b>	552,260	4.0
<b>Mexico</b>	<b>293,287</b>	<b>2.2</b>	271,253	2.0
<b>Total</b>	<b>13,417,539</b>	<b>100.0</b>	13,667,504	100.0
<b>Allocated as:</b>				
<b>Net finance receivables</b>	<b>11,926,124</b>	<b>88.9</b>	12,245,867	89.6
<b>Equipment under operating leases, net</b>	<b>1,491,415</b>	<b>11.1</b>	1,421,637	10.4
<b>Total</b>	<b>13,417,539</b>	<b>100.0</b>	13,667,504	100.0

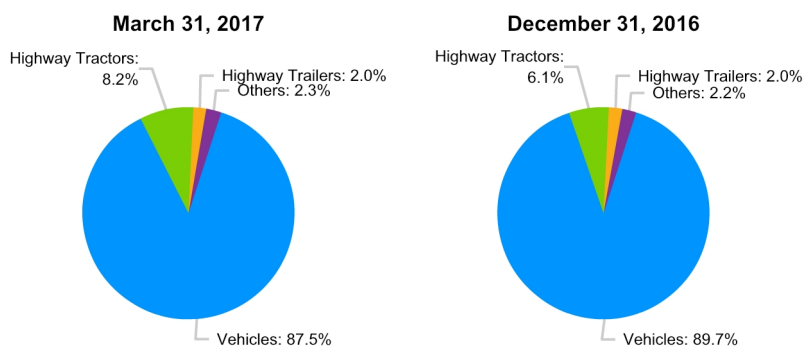


As noted in the table and chart above, over 75% of the Company's net finance receivables and equipment under operating leases is in the US.

#### Asset Class Portfolio Distribution

The distribution of the net finance receivables and equipment under operating leases by asset classes was as follows:

(in \$000's for stated values)	March 31, 2017		December 31, 2016	
	\$	%	\$	%
Vehicles	11,742,215	87.5	12,262,129	89.7
Highway Tractors	1,101,723	8.2	831,693	6.1
Highway Trailers	262,600	2.0	278,831	2.0
Others	311,001	2.3	294,851	2.2
	<b>13,417,539</b>	<b>100.0</b>	<b>13,667,504</b>	<b>100.0</b>



## Liquidity & Capital Resources

An important liquidity measure for the Company is its ability to maintain diversified funding sources to support its operations. The Company's primary sources of liquidity are (i) cash flows from operating activities, (ii) the secured borrowing facilities, and (iii) equity. The Company's primary use of cash is the funding of finance receivables and the funding of working capital. The Company manages its capital resources by utilizing the financial leverage available under its term funding and revolving facilities and, when additional capital is required, the Company has access to capital through the issuance of convertible debt, preferred or common shares.

Management believes that the immediate liquidity available to the Company of \$4,989.2 million at March 31, 2017 plus the cash flow internally generated from the repayment of leases and loans is sufficient to fund the Company's operations throughout 2017, as well as to pay dividends to all preferred and common shareholders.

On March 9, 2017, the board of directors approved a capital allocation policy that focuses on capital efficiency, and balances prudent investment in the growth of the business, both organically and through acquisitions, with disciplined balance sheet management and attractive returns to the shareholders. Under such plan, the Board of Directors approved an increase in annual dividend to \$0.30 per common share, effective Q1 2017, up from \$0.10 per common share (or \$0.075 per common share per quarter, up from \$0.025 per common share per quarter).

The Company views both financial and tangible leverage as key indicators of the strength of the Company's Consolidated Statements of Financial Position. As at March 31, 2017, the Company's financial leverage ratio was 3.55:1 and the Company's tangible leverage was 7.71:1. In the medium term, the Company targets a tangible leverage ratio of 7.0 to 7.5:1.

The Company's capitalization is calculated as follows:

		As at
		March 31, 2017
(in \$000's, except ratios)		\$
Secured borrowings		13,271,766
Convertible debentures		860,629
Total debt	(a)	14,132,395
Total shareholders' equity	(b)	3,978,715
		18,111,110
Goodwill and intangible assets	(c)	2,146,826
Financial leverage	(a)/(b)	3.55
Tangible leverage	(a)/[(b)-(c)]	7.71



Management Discussion and Analysis – March 31, 2017

The table below is a summary adjusted cash flow statement that more closely reflects the key cashflows from operations, presented in a model more applicable to a fleet management company:

	For the three-month period ended	For the three-month period ended
	March 31, 2017	March 31, 2016
(in \$000's)	\$	\$
<b>CASH PROVIDED BY ADJUSTED OPERATING ACTIVITIES</b>		
After-tax adjusted operating income	<b>100,025</b>	111,163
Items not affecting cash		
Income taxes on adjusted operating income	<b>23,040</b>	34,294
Amortization, depreciation and provisions and other	<b>22,429</b>	15,158
Cash provided by adjusted operating activities	<b>145,494</b>	160,615
<b>CASH USED IN ADJUSTED INVESTING ACTIVITIES</b>		
Principal repayments of finance receivables and depreciation of equipment under operating leases	<b>1,221,010</b>	1,741,292
Syndications of finance receivables	<b>51,283</b>	110,046
Purchase of finance assets and equipment under operating leases	<b>(1,675,841)</b>	(1,636,472)
Others	<b>(59,821)</b>	(385,219)
Cash used in adjusted investing activities	<b>(463,369)</b>	(170,353)
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
Issuance of share capital from exercise of stock options	<b>7,424</b>	10
Issuance of secured borrowings, net	<b>332,423</b>	(75,270)
Dividends paid	<b>(18,591)</b>	(18,815)
Cash provided by (used in) financing activities	<b>321,256</b>	(94,075)
Net changes in cash provided by distributed operations	<b>—</b>	93,235
Net increase (decrease) in adjusted cash during the period	<b>3,381</b>	(10,578)
Cash, beginning of period	<b>12,638</b>	56,764
Cash, end of period	<b>16,019</b>	46,186



## Debt and contractual repayment obligations

With nearly \$5.0 billion in available sources of financing, we have significant resources available to continue funding projected growth. Finance receivables are securitized on a regular basis to ensure cash is always available to fund new transactions. In addition, the Company adheres to a strict policy of matching the maturities of owned finance assets and the related debt as closely as possible in order to manage its liquidity position.

The Company's available sources of financing for continuing operations were as follows:

	<b>As at</b>	
	<b>March 31, 2017</b>	December 31, 2016
(in \$000's)		\$
Cash	<b>16,019</b>	12,638
Term Senior Facility		
Facility amount	<b>4,654,650</b>	4,699,450
Utilized against facility	<b>3,494,105</b>	2,978,122
	<b>1,160,545</b>	1,721,328
Vehicle Management Asset-Backed Debt		
Facilities	<b>13,635,046</b>	14,207,887
Utilized against available facilities	<b>9,822,390</b>	10,051,059
	<b>3,812,656</b>	4,156,828
<b>Total available sources of capital for continuing operations</b>	<b>4,989,220</b>	5,890,794

The Company was in compliance with all of the terms of its credit facilities and loan agreements throughout the period and as at March 31, 2017.

### ***Distributed Operations - ECN Capital Corp.***

On October 3, 2016, Element completed the separation of its C&V Finance, Aviation Finance and Rail Finance verticals ("Distributed Operations") into ECN Capital Corp. ("ECN Capital"), implemented by way of a plan of arrangement.

The Distributed Operations have been presented and accounted for using IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and IFRIC 17, *Distribution of Non-Cash Assets to Owners*. Under this guidance, a distribution dividend of \$1,710,473 was recorded. The dividend was based on the fair value of the distribution as determined using independent valuers and approved by the Company's Board of Directors.

The following table presents the results of Element's Distributed Operations for the reported period, and on or before the date of separation and has been derived from the historical consolidated financial statements of Element and is presented on a carved-out basis as if ECN Capital had operated on a stand-alone basis throughout the period.

	<b>For the three-month period ended</b>
	March 31, 2016
(in \$000's for stated values)	\$
Net revenue	55,924
Net income (loss) before taxes	34,723
Net income for the period	26,563
Adjusted operating income (1)	37,443
After-tax adjusted operating income (1)	28,831

(1) For additional information, see "Description of Non-IFRS Measures" section.

## Summary of Consolidated Quarterly Information

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended March 31, 2017. This information has been prepared on the same basis as the Company's audited consolidated financial statements as adjusted to reflect the distinction between continuing and distributed operations, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes to those statements.

(in \$ 000's for stated values, except per share amounts)	Q1, 2017	Q4, 2016	Q3, 2016	Q2, 2016	Q1, 2016	Q4, 2015	Q3, 2015	Q2, 2015
Net revenue from continuing operations (2)	234,152	233,546	245,670	249,345	269,799	240,697	143,418	108,054
Adjusted operating income from continuing operations (1)	123,065	119,942	126,581	133,920	145,457	117,971	72,143	51,797
Adjusted operating income from distributed operations (1)	—	—	31,087	32,896	37,443	43,567	34,978	36,967
Total adjusted operating income (1)	123,065	119,942	157,668	166,816	182,900	161,538	107,121	88,764
After-tax adjusted operating income continuing ops (1)	100,025	99,914	104,978	105,382	111,163	109,931	60,240	39,466
After-tax adjusted operating income from distributed operations (1)	—	—	27,444	25,330	28,831	33,547	26,933	28,465
Total after-tax adjusted operating income (1)	100,025	99,914	132,422	130,712	139,994	143,478	87,173	67,931
Net income / (loss) from continuing operations	51,845	4,014	35,644	75,900	74,706	72,835	(29,505)	(860)
Net income / (loss) from distributed operations	—	171,354	1,225	23,933	26,563	31,598	24,849	26,017
Total net income / (loss)	51,845	175,368	36,869	99,833	101,269	104,433	(4,656)	25,157
Earnings per share from continuing operations, basic	0.11	(0.01)	0.07	0.17	0.17	0.17	(0.13)	(0.03)
Earnings per share from distributed operations, basic	—	0.44	—	0.06	0.07	0.08	0.08	0.10
Total earnings (loss) per share, basic	0.11	0.43	0.07	0.24	0.24	0.25	(0.04)	0.07
Earnings per share from continuing operations, diluted	0.11	(0.01)	0.07	0.17	0.17	0.16	(0.13)	(0.03)
Earnings per share from distributed operations, diluted	—	0.44	—	0.06	0.07	0.08	0.08	0.10
Total earnings (loss) per share, diluted	0.11	0.43	0.07	0.23	0.24	0.24	(0.04)	0.07
Adjusted operating income per share (basic) - from continuing operations (1)	0.29	0.29	0.30	0.32	0.35	0.28	0.21	0.17
After-tax adjusted operating income per share (basic) - from continuing operations (1)	0.24	0.24	0.25	0.25	0.26	0.26	0.17	0.12
After-tax pro forma diluted adjusted operating income per share - from continuing operations (1)	0.22	0.22	0.24	0.24	0.26	0.25	0.17	0.12
Total earning assets - continuing operations	13,706,744	13,973,475	13,985,366	13,817,529	13,879,718	14,619,209	14,038,269	5,884,769
Loan and lease originations - continuing operations	1,675,841	1,652,023	1,572,615	1,702,789	1,636,472	1,689,441	1,122,725	1,047,535
Allowance for credit losses - continuing operations	5,978	6,081	8,388	7,199	11,875	13,397	6,593	2,452
As a % of finance receivables	0.04	0.05	0.06	0.05	0.09	0.09	0.05	0.04
Senior revolving credit facility - continuing operations	3,494,105	2,978,122	3,002,178	2,834,324	3,109,079	3,214,024	6,997,553	(218,822)
Secured borrowings - continuing operations	9,777,661	10,005,413	9,926,109	9,961,891	9,532,109	10,176,622	5,512,244	5,248,972
Convertible debentures - continuing operations	860,629	855,688	850,822	846,031	841,312	836,472	831,916	829,470

(1) For additional information, see "Description of Non-IFRS Measures" section.

(2) The comparative periods have been reclassified to reflect removing internal expenses related to service delivery from service and other revenue to operating expenses (salaries, wages and benefits, and general and administrative expenses).

Key factors that account for the fluctuation in the Company's quarterly results from continuing operations included the volume of leases and loans that the Company has originated and activated as well as the timing of the GE Acquisition. Variations in the quarterly results from distributed operations, included the timing of the acquisition of (i) the railcar portfolios acquired in March 2015, June 2015, September 2015, December 2015 and March 2016, (ii) the various new vendor and commercial finance programs and relations entered into during the intervening periods, (iii) the run-off of the aviation finance portfolio, (iv) the gain recognized on the distribution of ECN Capital to shareholders of the Company on October 3, 2016.

### ***Other Disclosures***

#### **Related Party Transactions**

The Company's related parties include the following persons and/or entities: (a) associates, or entities which are controlled or significantly influenced by the Company; (b) key management personnel, which are comprised of directors and/or officers of the Corporation and those persons having authority and responsibility for planning, directing and controlling the activities of the Company; (c) entities controlled by key management personnel. The Company's policies and procedures and nature of its related party transactions have not changed materially from December 31, 2016, as described under "Related-Party Transactions" in the Company's 2016 Annual MD&A.

#### **Risk Management**

The Company has risk management processes in place to monitor, evaluate and manage the principal risks it assumes in conducting its business activities. These risks include credit, liquidity, interest rate, and various sources of operational risk. The Company's approach to the management of risk has not changed significantly from that described in the "Risk Management" section of the Company's 2016 Annual MD&A.

#### **Outlook and Economic Conditions**

The Company's principal objective is a continuation of managed growth by developing quality new business opportunities in fleet management while maintaining high underwriting standards. The Company is well positioned to capitalize on market opportunities and to address increased competition through its experienced management and staff, and investment in technology, coupled with its substantial capital and borrowing capacity. The Company continues to look for opportunities to introduce new products and services to benefit its customers and generate increased net revenues.

## Critical Accounting Policies and Estimates

Management's discussion and analysis of financial conditions and results of operations are made with reference to the unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2017. A summary of the Company's significant accounting policies are presented in Note 2 to audited consolidated financial statements for the year ended December 31, 2016. Some of the Company's accounting policies, as required by IFRS, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. Accounting policies that require management's judgment and estimates are described in the "Critical Accounting Policies and Estimates" section of the December 31, 2016 MD&A.

## Future Accounting Changes

All accounting standards effective for periods beginning on or after January 1, 2017 have been adopted by the Company. The following new IFRS pronouncements have been issued but are not yet effective and may have a future impact on the Company's financial statements.

IFRS 9, Financial Instruments ["IFRS 9"], was issued in November 2009 and amended in October 2010, November 2013, and July 2014, and is effective for years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. It is intended to replace IAS 39. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9's classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entities business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged. The new standard replaces the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. The standard introduces a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ["IFRS 15"] was issued in May 2014 and is effective for years beginning on or after January 1, 2018, to be applied retrospectively or on a modified retrospective basis. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to lease contracts, financial instruments and other related contractual rights and obligations and insurance contracts. Management is currently evaluating the potential impact that the adoption of IFRS 15 will have on the Company's consolidated financial statements.

IFRS 16, Leases ["IFRS 16"], will replace IAS 17, Leases ["IAS 17"]. IFRS 16 substantially carry forward IAS 17 accounting requirements for lessor accounting, with additional disclosure requirements. For lessee accounting, the new standard will result in almost all leases being accounted for similar to finance leases under IAS 17, including leases previously accounted for as operating leases. IFRS 16 is to be effective for fiscal years beginning on or after January 1, 2019. Management is currently evaluating the potential impact that the adoption of IFRS16 will have on the Company's consolidated financial statements.

## Internal Control over Disclosure and Financial Reporting

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) are responsible for designing disclosure controls and procedures to ensure that material information is being recorded, processed, summarized, and reported to senior management, including the certifying officers and other members of the Board of Directors, on a timely basis, so that appropriate decisions can be made regarding public disclosure. In addition, the CEO and CFO are responsible to design, or cause to be designed under their supervision, internal controls over financial reporting to a standard that provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

### *Limitations on the effectiveness of disclosure controls and internal controls over financial reporting*

It should be noted that while the Company’s CEO and CFO believe that the Company’s internal control system and disclosure controls and procedures provide a reasonable level of assurance that the objectives of the control systems are met, they do not expect that the Company’s control systems will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurances that any designs will succeed in achieving its stated goals under all potential conditions.

The Company has an established process in place which includes the continuous testing and reporting of the results to senior management and the Board of Directors on the effectiveness of the disclosure controls and internal controls over financial reporting.

## IFRS to Non-IFRS Reconciliations

The following table provides a reconciliation of IFRS to non-IFRS measures related to the consolidated continuing operations of the Company:

		As at and for the three-month period ended		
(in \$000's for stated values)		March 31, 2017	December 31, 2016	March 31, 2016
<b>Reported and adjusted income measures</b>				
<b>Continuing operations</b>				
Net income	A	51,845	4,014	74,706
Adjustments:				
Amortization of debenture synthetic discount		3,206	3,155	3,003
Share-based compensation		6,036	2,850	7,813
Amortization of intangible assets from acquisitions		14,821	15,730	16,126
Transaction, integration and separation costs		36,046	114,528	31,369
Provision (recovery) of income taxes		867	(20,335)	12,440
Share of loss from joint venture		10,244	—	—
<b>Before-tax adjusted operating income</b>	B	<b>123,065</b>	119,942	145,457
Provision for taxes applicable to adjusted operating income	C	23,040	20,028	34,294
<b>After-tax adjusted operating income</b>	D=B-C	<b>100,025</b>	99,914	111,163
Cumulative preferred share dividends during the period	Y	8,912	8,912	8,912
<b>After-tax adjusted operating income attributable to common shareholders</b>	D1= D-Y	<b>91,113</b>	91,002	102,251
<b>Selected statement of financial position amounts, continuing operations</b>				
Finance receivables, before allowance for credit losses	E	13,696,457	13,460,092	13,433,925
Allowance for credit losses	F	5,978	6,081	11,875
Earning assets				
Net investment in finance receivable	G	12,048,343	12,372,533	12,203,879
Equipment under operating leases	H	1,491,415	1,421,637	1,355,728
Other earning assets	H1	166,986	179,305	320,111
Total earning assets	I=G+H +H1	13,706,744	13,973,475	13,879,718
Average earning assets, net	J	13,479,102	14,056,388	14,393,176
Goodwill and intangible assets				
Average goodwill and intangible assets	L	2,140,373	2,114,895	2,141,538
Secured borrowings				
Unsecured convertible debentures	M	13,271,766	12,983,535	12,826,235
	N	860,629	855,688	841,312
Total debt	O=M+N	14,132,395	13,839,223	13,667,547
Average debt	P	13,744,990	13,894,628	14,337,080
Total shareholders' equity				
Preferred shares	Q	3,978,715	3,981,354	5,401,042
Common shareholders' equity	R	533,656	533,656	533,656
Common shareholders' equity	S=Q-R	3,445,059	3,447,698	4,867,386
Average common shareholders' equity	T	3,404,257	3,412,902	5,076,545
Average total shareholders' equity	U	3,937,913	3,946,558	5,610,201
Average net investment in ECN Capital	U1	—	—	1,546,706



Management Discussion and Analysis – March 31, 2017

Non-IFRS and IFRS Key Annualized Consolidated Operating Ratios and per Share Information of the continuing operations of the Company:

		As at and for the three-month period ended		
(in \$000's for stated values, except ratios and per share amounts)		March 31, 2017	December 31, 2016	March 31, 2016
<b>Key annualized operating ratios</b>				
<b>Leverage ratios</b>				
Financial leverage ratio	O/Q	3.55	3.48	2.53
Tangible leverage ratio	O/ (Q-K)	7.71	7.61	4.10
Average financial leverage ratio	P/U	3.49	3.52	2.56
Average tangible leverage ratio	P/(U-L)	7.65	7.59	4.13
<b>Other key operating ratios</b>				
Allowance for credit losses as a percentage of finance receivables	F/E	0.04%	0.05%	0.09%
Adjusted operating income on average earning assets	B/J	3.65%	3.41%	4.04%
After-tax adjusted operating income on average tangible total equity of Element Fleet	D/(U-L-U1)	22.26%	21.82%	23.14%
<b>Per share information</b>				
Number of shares outstanding	V	388,834	387,117	386,155
Weighted average number of shares outstanding [basic]	W	387,711	386,930	386,135
Pro forma diluted average number of shares outstanding	X	445,833	446,233	433,788
Cumulative preferred share dividends during the period	Y	\$ 8,912	\$ 8,912	\$ 8,912
Other effects of dilution adjusted operating income basis	Z	\$ 9,006	\$ 8,989	\$ 9,203
Net income (loss) per share [basic]	(A-Y)/W	\$ 0.11	\$ (0.01)	\$ 0.17
Net income (loss) per share [diluted]		\$ 0.11	\$ (0.01)	\$ 0.17
Book value per share (1)	S/V	\$ 8.86	\$ 8.91	\$ 12.60
<b>Before tax adjusted operating income per share [basic]</b>	<b>(B-Y)/W</b>	<b>\$ 0.29</b>	<b>\$ 0.29</b>	<b>\$ 0.35</b>
<b>After-tax adjusted operating income per share [basic]</b>	<b>(D1)/W</b>	<b>\$ 0.24</b>	<b>\$ 0.24</b>	<b>\$ 0.26</b>
<b>After-tax pro forma diluted adjusted operating income per share</b>	<b>(D1+Z)/X</b>	<b>\$ 0.22</b>	<b>\$ 0.22</b>	<b>\$ 0.26</b>

(1) Net investment in ECN Capital as at March 31, 2016 was \$1.5 billion. Excluding net investment in ECN Capital, book value per share was \$8.72 as at March 31, 2016.



Management Discussion and Analysis – March 31, 2017

The following table provides a reconciliation of the consolidated after-tax adjusted operating income per share and the after-tax pro forma diluted adjusted operating income per share of the continuing operations of the Company for the three months ended March 31, 2017:

(in \$000's for stated values, except per share amounts)	Amount \$	Weighted average number of shares outstanding applicable	Amount per share \$
Adjusted operating income before taxes	123,065		0.32
Less:			
Income taxes related to adjusted operating income	(23,040)		(0.06)
Preferred share dividends	(8,912)		(0.02)
After-tax adjusted operating income attributable to common shareholders	91,113	387,711	0.24
Dilution items:			
Employee stock option plan	—	3,382	—
Convertible debentures (after-tax net interest expense)	9,006	54,741	(0.02)
After-tax pro forma diluted adjusted operating income	100,119	445,834	0.22

## ***Description of Non-IFRS Measures***

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the accounting policies we adopted in accordance with IFRS. These consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly our financial position as at March 31, 2017 and December 31, 2016, the results of operations, comprehensive income and cash flows for the three-month period ended March 31, 2017 and March 31, 2016.

Management uses both IFRS and Non-IFRS Measures to monitor and assess the operating performance of the Company’s operations. Throughout this MD&A, management uses the following terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations:

### **Adjusted operating expenses**

Adjusted operating expenses are equal to Salaries, wages and benefits and, General and administration expenses. Management believes Adjusted operating expenses provide the most appropriate measure of operating costs during the period as they exclude synthetic discount amortization and share-based compensation.

### **Adjusted operating income or Before-tax adjusted operating income**

Adjusted operating income reflects Income before income taxes, Business acquisition costs, amortization of convertible debenture synthetic discount, Share-based compensation, and share of loss from joint venture. Management believes that this measure is the most appropriate operating measure of the Company’s performance as it excludes business acquisition costs, synthetic discount amortization, share-based compensation, and share of loss from joint venture which do not relate to maintaining operating activities.

### **Adjusted operating expense ratio**

Adjusted operating expense ratio is calculated as the adjusted operating expenses divided by average earning assets outstanding throughout the period. The adjusted operating expense ratio, presented on an annualized basis, is used by the Company to assess the efficiency of the management of the Company’s earning assets.

### **Adjusted operating income on average earning assets**

Adjusted operating income on average earning assets is the adjusted operating income for the period divided by the average earning assets outstanding throughout the period, presented on an annualized basis.

### **After-tax adjusted operating income**

After-tax adjusted operating income reflects the adjusted operating income after the application of the Company’s effective tax rates.

### **After-tax adjusted operating income attributable to common shareholders**

After-tax adjusted operating income attributable to common shareholders is computed as after-tax adjusted operating income less the cumulative preferred share dividends for the period.

**After-tax adjusted operating income per share**

After-tax adjusted operating income per share is computed as the after-tax adjusted operating income attributable to common shareholders for the period, divided by the basic weighted average number of common shares outstanding during the period.

**After-tax adjusted operating income on average earning assets**

After-tax adjusted operating income on average earning assets is the after-tax adjusted operating income for the period divided by average earning assets outstanding throughout the period, presented on an annualized basis.

**After-tax adjusted operating income on average tangible total equity of Element Fleet**

After-tax adjusted operating income on average tangible equity of Element Fleet is the after-tax adjusted operating income for the period, divided by the net of the average total shareholders' equity outstanding throughout the period, less average goodwill and intangible assets and less the Company's average net investment in ECN Capital, presented on an annualized basis.

**After-tax pro forma diluted adjusted operating income per share**

After-tax pro forma diluted adjusted operating income per share computes the diluted after-tax adjusted operating income per share for the period on the assumption that all outstanding options at the end of the period that have an exercise price less than the closing market value on that day, are fully vested on that day and are fully exercised at their exercise price, and a corresponding number of shares are repurchased at the closing market value on that day using the cash proceeds from these option exercises. Convertible debentures are assumed to be converted at the beginning of the period (or at issuance if issued during the period on a time weighted basis) with the other effects of dilution adjusted operating income basis added to the adjusted operating income, if they are dilutive.

**Allowance for credit losses as a percentage of finance receivables**

Allowance for credit losses as a percentage of finance receivables is the allowance for credit losses at the end of the period divided by the finance receivables (gross of the allowance for credit losses) at the end of the period.

**Annualized loss rate or Annual loss rate**

The annualized loss rate or annual loss rate is equal to the Charge-offs, net of recoveries recorded through the allowance for credit losses during the period divided by the average finance receivables outstanding throughout the period, presented on an annualized basis. The annualized loss rate is used by the Company to assess the percentage of the finance receivables portfolio that incurred losses during the period. In addition, the Company utilizes the annualized loss rate as an alternative measure to the provision for credit losses as it excludes the effect of provisions for (reductions in) the allowance for credit losses during the period which may not coincide with the actual timing of write-offs and recoveries.

**Average cost of borrowing or average cost of debt**

Average cost of borrowing or average cost of debt is equal to interest expense divided by the average debt outstanding during the period and is presented on an annualized basis. The average cost of borrowing provides an indication of the average interest rate that the Company pays on debt financing.

**Average debt outstanding**

Average debt outstanding is calculated as the daily weighted average borrowings outstanding under all of the Company's secured borrowings facilities and convertible debentures throughout the period.

**Average common shareholders' equity**

Average common shareholders' equity is calculated as the monthly average common shareholders' equity during the period.

**Average financial leverage or average financial leverage ratio**

Average financial leverage or average financial leverage ratio is calculated as average debt outstanding during the period, divided by average total shareholders' equity outstanding during the period. Financial leverage refers to the use of debt to acquire/finance additional finance receivables and provides an indication of future potential ability to increase the level of debt when compared to specific industry-standard and or existing debt covenants.

**Average net investment in ECN Capital**

Average net investment in ECN Capital is the average of the quarter end balances of the net assets of ECN Capital during the period.

**Average outstanding earning assets or average earning assets**

Average outstanding earning assets or average earning assets is the sum of the average outstanding finance receivable, average equipment under operating leases and average other earning assets. Average outstanding finance receivables or average finance receivables is the sum of [i] the average finance receivables net investment balance [gross investment less unearned income] outstanding during the period [ii] the average investment in managed fund during the period. Average equipment under operating leases is the daily weighted average equipment under operating leases outstanding during the period and is calculated net of accumulated depreciation. Average other earning assets is the daily weighted average other earning assets outstanding during the period.

**Average goodwill and intangible assets**

Average goodwill and intangible assets is the average of the quarter end balances of goodwill and intangible assets during the period.

**Average shareholders' equity**

Average shareholders' equity is calculated as the monthly average shareholders' equity during the period.

**Average tangible leverage ratio**

The average tangible leverage ratio has been computed as the sum of the average secured borrowings and average convertible debentures, divided by the net of total average shareholders' equity less average goodwill and intangible assets during the period.

**Common shareholders' equity**

Common shareholders' equity is total shareholders' equity less principal face value of the preferred shares outstanding.

**Earning assets or total earning assets or finance earning assets**

Earning assets are the sum of the total net investment in finance receivables, total carrying value of the equipment under operating leases and carrying value other earning assets.

**Finance assets or total finance assets**

Finance assets are the sum of the total finance receivables and total carrying value of the equipment under operating leases.

**Financial leverage or financial leverage ratio**

Financial leverage or financial leverage ratio is calculated as total debt (the sum of secured borrowings and convertible debentures) outstanding at the end of the period, divided by total shareholders' equity outstanding at the end of the period. Financial leverage refers to the use of debt to acquire/finance additional finance receivables and provides an indication of future potential ability to increase the level of debt when compared to specific industry-standard and/or existing debt covenants.

**Net interest and rental revenue**

Net interest and rental revenue is calculated as the sum of net interest income, rental revenue net of depreciation, less interest expense. Net interest and rental revenue refers to net financing income earned from finance receivables, equipment under operating leases, and other earning assets, after considering financing costs and provision for credit losses.

**Net interest and rental revenue yield to average earning assets or NIM**

Net interest and rental revenue yield to average earning assets or NIM is calculated as net interest and rental revenue divided by average earning assets outstanding throughout the period on an annualized basis.

**Operating expense ratio**

The operating expense ratio is calculated as total operating expenses divided by average earning assets outstanding throughout the period on an annualized basis. The operating expense ratio is used by the Company to assess the efficiency of the management of the Company's finance receivables portfolio and equipment under operating leases.

**Other earning assets**

Other earning assets are other yield generating assets that are not finance receivables or equipment under operating leases.

**Other effects of dilution adjusted operating income basis**

Other effects of dilution adjusted operating income basis represents, if dilutive, the add back of the after-tax convertible debt interest and the amortization of deferred financing costs related to the convertible debt, and excludes the add back of the after-tax amortization of the synthetic discount of the convertible debt (which is included on an IFRS basis).

**Pro forma diluted average number of shares outstanding**

Pro forma diluted average number of shares outstanding is the basic weighted average number of shares outstanding, plus the assumption that all outstanding options at the end of the period that have an exercise price less than the closing market value on that day, are fully vested on that day and are fully exercised at their exercise price, and a corresponding number of shares are repurchased at the closing market value on that day using the cash proceeds from these option exercises.

**Rental revenue, net**

Rental revenue, net is equal to rental income earned on equipment under operating leases, less depreciation.

**Tangible leverage ratio**

The tangible leverage ratio has been computed as the sum of secured borrowings and convertible debentures divided by the net of total shareholders' equity less goodwill and intangible assets at the period end.



<b>Updated Share Information</b>
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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.

As at May 9, 2017, the Company had 388,959,651 common shares issued and outstanding. In addition, 21,985,347 options were issued and outstanding under the Company's stock option plan as at May 9, 2017. These convertible securities are convertible into, or exercisable for common shares of the Company of which 14,144,429 are exercisable at March 31, 2017 for proceeds to the Company upon exercise of \$137.5 million. In addition, the Company had extendible convertible debentures outstanding that are convertible into an aggregate of 54,740,555 common shares.

As at May 9, 2017, the Company had 4,600,000 Preferred Shares, Series A, 5,126,400 Preferred Shares, Series C, 5,321,900 Preferred Shares, Series E, 6,900,000 Preferred Shares, Series G and 6,000,000 Preferred Shares, Series I issued and outstanding.

This Management's Discussion and Analysis is dated as of the close of business on May 9, 2017.