Consolidated Financial Statements

Element Fleet Management Corp.

December 31, 2018

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, 2018 and 2017, 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, 2018 and 2017, 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 Sean Musselman.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 6, 2019

Element Fleet Management Corp.

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

	As at December 31, 2018	As at December 31, 2017
	$	$
ASSETS		
Cash	**21,999**	76,637
Restricted funds (notes 11 and 20)	**504,454**	484,280
Finance receivables (note 4)	**13,231,146**	12,768,133
Equipment under operating leases (note 5)	**2,134,105**	1,599,423
Accounts receivable and other assets	**270,997**	164,376
Notes receivable (note 18)	**13,698**	19,670
Derivative financial instruments (note 20)	**34,752**	32,026
Property, equipment and leasehold improvements, net (note 8)	**60,969**	67,409
Investments (note 6)	**124,353**	151,425
Deferred tax assets (note 16)	**410,864**	177,602
Intangible assets, net (note 9)	**854,433**	819,308
Goodwill (note 10)	**1,302,236**	1,209,344
	18,964,006	17,569,633
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	**706,720**	582,090
Derivative financial instruments (note 20)	**68,467**	33,342
Secured borrowings (note 11)	**13,270,780**	12,307,873
Convertible debentures (note 12)	**897,435**	875,918
Deferred tax liabilities (note 16)	**45,119**	30,327
	14,988,521	13,829,550
Shareholders' equity (note 13)	**3,975,485**	3,740,083
	18,964,006	17,569,633

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, 2018	Year ended December 31, 2017
	$	$
NET REVENUE		
Interest income, net (notes 6 and 15)	**652,911**	630,483
Service and other revenue (note 15)	**569,984**	623,605
Rental revenue	**545,372**	481,466
Depreciation of equipment under operating leases (note 5)	**(400,790)**	(366,531)
Direct costs of fixed rate service contracts (note 15)	**(42,179)**	(39,905)
	1,325,298	1,329,118
Interest expense	**451,779**	377,091
Net revenue	**873,519**	952,027
OPERATING EXPENSES		
Salaries, wages and benefits	**329,311**	318,870
General and administrative expenses	**132,786**	150,579
Depreciation and amortization (notes 8 and 9)	**24,279**	15,976
Amortization of convertible debenture synthetic discount (note 12)	**14,038**	13,147
Share-based compensation (note 14)	**23,642**	19,930
Impairment on loans to 19th Capital (note 7)	**480,000**	—
	1,004,056	518,502
OTHER EXPENSES		
Amortization of intangible assets from acquisitions	**44,744**	55,823
Restructuring and transformation costs	**112,732**	82,001
	157,476	137,824
Loss on investments (note 6)	**32,473**	120,982
(Loss) income before income taxes from operations	**(320,486)**	174,719
(Recovery of) provision for income taxes (note 16)	**(121,382)**	20,075
Net (loss) income for the year	**(199,104)**	154,644
Basic (loss) earnings per share (note 19)	**$ (0.62)**	$ 0.29
Diluted (loss) earnings per share (note 19)	**$ (0.62)**	$ 0.29

See accompanying notes

Element Fleet Management Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars)

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Net (loss) income for the year	**(199,104)**	154,644
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Cash flow and foreign exchange hedges gain (loss) (note 20)	**(20,335)**	(36,608)
Net unrealized foreign exchange gain (loss)	**337,501**	(313,769)
	317,166	(350,377)
Provision for (recovery of) income taxes	**324**	(3,667)
Total other comprehensive income (loss)	**316,842**	(346,710)
Comprehensive income (loss) for the year	**117,738**	(192,066)

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	Accumulated other comprehensive income (loss)	Total shareholders' equity
	$	$	$	$	$	$	$
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	**—**	**—**	**—**	**—**	**(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**
Balance, December 31, 2016	2,803,336	533,656	46,200	78,974	232,836	286,352	3,981,354
Comprehensive income (loss) for the year	—	—	—	—	154,644	(346,710)	(192,066)
Dividends - Preferred shares (note 13)	—	—	—	—	(41,301)	—	(41,301)
Dividends - Common shares	—	—	—	—	(96,518)	—	(96,518)
Net taxes on dividends paid	—	—	—	—	(818)	—	(818)
Options exercised (notes 13 and 14)	17,518	—	—	(8,499)	—	—	9,019
Issuance of shares, net of share issue costs	—	146,756	—	—	—	—	146,756
Shares repurchased for cancellation (note 13)	(65,318)	—	—	(13,599)	—	—	(78,917)
Employee stock option expense (note 14)	—	—	—	12,574	—	—	12,574
Balance, December 31, 2017	2,755,536	680,412	46,200	69,450	248,843	(60,358)	3,740,083

See accompanying notes

Element Fleet Management Corp.

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

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
OPERATING ACTIVITIES (note 26)		
Net (loss) income for the year	**(199,104)**	154,644
Items not affecting cash		
Share-based compensation (note 14)	**8,008**	12,574
Depreciation of property, equipment and leasehold improvements (note 8)	**13,419**	11,707
Amortization of intangible assets, including from acquisitions (note 9)	**55,604**	60,092
Amortization of deferred lease costs	**24,851**	20,078
Amortization of deferred financing costs	**44,711**	34,161
Depreciation of equipment under operating leases (note 5)	**400,790**	366,531
Amortization of convertible debenture synthetic discount and deferred costs (note 12)	**21,517**	20,230
Impairment of intangible assets	**2,200**	—
Loss on investments	**22,376**	121,063
Impairment on loans to 19th Capital	**480,000**	—
Impairment of fixed assets	**2,957**	—
Share of earnings from other equity accounted investments	**—**	(18,180)
(Provision for) recovery of credit losses	**(1,913)**	921
	875,416	783,821
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	**(5,337,512)**	(5,691,246)
Repayments of finance receivables	**4,680,613**	4,822,953
Investment in equipment under operating leases	**(1,154,288)**	(796,187)
Proceeds on disposal of equipment under operating leases	**266,418**	229,429
Syndications of finance receivables	**597,109**	682,791
Other non-cash operating assets and liabilities (note 26)	**(197,663)**	28,982
Cash (used in) provided by operating activities	**(269,907)**	60,543
INVESTING ACTIVITIES (note 26)		
Business acquisition (note 7)	**(5,220)**	(449)
Proceeds from managed fund	**—**	26,426
Investments	**(16,149)**	(19,276)
Purchase of property, equipment and leasehold improvements (note 8)	**(9,908)**	(10,664)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	**5,552**	3,497
Purchase of intangible assets (note 9)	**(36,269)**	(47,050)
Decrease in notes receivable	**5,972**	2,408
Cash used in investing activities	**(56,022)**	(45,108)
FINANCING ACTIVITIES (note 26)		
Decrease in restricted funds	**16,070**	49,951
Increase in deferred financing costs	**(32,684)**	(44,546)
Issuance of share capital, net	**334,821**	155,775
Shares repurchased	**—**	(78,917)
Issuance of secured borrowings, net	**111,416**	103,707
Dividends paid	**(158,432)**	(135,663)
Cash provided by financing activities	**271,191**	50,307
Effects of foreign exchange rates on cash	**100**	(1,743)
Net (decrease) increase in cash during the year	**(54,638)**	63,999
Cash, beginning of the year	**76,637**	12,638
Cash, end of the year	**21,999**	76,637
Supplemental cash flow information:		
Cash taxes paid	**41,168**	40,758
Cash interest paid	**402,982**	364,822

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018

1. CORPORATE INFORMATION

Element Fleet Management Corp. ("Element Fleet", "EFN" or the "Company"), was incorporated under the *Business Corporations Act* of Ontario (Canada) 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 Fleet is a publicly traded fleet management company with more than $19.0 billion in assets and operations in the US, Canada, Mexico, Australia and New Zealand. Element Fleet is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, serving 50 countries worldwide through the Element-Arval Global Alliance. EFN 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 4,000 clients optimize their fleet performance and productivity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 6, 2019.

Basis of consolidation

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.

Associates and joint ventures

Associates and joint ventures are entities which the Company has significant influence or joint control, but not control, over the operating and financial management policy decisions of the entity. Significant judgment is used to determine whether voting rights, contractual management and other relationships with the entity, if any, provide the Company with significant influence over the entity. Investments in associates and joint ventures are accounted for using the equity method and initially recorded at cost. Subsequently, the investment in an associate or joint venture is adjusted for changes in the Company's share of net assets of the associate or joint venture and such changes are reflected in the consolidated statements of operations.

Significant accounting policies

Finance receivables

The Company 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 (lease assets in transit to the lessee) 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

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

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.

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

Effective January 1, 2018, the Company adopted and applied the provisions of IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which clarifies revenue recognition principles, provides a framework for recognizing revenue and cash flows arising from contracts with clients and enhances qualitative and quantitative disclosure requirements. The adoption of this standard did not change the Company's revenue recognition accounting policies.

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 as the Company performs the related service. Due to continuous transfer of control to the customer, revenue is recognized on a straight-line basis and costs are recognized as incurred. Also included in service and other revenue are syndication fees, which represent commissions received when the Company facilitates a lease arrangement between a lessee and a third-party lessor. Syndication fees are recognized as income when the lease syndication has been completed.

Allowance for credit losses

Effective January 1, 2018, the Company adopted and applied the provisions of IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9 replaces the incurred loss model with the forward-looking expected credit losses ("ECL") model. 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 ECL is 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 statement 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.

The adoption of IFRS 9 did not have a direct impact on the net charge-off rate of the Company's lease and loan receivables, which is driven by clients' credit profile and behavior.

Restricted funds

Restricted funds represent cash reserve accounts that are held in trust as security for secured 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

Effective January 1, 2018, the Company adopted hedge accounting under IFRS 9, which introduced a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The hedge accounting standards under IFRS 9 align the accounting for hedging instruments more closely to the Company's risk management practices. Accordingly, all hedging relationships that were designated under IAS 39, *Financial Instruments: Recognition and Measurement,* as at December 31, 2017 met the criteria for hedge accounting under IFRS 9. As a result of implementing this standard, small changes in hedge effectiveness procedures for cash flow hedges were completed.

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. 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. If a forecasted issuance of fixed rate debt or a forecasted acquisition of fixed rate assets is no longer expected to occur, the related cumulative gain or loss in AOCI is immediately recognized in income.

The Company uses interest rate swaps and foreign exchange forwards to hedge its exposure to changes in future cash flows due to interest rate risk and foreign currency risk in forecasted highly probable transactions.

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.

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.

The Company may use foreign currency forward agreements or foreign currency denominated debt as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries.

Secured 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 secured borrowings when cash is received from the third party or structured entity.

The secured 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 secured borrowings and relate to costs incurred to obtain funding agreements that result in these arrangements. These amounts are accreted to income over a period matching the repayment terms of the secured borrowing obtained during the initial 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 declining balance method for equipment at annual rates designed to depreciate the cost of the equipment over their estimated useful lives. Leasehold improvements are depreciated on a straight-line basis over the underlying lease terms. Buildings, vehicles and computer servers are depreciated using the straight-line method over their estimated useful life. Land is not depreciated. The rates of amortization are as follows:

Office equipment	30% per annum
Computer equipment	55% per annum for general equipment 5 years for servers
Leasehold improvements	Lease term
Vehicles	4 years
Buildings	25 years

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

Intangible assets

The Company's intangible assets include computer software and customer relationships and are measured at cost. 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	3 to 12 years depending on the software application
Customer relationships	Declining balance 5% per annum

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 executives and 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, 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. Refer to note 6 for additional information.

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. Refer to note 4 for additional information.

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 secured borrowings. All of these financial instruments are initially recorded at cost and subsequently measured at amortized cost.

Translation of foreign currencies

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

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

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

Income taxes

The Company follows the liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or equity in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

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.

IFRS 16, *Leases* ("IFRS 16"), will replace IAS 17, *Leases* ("IAS 17"). IFRS 16 substantially carries 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 does not expect the adoption of IFRS 16 to have a material impact on the Company's consolidated financial statements. The impact of IFRS 16 is limited to leases where the Company is the lessee and is primarily related to the leases of its office spaces.

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.

Investment in joint venture

The cost of the investment in joint venture requires management to exercise judgment in measuring the fair value of the assets contributed by the Company to the joint venture. In addition, management judgment is required in assessing the recoverability of the carrying value of the Company's investment and requires the use of internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates, discount rates and asset values.

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.

4. FINANCE RECEIVABLES

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

	December 31, 2018			
	US	Canada	Other	Total
Minimum lease payments	$ 10,737,503	$ 1,505,383	$ 367,639	$ 12,610,525
Unguaranteed residual values	17,913	—	72,435	90,348
Gross investment	$ 10,755,416	$ 1,505,383	$ 440,074	$ 12,700,873
Unearned income	(960,700)	(167,902)	(43,555)	(1,172,157)
Net investment	$ 9,794,716	$ 1,337,481	$ 396,519	$ 11,528,716
Net realizable value of impaired receivables	7,676	388	25,263	33,327
Unamortized deferred costs and subsidies	(103,450)	(2,728)	—	(106,178)
Prepaid lease payments and security deposits	(36,944)	(5,222)	(27,173)	(69,339)
Interim fundings	701,366	69,176	100,266	870,808
Fleet management service receivables	607,711	110,586	47,421	765,718
Other receivables	107,386	1,901	108,139	217,426
Allowance for credit losses (Subsection C)	(6,331)	(335)	(2,666)	(9,332)
Total finance receivables	$ 11,072,130	$ 1,511,247	$ 647,769	$ 13,231,146

December 31, 2018

	December 31, 2017			
	US	Canada	Other	Total
Minimum lease payments	$ 10,617,200	$ 1,473,742	$ 281,248	$ 12,372,190
Unguaranteed residual values	16,326	—	71,532	87,858
Gross investment	$ 10,633,526	$ 1,473,742	$ 352,780	$ 12,460,048
Unearned income	(788,515)	(149,772)	(40,281)	(978,568)
Net investment	$ 9,845,011	$ 1,323,970	$ 312,499	$ 11,481,480
Net realizable value of impaired receivables	4,225	381	4,059	8,665
Unamortized deferred costs and subsidies	(99,901)	(5,121)	—	(105,022)
Prepaid lease payments and security deposits	(38,427)	(5,807)	(20,166)	(64,400)
Interim fundings	533,636	41,058	12,523	587,217
Fleet management service receivables	503,581	105,005	51,641	660,227
Other receivables	120,111	1,219	82,940	204,270
Allowance for credit losses (Subsection C)	(2,770)	(324)	(1,210)	(4,304)
Total finance receivables	$ 10,865,466	$ 1,460,381	$ 442,286	$ 12,768,133

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, 2018 [1]		December 31, 2017[1]	
31-60 days past due	**$ 5,349**	**0.05%**	$ 3,999	0.03%
61-90 days past due	**6,080**	**0.05%**	5,918	0.05%
Greater than 90 days past due	**4,286**	**0.04%**	1,594	0.01%
Total past due	**15,715**	**0.14%**	11,511	0.09%
Current	**11,513,001**	**99.86%**	11,469,969	99.91%
Total net investment	**$ 11,528,716**	**100.00%**	$ 11,481,480	100.00%

1. As at December 31, 2018, $1,157 (December 31, 2017 - $5,240) of the total past due amounts are related to portfolios acquired in the non-core operating segment. The Company maintains a cash holdback/reserve pool or a purchase discount funded by the sellers to cover for losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018

B) Interest rate characteristics of net investment in finance receivables

	December 31, 2018		December 31, 2017	
	Leases	**Loans**	Leases	Loans[1]
Net investment	**$ 11,415,093**	**$ 113,623**	$ 10,625,691	$ 855,789
Weighted average fixed interest rate	**4.57%**	**8.77%**	3.99%	5.90%
Weighted average floating interest rate	**5.04%**	**8.13%**	4.07%	9.71%
Percentage of portfolio with fixed interest rate	**48.35%**	**98.56%**	46.04%	98.77%

1. Included are loans to 19th Capital joint venture of $775,898, which have a weighted average fixed interest rate of 5.60% as at December 31, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018

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, 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	**—**
Loan originations	—	—	—	**—**
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, 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, 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 (note 7). 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, 2018

A summary view of the Company's allowance for credit losses for the years ended December 31:

Impairment of loans to 19th Capital	**2018**	2017
Allowance for credit losses, beginning of year	**$ —**	$ —
IFRS 9 adjustment	**65,000**	—
Provision for 19th Capital (note 7)	**480,000**	—
Charge-offs, net of recoveries[1]	**(552,500)**	—
Impact of foreign exchange rates	**7,500**	—
Allowance for credit losses, end of year	**$ —**	$ —
Allowance as a percentage of finance receivables	0.00%	—

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 (note 7). 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.

Other allowance for credit losses	**2018**	2017
Allowance for credit losses, beginning of year	**$ 4,304**	$ 6,081
IFRS 9 adjustment	**3,854**	—
Provision for (recovery of) credit losses	**1,913**	(921)
Charge-offs, net of recoveries	**(1,401)**	(611)
Impact of foreign exchange rates	**662**	(245)
Allowance for credit losses, end of year	**$ 9,332**	$ 4,304
Allowance as a percentage of finance receivables	**0.07%**	0.03%
Finance receivables in arrears (90 days and over)	**$ 4,285**	$ 1,594
Arrears (90 days and over) as a percentage of net investment in finance receivables	**0.04%**	0.01%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018

Total allowance for credit losses	**2018**	2017
Allowance for credit losses, beginning of year	**$ 4,304**	$ 6,081
IFRS 9 adjustment	**68,854**	—
Provision for (recovery of) credit losses	**1,913**	(921)
Provision for 19th Capital (note 7)	**480,000**	—
Charge-offs, net of recoveries	**(553,901)**	(611)
Impact of foreign exchange rates	**8,162**	(245)
Allowance for credit losses, end of year	**$ 9,332**	$ 4,304
Allowance as a percentage of finance receivables	**0.07%**	0.03%
Finance receivables in arrears (90 days and over)	**$ 4,285**	$ 1,594
Arrears (90 days and over) as a percentage of net investment in finance receivables	**0.04%**	0.01%

December 31, 2018

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, 2018:

Loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal risk rating grade				
Low	$ 15	$ 13,558	$ —	**$ 13,573**
Medium	39,688	9,396	—	**49,084**
High	—	12,268	—	**12,268**
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	$ —	$ 7,335,973	$ —	**$ 7,335,973**
Medium	—	3,105,420	—	**3,105,420**
High	—	902,811	—	**902,811**
Not rated	—	70,889	—	**70,889**
Other finance receivables	—	217,426	—	**217,426**
Impaired	—	—	32,170	**32,170**
	$ —	$ 11,632,519	$ 32,170	**$ 11,664,689**
Allowance for credit losses	—	(8,556)	(322)	**(8,878)**
Net carrying value	$ —	$ 11,623,963	$ 31,848	**$ 11,655,811**

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**

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:

	2018			2017		
	Gross investment	**Unearned income**	**Net investment**	Gross investment	Unearned income	Net investment
Maturity						
Within 1 year	**$ 5,426,776**	**$ (421,525)**	**$ 5,005,251**	$ 4,969,219	$ (357,502)	$ 4,611,717
In 1 to 3 years	**5,911,211**	**(556,322)**	**5,354,889**	5,795,170	(454,139)	5,341,031
In 3 to 5 years	**1,081,616**	**(142,069)**	**939,547**	1,280,894	(123,199)	1,157,695
After 5 years	**281,270**	**(52,241)**	**229,029**	414,765	(43,728)	371,037
	$ 12,700,873	**$ (1,172,157)**	**$ 11,528,716**	$ 12,460,048	$ (978,568)	$ 11,481,480

5. EQUIPMENT UNDER OPERATING LEASES

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

	For the year ended December 31	
	2018	2017
COST		
At the beginning of the year	**$ 2,034,675**	$ 1,725,800
Additions	**785,192**	806,806
Business acquisitions	**369,093**	—
Transfers	**—**	12,251
Disposals	**(472,040)**	(387,543)
Foreign exchange rate adjustments	**131,811**	(122,639)
At the end of the year	**$ 2,848,731**	$ 2,034,675
ACCUMULATED DEPRECIATION		
At the beginning of the year	**$ 435,252**	$ 304,163
Depreciation charge for the year	**400,790**	366,531
Disposals	**(205,622)**	(147,495)
Foreign exchange rate adjustments	**84,206**	(87,947)
At the end of the year	**$ 714,626**	$ 435,252
Net carrying amount	**$ 2,134,105**	$ 1,599,423

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

	2018	2017
Within 1 year	**$ 370,052**	$ 438,093
In 1 to 3 years	**446,346**	591,646
In 3 to 5 years	**194,224**	202,563
After 5 years	**58,159**	45,630
	$ 1,068,781	$ 1,277,932

December 31, 2018

6. INVESTMENTS

	December 31, 2017	Acquisition or disposal	Income (loss)	Foreign exchange gain	December 31, 2018
Equity accounted investments					
19th Capital Group LLC	$ 10,000	$ —	$ (10,000)	$ —	**$ —**
Amerit Fleet Holdings, LLC	—	12,573	2,296	346	**15,215**
Splend Holdings PTY Limited	7,154	—	(7,359)	205	**—**
Fair value through profit/loss accounted investments					
ECAF I Holdings Ltd [1]	113,122	(8,992)	(13,000)	8,460	**99,590**
AutoTech Fund I, LP	1,348	1,702	131	189	**3,370**
DMG Blockchain Solutions Inc.	7,369	(193)	(5,066)	—	**2,110**
Parking Warrior, LP	2,011	—	525	169	**2,705**
Work Truck Solutions, Inc	1,257	—	—	106	**1,363**
Net investments	$ 142,261	$ 5,090	$ (32,473)	$ 9,475	**$ 124,353**

1. The ECAF and Net investments opening balance is net of opening IFRS 9 adjustments of $9,164.

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. As at December 31, 2018, ECAF I Ltd. has total assets of $1,344,000 (December 31, 2017 – $1,441,500) and senior notes outstanding of $1,174,200 (December 31, 2017 – $1,187,800), and subordinated Class E-1 notes outstanding of $348,600 (December 31, 2017 – $402,200).

ECAF I Holdings Ltd. was accounted for using FVTPL upon adoption of IFRS 9 on January 1, 2018. The carrying amount of the Company's investment as at December 31, 2018 is $99,590 (December 31, 2017 – $113,122 net of a $9,164 IFRS 9 adjustment) and is reported in investments on the consolidated statements of financial position. The Company recorded a $13,000 write-down of the carrying value of the ECAF investment to reflect management's best estimate of fair value. In December 31, 2017 the Company recorded income of $18,100.

Splend Holdings PTY Limited

On August 15, 2017, the Company acquired a 12.5% equity interest in Splend Holdings PTY Limited ("Splend"), a supplier of vehicles for on-demand rideshare and delivery services primarily operating in Australia, for $7,124 (AUD $7,143). The Company's interest in Splend is accounted for using the equity

method in the consolidated financial statements of the Company because the Company can appoint one member to the Board of Directors.

As at December 31, 2018, Splend has total assets of $51,059, and total liabilities of $46,067. The carrying amount of the Company's investment is $nil (December 31, 2017 – $7,154, including goodwill of $5,997). For the year ended December 31, 2018, the Company recorded $7,359 of its share of loss from its investment (December 31, 2017 – $81), which includes a $7,001 write-down of the carrying value of the Splend investment to reflect management's best estimate of fair value.

Amerit Fleet Holdings, LLC

On March 30, 2018, the Company acquired a 15.1% interest in Amerit Fleet Holdings, LLC ("Amerit"), which is the holding company of Amerit Fleet Solutions, Inc., a strategic provider of fleet maintenance and management services in North America, for $12,573 (USD $9,750).

The Company's interest in Amerit is accounted for using the equity method in the consolidated financial statements of the Company because the Company can appoint one member to the Board of Directors. The following is a summary of financial information and a reconciliation with carrying amount of the investment as of the date of acquisition:

Summarized statement of financial position of Amerit:		**March 30, 2018**
Current assets	**$**	**33,003**
Non-current assets		**101,837**
Current liabilities		**(26,163)**
Non-current liabilities		**(48,511)**
Equity	**$**	**60,166**
Carrying amount of the Company's investment [1]	**$**	**12,573**

1. Included in the Company's investment is $3,512 of implied goodwill on a preliminary basis.

The carrying amount of the Company's investment is $15,215 as at December 31, 2018 (December 31, 2017 – $nil) and is reported in investments on the consolidated statements of financial position. The Company has recorded $2,296 of income from its investment (December 31, 2017 – $nil), which has been included in interest income on the consolidated statements of operations.

December 31, 2018

AutoTech Fund I, LP

The Company made a $6,506 (USD $5,000) commitment to a venture capital provider focused on the automotive sector, of which $3,370 (USD $2,575) has been contributed to date.

DMG Blockchain Solutions Inc.

The Company participated in the TSX IPO of this company that provides cryptocurrency mining and blockchain development facilities and services.

Parking Warrior, LP

The Company co-invested in this AutoTech Fund investment that provides online parking location and advance payment in major US centres for $2,062 (USD $1,600).

Work Truck Solutions, Inc.

The Company co-invested for $1,257 (USD $1,000) in this AutoTech Fund investment that provides a SAS solution to help commercial truck dealers and others that supply this market to connect with customers online.

7. 19TH CAPITAL GROUP LLC

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 ("19th Capital"). At the time of acquisition, the loans receivable from, and the investments in, 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.

December 31, 2018

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 ($44,235 for the year ended December 31, 2017).

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 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.

The impairment recorded in the third quarter of 2018 was calculated based on the fair value of the business post the strategic review decision. Significant assumptions included collection and utilization rates associated with existing lease contracts, expected proceeds from the sale of both idle and end-of-lease trucks and

trailers, new lease originations during the wind-down period, maintenance and sale preparation costs, and the amount and duration of restructuring and wind-up costs. The Company believes that the net assets and liabilities of 19th Capital are properly recorded at their fair values as of the date of acquisition and note that the net investment is equal to the aggregate of the loans receivable, after the third quarter impairment, and equity investment.

8. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	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	2,713	1,828	—	3,072	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	$ 50,699	$ 10,440	$ 20,327	$ 4,574	$ 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	$ 28,118	$ 5,369	$ 17,448	$ 3,138	$ 60,969

December 31, 2018

	2017					
	Leasehold improvements	Computer equipment	Office equipment	Land and buildings	Vehicles	Total
Cost						
As at January 1, 2017	$ 8,245	$ 47,218	$ 8,058	$ 22,983	$ 7,821	$ 94,325
Additions	268	5,589	503	—	4,304	10,664
Disposals	(9)	(5,488)	(154)	—	(5,590)	(11,241)
Foreign exchange rate adjustments	(205)	(2,117)	(326)	(1,469)	(194)	(4,311)
As at December 31, 2017	$ 8,299	$ 45,202	$ 8,081	$ 21,514	$ 6,341	$ 89,437
Accumulated depreciation						
As at January 1, 2017	$ 1,439	$ 5,047	$ 3,519	$ 1,212	$ 2,366	$ 13,583
Disposals	63	(34)	(309)	—	(2,180)	(2,460)
Depreciation charge for the year	1,016	7,447	854	783	1,607	11,707
Foreign exchange rate adjustments	(57)	(431)	(126)	(100)	(88)	(802)
As at December 31, 2017	$ 2,461	$ 12,029	$ 3,938	$ 1,895	$ 1,705	$ 22,028
Net carrying amount	$ 5,838	$ 33,173	$ 4,143	$ 19,619	$ 4,636	$ 67,409

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, 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**
As at January 1, 2017	$ 104,216	$ (8,746)	$ 95,470	$ 890,647	$ (105,697)	$ 784,950	$ 880,420
Additions	46,833	—	46,833	—	—	—	46,833
Amortization	—	(4,269)	(4,269)	—	(55,823)	(55,823)	(60,092)
Foreign exchange rate adjustments	(5,342)	(197)	(5,539)	(49,852)	7,538	(42,314)	(47,853)
As at December 31, 2017	$ 145,707	$ (13,212)	$ 132,495	$ 840,795	$ (153,982)	$ 686,813	$ 819,308

December 31, 2018

10. GOODWILL

		2018		2017
Balance, beginning of year	**$**	**1,209,344**	$	1,282,643
Foreign exchange rate adjustments		**92,892**		(73,299)
Balance, end of year	**$**	**1,302,236**	$	1,209,344

Goodwill has been allocated to the Fleet Management CGU as at December 31, 2018 and 2017. 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 3%. The discount rate the Company applied in determining the recoverable amount was 13.1%, which comprised a risk-free rate, equity risk premium, size premium and company-specific risk premium. The risk-free rate, equity risk premium and size premium were based on data from external sources, whereas the company-specific risk premium was based on factors considered by management to be specific to the business. The assumptions used were consistent with those observed in the Company's recent arm's-length business acquisitions.

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.

December 31, 2018

11. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

	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-funding notes	**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**
Term senior credit facility [2]	**2,406,195**	**3.54%**	**—**	**—**
	13,330,958	**3.04%**	**$ 11,347,370**	**$ 105,230**
Deferred financing costs	**(60,178)**			
Total secured borrowings	**$ 13,270,780**			

	December 31, 2017			
	Balance outstanding	Weighted average interest rate[1]	Pledged finance receivables and equipment under operating leases	Cash reserves
Term notes, in amortization period	$ 2,150,569	2.34%	$ 2,270,101	$ 49,189
Term notes, in revolving period	4,022,080	2.07%	4,245,634	41,428
Variable-funding notes	3,027,353	2.35%	3,201,050	32,195
Vehicle management asset-backed debt	$ 9,200,002	2.23%	$ 9,716,785	$ 122,812
Term senior credit facility [2]	3,168,087	2.77%	—	—
	12,368,089	2.36%	$ 9,716,785	$ 122,812
Deferred financing costs	(60,216)			
Secured borrowings of continuing operations	$ 12,307,873			

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. The revolving senior credit facility is secured by a general security agreement in favor of the lenders consisting of a first priority interest on all property.

The Company was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2018 and 2017.

Vehicle management asset-backed debt

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

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

For term notes, in amortization period, the monthly collection of lease payments allocable to the series is used in the repayment of principal until the notes are paid in full. The amortization period will continue through the earlier of: (i) 125 to 132 months following the commencement of the amortization period; or (ii) when the respective series of notes are paid in full. As at December 31, 2018, term notes, in amortization period had a weighted average interest rate of 2.52%, which ranged from 1.88% to 4.35% with expected maturities in 2019 to 2022 (December 31, 2017 - the weighted average interest was 2.34%, 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, 2018, term notes, in revolving period had a weighted average floating interest rate of 3.23%, which ranged from 2.87% to 4.21% with expected maturities from 2022 to 2023 (December 31, 2017 - the weighted average interest was 2.07%, which ranged from 1.87% to 3.71%).

Variable-funding notes provide a committed capacity that may be drawn upon as needed during a commitment period, which is primarily one to two years in duration. Similar to revolving term notes, the monthly collection of lease payments creates availability to fund the acquisition of vehicles and/or equipment to be leased to clients. Available committed capacity under variable-funding notes may be used to fund growth in net investment in fleet leases during the term of the commitment. Upon expiration of the commitment period, variable-funding notes begin amortizing. As at December 31, 2018, variable-funding notes had a weighted average floating interest rate of 3.28%, which ranged from 3.10% to 10.29% with expected maturities in 2020 to 2022 (December 31, 2017 - the weighted average interest was 2.35%, which ranged from 1.95% to 3.51%).

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

As at December 31, 2018, the Company has access to an additional $3,894,043 (December 31, 2017 - $3,366,224) of available financing under its vehicle management asset-backed debt facilities.

Term senior credit facility

The term senior credit facility is a $4,088,400 senior revolving facility that has been syndicated to a group of 20 Canadian, US and international banks. The facility was amended on October 31, 2018 and the maturity date was extended to November 2, 2021. As at December 31, 2018, $2,406,195 was drawn on this facility (December 31, 2017 - $3,168,087). This facility bears 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, 2017 - 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, 2017 - 0.20% and 1.20% per annum, respectively). Additionally, the facility bears 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, 2017 - 1.20% and 1.20% per annum, respectively). The term senior credit facility is secured by a general security agreement in favor of the lenders consisting of a first priority interest on all property.

As at December 31, 2018, the Company had access to an additional $1,682,205 (December 31, 2017 - $1,231,063) of available financing from the term senior credit facility.

Restricted funds

As at December 31, 2018, restricted funds include (i) cash reserves of $105,230 (December 31, 2017 - $122,812), which represent collateral for secured borrowing arrangements; (ii) cash accumulated in the collection account of $367,094 (December 31, 2017 - $357,398), 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 of $32,130 (December 31, 2017 - $4,070).

December 31, 2018

Contractual maturity of secured borrowings

The contractual maturity of the secured 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:

	2018			2017		
Maturity	**Secured borrowings gross of interest costs[1]**	**Finance receivables and equipment under operating leases[2]**		Secured borrowings gross of interest costs[1]	Finance receivables and equipment under operating leases[2]	
	$	$	%	$	$	%
Within 1 year	**4,123,326**	**5,796,828**	**71.1**	3,045,858	5,407,312	56.3
In 1 to 3 years	**5,941,285**	**6,357,557**	**93.5**	5,607,966	6,386,816	87.8
In 3 to 5 years	**1,145,059**	**1,275,840**	**89.7**	867,959	1,483,457	58.5
After 5 years	**104,296**	**339,429**	**30.7**	—	460,395	—
	11,313,966	**13,769,654**	**82.2**	9,521,783	13,737,980	69.3
Interest costs	**(389,203)**			(321,781)		
Net of interest costs	**10,924,763**			9,200,002		
Revolving senior credit facility	**2,406,195**			3,168,087		
	13,330,958			12,368,089		

1. Maturity schedule for secured borrowings gross of interest costs has been calculated based on interest expense rates as at the respective period 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. For equipment under operating leases, the schedule is based on the existing contractual future minimum lease payments.

December 31, 2018

12. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

	December 31, 2018						
Issue Date	**Final maturity date**	**Conversion price per share[1]**	**Interest rate[2]**	**Face value**	**Deferred costs**	**Synthetic 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**

	December 31, 2017						
Issue Date	Final maturity date	Conversion price per share	Interest rate[2]	Face value	Deferred costs	Synthetic discount	Net carrying value
June 18, 2014	June 30, 2019	$ 13.76	5.125%	$ 345,000	$ (3,860)	$ (11,590)	$ 329,550
May 29, 2015	June 30, 2020	$ 18.35	4.250%	575,000	(12,402)	(16,230)	546,368
				$ 920,000	$ (16,262)	$ (27,820)	$ 875,918

1. The conversion price was adjusted on December 28, 2018, the ex-dividend date for dividends to be paid on January 15, 2019, to $13.13317 for the June 18, 2014 issuance and $17.51090 for the May 29, 2015 issuance.
2. Stated interest rate on principal face value.

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 transaction, the conversion price was adjusted to $19.10317, and subsequently adjusted to $17.51090 for cumulative dividends paid on common shares on December 28, 2018. 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.

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, 2018 the Company has not redeemed any of the 2015 Debentures.

Subject to required regulatory approvals and provided that there is not a current 2015 Debenture 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 18, 2014, the Company closed an offering of $345,000, 5.125% extendible convertible unsecured subordinated debentures (the "2014 Debentures"). To determine the initial amount of the respective debt and equity components of the 2014 Debentures issued on June 18, 2014, the carrying amount of the financial liability was first calculated by discounting the stream of future principal and interest payments at the rate of 7.5%, 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 $299,264 (net of transaction costs of $11,660) and the equity component was assigned a value of $33,135 (net of after-tax transaction costs of $941, and before the impact of deferred taxes).

The 2014 Debentures bear interest at an annual coupon rate of 5.125% payable semi-annually on the last day of June and December in each year, commencing on December 31, 2014. The maturity date for the 2014 Debentures was initially December 31, 2014 and was extended to June 30, 2019 on the closing of the acquisition of PHH Corporation's fleet management business on July 7, 2014.

Each 2014 Debenture is convertible into common shares at the option of the holder of a 2014 Debenture at any time after July 7, 2014 and prior to 5:00 p.m. (Toronto time) on June 30, 2019, initially at a conversion price of $17.85 per common share (the "2014 Conversion Price"), subject to adjustment in accordance with the indenture agreement. As a result of the separation transaction, the conversion price was adjusted to $14.32737, and subsequently adjusted to $13.13317 for cumulative dividends paid on common shares on December 28, 2018. Holders converting their 2014 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 2014 Debentures to, but excluding, the date of conversion.

The Company may redeem, subject to specified conditions and notice, on or after June 30, 2017 and prior to June 30, 2019, the 2014 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 current market price of the common shares on the date on which notice of redemption is given exceeds 125% of the 2014 Conversion Price. As at December 31, 2018, the Company has not redeemed any of the 2014 Debentures.

Subject to required regulatory approvals and provided that there is not a current 2014 Debenture 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 2014 Debentures that are to be redeemed or that have matured by issuing common shares to the holders of the 2014 Debentures. Payment would be satisfied by delivering that number of common shares obtained by dividing the principal amount of the 2014 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.

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, 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**
Balance, December 31, 2016	387,116,660	2,803,336
Exercise of options	2,253,776	17,518
Shares repurchased	(9,014,600)	(65,318)
Balance, December 31, 2017	380,355,836	2,755,536

Issuance of common shares

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.

Shares repurchased

On June 8, 2017, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid (the "NCIB"). The NCIB allowed the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period from June 12, 2017 to its expiry on June 11, 2018, subject to a maximum purchase of 38,582,483 common shares of the Company, subject to the normal terms and limitations of such bids. Under this bid during the year ended December 31, 2017, 9,014,600 common shares were repurchased for cancellation for $78,917 at a volume weighted average price of $8.75 per common share, respectively. No repurchases were made in the current year prior to expiry.

Common share dividends

During the year ended December 31, 2018, the Company paid $114,159 in common share dividends or $0.26 per common share (December 31, 2017 - $96,518 or $0.25 per common share).

As at December 31, 2018, un-accrued common share dividends were $19,494 or $0.045 per common share (December 31, 2017 - $28,527 or $0.075 per common share).

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 Fleet from time to time. To be eligible to participate in the DRIP, shareholders must be resident in Canada. Shareholders resident outside of Canada are not eligible to participate in the DRIP. There were no common shares issued under the DRIP during the year ended December 31, 2018. An aggregate of 186,059 common shares were issued under the DRIP during the first quarter of 2019.

Preferred shares

	As at December 31, 2018	
	Shares	Amount
	#	$
Preferred Shares, Series A	**4,600,000**	**110,375**
Preferred Shares, Series C	**5,126,400**	**124,744**
Preferred Shares, Series E	**5,321,900**	**129,994**
Preferred Shares, Series G	**6,900,000**	**168,543**
Preferred Shares, Series I	**6,000,000**	**146,756**

On May 5, 2017, the Company issued, through a public offering, 6,000,000 5.75% Cumulative 5-Year Rate Reset Preferred Shares, Series I ("Series I shares") at a price of $25.00 per preferred share for gross proceeds of $150,000. The issuance included pre-tax transaction costs of $4,423 (or after-tax transaction costs of $3,244).

For each five-year period, holders of the Series I shares 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. 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%.

On May 29, 2015, the Company issued, through a public offering, 6,900,000 6.50% Cumulative 5-Year Rate Reset Preferred Shares, Series G ("Series G shares") at a price of $25.00 per preferred share for gross proceeds of $172,500. The issuance included pre-tax transaction costs of $5,551 (or after-tax transaction costs of $3,957).

For each five-year period, holders of the Series G shares 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. 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%.

On June 18, 2014, the Company issued, through a public offering, 5,000,000 6.40% Cumulative 5-Year Rate Reset Preferred Shares, Series E ("Series E shares") at a price of $25.00 per preferred share for gross proceeds of $125,000. On July 8, 2014, the underwriters to the prospectus offering exercised their over-allotment option that resulted in the issuance of 321,900 Series E shares at a price of $25 per share for gross

proceeds of $8,048. The issuance included pre-tax transaction costs of $4,146 (or after-tax transaction costs of $3,054).

For each five-year period, holders of the Series E shares 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. 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, 2019, 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, 2019, 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%.

On March 7, 2014, the Company issued, through a public offering, 5,126,400 6.50% Cumulative 5-Year Rate Reset Preferred Shares, Series C ("Series C shares") at a price of $25.00 per preferred share for gross proceeds of $128,160. The issuance included pre-tax transaction costs of $4,639 (or after-tax transaction costs of $3,416).

For each five-year period, holders of the Series C shares 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. 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 will have the right to redeem the Series C shares on June 30, 2019, and 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 will have the right on June 30, 2019, and 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%.

On December 17, 2013, the Company issued, through a public offering, 4,600,000 6.60% Cumulative 5-Year Rate Reset Preferred Shares, Series A ("Series A shares") at a price of $25.00 per preferred share for gross proceeds of $115,000. The issuance included pre-tax transaction costs of $6,281 (or after-tax transaction costs of $4,613).

For each five-year period, holders of the Series A shares 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. 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, 2018, 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, 2018, 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%.

The dividend rate applicable to the Series A shares for the period from and including December 31, 2018 up to, but excluding, December 31, 2023, was reset from 6.60% to 6.93%, being equal to the sum of the five-year Government of Canada bond yield determined as of December 3, 2018 plus 4.71%.

On December 20, 2018, the Company announced during the conversion notice period, which commenced on December 3, 2018 and ended at 5:00 p.m. (EST) on December 17, 2018, 209,460 Series A shares were tendered for conversion into Series B shares. In accordance with Section 4.03(a)(iii) of the rights, privileges, restrictions and conditions attaching to the Series A shares, as provided in the Company's restated articles of incorporation dated October 4, 2016, since there would be outstanding on December 31, 2018 less than 500,000 Series B shares, after having taken into account all Series A shares tendered for conversion into Series B shares, holders of Series A shares who elected to tender their shares for conversion will not have their Series A shares converted into Series B shares on December 31, 2018. As a result, no Series B shares were outstanding on December 31, 2018.

Preferred share dividends

During the year ended December 31, 2018, the Company paid $44,273 in preferred share dividends (December 31, 2017 – $39,145).

As at December 31, 2018, the un-accrued cumulative preferred share dividends were $122 (December 31, 2017 – $122).

14. SHARE-BASED COMPENSATION

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

	2018	2017
(a) Stock options	**$ 8,008**	$ 12,574
(b) Deferred share units	**(159)**	3,218
(c) Performance share units	**5,514**	(1,164)
(d) Restricted share units	**11,816**	4,282
	$ 25,179	$ 18,910
Allocated as:		
Share-based compensation	**$ 23,642**	$ 19,930
Restructuring and transformation costs	**1,537**	2,884
Other revenue[1]	**—**	(3,904)
	$ 25,179	$ 18,910

1. During the year ended December 31, 2017, a PSU liability expired without vesting for a participant from ECN Capital Corp. The original expense for this PSU was recognized in discontinued operations and was not included as share-based compensation in the consolidated statement of operations of the Company. As a result, the reversal of the liability was recorded to other revenue.

December 31, 2018

(a) Stock options

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

	Number of options	Weighted average exercise price
	#	$
Outstanding, December 31, 2016	24,737,562	10.37
Granted	963,639	12.73
Forfeited	(262,773)	12.81
Expired	(391,808)	12.38
Exercised[1]	(3,678,327)	7.39
Outstanding, December 31, 2017	**21,368,293**	**10.92**
Granted[2]	**5,949,443**	**6.04**
Forfeited	**(670,368)**	**11.94**
Expired	**(430,424)**	**10.82**
Exercised[1]	**(888,334)**	**3.79**
Outstanding, December 31, 2018	**25,328,610**	**10.01**

1. Weighted average share price of options exercised during the year ended December 31, 2018 was $6.51 (year ended December 31, 2017 – $12.63).
2. 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.

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	**2018**	2017
Weighted average share price	$	**5.76**	12.73
Average term to exercise	Years	**1.8**	4.7
Share price volatility	%	**37.7**	29.0
Weighted average expected annual dividend	$	**0.30**	0.30
Risk-free interest rate	%	**2.47**	1.40
Forfeiture rate	%	**1.02**	1.02

December 31, 2018

As at December 31, 2018, the following employee and director stock options to purchase common shares were outstanding:

Range of exercise prices	Weighted average remaining life (in years)	Options outstanding		
		Vested	Unvested	Total
		#	#	#
$0.00 to $5.00	**0.90**	**740,332**	**—**	**740,332**
$5.01 to $10.00	**4.25**	**3,944,518**	**5,251,561**	**9,196,079**
$10.01 to $15.00	**2.53**	**14,523,128**	**749,071**	**15,272,199**
$15.01 and over	**2.43**	**120,000**	**—**	**120,000**
	3.10	**19,327,978**	**6,000,632**	**25,328,610**

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

	Deferred share units	Performance share units	Performance share units referenced to ECN Capital Corp.	Restricted share units
	#	#	#	#
Outstanding, December 31, 2016	1,705,011	1,331,771	1,326,952	636,352
Granted	143,076	272,640	3,699	816,695
Forfeited	—	(249,187)	(248,176)	—
Redeemed	(454,100)	(1,086,290)	(1,082,475)	(197,632)
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**

(i) Deferred share units ("DSUs")

As at December 31, 2018, the fair value of DSUs recorded on the consolidated statements of financial position as accounts payable and accrued liabilities was $5,401 (December 31, 2017 – $13,243).

(ii) Performance share units ("PSUs")

As at December 31, 2018, 382,339 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 $1,133 (December 31, 2017 – 268,934 PSUs and $1,746 of liabilities). Certain PSUs issued during

2018 and 2017 contain a multiplier factor and the final number of PSUs that will vest will range from 20% to 200% of the initial number awarded based on certain performance targets. The PSUs outstanding will vest on achievement of specific performance conditions over 2018, 2019 and 2020.

(iii) Restricted share units ("RSUs")

As at December 31, 2018, 2,103,733 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 $6,116 (December 31, 2017 – 1,255,415 RSUs and $2,667 of liabilities). The RSUs outstanding will vest over one, two and three years.

(iv) Hedging of DSUs, PSUs and RSUs

As at December 31, 2018, the Company has hedged 2,474,437 referenced share units with net derivative liabilities of $3,641, which will be applied to the settlement of PSU, RSU and DSU awards (December 31, 2017 – 2,361,032 referenced share units hedged and net derivative liabilities of $5,030 for PSU and RSU awards). For the year ended December 31, 2018, derivative mark to market adjustments were netted against share-based compensation expense of $3,061 (December 31, 2017 - $1,935).

December 31, 2018

15. REVENUE

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

	December 31, 2018		
	Core Fleet	**Non-Core**	**Total**
Major service lines			
Rental revenue	**$ 524,359**	**$ 21,013**	**$ 545,372**
Depreciation of equipment under operating leases	**(390,279)**	**(10,511)**	**(400,790)**
Rental revenue, net	**134,080**	**10,502**	**144,582**
Finance lease and other interest income	**611,337**	**41,075**	**652,412**
Other service income	**364,462**	**3,944**	**368,406**
Vehicle sales and end of contract fees	**159,898**	**—**	**159,898**
Service and other revenue	**1,135,697**	**45,019**	**1,180,716**
	$ 1,269,777	**$ 55,521**	**$ 1,325,298**
Primary geographical markets			
US	**$ 899,876**	**$ 52,512**	**$ 952,388**
Canada	**118,558**	**—**	**118,558**
Other	**251,343**	**3,009**	**254,352**
	$ 1,269,777	**$ 55,521**	**$ 1,325,298**
Timing of revenue recognition			
Services rendered at a point in time	**$ 361,332**	**$ —**	**$ 361,332**
Services rendered over time	**908,445**	**55,521**	**963,966**
	$ 1,269,777	**$ 55,521**	**$ 1,325,298**

Services rendered at a point in time include accident, fuel, and title and registration fees, and vendor commissions. Services rendered over time include fleet management fees and telematics services.

December 31, 2018

	December 31, 2017		
	Core Fleet	Non-Core	Total
Major service lines			
Rental revenue	$ 481,466	$ —	$ 481,466
Depreciation of equipment under operating leases	(366,531)	—	(366,531)
Rental revenue, net	114,935	—	114,935
Finance lease and other interest income	546,536	113,626	660,162
Other service income	386,697	4,150	390,847
Vehicle sales and end of contract fees	163,174	—	163,174
Service and other revenue	1,096,407	117,776	1,214,183
	$ 1,211,342	$ 117,776	$ 1,329,118
Primary geographical markets			
US	$ 823,477	$ 104,354	$ 927,831
Canada	146,849	—	146,849
Other	241,016	13,422	254,438
	$ 1,211,342	$ 117,776	$ 1,329,118
Timing of revenue recognition			
Services rendered at a point in time	$ 367,904	$ —	$ 367,904
Services rendered over time	843,438	117,776	961,214
	$ 1,211,342	$ 117,776	$ 1,329,118

(A) Contract balances

	December 31,	
	2018	2017
Contract assets	$ 41,876	$ 38,411

Contract assets represent the costs the Company incurs to enter into contracts with customers including certain commissions. Contract assets are recorded in the unamortized deferred costs and subsidies line within Note 4.

B) Performance obligations

Fixed-fee Service Contracts. The Company provides separately priced and contracted service contracts to our fleet clients that ranges 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 provision for (recovery of) income tax expense for the years ended December 31 are as follows:

	2018	2017
Consolidated statements of operations		
Current income tax expense	**$ 65,240**	$ 49,394
Deferred income tax benefit		
Origination and reversal of temporary differences	**(186,622)**	(29,319)
(Recovery of) provision for income taxes reported in the consolidated statements of operations	**$ (121,382)**	$ 20,075
Provision for income taxes reported in the consolidated statements of changes in shareholders' equity	**$ 1,429**	$ 818

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

	2018	2017
(Loss) income before income taxes	**$ (320,486)**	$ 174,719
Combined statutory Canadian federal and provincial tax rate	**26.64%**	26.64%
(Recovery of) provision for income taxes based on statutory rate	**$ (85,377)**	$ 46,545
Income taxes adjusted for the effect of:		
Non-deductible and non-taxable items	**(38,885)**	(32,440)
Foreign rate differential	**(1,010)**	(11,051)
Impact of US income tax reform	**—**	16,307
Adjustments of prior year taxes and other	**3,890**	714
(Recovery of) provision for income taxes	**$ (121,382)**	$ 20,075

December 31, 2018

Deferred taxes as at December 31 relate to the following:

		2018		2017
Deferred tax assets				
Shares and special warrants issuance and tax costs	**$**	**9,231**	$	13,996
Tax loss carryforwards		**1,042,985**		955,860
Transaction and integration costs		**34,625**		35,521
Deferred share units		**12,315**		10,772
	$	**1,099,156**	$	1,016,149
Deferred tax liabilities				
Finance receivables	**$**	**701,841**	$	818,008
Capital assets, intangibles and other		**784**		25,258
Unrealized gain or loss on foreign exchange and derivatives		**3,934**		(4,882)
Convertible debentures		**3,672**		7,411
Intangible assets arising from acquisitions		**23,180**		23,079
	$	**733,411**	$	868,874
Net deferred tax asset position	**$**	**365,745**	$	147,275

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:

		2018		2017
Deferred tax assets	**$**	**410,864**	$	177,602
Deferred tax liabilities		**45,119**		30,327
Net deferred tax asset position	**$**	**365,745**	$	147,275

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

		2018		2017
Balance, beginning of year	**$**	**147,275**	$	137,134
Tax benefit recognized in profit or loss		**186,622**		29,320
Tax expense recognized through shareholders' equity		**(4,765)**		(10,736)
Tax benefit/(expense) recognized through OCI		**14,090**		(8,443)
Tax benefit recognized due to distributed operations		**22,523**		—
Balance, end of year	**$**	**365,745**	$	147,275

Management has concluded the deferred tax asset of $410,864 meets the relevant recognition criteria under IFRS. Management's conclusion is supported by forecast taxable profits, embedded profits in existing finance receivables and the future reversal of existing taxable temporary differences which are expected to produce sufficient taxable income to realize the deferred tax asset.

The Company has incurred capital losses for tax purposes of $274,633 (2017 - $125,908), which are available to reduce future capital gains. No deferred 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, 2018.

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
Customer Fleet Pty Ltd.	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, Chesapeake Funding III 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, 2018 were $11,676,812 and $10,049,820, respectively (December 31, 2017 - $10,972,776 and $9,343,034, respectively).

18. RELATED PARTY TRANSACTIONS

Notes receivable

The notes receivable of $13,698 as at December 31, 2018 (December 31, 2017 – $19,670) represent loans made to certain employees and officers of the Company in prior periods to finance the purchase of the Company's shares and are secured by the shares purchased with full recourse to the employee. These loans bear interest at a rate of 3% per annum. Interest is payable monthly or annually, and the principal is payable on demand in the event of non-payment of interest. In the event that a note holder ceases to be an employee or officer to the Company, loans are either immediately repayable or a structured repayment schedule is established.

The changes in the notes receivable were as follows for the years ended December 31:

	2018	2017
Notes receivable, beginning of year	**$ 19,670**	$ 22,078
Interest income	**735**	556
Repayments (interest and principal)	**(6,707)**	(2,964)
Notes receivable, end of year	**$ 13,698**	$ 19,670

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 $23,478:

	2018	2017
Salaries, bonuses and benefits	**$ 8,798**	$ 8,709
Share-based compensation	**13,041**	9,101
	$ 21,839	$ 17,810

19. EARNINGS PER SHARE

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

	2018	2017
Net (loss) income attributable to shareholders	**$ (199,104)**	$ 154,644
Cumulative dividends on preferred shares	**(44,273)**	(41,301)
Net (loss) income available to common shareholders	**$ (243,377)**	$ 113,343
Weighted average number of common shares outstanding – basic (number)	**391,652,261**	385,420,010
Basic (loss) earnings per share	**$ (0.62)**	$ 0.29

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

	2018	2017
Net (loss) income available to common shareholders adjusted for the effects of dilution	**$ (243,377)**	$ 113,343
Weighted average number of common shares outstanding – basic (number)	**391,652,261**	385,420,010
Dilutive stock options and warrants (number)	**—**	2,422,018
Weighted average number of common shares outstanding – diluted (number)	**391,652,261**	387,842,028
Diluted (loss) earnings per share	**$ (0.62)**	$ 0.29

Instruments outstanding as at December 31, 2018 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, include 25,328,610 stock options for the year ended December 31, 2018 (year ended December 31, 2017 – 21,368,293 stock options).

In addition, the convertible debentures (note 12) were excluded from the diluted earnings per share calculation as these were anti-dilutive for the years ended December 31, 2018 and 2017.

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.

Foreign currency risk

For cash flow hedges, the Company uses 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.

December 31, 2018

Designated hedging instruments

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

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
		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	**9,579**	**9,579**	**—**	**—**	**—**	**3,641**	**(2,358)**
	11,771,796	**1,806,242**	**8,521,236**	**1,444,318**	**34,752**	**61,613**	**(20,335)**
NIFO hedges							
Secured 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018

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

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

December 31, 2018

Designated hedged items

The following table provides information on designated hedged items:

As at December 31, 2018	Carrying amount of the hedged item		Gain (losses) on changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	
	$	$	$
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)**
Secured Borrowings	**—**	**5,562,422**	**3,125**
Equity share price risk			
Share-based payment	**—**	**9,579**	**2,358**
	5,901,507	**5,572,001**	**20,335**
NIFO hedges			
Net investment in foreign subsidiaries	**1,100,369**	**—**	**135,356**
	1,100,369	**—**	**135,356**

n/a Not applicable

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018

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

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	**1,235**	**(311)**	**1,883**	**304**	**3,111**	—
Equity share price risk	**456**	**2,358**	—	**(628)**	**2,186**	—
	1,691	**20,335**	**1,883**	**(324)**	**23,585**	—
NIFO hedges						
Net investment in USD subsidiaries	**(298,933)**	**135,356**	—	—	**(163,577)**	—
	(298,933)	**135,356**	—	—	**(163,577)**	—

December 31, 2018

The following table summarizes the notional principal and fair values of the derivative financial instruments outstanding as at December 31, 2017:

	Within 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	December 31, 2017
	$	$	$	$	$
Notional principal					
Derivative assets					
Interest rate contracts	2,094,936	2,542,973	431,714	32,041	5,101,664
Foreign exchange agreements	385,668	—	—	—	385,668
Derivative assets	2,480,604	2,542,973	431,714	32,041	5,487,332
Derivative liabilities					
Interest rate contracts	2,486,835	1,946,647	262,328	—	4,695,810
Foreign exchange agreements	364,637	—	—	—	364,637
Total return swaps	27,492	—	—	—	27,492
Derivative liabilities	2,878,964	1,946,647	262,328	—	5,087,939
Fair values					
Restricted funds - collateral					4,070
Derivative assets					
Interest rate contracts	11,971	15,345	3,589	292	31,197
Foreign exchange agreements	829	—	—	—	829
Derivative assets	12,800	15,345	3,589	292	32,026
Derivative liabilities					
Interest rate contracts	11,672	13,260	1,798	—	26,730
Foreign exchange agreements	1,582	—	—	—	1,582
Total return swaps	5,030	—	—	—	5,030
Derivative liabilities	18,284	13,260	1,798	—	33,342

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018

				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, 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**
As at December 31, 2017						
Derivative financial instrument assets	32,026	—	32,026	18,503	—	13,523
Derivative financial instrument liabilities	33,342	—	33,342	18,503	4,070	10,769

21. CAPITAL DISCLOSURES

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:

		2018		2017
Secured borrowings	**$**	**13,270,780**	$	12,307,873
Convertible debentures		**897,435**		875,918
Total debt	**$**	**14,168,215**	$	13,183,791
Shareholders' equity		**3,975,485**		3,740,083
	$	**18,143,700**	$	16,923,874

22. SEGMENTED INFORMATION

Operating segments

During fiscal 2017, the Company amended its internal management reporting process, moving from a single segment to two operating and reporting segments consisting of (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, adjusting operating expenses, adjusted operating income, return on tangible equity and leverage.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018

Segmented operating results

	Year ended December 31, 2018			Year ended December 31, 2017		
	Fleet Management	**Non-Core**	**Total**	Fleet Management	Non-Core	Total
Net revenue						
Service and other revenue	**$ 524,324**	**$ 3,481**	**$ 527,805**	$ 547,707	$ 35,993	$ 583,700
Interest and rental revenue, net	**745,453**	**52,040**	**797,493**	663,635	81,783	745,418
	$ 1,269,777	**$ 55,521**	**$ 1,325,298**	$ 1,211,342	$ 117,776	$ 1,329,118
Interest expense	**404,603**	**47,176**	**451,779**	334,509	42,582	377,091
Net revenue	**$ 865,174**	**$ 8,345**	**$ 873,519**	$ 876,833	$ 75,194	$ 952,027
Operating expenses						
Salaries, wages and benefits	**$ 326,716**	**$ 2,595**	**$ 329,311**	$ 315,489	$ 3,381	$ 318,870
General and administrative expenses	**127,076**	**5,710**	**132,786**	148,236	2,343	150,579
Depreciation and amortization	**24,279**	**—**	**24,279**	15,976	—	15,976
	$ 478,071	**$ 8,305**	**$ 486,376**	$ 479,701	$ 5,724	$ 485,425
Net segment operating income (before tax)	**387,103**	**40**	**387,143**	397,132	69,470	466,602
Loss on investments	**—**	**32,473**	**32,473**	—	120,982	120,982
Net segment income (loss) (before tax)	**$ 387,103**	**$ (32,433)**	**354,670**	$ 397,132	$ (51,512)	345,620
Share-based compensation			**23,642**			19,930
Amortization of convertible debenture synthetic discount			**14,038**			13,147
Impairment on loans to 19th Capital			**480,000**			—
Amortization of intangible assets from acquisitions			**44,744**			55,823
Restructuring and transformation costs			**112,732**			82,001
(Recovery of) provision for income taxes			**(121,382)**			20,075
Net (loss) income for the year			**$ (199,104)**			$ 154,644

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018

Segmented financial position

	As at December 31, 2018			As at December 31, 2017		
	Fleet Management	**Non-Core**	**Total**	Fleet Management	Non-Core	Total
Select consolidated statement of financial position information						
Finance receivables	**$ 13,174,909**	**$ 56,237**	**$ 13,231,146**	$ 11,904,630	$ 863,503	$ 12,768,133
Equipment under operating leases	**1,751,310**	**382,795**	**2,134,105**	1,599,423	—	1,599,423
Investment in joint venture[1]	**—**	**—**	**—**	—	10,000	10,000
Other investments[2]	**—**	**99,590**	**99,590**	—	122,285	122,285
Goodwill and intangible assets	**2,156,669**	**—**	**2,156,669**	2,028,652	—	2,028,652
Total select segment assets	**$ 17,082,888**	**$ 538,622**	**17,621,510**	$ 15,532,705	$ 995,788	16,528,493
Other assets			**1,342,496**			1,041,140
Total assets			**$ 18,964,006**			$ 17,569,633

1. Included in accounts receivable and other assets on the consolidated statements of financial position.
2. Investments in the comparable period included the 32.5% interest in ECAF I Holdings Ltd., 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.

Geographic information

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

Geographic information is as follows:

For the years-ended	**December 31, 2018**				December 31, 2017			
	US	**Canada**	**Other**	**Total**	US	Canada	Other	Total
Net revenue excluding interest expense	**$952,388**	**$ 118,558**	**$ 254,352**	**$ 1,325,298**	$ 927,831	$ 146,849	$ 254,438	$ 1,329,118
Interest expense				**451,779**				377,091
Net revenue				**$ 873,519**				$ 952,027

As at	**December 31, 2018**				December 31, 2017			
	US	**Canada**	**Other**	**Total**	US	Canada	Other	Total
Select assets								
Finance receivables	**$11,072,130**	**$ 1,511,247**	**$ 647,769**	**$13,231,146**	$10,865,466	$ 1,460,381	$ 442,286	$12,768,133
Equipment under operating leases	**382,795**	**—**	**1,751,310**	**2,134,105**	—	—	1,599,423	1,599,423
Goodwill and intangible assets	**1,922,695**	**200,549**	**33,425**	**2,156,669**	1,797,079	199,078	32,496	2,028,653
Property, equipment and leasehold improvements	**45,815**	**3,691**	**11,463**	**60,969**	50,528	5,528	11,352	67,408
	$13,423,435	**$ 1,715,487**	**$ 2,443,967**	**$17,582,889**	$12,713,073	$ 1,664,987	$ 2,085,557	$16,463,617

Geographic net revenue, excluding interest expense is based on the location of clients, and select assets are based on the location of the assets.

23. COMMITMENTS

The Company leases its head office and most of its regional offices under operating leases expiring on various dates through 2025. As at December 31, the remaining future minimum lease payments are as follows:

	2018	2017
Within one year	**$ 14,095**	$ 9,844
After one year but not more than five years	**53,908**	38,863
More than five years	**25,244**	19,938
	$ 93,247	$ 68,645

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, 2018, the Company had $545,550 of commitments outstanding to provide financing or purchase equipment, and expire or settle on various dates through to December 31, 2019.

24. FINANCIAL INSTRUMENT RISKS

Credit risk

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

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

The Company's maximum exposure to credit risk for components of the consolidated statements of financial position as at December 31, 2018 and 2017 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 secured 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 secured 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 secured borrowing arrangements to ensure its finance contracts are appropriately match-funded by its secured 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 secured 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 secured 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, 2018, the Company estimates that a 50 basis point increase would decrease net income before taxes by approximately $598 and a 50 basis point decrease in interest rates would increase net income before taxes by approximately $1,594.

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, 2018, 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 period. 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 net income before business acquisition and transformation costs and income taxes in fiscal year 2019 is consistent with the results generated in 2018, each one cent increase (decrease) in the average Canadian/foreign currency exchange rates would be expected to increase/decrease net income before business acquisition costs and income taxes for the year by approximately $8,233 in the absence of hedging transactions.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

For the purposes of fair value disclosures, financial instruments have been separated into the following classes: finance lease receivables, finance loans receivable, secured borrowings on finance receivables, convertible debentures, notes receivable, and derivatives.

Valuation methods and assumptions

Finance lease receivables and secured borrowings on finance receivables

The carrying value of finance lease receivables and secured borrowings on finance receivables approximates fair value. The assertion that the carrying value of the finance receivables and secured borrowings approximates fair value requires the use of estimates and significant judgment. Finance receivables and secured borrowings on finance receivables are classified as Level 3 financial instruments. 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.

Finance loans receivables

The carrying value of finance loans receivables was $113,623 at December 31, 2018 and approximates fair value. As at December 31, 2017 the carrying value was $855,789 with an estimated fair value of $795,000 to $840,000. Included in the carrying value as at December 31, 2018 is $nil related to loans provided to 19th Capital (December 31, 2017 – $775,898 with an estimated fair value of $715,000 to $760,000, respectively). The fair value of finance loans receivable is determined by discounting the stream of principal and interest at a rate of interest for instruments of similar terms and credit risks as at December 31, 2018. Finance loans receivables are classified as Level 3 financial instruments, whereby fair value is determined using valuation techniques and inputs not based on observable market data.

Convertible debentures

The debt component of convertible debentures is recorded at fair value on initial recognition and subsequently carried at amortized cost as presented in note 12. The fair market value of the debt component as at December 31, 2018 was estimated at $959,065 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. Convertible debentures are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Notes receivable

The carrying value of the notes receivable approximates their fair value, as the interest rate on this asset is commensurate with market interest rates for this type of asset with similar duration and credit risk. Notes receivable are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Derivatives

The fair values of derivatives are presented in note 20 and 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. Derivatives are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Investments

The fair value of investments classified as FVTPL are presented in note 6 and are classified as Level 3 financial instruments. 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.

26. SUPPLEMENT TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash flows from other non-cash operating assets and liabilities for the years ended:

	December 31, 2018	December 31, 2017
Changes in other non-cash operating assets and liabilities		
Accounts receivable and other assets	**$ (95,539)**	$ (28,631)
Accounts payable and accrued liabilities	**89,741**	58,228
Deferred tax assets	**(223,183)**	(20,316)
Deferred tax liabilities	**13,849**	11,486
Derivative financial instruments	**17,469**	8,215
	$ (197,663)	$ 28,982

The consolidated statements of cash flows reflect only the impact of the Company's activities during the period. To simplify understanding of these transactions, and the related non-cash components, the major statement of financial position changes are more fully detailed below with indications as to the amounts included in the consolidated statements of cash flows.

	Year ended December 31, 2018
Finance receivables (note 4)	
Balance as at December 31, 2017	**$ 12,768,133**
Originations (included in cash flows)	**5,337,512**
Repayments (included in cash flows)	**(4,680,613)**
Assets sold to syndications (included in cash flows)	**(597,109)**
Amortization of deferred lease costs (adjustment to income in cash flows)	**(24,851)**
Impact of non-cash transfers	**2,949**
Provision for credit losses (adjustment to income in cash flows)	**1,913**
Impairment of 19th Capital	**(480,000)**
Impact of foreign exchange translation (excluded from cash flows)	**903,212**
Balance as at December 31, 2018	**$ 13,231,146**

	Year ended December 31, 2018
Equipment under operating leases (note 5)	
Balance as at December 31, 2017	$ 1,599,423
Originations (included in cash flows as investment in equipment under operating leases)	1,154,288
Disposals (included in cash flows)	(266,418)
Depreciation of equipment under operating leases (adjustment to income in cash flows)	(400,790)
Impact of foreign exchange translation (excluded from cash flows)	47,602
Balance as at December 31, 2018	**$ 2,134,105**
Secured borrowings (note 11)	
Balance as at December 31, 2017	$ 12,307,873
Net issuance (included in cash flows)	111,416
Increase in deferred financing costs (included in cash flows)	(32,684)
Amortization of deferred financing costs (adjustment to income in cash flows)	44,711
Impact of foreign exchange translation (excluded from cash flows)	839,464
Balance as at December 31, 2018	**$ 13,270,780**
Deferred financing costs (notes 10 and 11)	
Balance as at December 31, 2017	$ (60,216)
Increase in deferred financing costs	(32,684)
Amortization of deferred financing costs (adjustment to income in cash flows)	44,711
Amortization of convertible debentures	(7,479)
Impact of foreign exchange translation (excluded from cash flows)	(4,510)
Balance as at December 31, 2018	**$ (60,178)**

27. PROVISIONS

A restructuring provision of $70,600 was recorded in the third and fourth quarter of 2018 with respect to the strategic review conducted, realignment of the executive leadership team and commencement of spending on the transformation exercise announced on October 1, 2018. This provision was in addition to the $40,000 provision established in the first quarter of 2018. In addition, $2,100 of expenses were recorded during the first half of the year that related to the finalization of the CEI integration. All amounts have been incurred and paid or to be paid by the end of the first quarter of 2019. No similar provisions were accrued in the corresponding periods of 2017.

December 31, 2018

The changes in the provisions during the periods were as follows:

Nature of expenses	Q1 2018	Q3 2018	Q4 2018	Total	Remaining liability
Severances	$ 20,000	$ 17,000	$ 15,000	$ 52,000	$ 14,900
Professional fees	8,500	12,000	18,000	38,500	19,500
Office closure	5,500	—	—	5,500	—
Other	6,000	6,000	2,600	14,600	3,000
Total	$ 40,000	$ 35,000	$ 35,600	$ 110,600	$ 37,400

28. TRANSITION TO IFRS 9

The following table shows the pre-transition IAS 39 and post-transition IFRS 9 classification and measurement categories, and reconciles the IAS 39 and IFRS 9 carrying amounts for finance receivables and other financial assets as at January 1, 2018 as a result of adopting IFRS 9:

	IAS 39 Measurement category	IFRS 9 Measurement category	IAS 39 carrying value as at December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying value as at January 1, 2018
Financial assets						
ECAF	Amortized cost	FVTPL	$ 130,588	$ (8,303)	$ (9,164)	$ 113,121
Finance receivables	Amortized cost	Amortized cost	12,768,133	—	(68,854)	12,699,279
Total pre-tax impact of IFRS 9 adoption			12,898,721	(8,303)	(78,018)	12,812,400
Total after-tax retained earnings			248,843	(6,300)	(59,004)	183,539
Total after-tax shareholders' equity			$ 3,740,083	$ (6,300)	$ (59,004)	$ 3,674,779

29. COMPARATIVE FIGURES

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