



Consolidated Financial Statements and Notes

Years Ended December 31, 2017 and 2016



March 13, 2018

## **Independent Auditor's Report**

### **To the Shareholders of Rocky Mountain Dealerships Inc.**

We have audited the accompanying consolidated financial statements of Rocky Mountain Dealerships Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31 2016 and the consolidated statements of net earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rocky Mountain Dealerships Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

---

*PricewaterhouseCoopers LLP*  
111 5<sup>th</sup> Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3  
T: +1 403 509 7500, F: +1 403 781 1825, [www.pwc.com/ca](http://www.pwc.com/ca)



**Consolidated Statements of Financial Position**  
Expressed in thousands of Canadian dollars

	Note	December 31, 2017 \$	December 31, 2016 \$
<b>Assets</b>			
Current			
Cash		20,097	28,542
Trade receivables and other	5	32,931	27,504
Inventory	6	471,573	442,742
Income taxes receivable		-	487
Prepaid expenses		6,210	6,208
Current portion of derivative financial assets	26.6	2,921	290
Assets held for sale	7	-	2,501
Total current assets		533,732	508,274
Non-current			
Property and equipment	7,9	42,229	48,586
Deferred tax asset	21.2	-	1,210
Derivative financial assets	26.6	4,109	578
Intangible assets	8	343	507
Goodwill	10	18,776	18,776
Total non-current assets		65,457	69,657
Total assets		599,189	577,931
<b>Liabilities</b>			
Current			
Trade payables, accruals and other	11	46,748	47,995
Floor plan payable	12	305,342	296,061
Income tax payable		1,079	-
Deferred revenue		6,724	3,204
Current portion of long-term debt	13	6,104	6,825
Current portion of obligations under finance leases	14	445	440
Current portion of derivative financial liabilities	26.6	533	1,449
Liabilities associated with assets held for sale	7	-	1,606
Total current liabilities		366,975	357,580
Non-current			
Long-term debt	13	30,919	40,778
Obligations under finance leases	14	75	521
Deferred tax liability		652	-
Derivative financial liabilities	26.6	464	1,871
Total non-current liabilities		32,110	43,170
Total liabilities		399,085	400,750
Commitments, contingencies and guarantees	15,24		
<b>Shareholders' Equity</b>			
Common shares		95,477	87,709
Contributed surplus		4,400	6,065
Accumulated other comprehensive income (loss)		481	(2,371)
Retained earnings		99,746	85,778
Total shareholders' equity		200,104	177,181
Total liabilities and shareholders' equity		599,189	577,931

**APPROVED BY THE BOARD**

"Signed" Robert Herdman  
Robert Herdman, Director

"Signed" Matthew Campbell  
Matthew Campbell, Director

*The accompanying notes are an integral part of these consolidated financial statements*



**Consolidated Statements of Net Earnings**

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share amounts

	December 31, 2017	December 31, 2016
Note	\$	\$
<b>Sales</b>	<b>17</b>	930,435
Cost of sales	<b>6</b>	797,028
Gross profit	<b>139,429</b>	133,407
Selling, general and administrative	<b>18</b>	97,970
Gain on derivative financial instruments	<b>26.6</b>	(4,751)
Loss on sale of vacant land	<b>7</b>	1,360
Restructuring charges	<b>19</b>	3,564
Earnings before finance costs and income taxes	<b>43,594</b>	35,264
Finance costs	<b>20</b>	14,343
Earnings before income taxes	<b>31,673</b>	20,921
Income taxes	<b>21.1</b>	5,955
<b>Net earnings</b>	<b>22,899</b>	14,966
Earnings per share		
Basic	<b>22</b>	0.77
Diluted	<b>22</b>	0.77

*The accompanying notes are an integral part of these consolidated financial statements*

**Consolidated Statements of Comprehensive Income**

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars



	December 31, 2017 \$	December 31, 2016 \$
<b>Net earnings</b>	22,899	14,966
<b>Other comprehensive income</b>		
Items which will subsequently be reclassified to net earnings:		
Unrealized gain on derivative financial instruments, net of tax	2,852	1,238
<b>Total other comprehensive income for the year, net of tax</b>	<b>2,852</b>	<b>1,238</b>
<b>Comprehensive income</b>	<b>25,751</b>	<b>16,204</b>

*The accompanying notes are an integral part of these consolidated financial statements*



## Consolidated Statements of Changes in Equity

Expressed in thousands of Canadian dollars and thousands of common shares

	Common shares						
	Note	Number of shares	Amount \$	Contributed surplus \$	Accumulated other comprehensive (loss) income \$	Retained earnings \$	Total equity \$
<b>Balance, December 31, 2016</b>		19,384	87,709	6,065	(2,371)	85,778	177,181
Shares issued upon exercise of stock options	16.3	493	7,768	(1,680)	-	-	6,088
Equity-settled share-based payment expense	18	-	-	15	-	-	15
Net earnings		-	-	-	-	22,899	22,899
Other comprehensive income		-	-	-	2,852	-	2,852
Dividends paid	16.2	-	-	-	-	(8,931)	(8,931)
<b>Balance, December 31, 2017</b>	16.1	19,877	95,477	4,400	481	99,746	200,104

	Common shares						
	Note	Number of shares	Amount \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Retained earnings \$	Total equity \$
<b>Balance, December 31, 2015</b>		19,384	87,709	5,929	(3,609)	79,729	169,758
Equity-settled share-based payment expense	18	-	-	136	-	-	136
Net earnings		-	-	-	-	14,966	14,966
Other comprehensive income		-	-	-	1,238	-	1,238
Dividends paid	16.2	-	-	-	-	(8,917)	(8,917)
<b>Balance, December 31, 2016</b>	16.1	19,384	87,709	6,065	(2,371)	85,778	177,181

The accompanying notes are an integral part of these consolidated financial statements

**Consolidated Statements of Cash Flows**  
Years Ended December 31, 2017 and 2016  
Expressed in thousands of Canadian dollars



	December 31, 2017	December 31, 2016
Note	\$	\$
<b>Operating activities</b>		
Net earnings	22,899	14,966
Adjustments for:		
Depreciation and amortization expense	8,9      7,417	7,755
Deferred tax expense	21.2      807	678
Equity-settled share-based payment expense	18      15	136
Asset impairment loss on vacant land and other assets	7      -	1,460
Loss (gain) on disposal of property and equipment	9      519	(208)
Gain on derivative financial instruments	26.6      (4,578)	(4,751)
Amortization of deferred debt issuance costs	23      121	70
Changes in non-cash working capital	23      (20,245)	7,057
Total cash generated from operating activities	<u>6,955</u>	<u>27,163</u>
<b>Financing activities</b>		
Repayment of long-term debt	13      (10,590)	(5,083)
Proceeds from long-term debt	-	7,800
Repayment of obligations under finance leases	(441)	(378)
Dividends paid	16.2      (8,931)	(8,917)
Proceeds from issuance of common shares	6,088	-
Deferred debt issuance costs	(111)	(116)
Total cash used from financing activities	<u>(13,985)</u>	<u>(6,694)</u>
<b>Investing activities</b>		
Purchase of property and equipment	9      (5,993)	(10,184)
Disposal of property and equipment, including assets held for sale	9      4,578	2,307
Purchase of equipment dealerships, net of cash acquired	-	(740)
Total cash used from investing activities	<u>(1,415)</u>	<u>(8,617)</u>
<b>Net (decrease) increase in cash</b>	<b>(8,445)</b>	<b>11,852</b>
<b>Cash, beginning of year</b>	<b>28,542</b>	<b>16,690</b>
<b>Cash, end of year</b>	<b>20,097</b>	<b>28,542</b>
Taxes paid	6,401	5,704
Interest paid	<u>11,491</u>	<u>14,093</u>

*The accompanying notes are an integral part of these consolidated financial statements*



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

---

### 1. General information

Rocky Mountain Dealerships Inc. ("RME") is incorporated under the *Business Corporations Act (Alberta)*. Through its wholly-owned subsidiaries, RME sells, leases and provides product and warranty support for a wide variety of agriculture equipment in Western Canada. All of RME's operating subsidiaries are incorporated in Alberta, Canada and all of the equipment dealership locations operate under the name "Rocky Mountain Equipment".

The head office and principal address of RME is located at Suite 301, 3345 8th Street S.E., Calgary, Alberta, T2G 3A4. The registered and records office of RME is located at 1500, 850 2nd Street S.W., Calgary, Alberta, T2P 0R8.

### 2. Basis of preparation

#### 2.1. Statement of compliance

RME prepares its consolidated financial statements in accordance with International Financial Reporting Standards. These consolidated financial statements were authorized for issue by the Board of Directors on March 13, 2018.

#### 2.2. Adoption of new and revised standards and interpretations

The IASB issued amendments to International Accounting Standards which are effective for RME's financial year beginning on January 1, 2017. For the purpose of preparing and presenting the consolidated financial statements for the relevant periods, RME has consistently adopted all of these amendments for the relevant reporting periods.

##### *Amendment to IAS 7, 'Statement of cash flows'*

This amendment improves information provided to users of financial statements about changes in liabilities arising from the entity's financing activities. The adoption of this amendment had no material impact to RME's financial statements.

##### *Amendment to IAS 12, 'Income taxes'*

This amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value. The adoption of this amendment had no material impact to RME's financial statements.

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee (IFRIC) have issued the following new and revised standards and interpretations which are not yet effective for the relevant reporting periods. RME has not early adopted these standards, amendments or interpretations, however RME is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements.

##### *IFRS 15, 'Revenue from contracts with customers'*

IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This standard is effective for fiscal periods beginning on or after January 1, 2018. Management has performed its assessment of the new standard and has assessed there will be no material impact to the consolidated financial statements, other than additional note disclosure and the presentation of a contract liability for the return of parts on the statement of financial position.





## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### *IFRS 9, 'Financial instruments'*

IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 also introduces new rules for hedge accounting and a new impairment model for financial assets. This standard is effective for fiscal periods beginning on or after January 1, 2018. Management has performed its assessment of the new standard and has assessed there will be no material impact to the consolidated financial statements.

### *Amendment to IFRS 7, 'Financial instruments: Disclosures'*

In conjunction with the transition from IAS 39 to IFRS 9 for fiscal years beginning on or after January 1, 2018, IFRS 7 will also be amended to require additional disclosure in the year of transition. Management has performed its assessment of the new standard and has assessed there will be no material impact to the consolidated financial statements, other than additional note disclosures.

### *IFRS 16, 'Leases'*

IFRS 16 replaces IAS 17 and requires most leases to be recognized as assets and liabilities on the statement of financial position. This standard includes an optional exemption for certain short-term leases and leases of low-value assets and is effective for fiscal periods beginning on or after January 1, 2019. Management is currently in the process of assessing this standard and its impact on the consolidated financial statements. This standard will affect primarily the accounting for RME's operating lease commitments.

## **3. Summary of significant accounting policies**

### **3.1. Basis of measurement**

The fundamental valuation method applied in the consolidated financial statements is historical cost except for certain financial instruments and cash-settled share-based payments which are measured at fair value as explained below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These consolidated financial statements are presented in Canadian dollars, which is RME's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share and per option amounts or unless otherwise stated.

### **3.2. Basis of consolidation**

The consolidated financial statements include the financial statements of RME and its wholly-owned subsidiaries. Subsidiaries are entities controlled by RME. Control exists when RME has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns, to an extent generally accompanying a shareholding that confers more than half of the voting rights. Subsidiaries are included in the consolidated financial statements of RME from the date control of the subsidiary commences until the date that control ceases. Intercompany transactions and balances are eliminated on consolidation.

### **3.3. Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by RME in exchange for control of the acquiree. Acquisition-related costs are recognized within net earnings in the period in which they are incurred.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

Where applicable, the consideration for the acquisition may include any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in fair values of contingent consideration are adjusted against the cost of the acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS.

Goodwill is measured as the excess of the consideration transferred over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognized immediately in net earnings as a bargain purchase gain.

The measurement period is the period from the date of acquisition to the date RME obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

### 3.4. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as RME's Chief Executive Officer. RME had two reportable operating segments, the agriculture segment and the industrial segment. The industrial facilities were amalgamated into the existing agricultural facilities during 2016. As a result the majority of RME's industrial equipment distribution assets were transferred to agriculture branches. After these amalgamations, RME only has one reportable segment.

### 3.5. Cash

Cash consists of cash on hand.

### 3.6. Property and equipment

All items in property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses.

Each part of an item of property and equipment with a useful life that is significantly different from the useful lives of other parts is depreciated separately.

Items of property and equipment are depreciated commencing on the date they are ready for use using the following methods and rates:

Land	Not depreciated
Buildings	Straight-line over 20 years
Computer equipment	Straight-line over 3 – 6 years
Furniture and fixtures	Straight-line over 5 – 10 years
Leasehold improvements	Straight-line over the lesser of the lease term (including renewals) and useful life
Shop tools and equipment	Straight-line over 3 – 10 years
Vehicles	Straight-line over 3 – 5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in net earnings. Items of property and equipment are tested for impairment as discussed in Note 3.10.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 3.7. Key estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should underlying assumptions change, estimated net recoverable values could change by a material amount.

Balances in these consolidated financial statements that are subject to estimation include the allowance for doubtful accounts (Note 5), the net realizable value of inventory (Note 3.13), the valuation of equipment taken in on trade (Note 3.13), the timing of revenue recognition (Note 3.14), the depreciation periods and methods applied to items of property and equipment (Note 3.6), the net recoverable value of goodwill (Note 10), the fair value of derivative financial instruments (Note 3.21.10), impairment of assets other than goodwill (Note 3.10), share-based transactions (Note 3.17), the fair value of business combinations (Note 3.3), and the value of annual performance incentives from manufacturers (Note 3.15.1).

### 3.8. Identifiable intangible assets

Identifiable intangible assets are initially recorded at cost. Finite lived intangible assets are amortized on a straight-line basis over their estimated useful lives. RME's identifiable intangible assets consist of intellectual properties acquired pursuant to the acquisition of NGF Geomatics Inc. ("NGF") during 2015. RME expects the useful life of these assets to be five years.

### 3.9. Goodwill and impairment of goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of RME's share of the net identifiable assets of the acquiree at the date of acquisition. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill generated on initial recognition is not deductible for tax purposes and has an indefinite useful life.

For the purposes of impairment testing, goodwill is allocated to the cash-generating unit ("CGU") expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. The recoverable amount of the CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss for goodwill is recognized in net earnings. Such impairment losses are not reversed in subsequent periods.

### 3.10. Impairment of assets other than goodwill

At the end of each reporting period, RME reviews the carrying amounts of its identifiable assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, RME compares the estimated recoverable amount of the CGU to which the asset belongs to its carrying value to determine whether, and the extent to which, the asset is impaired as described in Note 3.9.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

---

Where an impairment loss subsequently reverses, the carrying amount of the assets (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized for the asset. A reversal of impairment loss is recognized immediately in net earnings.

### 3.11. Earnings per share

Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if options to purchase common shares were exercised. The treasury stock method is used to determine the dilutive effect of options, whereby any proceeds received by RME from their exercise are assumed to be used to purchase common shares at the average market price during the period.

The average market price of RME's shares for the purposes of calculating the dilutive effect of options is based upon quoted market prices for the periods during which the options are outstanding.

### 3.12. Leases

Assets held under finance leases are initially recognized as assets, recorded at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as an obligation under finance lease.

Lease payments are apportioned between interest expense and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is recognized immediately in net earnings.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 3.13. Inventory

Equipment inventory is valued at the lower of cost and net realizable value, with cost being determined on a specific item, actual cost basis. Net realizable value is estimated using recent sales of the same or similar equipment inventory or market values as established by industry publications, less the costs to sell. Value is assigned to equipment inventory acquired through trade-in by using recent sales of the same or similar equipment inventory or market values as established by industry publications. Parts inventory is recorded at the lower of cost and net realizable value, with cost being determined on an average cost basis. Net realizable value is estimated using recent sales of the same or similar parts inventory, less the costs to sell. Work-in-progress is valued on a specific item, actual cost basis.

### 3.14. Revenue recognition

Sales are measured at the fair value of the consideration received or receivable.

#### 3.14.1. Sale of goods

Revenue from the sale of goods including new and used equipment and parts is recognized when all the following conditions are satisfied:

- RME has transferred to the buyer the significant risks and rewards of ownership of the goods;
- RME retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to RME; and



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

---

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 3.14.2. Rendering of services

Revenue derived from the rendering of services is recognized when:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to RME;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

## **3.15. Manufacturers Incentives**

### 3.15.1. Annual performance incentives

Certain manufacturers offer annual performance incentives which are linked to RME's market share achievement and annual settlement volumes. RME uses estimated annual market share statistics derived from current and historical results which have been adjusted for any anticipated changes in the current year, as well as annual settlement volume to accrue manufacturer incentives earned during the year. The original equipment manufacturer will typically reassess targets on an annual basis. Annual performance incentives are recorded as a reduction to cost of sales. A credit to our account for the annual performance incentive is typically received in the first quarter following year end.

### 3.15.2. Transactional incentives

Certain manufacturers offer incentives for selling volumes of qualifying equipment. This transactional incentive is recognized when it is earned and it is earned when the unit is sold. A credit to our account is received the following quarter after the unit is settled with the original equipment manufacturer. Transactional incentives are recorded as a reduction to cost of sales.

## **3.16. Deferred revenue**

Deferred revenue comprises equipment sales in which cash has been received but not all terms and conditions have been fulfilled to meet the requirements of revenue recognition.

## **3.17. Share-based transactions**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. RME follows the fair value based method of accounting, using the Black-Scholes option pricing model, whereby compensation expense is recognized over the vesting period and is based on RME's estimate of awards that will ultimately vest, with a corresponding increase to contributed surplus.

Cash-settled share-based payments are recorded as liabilities and are measured initially at their fair values. At the end of each reporting period and at the date of settlement, these liabilities are remeasured at fair value, with any changes recognized in net earnings for the period. Details regarding the determination of the fair value of cash-settled share-based payments are set out in Note 16.4 and Note 16.5.

## **3.18. Employee Share Ownership Plan**

RME has an Employee Share Ownership Plan ("ESOP"). Under the ESOP, RME matches eligible employee contributions, subject to certain limitations based on employee tenure. RME's formerly-constituted Compensation, Governance and Nominating Committee, now its Compensation and Human Resources Committee, may approve modifications to these



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

---

limitations as part of executive compensation plans. RME's contributions vest immediately to the employee and are expensed as incurred.

ESOP shares are purchased on the open market. Dividends paid on RME's common shares held for the ESOP are used to purchase additional common shares on the open market.

### 3.19. Income taxes

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized if it arises from goodwill generated on a business combination or an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting net earnings nor taxable income. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred tax asset is expected to be realized or the deferred tax liability is expected to be settled.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be applied. Deferred tax assets are reviewed at each reporting date and are recognized only to the extent that it is probable that the related tax benefit will be realized.

Current and deferred tax expenses (recoveries) are recognized in net earnings except, to the extent that they relate to items that are recognized within other comprehensive income or directly within equity. In such cases, the current and deferred tax expenses (recoveries) are also recognized in other comprehensive income or directly in equity, respectively. Where current or deferred tax positions arise from the initial accounting for a business combination, the tax effect is included in the allocation of the purchase price.

### 3.20. Foreign currency translation

Transactions in currencies other than RME's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at prevailing rates.

### 3.21. Financial instruments

Financial assets and liabilities are recognized when RME becomes party to the contractual provisions of the instrument.

On initial recognition, financial instruments are measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments, other than financial instruments at fair value through profit or loss ("FVTPL"), are added to or deducted from the fair value of the financial instrument, as appropriate. Transaction costs directly attributable to the acquisition of financial instruments at FVTPL are recognized immediately in net earnings.

#### 3.21.1. Classification of financial instruments

Financial instruments are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments, available-for-sale ("AFS") financial assets, loans and receivables, financial liabilities at FVTPL and other financial liabilities. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition. RME has no financial assets classified as held-to-maturity or AFS.





## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 3.21.2. Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### 3.21.3. Financial instruments at FVTPL

Financial instruments are classified as at FVTPL when the instrument is either held for trading or it is designated as at FVTPL.

A financial asset (liability) is classified as held for trading if:

- it has been acquired principally for the purpose of selling (repurchasing) it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that RME manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial instrument other than one held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial instrument forms part of a group of financial instruments, which is managed and its performance is evaluated on a fair value basis, in accordance with RME's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39, 'Financial instruments: Recognition and measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets classified as at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net earnings. The net gains or losses recognized in net earnings incorporate any dividends or interest associated with the financial instrument. RME has designated its derivative financial instruments as at FVTPL. The methods for determining fair value and the presentation of gains and losses are described in Notes 3.21.10 and 26.6.

### 3.21.4. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any provisions for impairment.

RME has classified its cash and trade receivables and other as loans and receivables.

### 3.21.5. Other financial liabilities

Other financial liabilities are measured at amortized cost using the effective interest method.

RME has classified its trade payables, accruals and other (with the exception of the directors' share units and share appreciation rights), floor plan payable (including any portion classified as liabilities associated with assets held for sale), long-term debt, and obligations under finance leases as other financial liabilities.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 3.21.6. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. For financial assets carried at amortized cost, the amount of the impairment loss, if any, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. As indicated above, RME's financial assets carried at amortized cost consist only of cash and trade receivables and other. Any impairment determined on trade receivables and other reduces the carrying amount through the use of an allowance account and is recorded when an account is considered uncollectible. Subsequent recoveries of amounts previously provided for are credited against the allowance. Changes in the carrying amount of the allowance are recognized in selling, general and administrative expenses.

### 3.21.7. Derecognition of financial instruments

RME derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated equity is recognized in net earnings.

RME derecognizes a financial liability when RME's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in net earnings.

### 3.21.8. Classification as debt or equity

Debt and equity instruments issued by RME are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and equity instrument.

### 3.21.9. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of RME after deducting all of its liabilities. Equity instruments issued by RME are recognized at a value equal to the proceeds received, net of direct issue costs. Repurchases of RME's own equity instruments are recognized as direct reductions to equity. No gain or loss is recognized in net earnings on the purchase, sale, issuance or cancellation of RME's own equity instruments.

### 3.21.10. Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized on the date a derivative contract is entered into and are subsequently re-measured at their fair values. The fair values of interest rate swaps are calculated as the net present value of the estimated future cash flows expected to arise on the variable and fixed streams, determined using applicable yield curves at each measurement date. Swap curves, which incorporate credit spreads applicable to large commercial banks, are typically used to calculate expected future cash flows and the present values thereof. Adjustments are also made to reflect RME's own credit risk and the credit risk of the counter party, if different from the spread implicit in the swap curve.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. RME may designate derivatives of a particular risk associated with a recognized asset or liability or highly probable forecast transaction as cash flow hedges.

RME documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.





## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

RME has designated its floating-to-fixed interest rate swaps as cash flow hedges. RME uses the regression method to determine whether these interest rate swaps are highly effective in offsetting changes in fair values or cash flows of these hedged items and use the cumulative dollar offset method to measure the ineffective portion. The documentation identifies the anticipated cash flows being hedged, the risk that is being hedged, and the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in accomplishing the objective of offsetting changes in anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated, or upon early settlement of the hedged item.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recognized in other comprehensive income while the ineffective portion is recognized within net earnings. Amounts in accumulated other comprehensive income (loss) are reclassified to net earnings in the periods when the hedged item affects profit or loss.

Gains or losses on derivatives not designated as hedges are recognized in net earnings.

When a hedging instrument expires or no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of net earnings.

RME has several total return swaps to hedge the exposure associated with increases in its share value on its outstanding Director Share Units (DSUs) and Share Appreciation Rights (SARs). RME does not apply hedge accounting to these relationships and as such, gains and losses arising from marking these derivatives to market are recognized in earnings in the period in which they arise.

#### 4. Prior year comparative disclosures

Certain prior period information in Note 17 and 18 has been revised to conform to the current period presentation. The revisions had no impact on net earnings, cash flows or the financial position of RME.

#### 5. Trade receivables and other

	December 31, 2017 \$	December 31, 2016 \$
Trade receivables		
Current	15,088	9,639
Aged between 61 – 120 days	1,284	948
Aged greater than 120 days	1,040	1,627
	<u>17,412</u>	<u>12,214</u>
Allowance for doubtful accounts	(847)	(1,206)
Net trade receivables	16,565	11,008
Contracts in transit	15,916	15,275
Warranty receivables	450	1,221
	<u>32,931</u>	<u>27,504</u>

RME considers its trade receivables and other which are neither past due nor impaired to be of good credit quality. Contracts in transit and warranty receivables are due from retail finance institutions and original equipment manufacturers, respectively.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

The allowance for doubtful accounts can be reconciled as follows:

	December 31, 2017 \$	December 31, 2016 \$
As at January 1,	1,206	1,939
Net recovery provision	(47)	(87)
Written-off during the year	(312)	(646)
As at December 31,	<b>847</b>	<b>1,206</b>

The allowance for doubtful accounts is reviewed by management and accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. RME takes into consideration the customer's payment history, their creditworthiness and the current economic environment in which the customer operates to assess impairment. RME's historical bad debt expenses have not been significant and are generally limited to specific customer circumstances.

## 6. Inventory

	December 31, 2017 \$	December 31, 2016 \$
New equipment	115,928	113,517
Used equipment	314,994	289,485
Parts	38,618	37,781
Work-in-progress	2,033	1,959
	<b>471,573</b>	<b>442,742</b>

For the year ended December 31, 2017, inventory recognized as an expense amounted to \$807,019 (2016 – \$782,802), which is included in cost of sales in the consolidated statement of net earnings.

For the year ended December 31, 2017, there were write downs of inventory to net realizable value of \$5,845 (2016 – \$4,702) in cost of sales in the consolidated statement of net earnings. Circumstances that give rise to the write down of primarily used inventory include fluctuations in market price, profile and age in inventory. For the year ended December 31, 2017, there were reversals of write downs of inventory to net realizable value of \$Nil (2016 – \$Nil). RME's inventory has been pledged as security for its floor plan payable and long-term debt.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 7. Assets held for sale

Assets held for sale and liabilities associated with assets held for sale for the respective years ended are disclosed below:

Assets held for sale

	Inventory \$	Land \$	Buildings \$	Total \$
December 31, 2015	2,070	8,311	161	10,542
Classified as held for sale during the period (Note 9)	3,899	-	495	4,394
Disposed of during the period	(3,468)	(39)	(556)	(4,063)
Impairment charges recognized during the period	-	(1,360)	(100)	(1,460)
December 31, 2016	2,501	6,912	-	9,413
Non-current – presented within property and equipment (Note 9)	-	6,912	-	6,912
Current	2,501	-	-	2,501
Disposed of during the period	(2,501)	(4,699)	-	(7,200)
<b>December 31, 2017</b>	-	<b>2,213</b>	-	<b>2,213</b>
Non-current – presented within property and equipment (Note 9)	-	2,213	-	2,213
Current	-	-	-	-

During the second quarter of 2017, one parcel of vacant land that was classified as a non-current asset held for sale, was disposed of, resulting in a loss of \$641.

In 2016, RME recorded asset impairment charges of \$1,360 on vacant land which was considered redundant and \$100 on operational assets that were disposed of during 2016.

Liabilities associated with assets held for sale include:

	Liability associated with assets held for sale \$
December 31, 2015	1,562
Classified as held for sale during the period	2,617
Repaid during the period	(2,573)
December 31, 2016	1,606
Repaid during the period	(1,606)
<b>December 31, 2017</b>	<b>-</b>



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 8. Intangible assets

Intangible assets are comprised of intellectual properties acquired pursuant to an acquisition in 2015.

	<u>Intangible Assets \$</u>
<b>Cost</b>	
December 31, 2015	822
December 31, 2016	<u>822</u>
<b>December 31, 2017</b>	<u><b>822</b></u>
<b>Accumulated amortization</b>	
December 31, 2015	151
Amortization charge	164
December 31, 2016	<u>315</u>
Amortization charge	164
<b>December 31, 2017</b>	<u><b>479</b></u>
<b>Net book value</b>	
December 31, 2015	<u>671</u>
December 31, 2016	<u>507</u>
<b>December 31, 2017</b>	<u><b>343</b></u>

Included in selling, general and administrative expenses for the year ended December 31, 2017 is amortization expense of \$164 (2016 - \$164).



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 9. Property and equipment

	Land \$	Buildings \$	Computer equipment \$	Furniture and fixtures \$	Leasehold improve- ments \$	Shop tools and equipment \$	Vehicles \$	Total \$
<b>Cost</b>								
December 31, 2015	8,840	13,960	9,883	4,387	5,934	11,265	18,695	72,964
Additions	81	4,110	1,801	1,242	1,065	882	2,117	11,298
Business combinations	-	78	-	-	-	-	-	78
Assets held for sale (Note 7)	6,912	(495)	-	-	-	-	-	6,417
Disposals	(349)	(422)	(3,263)	(424)	(858)	(512)	(2,685)	(8,513)
December 31, 2016	15,484	17,231	8,421	5,205	6,141	11,635	18,127	82,244
Additions	7	7	909	296	552	643	3,579	5,993
Disposals	(4,748)	(67)	(896)	(34)	(111)	(49)	(1,320)	(7,225)
<b>December 31, 2017</b>	<b>10,743</b>	<b>17,171</b>	<b>8,434</b>	<b>5,467</b>	<b>6,582</b>	<b>12,229</b>	<b>20,386</b>	<b>81,012</b>
<b>Accumulated depreciation</b>								
December 31, 2015	-	737	7,196	2,827	2,451	8,207	11,658	33,076
Depreciation charge	-	778	1,742	459	668	1,294	2,650	7,591
Disposals	-	(237)	(3,239)	(384)	(504)	(320)	(2,325)	(7,009)
December 31, 2016	-	1,278	5,699	2,902	2,615	9,181	11,983	33,658
Depreciation charge	-	868	1,168	487	689	1,266	2,775	7,253
Disposals	-	(37)	(896)	(29)	(70)	(72)	(1,024)	(2,128)
<b>December 31, 2017</b>	<b>-</b>	<b>2,109</b>	<b>5,971</b>	<b>3,360</b>	<b>3,234</b>	<b>10,375</b>	<b>13,734</b>	<b>38,783</b>
<b>Net book value</b>								
December 31, 2015	8,840	13,223	2,687	1,560	3,483	3,058	7,037	39,888
December 31, 2016	15,484	15,953	2,722	2,303	3,526	2,454	6,144	48,586
<b>December 31, 2017</b>	<b>10,743</b>	<b>15,062</b>	<b>2,463</b>	<b>2,107</b>	<b>3,348</b>	<b>1,854</b>	<b>6,652</b>	<b>42,229</b>

Included in selling, general and administrative expenses for the year ended December 31, 2017 is depreciation expense of \$7,253 (2016 – \$7,591) and a loss on the disposal of property and equipment of \$519 (2016 – gain of \$208). As at December 31, 2017, assets under finance leases included in computer equipment and vehicles have net carrying amounts of \$755 and \$21 (2016 – \$1,053 and \$28), respectively. Certain items of property and equipment have been pledged as security for RME's long-term debt and obligations under finance leases. Included in additions in 2016 are assets under finance lease of \$1,114.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 10. Goodwill

	December 31, 2017 \$	December 31, 2016 \$
Opening balance	18,776	18,802
Recognized on business acquisitions	-	(26)
Ending balance	<u>18,776</u>	<u>18,776</u>

Goodwill recognized pursuant to a business combination is allocated, at the time of acquisition, to the Company's CGU that is expected to benefit from that business combination. During 2017 RME finished amalgamating its industrial distribution facilities into existing agriculture facilities, creating one CGU. All of the goodwill has been allocated to the one CGU. In 2016, goodwill was allocated to the agriculture CGU.

RME's CGU has been assessed for impairment annually on December 31, 2017 and 2016. The recoverable amount of the CGU was determined from value in use calculations. The key assumptions made for the value in use calculations are those regarding the discount and growth rates. These key assumptions are based on past experience which has been adjusted for expected changes in future conditions.

As at December 31, 2017 and 2016 RME prepared cash flow forecasts derived from the most recent financial plans prepared by management and extrapolated these cash flows into perpetuity using growth assumptions relevant to the business sector. The growth rate used for the purposes of these analyses was 2.0%.

As at December 31, 2017, the rate used to discount the forecasted cash flows was 12.3% (2016 – 10.3%), and represents RME's estimate of the pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to RME's CGU. The recoverable amount of the CGU exceeded its carrying value at the impairment test dates.

RME has conducted a sensitivity analysis based on possible changes in the key assumptions used for the impairment tests. Had the estimated cost of capital used in determining the pre-tax discount rates been 4.6% (2016 – 7.3%) higher than management's estimates or the estimated growth rate used in extrapolating forecasted results been 8.5% (2016 – 14.5%) lower, the recoverable amount of the CGU would equal its carrying amount for the respective periods. Any additional negative change in the assumptions would cause goodwill to be impaired.

### 11. Trade payables, accruals and other

	December 31, 2017 \$	December 31, 2016 \$
Trade payables and accruals	43,400	46,528
Directors' share units (Note 16.4)	823	667
Share appreciation rights (Note 16.5)	2,525	800
	<u>46,748</u>	<u>47,995</u>

### 12. Floor plan payable

RME utilizes floor plan financing arrangements with various suppliers and creditors to finance equipment inventory on hand. The terms of these arrangements may include up to a twelve month interest-free period followed by a fixed or variable interest rate term ranging from 0.0% to the bank's prime rate plus 4.3% at December 31, 2017 (2016 – ranging from 0.0% to the bank's prime rate plus 4.3%). At December 31, 2017, RME had unused floor plan of approximately \$252,666 available (2016 – \$293,727). The amounts due are secured by specific new and used equipment inventories and the payments are due when the



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

equipment is sold or transferred, up to a maximum term of 48 months. At December 31, 2017, RME's US denominated floor plan payable translated into Canadian currency was \$3,050 (2016 – \$2,014). The entire amount of floor plan payable has been classified as current, as the corresponding inventory to which it relates has also been classified as current.

Pursuant to agreements with lenders, RME is required to monitor and report certain non-IFRS measures (Note 27).

### 13. Long-term debt

During 2017, RME renewed its Syndicated Facility extending the maturity date to September 24, 2020.

The following table summarizes RME's long-term debt:

	<b>December 31, 2017</b>	December 31, 2016
	<b>\$</b>	\$
Term Facility, revolving facility with tranches payable in quarterly principal instalments plus interest over periods of 7 to 15 years (2016 – 7 to 15 years). The effective interest rate at December 31, 2017 was 3.5% (2016 – 3.0%)	<b>37,243</b>	47,818
Various other facilities	<b>9</b>	23
	<b>37,252</b>	47,841
Less: current portion	<b>(6,104)</b>	(6,825)
Less: deferred debt issuance costs	<b>(229)</b>	(238)
Long-term portion	<b>30,919</b>	40,778

During 2017, RME applied \$4,000 of proceeds received on the disposition of the vacant land against our Term Facility. This unscheduled debt payment reduces our future quarterly principal payments from \$1,730 to \$1,557.

### 14. Obligations under finance leases

Finance leases relate to vehicles and computer equipment with lease terms ranging from three to five years. The lessors' title to the leased assets provides security for RME's obligations under finance leases.

Interest rates underlying all obligations under finance leases are fixed at the respective contract dates ranging from 1.9% to 5.5% at December 31, 2017 (2016 – 1.9% to 5.5%).

The fair values of the obligations under finance leases approximate their carrying amounts as interest rates are consistent with market rates for similar debt.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

Future minimum payments under finance leases along with the balance of the obligations under finance leases are as follows:

	December 31, 2017 \$	December 31, 2016 \$
Due within one year	453	458
Due later than one year and not later than five years	76	529
Due later than five years	-	-
Total future minimum lease payments	529	987
Less: future finance charges	(9)	(26)
Present value of future minimum lease payments	520	961
Less: current portion of obligations under finance leases	(445)	(440)
Long-term portion of obligations under finance leases	75	521

### 15. Contingency and guarantee

RME is subject to various degrees of recourse, arising in the ordinary course of business, by assisting its customers in financing the purchase or rental of equipment. RME is exposed to potential losses arising from the difference between the assessed value of the underlying security and the amounts guaranteed by RME. Any resulting losses are recorded as soon as the amount of the loss can be reasonably estimated. As the assessed value of the underlying security generally exceeds the amount guaranteed by RME, management believes that the net exposure is not significant. As at December 31, 2017, gross recourse amounted to \$1,315 (2016 - \$2,066), prior to any consideration of the value associated with the securitized assets. As at December 31, 2017, RME has accrued \$328 (2016 - \$715) for anticipated losses in trade payables, accruals and other.

### 16. Share capital

#### 16.1. Common shares

RME is authorized to issue an unlimited amount of common shares with no par value. As at December 31, 2017, 19,877 thousand shares were issued and outstanding (2016 – 19,384 thousand). All issued and outstanding shares were fully paid as at December 31, 2017 and 2016.

#### 16.2. Dividends paid

Dividends declared and paid during the year ended December 31, 2017 were \$8,931 or \$0.46 per share (2016 – \$8,917 or \$0.46 per share).

On February 7, 2018, the Board of Directors declared a dividend of \$0.115 per common share on RME's outstanding common shares. The dividend is payable on March 30, 2018, to shareholders of record at the close of business on February 28, 2018.

#### 16.3. Stock options

RME has a stock option plan under which the Board of Directors may grant options to directors, officers, and employees of RME at an exercise price equal to the market price of RME's common shares at the time of the grant. The plan is limited to 10% of the issued and outstanding common shares. Options granted carry neither voting rights nor rights to dividends.

The general terms of stock options granted under the plan include a maximum exercise period of five years and a vesting period of three years with one-third of the grant vesting on each anniversary date.





## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

The reconciliation of options outstanding during the years ended December 31 is as follows:

	2017		2016	
	Number of options (thousands)	Weighted average exercise price \$	Number of options (thousands)	Weighted average exercise price \$
January 1,	904	12.13	1,165	11.66
Exercised	(493)	12.35	-	-
Expired	(30)	12.15	(172)	9.00
Forfeited	(208)	11.96	(89)	12.09
December 31,	173	11.71	904	12.13

No new options were granted during the years ended December 31, 2017 and December 31, 2016.

Options outstanding at December 31, 2017 are summarized as follows:

Grant date	Options outstanding (thousands)	Options exercisable (thousands)	Weighted average exercise price (\$)	Weighted average contractual life (years)
March 13, 2013	24	24	12.89	0.2
March 13, 2014	149	149	11.52	1.2
	173	173	11.71	1.1

### 16.4. Directors' share unit plan

RME has instituted a directors' share unit ("DSU") plan. Under this plan, the Board of Directors may grant DSUs to non-officer directors of RME for services rendered. The DSUs are notional grants of shares and are to be settled in cash within 30 days of a director's termination date. Additional DSUs are credited to the directors' accounts when cash dividends are paid to the common shareholders of RME. Such amount of additional DSUs is determined by dividing the dividends which would have been paid on the DSUs had they been common shares of RME by the volume weighted average trading price of RME's shares over the 20 day trading period immediately preceding the date the dividends are paid.

Upon redemption, and at each reporting date, the DSUs are valued on a per DSU basis at an amount equal to the volume weighted average trading price of RME's shares over the immediately preceding 20 day trading period. At December 31, 2017, \$823 was included in trade payables, accruals and other with respect to the DSUs (2016 – \$667). During the year ended December 31, 2017, 37 thousand DSUs were redeemed (2016 – 36 thousand DSUs were redeemed).

DSUs granted and redeemed and the unrealized losses recognized on the DSUs during the years ended December 31 are as follows:

	2017		2016	
	DSUs (thousands)	\$	DSUs (thousands)	\$
January 1,	71	667	75	454
Granted <sup>(1)</sup>	26	264	32	221
Redeemed	(37)	(353)	(36)	(228)
Loss on mark to market revaluation <sup>(1)</sup>	-	245	-	220
December 31,	60	823	71	667

(1) Included in selling general and administrative expenses.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

As at December 31, 2017 and 2016, RME has several total return swaps as an economic hedge for RME's DSUs (Note 26.6).

### 16.5. Share appreciation rights plan

RME maintains a share appreciation rights ("SAR") plan as a component of overall compensation of certain directors, officers and employees. These SARs vest after a three year period, are exercisable for two years thereafter and will be settled in cash. The SARs expire five years after their initial date of grant. During the vesting period, the SARs are revalued at each reporting period using the Black-Scholes option pricing model. RME recognizes a liability to the extent that the fair value of the SARs has been earned by the holder, with the coinciding expense being recognized within selling, general and administrative expense.

SARs exercised and forfeited for the years ended December 31 are as follows:

	2017	2016
	Number of SARs (thousands)	Number of SARs (thousands)
January 1,	1,057	1,146
Exercised	(425)	-
Forfeited	(33)	(89)
December 31,	<u>599</u>	<u>1,057</u>

As at December 31, 2017, RME recognized a SARs liability of \$2,525 (2016 - \$800) and an SARs expense of \$2,995 (2016 - \$757).

The weighted average fair value of the SARs outstanding using the Black-Scholes option pricing model and assumptions used in their determination as at December 31 are as follows:

	2017	2016
Risk-free interest rate	1.4%	0.5%
Expected option life (years)	1.2	2.1
Expected volatility <sup>(1)</sup>	24.7%	29.8%
Expected annual dividend per share	\$0.46	\$0.46
Exercise price	\$8.82	\$9.67
Share price	\$13.70	\$9.69
Fair value	\$4.56	\$1.24

(1) Expected volatility has been based on the historical volatility of RME's publicly traded shares.

As at December 31, 2017 and 2016, RME has several total return swaps as an economic hedge for RME's SARs (Note 26.6).

### 16.6. Employee share ownership plan

During the year ended December 31, 2017, RME recognized \$1,201 in selling, general and administrative expenses with respect to Company matched ESOP contributions (2016 - \$1,163).



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 17. Sales

RME's annual sales consist of the following for the respective years ended:

	December 31, 2017 \$	December 31, 2016 \$ (Note 4)
New equipment sales	435,683	412,301
Used equipment sales	381,577	377,516
Parts sales	109,582	108,807
Sale of goods	926,842	898,624
Rendering of services	32,513	31,811
Total sales	<u>959,355</u>	<u>930,435</u>

### 18. Selling, general and administrative

RME's selling, general and administrative ("SG&A") expenses consist of the following for the respective years ended:

	December 31, 2017 \$	December 31, 2016 \$ (Note 4)
Compensation and related expenses	64,541	64,211
Administrative expenses	19,660	17,855
Rent and other facility expenses	13,319	13,240
Depreciation and amortization expense	7,417	7,755
Equity-settled share-based payment expense	15	136
Total SG&A before overhead	104,952	103,197
Product support overhead	(5,180)	(5,227)
Total SG&A	<u>99,772</u>	<u>97,970</u>

Included in compensation and related expenses for the year ended December 31, 2017 are variable sales commissions of \$13,303 (2016 – \$13,210).

Depreciation and amortization expense for the year ended December 31, 2017 is comprised of depreciation of property and equipment of \$7,253 (2016 - \$7,591) and amortization of intangible assets of \$164 (2016 - \$164).

Administrative expenses consist of marketing, training, insurance, travel, professional fees and other miscellaneous expenses.

Product support overhead is the allocation of expenses to cost of sales relating to the overhead required to bring equipment inventory to a saleable state. Product support overhead was included in administrative expenses in previous periods.

### 19. Restructuring costs

During the year ended December 31, 2016, RME recognized \$3,564 of costs associated with the amalgamation of RME's Calgary and Red Deer industrial facilities into existing agriculture facilities in those areas. Included in these expenses are expenses associated with terminating the leases on these facilities, one of which is leased from a related party (see Note 25). There were no facilities amalgamated in 2017.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 20. Finance costs

Finance costs include interest and other finance-related charges, including amortization of deferred finance costs. RME's finance costs associated with its short- and long-term debt facilities for the respective years ended are as follows:

	December 31, 2017 \$	December 31, 2016 \$
Finance costs associated with short-term debt	10,151	12,548
Finance costs associated with long-term debt	1,770	1,795
Finance costs	<u>11,921</u>	<u>14,343</u>

### 21. Income taxes

#### 21.1. Income tax recognized in net earnings

Income tax expense is comprised of current and deferred tax expense for the respective years ended as follows:

	December 31, 2017 \$	December 31, 2016 \$
Current	7,967	5,277
Deferred	807	678
Income tax expense	<u>8,774</u>	<u>5,955</u>

Total taxes recognized in net earnings were different than the amount computed by applying the combined statutory Canadian and Provincial tax rates to income before taxes. The difference resulted from the following:

	December 31, 2017 \$	December 31, 2016 \$
Earnings before income taxes	31,673	20,921
Computed tax at statutory tax rate of 27% (2016 – 27%)	8,552	5,649
Non-deductible expenses and losses	277	500
Income tax credits	(103)	(102)
Adjustment from prior year income tax expenses	20	(38)
Other	28	(54)
	<u>8,774</u>	<u>5,955</u>



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 21.2. Deferred tax asset (liability)

	Share issue costs \$	Cumulative eligible capital \$	Property and equipment \$	Intangible asset \$	DSUs & SARs \$	Derivatives \$	Tax credits \$	Total \$
December 31, 2015	89	116	(183)	(181)	123	2,403	-	2,367
Added in acquisition	-	-	(21)	-	-	-	-	(21)
Recognized in net earnings	(62)	(29)	379	44	273	(1,283)	-	(678)
Recognized in equity	-	-	-	-	-	(458)	-	(458)
December 31, 2016	27	87	175	(137)	396	662	-	1,210
Recognized in net earnings	21	(27)	(80)	45	508	(1,236)	(38)	(807)
Recognized in equity	-	-	-	-	-	(1,055)	-	(1,055)
<b>December 31, 2017</b>	<b>48</b>	<b>60</b>	<b>95</b>	<b>(92)</b>	<b>904</b>	<b>(1,629)</b>	<b>(38)</b>	<b>(652)</b>

RME has net allowable capital losses in the amount of \$4,077 with no fixed expiry date for which no deferred tax asset has been recognized as RME does not expect to have sufficient future taxable profit against which these losses can be utilized.

RME also has non-capital losses of \$1,671 which expire between 2033 and 2034 for which no deferred tax asset has been recognized as these non-capital losses are available within an entity that has no reasonable expectation of future taxable profit.

### 22. Earnings per share

During the year ended December 31, 2017, there were no dilutive and 173 anti-dilutive stock options outstanding (2016 – no dilutive and 904 anti-dilutive stock options outstanding). Net earnings and the weighted average number of ordinary shares used in the calculations of basic and diluted earnings per share (“EPS”) for the respective periods were as follows:

Thousands	December 31, 2017	December 31, 2016
Net earnings used in the calculation of basic and diluted EPS (\$)	22,899	14,966
Weighted average number of ordinary shares used in the calculation of basic and diluted EPS (thousands)	19,413	19,384
Basic and diluted EPS (\$)	1.18	0.77



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 23. Changes in non-cash working capital

The net change in non-cash working capital for the years ended December 31 is comprised of the following sources (uses) of cash:

	December 31, 2017 \$	December 31, 2016 \$
Restricted cash	-	879
Trade receivables and other	(5,427)	(2,352)
Income taxes receivable	487	(440)
Inventory	(28,831)	57,018
Prepaid expenses	(2)	(695)
Assets held for sale	2,501	(431)
Trade payables, accruals and other	(1,247)	14,741
Income taxes payable	1,079	-
Floor plan payable	9,281	(60,507)
Liabilities associated with assets held for sale	(1,606)	44
Deferred revenue	3,520	(1,200)
	<b>(20,245)</b>	<b>7,057</b>

### 24. Operating lease arrangements

Operating leases relate primarily to RME's facilities with lease terms of between one and eleven years. Most building leases contain five-year renewal options. During the year ended December 31, 2017, RME recognized \$9,253 of operating lease payments as expenses (2016 – \$9,033).

Non-cancellable operating lease commitments at December 31 are due as follows:

	December 31, 2017 \$	December 31, 2016 \$
Not later than one year	7,925	8,169
Later than one year and not later than five years	22,007	17,214
Later than five years	5,574	6,442
	<b>35,506</b>	<b>31,825</b>



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 25. Related party transactions

RME entered into the following transactions with related parties for the respective years ended:

	December 31, 2017 \$	December 31, 2016 \$
Equipment and product support sales	2,683	514
Expenditures		
Rental payment on RME facilities	5,987	5,832
Equipment purchases	1,278	271
Flight costs	55	74
Contributions <sup>(1)</sup>	57	157
Other expenses	42	33

(1) Contributions include payments to Ag for Life and Alberta Prosperity Fund

During 2017, RME settled the remaining lease obligation associated with a vacated industrial facility which was leased from a related party for total consideration of \$467. During 2017, RME also received \$360 in lease inducements from a related party as part of a new leasehold agreement. Both of these amounts have been presented above within "Rental payments on RME facilities".

All related parties are either directly or indirectly owned by a member of senior management or director of RME and/or a close family member thereof. These transactions were made on terms equivalent to those that prevail in arm's length transactions and are made only if such terms can be substantiated.

The remuneration of the directors and officers of RME was determined for the years presented by the Compensation and Human Resources Committee (formerly, the Compensation, Governance and Nominating Committee) of the Board of Directors, based on performance and is consistent with market trends. The remuneration of directors and officers of RME identified as key management is as follows for the respective years ended December 31:

	December 31, 2017 \$	December 31, 2016 \$
Salary and short-term benefits	3,054	2,754
Post-retirement benefits	35	25
Share-based compensation	2,973	1,115
	<b>6,062</b>	<b>3,894</b>

Key management personnel are comprised of RME's senior officers and directors. As at December 31, 2017, there is a \$2,038 contingent commitment (2016 – \$1,528) relating to the termination of employment of the key management personnel.

Amounts due from (to) related parties are included in the consolidated statements of financial position under trade receivables and other (trade payables, accruals and other) and are as follows:

	December 31, 2017 \$	December 31, 2016 \$
Due from related parties	27	45
Due to related parties	(1,087)	(766)



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

The amounts due from related parties are not secured and are to be settled in cash. As at December 31, 2017 and 2016, the amounts due from related parties are considered collectible and therefore have not been provided for in the allowance for doubtful accounts. During the year ended December 31, 2017, \$Nil has been recognized in bad debt expenses with respect to related party transactions (2016 – \$Nil).

RME has contractual obligations to related parties in the form of facility leases. As at December 31, 2017, these contractual obligations and due dates are as follows:

\$ thousands	<u>Total</u>	<u>2018</u>	<u>2019-2020</u>	<u>2021-2022</u>	<u>Thereafter</u>
Operating lease obligations	<b>31,663</b>	5,777	11,011	9,320	5,555

## 26. Financial instruments and financial risk management

RME, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, market risk (consisting of foreign currency exchange risk, interest rate risk and equity price risk), and liquidity risk. The following analysis provides a measurement of these risks as at December 31, 2017 and 2016.

### 26.1. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to RME. RME has a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The creditworthiness of counterparties is determined using information supplied by independent rating agencies where available and, if not available, RME uses other publicly available financial information and its own trading records to rate its major customers. RME's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

RME's exposure to credit risk on its cash balance is mitigated as these financial assets are held with major financial institutions with strong credit ratings.

The aging of RME's trade receivables is disclosed in Note 5. Contracts in transit and warranty receivables are due from counterparties who maintain strong credit ratings and RME has a history of collecting on these accounts. Trade receivables consist of amounts due from a large number of customers, spread across geographic areas. On-going credit evaluation is performed on the financial condition of the customers.

### 26.2. Market risk

Market risk is the risk from changes in market prices, such as changes in foreign currency exchange rates, interest rates, and RME's stock price which will affect RME's earnings as well as the value of the financial instruments held and cash-settled share based instruments outstanding.

#### 26.2.1. Foreign currency exchange risk and sensitivity analysis

Certain of RME's financial instruments are exposed to fluctuations in the U.S. dollar ("USD"). When considered appropriate, RME purchases forward contracts for USD as a means of mitigating this risk.





## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

The following table details RME's exposure to currency risk at December 31, 2017 and 2016 and a sensitivity analysis to changes in currency. A 5.0% change in currency was used for obligations that would be retired in 30 days or less and a 10.0% change in currency for obligations that would be retired within one year. The sensitivity analysis includes USD denominated monetary items and adjusts their translation at year end for their respective change in the USD exchange rate. For the respective weakening of the USD, there would be an equal and opposite effect on net earnings. The effect of net earnings is presented net of tax.

	Change in currency rates %	December 31, 2017		December 31, 2016	
		Expressed in CAD \$	Effect on net earnings year ended \$	Expressed in CAD \$	Effect on net earnings year ended \$
Cash	5.0	2,297	84	2,577	94
Trade payables, accruals and other	5.0	(422)	(15)	(289)	(11)
Floor plan payable	10.0	(3,050)	(222)	(2,014)	(148)
		<b>(1,175)</b>	<b>(153)</b>	274	(65)

Included in selling, general and administrative expense are net gains recognized due to foreign currency translation for transactions and balances aggregating \$692 for the year ended December 31, 2017 (2016 – gains of \$715).

### 26.2.2. Interest rate risk and sensitivity analysis

RME's financial liabilities are exposed to fluctuations in interest rates with respect to certain of its long-term liabilities and floor plan payable.

RME manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps when appropriate. Generally, RME will raise floor plan financing and/or long-term debt at floating rates. When RME enters into a floating-to-fixed interest rate swap, it agrees with a third party to exchange the difference between the fixed and floating contract rates based on agreed notional amounts.

The following table details RME's exposure to interest rate risk as at December 31, 2017 and 2016 and a sensitivity analysis to an increase of interest rates by 0.5% on net earnings. The sensitivity includes floating rate financial liabilities and adjusts their effect at period end for a 0.5% increase in interest rates. A decrease of 0.5% would result in an equal and opposite effect on net earnings. The effect on net earning is presented net of tax. This analysis excludes floating rate financial liabilities for which RME has hedged its exposure to interest rate fluctuations through the use of floating-to-fixed interest rate swaps, as well as interest rate swaps themselves.

	Change in interest rates %	December 31, 2017		December 31, 2016	
		Floating rate financial liabilities \$	Effect on net earnings year ended \$	Floating rate financial liabilities \$	Effect on net earnings year ended \$
Floor plan payable <sup>(1)</sup>	0.5	82,511	301	89,964	328
Term Facility	0.5	6,572	24	28,568	104
		<b>89,083</b>	<b>325</b>	118,532	432

(1) 2016 includes liabilities associated with assets held for sale.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

### 26.2.3. Equity price risk and sensitivity analysis

RME's financial assets (liabilities) are exposed to fluctuations in its stock price with respect to the total return swaps.

The following table details RME's exposure to equity price risk as at December 31, 2017 and 2016, including a sensitivity analysis measuring the impact on net earnings of a 5% decrease in RME's share price. An increase of 5% would result in an equal and opposite effect on net earnings. The effect on net earning is presented net of tax.

	December 31, 2017		December 31, 2016		
	Change in stock price %	Total return swap financial asset \$	Effect on net earnings year ended \$	Total return swap financial asset \$	Effect on net earnings year ended \$
Total return swaps	5.0	5,343	(585)	869	(449)

### 26.3. Liquidity risk

RME's objective is to have sufficient liquidity to meet its liabilities when due. RME monitors its cash balance and cash flows generated from operations as well as available credit facilities to meet its requirements.

RME has credit facilities with a syndicate of lenders to help finance the general day-to-day cash requirements of its operations (the "Operating Facility"), to finance its inventory (the "Flooring Facility"), and to finance acquisitions, and real estate transactions (the "Term Facility"), (collectively the "Syndicated Facility").

The Syndicated Facility is a revolving facility secured in favour of the syndicate by a general security agreement. During both 2017 and 2016, advances under the Syndicated Facility could be made based on our lender's prime rate or the US base rate plus 1.0% – 2.5% or based on the banker's acceptance ("BA") rate plus 2.0% – 3.5%. RME paid standby fees of between 0.4% and 0.7% per annum on any undrawn portion of the Syndicated Facility. The Syndicated Facility matures on September 24, 2020, however, it is RME's intention to renew this facility prior to its maturity date.

The facilities included in the Syndicated Facility have the following limits:

	December 31, 2017 \$	December 31, 2016 \$
Operating Facility	60,000	60,000
Term Facility	75,000	75,000
Flooring Facility	125,000	125,000

In addition to the Flooring Facility, RME has additional floor plan facilities of approximately \$433,580 as at December 31, 2017 (2016 – \$467,000).



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

RME assesses its liquidity based on the expected period in which cash flows will occur. The following tables summarize RME's undiscounted cash flows expected for its financial liabilities as at December 31. The analysis is based on foreign exchange rates and interest rates in effect at the date of the consolidated statement of financial position and includes both principal and interest cash flows.

As at December 31, 2017	Interest and principal outstanding \$	2018 \$	2019-2020 \$	2021-2022 \$	Thereafter \$
Trade payables, accruals and other <sup>(1)</sup>	43,400	43,400	-	-	-
Floor plan payable	314,968	314,968	-	-	-
Long-term debt	41,564	7,376	14,107	13,267	6,814
Obligations under finance leases	529	453	76	-	-
Derivative financial liabilities	1,079	570	509	-	-
	<u>401,540</u>	<u>366,767</u>	<u>14,692</u>	<u>13,267</u>	<u>6,814</u>

As at December 31, 2016	Interest and principal outstanding \$	2017 \$	2018-2019 \$	2020-2021 \$	Thereafter \$
Trade payables, accruals and other <sup>(1)</sup>	46,528	46,528	-	-	-
Floor plan payable <sup>(2)</sup>	307,665	307,665	-	-	-
Long-term debt	53,066	8,206	15,794	14,987	14,079
Obligations under finance leases	987	458	523	6	-
Derivative financial liabilities	3,614	1,468	1,750	396	-
	<u>411,860</u>	<u>364,325</u>	<u>18,067</u>	<u>15,389</u>	<u>14,079</u>

(1) Trade payables, accruals and other excludes DSUs and SARs which are not financial instruments.

(2) Includes liabilities associated with assets held for sale.

The Term Facility included in long-term debt is governed by a syndicated credit agreement which, if not renewed, will mature on September 24, 2020. The tables presented above assumes the agreement is renewed prior to maturity. In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for the long-term debt outstanding as at December 31, 2017 would be \$32,507 in 2019-2020 and \$Nil in subsequent periods (2016 – \$42,643 for 2018-2019 and \$Nil in subsequent periods).

### 26.4. Fair value of financial instruments carried at amortized cost

The carrying amounts of cash, trade receivables and other, trade payables, accruals and other (excluding DSUs and SARs) approximate their fair values because of the short-term maturities of these items. The carrying amounts of floor plan payable, long-term debt and obligations under finance leases approximate their fair values as the interest rates are consistent with market rates for similar debt.

### 26.5. Fair value measurements recognized in the consolidated statement of financial position

RME's financial instruments which are measured subsequent to initial recognition at fair value and are categorized as follows:

- Level 1 financial instruments are those whose fair value can be derived from quoted market prices (unadjusted) in active markets for similar financial assets or liabilities. RME does not have any Level 1 financial instruments.
- Level 2 financial instruments are those whose fair value can be derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). RME's Level 2 financial instruments consist



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

of interest rate swaps and total return swaps. As at December 31, 2017, RME had a net derivative financial asset of \$6,033 associated with these derivatives (2016 – net derivative financial liability of \$2,452).

- Level 3 financial instruments are those whose fair value is derived from valuation techniques that include inputs for the financial asset or liability which are not based on observable market data (unobservable inputs). RME has no Level 3 financial instruments.

There were no transfers between Level 1 and 2 during 2017 or 2016.

### 26.6. Derivative financial instruments and hedges

RME has long and short-term debt raised at floating interest rates based on the prevailing Bankers' Acceptance rate and hedges a portion of this risk by using floating-to-fixed interest rate swaps. Under the interest rate swaps, RME hedges interest rate risk by exchanging, at monthly intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. The interest rate swaps hedge RME's exposure to interest rate fluctuations on portions of the Term Facility and various floor plan facilities. The accumulated amounts recognized within accumulated other comprehensive income (loss) will be reversed into net earnings over the remainder of the term of the derivatives. Future changes in fair value will be recognized as described in Note 3.21.10. For the year ended, December 31, 2017, RME recognized a gain of \$104 (2016 – gain of \$276) associated with its interest rate swaps in the statement of net earnings and a gain of \$2,852 (2016 – gain of \$1,238), net of tax in other comprehensive income.

Interest rate swaps outstanding for the years ended December 31 are as follows:

	December 31, 2017	December 31, 2016
Notional amount	\$ 140,671	\$ 129,250
Effective fixed interest rate	4.7%	4.9%
Effective floating interest rate	4.0%	3.6%
Maturity dates	August 2018 – April 2023	April 2017 – September 2022

RME has several total return swaps to hedge the exposure associated with increases in its share value on its outstanding DSUs and SARs. RME does not apply hedge accounting to these relationships and as such, gains and losses arising from marking these derivatives to market are recognized in earnings in the period in which they arise.

As at December 31, 2017, RME's total return swaps cover 1,170 thousand of RME's underlying common shares (2016 – 1,270 thousand). For the year ended, December 31, 2017, RME recognized a gain of \$4,474 (2016 – gain of \$4,475) associated with its total return swaps.

Derivative financial assets consist of:

	December 31, 2017 \$	December 31, 2016 \$
Total return swaps	5,343	868
Interest rate swaps	1,687	-
	<b>7,030</b>	<b>868</b>
Current portion	2,921	290
Long-term portion	4,109	578



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

Derivative financial liabilities consist of:

	December 31, 2017 \$	December 31, 2016 \$
Interest rate swaps	997	3,320
Current portion	533	1,449
Long-term portion	464	1,871

Gains on derivative financial instruments are as follows:

	December 31, 2017 \$	December 31, 2016 \$
Opening net derivative financial liability	2,452	8,899
Gain recognized in net earnings	(4,578)	(4,751)
Gain recognized in other comprehensive income – net of tax	(2,852)	(1,238)
Tax on gain recognized in other comprehensive income	(1,055)	(458)
Ending net derivative financial (asset) liability	(6,033)	2,452

The balance in accumulated other comprehensive income (loss) relates to changes in the value of RME's various interest rate swaps. These accumulated amounts will be continuously released to the consolidated statement of net earnings within finance costs and (gain) loss on derivative financial instruments until full repayment of the underlying debt.

During the years presented and cumulatively to date, changes in counterparty credit risk have not significantly contributed to the overall changes in the fair value of these derivative financial instruments.

## 27. Management of capital

RME's objectives when managing capital are:

- (a) To maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and
- (b) To maintain capital in a manner which balances the interests of equity and debt holders.

In the management of capital, RME includes shareholders' equity, long-term debt and obligations under finance leases (including current portions thereof), and floor plan payable.

RME manages its capital structure and makes adjustments due to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, RME may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

RME monitors debt to equity capitalization. This ratio is a non-IFRS measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

RME calculates debt to equity capitalization including and excluding floor plan payable. Debt to equity capitalization (excluding floor plan payable) is calculated as total long-term debt including obligations under finance leases, (both current and long-term portions), divided by total equity, (common shares, contributed surplus, accumulated other comprehensive income (loss) and retained earnings). Debt to equity capitalization (including floor plan payable) includes the balance of floor plan payable in the calculation of the numerator.

The debt to equity ratio target excluding floor plan payable is between 0.2 and 0.4 to 1. As at December 31, 2017 RME was slightly outside its target range for this ratio (2016, RME was within its target range for this ratio). The debt to equity ratio target



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share and per option amounts

for RME including floor plan payable is debt between 2.0 and 3.0 to 1.0. As at December 31, 2017 RME was outside its target range for this ratio (2016, RME was outside its target range for this ratio) due to RME applying available cash against interest bearing debt.

The components of debt to equity ratios are as follows:

	December 31, 2017 \$	December 31, 2016 \$
Current portion of long-term debt	6,104	6,825
Current portion of obligations under finance leases	445	440
Long-term debt	30,919	40,778
Obligations under finance leases	75	521
Total debt excluding floor plan payable	37,543	48,564
Floor plan payable <sup>(1)</sup>	305,342	297,667
Total debt including floor plan payable	342,885	346,231
Shareholders' equity	200,104	177,181
Debt equity ratios		
- excluding floor plan payable	0.19	0.27
- including floor plan payable	1.71	1.95

(1) 2016 Includes liabilities associated with assets held for sale.

Pursuant to agreements with lenders, RME is also required to monitor and report certain non-IFRS measures on a quarterly basis. These measures and the applicable compliance ranges are as follows:

	December 31, 2017	December 31, 2016
Fixed charge coverage of at least	1.15-1.20:1	1.15-1.20:1
Debt to tangible net worth less than	4.00-5.00:1	4.00-5.00:1
Current ratio of at least	1.20:1	1.15-1.20:1

Each lender has its own definition of which account balances are to be included in these computations. As at December 31, 2017 and 2016, RME was in compliance with all externally imposed capital requirements.

### 28. Economic dependence

RME is a retail dealer of CNH equipment (with a distribution agreement through CNH Industrial Canada Ltd.), and is therefore party to dealership and distribution contracts with various affiliates of CNH. These contracts grant RME the right to act as an authorized dealer of CNH equipment brands including Case IH agriculture, Case Construction and New Holland. This also entitles RME to use certain floor plan facilities as provided by CNH-affiliated entities. These dealership contracts, as well as the associated floor plan facilities, can be cancelled by CNH if RME does not observe certain established guidelines and covenants. This is a common provision in the industry in which RME operates.

### 29. Subsequent event

In January 2018, RME initiated the unwinding of 510 thousand shares of our equity hedge position in order to realign the hedge position with the number of SARs and DSUs outstanding. RME anticipates that a loss will be recognized on the unwinding of this position as a result of the decline in the share price during the unwinding period, with such period culminating during the first quarter of 2018.



**ROCKY MOUNTAIN DEALERSHIPS INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

This Management's Discussion and Analysis ("MD&A") was prepared as of March 13, 2018, and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the year ended December 31, 2017. It should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2017 and 2016 together with the notes thereto and the auditor's report thereon. The results reported herein have been derived from consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and are presented in Canadian dollars.

Unless the context otherwise requires, use in this MD&A of "RME", "we", "us", or "our" means Rocky Mountain Dealerships Inc. and its wholly-owned subsidiaries including Rocky Mountain Equipment Canada Ltd. ("RME Canada") and Rocky Mountain Dealer Acquisition Corp. ("RMDAC").

RME's common shares trade on the Toronto Stock Exchange under the symbol 'RME'. Additional information relating to RME, including RME's Annual Information Form, dated March 13, 2018 ("AIF"), is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

This MD&A contains forward-looking information and statements (collectively, "FLS"). Please see the section "Caution Regarding Forward-Looking Information and Statements" for a discussion of the risks, uncertainties and assumptions relating to those statements.

Unless otherwise indicated, changes in financial results for the quarter and year ended December 31, 2017, have been calculated using the same periods in the prior year as comparative figures. Changes in our financial position as at December 31, 2017, are calculated using December 31, 2016 as the comparative.

**SELECTED FINANCIAL INFORMATION**

\$ thousands	For the quarter ended December 31,			For the year ended December 31,		
	2017	2016	2015	2017	2016	2015
Sales	<b>273,389</b>	285,749	285,587	<b>959,355</b>	930,435	975,456
Cost of sales	<b>235,176</b>	251,633	248,049	<b>819,926</b>	797,028	833,475
Gross profit	<b>38,213</b>	34,116	37,538	<b>139,429</b>	133,407	141,981
<i>Gross profit as a % of sales</i>	<b>14.0%</b>	11.9%	13.1%	<b>14.5%</b>	14.3%	14.6%
Selling, general and administrative	<b>27,275</b>	25,205	27,175	<b>99,772</b>	97,970	108,228
(Gain) loss on derivative financial instruments	<b>(3,131)</b>	(605)	274	<b>(4,578)</b>	(4,751)	3,548
Loss on vacant land	-	-	-	<b>641</b>	1,360	-
Restructuring charges	-	-	-	-	3,564	-
Earnings before finance costs and income taxes	<b>14,069</b>	9,516	10,089	<b>43,594</b>	35,264	30,205
Finance costs	<b>2,799</b>	3,346	3,813	<b>11,921</b>	14,343	14,807
Earnings before income taxes	<b>11,270</b>	6,170	6,276	<b>31,673</b>	20,921	15,398
Income taxes	<b>3,099</b>	1,466	1,696	<b>8,774</b>	5,955	4,105
Net earnings	<b>8,171</b>	4,704	4,580	<b>22,899</b>	14,966	11,293
<i>Net earnings as a % of sales</i>	<b>3.0%</b>	1.6%	1.6%	<b>2.4%</b>	1.6%	1.2%
Earnings per share						
Basic	<b>0.42</b>	0.24	0.24	<b>1.18</b>	0.77	0.58
Diluted	<b>0.42</b>	0.24	0.24	<b>1.18</b>	0.77	0.58
Dividends per share	<b>0.115</b>	0.115	0.115	<b>0.46</b>	0.46	0.46
Book value / diluted share – December 31				<b>10.07</b>	9.14	8.78
Adjusted Diluted Earnings per Share <sup>(1)</sup>	<b>0.39</b>	0.23	0.25	<b>1.16</b>	0.83	0.71
Adjusted EBITDA <sup>(1)</sup>	<b>12,754</b>	8,176	8,966	<b>40,163</b>	31,621	28,622
Operating SG&A <sup>(1)</sup>	<b>23,066</b>	23,044	25,260	<b>89,115</b>	89,238	100,612
<i>Operating SG&amp;A<sup>(1)</sup> as a % of sales</i>	<b>8.4%</b>	8.1%	8.8%	<b>9.3%</b>	9.6%	10.3%
Operating Cash Flow before Changes in Floor Plan <sup>(1)</sup>	<b>(36,367)</b>	14,542	6,844	<b>(720)</b>	87,626	92,193

(1) – See further discussion in "Non-IFRS Measures" and "Reconciliation of Non-IFRS Measures to IFRS" sections below.





## SUMMARY OF THE QUARTER ENDED DECEMBER 31, 2017

### Sales and Margins

- Total sales decreased 4.3% or \$12.4 million to \$273.4 million compared with \$285.7 million for the same period in 2016 due to an \$18.5 million decrease in used equipment sales year-over-year offset by an increase in new equipment, parts, and service revenues. Used equipment sales in the fourth quarter of 2016 were higher than usual as a result of lingering harvest activity and our concerted effort to downsize our used equipment inventory levels.
- Fourth quarter gross profit increased by 12.0% or \$4.1 million to \$38.2 million compared with \$34.1 million for the same period in 2016, due to increased profit margins as explained below.
- Gross profit as a percent of sales increased to 14.0% for the fourth quarter of 2017 compared with 11.9% during the same period of 2016 due to higher transactional margins on equipment sales.

### Cost Structure and Earnings

Operating SG&A<sup>(1)</sup> for the fourth quarter of 2017 was flat compared with the same period of last year, but increased as a percentage of sales to 8.4% from 8.1%, as a result of decreased sales activity during the quarter.

Finance costs for the quarter ended December 31, 2017 decreased 16.3% or \$0.5 million to \$2.8 million compared with \$3.3 million for the same period in 2016, due to reduced financial leverage. This reduction, combined with stronger margins translated into year-over-year improvements in both:

- Adjusted EBITDA<sup>(1)</sup> for the fourth quarter of 2017, which increased by 56.0% or \$4.6 million to \$12.8 million compared with \$8.2 million for the same period in 2016; and
- Adjusted Diluted Earnings per Share<sup>(1)</sup> for the fourth quarter of 2017, which increased by 69.6% or \$0.16 to \$0.39 compared with \$0.23 in the same period of 2016.

(1) – See further discussion in “Non-IFRS Measures” and “Reconciliation of Non-IFRS Measures to IFRS” sections below.

### Balance Sheet and Inventory

We continue to focus our attention on maximizing the return on assets deployed, namely inventory. Through targeted sales efforts as well as disciplined procurement, including presale orders, we strive to maintain an inventory balance and profile which is conducive to continued improvement in inventory turns. As anticipated, RME’s inventory increased during the fourth quarter of 2017, due to a combination of trades taken on fourth quarter new equipment deliveries and restocking in preparation for the coming sales season.

Since the third quarter of 2017:

- Used equipment inventory increased \$54.5 million, due in part to late model trade-ins (1-2 years old) associated with recent new equipment sales. Trade value is typically correlated to age, with later-model equipment incorporating newer technology, having fewer hours and a higher market price relative to the profile of units sold out of inventory during the period. Used equipment inventory growth was distributed across equipment categories and is in line with our overall inventory plan; and
- New equipment inventory increased \$9.5 million in preparation for future sales.

Inventory turned 1.80 times during 2017, up from 1.64 times last year, a 9.8% improvement year-over-year.

### COMPANY OVERVIEW

Headquartered in Calgary, Alberta, RME is Canada’s largest agriculture equipment dealer with a network of full-service equipment stores across the Canadian Prairie Provinces.

RME is Canada’s largest retail dealer of CNH equipment, which includes Case IH, New Holland, and Case Construction. We are also a major independent dealer of equipment from a number of other “short-line” agriculture and industrial manufacturers.

We offer our customers a one-stop solution for their equipment needs through new and used equipment sales, parts sales, repairs and maintenance services and third-party equipment financing and insurance services. In addition, we provide or arrange other ancillary offerings such as GPS signal subscriptions and geomatics services.

RME’s operations in Alberta, Saskatchewan and Manitoba are conducted through RME Canada under the name Rocky Mountain Equipment.





## MARKET FUNDAMENTALS AND OUTLOOK

RME is primarily engaged in the business of selling agriculture equipment to grain, oilseed and pulse crop farmers in Alberta, Saskatchewan and Manitoba.

In addition to equipment price, demand for agriculture equipment is supported by farming incomes which in turn, are a function of commodity prices, quantity and quality of the crop and input costs. Many of these factors are influenced by weather conditions on both a local and, to an extent, on a global basis. Changes in these demand drivers can cause our customers' buying patterns to shift. The agriculture sector exhibits cyclical surges in demand and profitability driven by these macroeconomic factors, as well as other factors that can impact our industry.

Equipment utilization rates, by contrast, are less volatile as agricultural equipment tends to incur hours in the field regardless of weather or economic conditions. The business of farming requires producers to work their fields each year. Circumstances may exist, however, that cause farmers to opt for used equipment in lieu of new equipment, or they may elect to maintain rather than replace their fleets. Our broad range of product and service offerings enable us to respond to these shifts in buying patterns and provide a measure of stability within our financial results.

### Competitive Landscape

We have exclusive distribution rights for some of the world's leading equipment brands across Canada's Prairie Provinces. Significant barriers to entry exist in this market, which help us maintain our position as an exclusive supplier of these brands. Our installed base and customer relationships create an annuity of equipment sales and product support revenue, which help drive dependable earnings and cash flow.

### Our Customers

The fundamentals underlying the Western Canadian farming industry continue to support profitability and create value for our customer base. Elevated production levels and healthy commodity prices for key Western Canadian crops drove steady improvements in farm net worth between 2011 and 2015 (2015 being the most recent year for which data is available from Statistics Canada<sup>1</sup>). Farmer net worth speaks to our customers' capacity to invest in their equipment fleets and other services offered by RME.

### Supply

In recent years, the number of new agriculture units delivered to Canadian farmers trailed historical levels as the market digested an elevated equipment population as well as price increases associated with new technology and a depreciating Canadian dollar.

In response, agriculture equipment manufacturers curtailed production and focused on moving existing inventory levels through the supply chain by providing price relief to farmers. After having absorbed this supply, demand for new equipment remained relatively satiated for a period of time where new unit deliveries declined.

In recent quarters, we have begun to see signs that Western Canada's agriculture equipment profile is reverting to a more typical composition, with customer demand for new equipment beginning to pick up. With supply and demand now largely realigned, we have also begun to see manufacturer delivery lead-times grow on certain products during peak demand times.

### Crop Outlook

Unlike a year ago, when late-fall precipitation deferred harvest in some northern regions until the spring, the 2017 harvest has left very little crop in the field. Although delayed, due in part to the harvesting of these overwintered crops, the Canadian Prairies were seeded corner-to-corner in 2017. Statistics Canada estimates the total area seeded to principal field crops to have increased by 0.4% over 2016. Yield estimates have, however, receded as compared to last year. While still robust, overall crop production levels, are expected to decline 1.2% year-over-year<sup>2</sup>. The combination of solid production and healthy commodity prices for key Western Canadian crops serves to reinforce the already strong balance sheets of our customer base.

<sup>1</sup> CANSIM Table 002-0071.

<sup>2</sup> Canada: Outlook for Principal Field Crops – February 16, 2018



## **CAPITAL ALLOCATION STRATEGY**

Our success has enabled us to consider a variety of capital allocation options such as returning capital to shareholders, accretive acquisitions and further debt reductions. With the improvements we have made to our operational model and integration capabilities, growth through acquisition is viewed as the primary option. Since inception, RME has grown by acquiring 19 dealerships throughout the Canadian prairies. However, while we are continuously evaluating potential transactions to drive accretive growth, we are just as satisfied to be patient for the right opportunities.

### **Acquisition Strategy**

In order to maximize synergistic value, we typically target dealership operations in areas with similar farm demographics and crop profiles to our existing operations. This means that Case IH and New Holland agriculture equipment dealers in the Canadian prairies continue to be of interest to us. We view acquisitions in the Canadian prairies as scale acquisitions, where acquired dealerships are fully integrated into our network. One immediate source of accretion in an acquisition is our ability to redistribute inventory throughout a broader network of dealerships, enabling us to better scale our investment in inventory.

Another area of interest to us is the area south of our current operations in the United States ("US"). US regions with crops similar to the crop mix of the Canadian Prairies currently benefit from good economics and the balance sheets of farming operations in these regions are supportive of ongoing equipment purchases. While we would require manufacturer approval prior to doing so, an acquisition in these regions of the US would be transformational, giving us further growth opportunities in the US market.

### **Dividend and Debt**

For the immediate future, RME will maintain its current dividend, continue to pay down debt, and keep its balance sheet ready in the event a transaction can be consummated. The Board of Directors regularly reviews RME's capital allocation strategy and, in the absence of an accretive use of capital, may rebalance how capital is allocated.



## RESULTS OF OPERATIONS

### Sales

\$ thousands	For the quarter ended December 31,			For the year ended December 31,		
	2017	2016	Change	2017	2016	Change
Sales						
New equipment	<b>155,214</b>	149,591	5,623	<b>435,683</b>	412,301	23,382
Used equipment	<b>89,409</b>	107,938	(18,529)	<b>381,577</b>	377,516	4,061
Parts	<b>20,822</b>	20,414	408	<b>109,582</b>	108,807	775
Service	<b>7,944</b>	7,806	138	<b>32,513</b>	31,811	702
Total sales	<b>273,389</b>	285,749	(12,360)	<b>959,355</b>	930,435	28,920
Gross profit	<b>38,213</b>	34,116	4,097	<b>139,429</b>	133,407	6,022
Gross margin	<b>14.0%</b>	11.9%	2.1%	<b>14.5%</b>	14.3%	0.2%

#### Fourth Quarter "Q4" 2017 vs. Q4 2016

For the quarter ended December 31, 2017, total sales were \$273.4 million, a decrease of 4.3% or \$12.4 million compared with the same period in 2016 due to an \$18.5 million decrease in used equipment sales year-over-year, offset by an increase in new equipment, parts, and service revenues. Used equipment sales in the fourth quarter of 2016 reflect lingering harvest activity and our concerted effort to downsize our used equipment inventory levels.

#### Year-to-Date "YTD" 2017 vs. YTD 2016

For the year ended December 31, 2017, total sales were \$959.4 million, an increase of 3.1% or \$28.9 million compared with 2016. The increase was largely due to a \$23.4 million increase in new equipment sales.

The overall growth in equipment sales in 2017 reflects additional deliveries of in-season harvest equipment, as well as an uptick in demand and moderate price escalation, both of which enhanced revenues across all product lines.

### Parts and Service Activity

Parts and service activity (collectively "Product Support") is, in some cases, performed for the benefit of other departments within RME. This activity is excluded from reported parts and service revenues. Management assesses overall product support activity to ensure that the resources deployed are adequate in light of total activity. Total Product Support is reconciled to our reported revenues for the respective departments as follows:

\$ thousands	For the quarter ended December 31,			For the year ended December 31,		
	2017	2016	Change	2017	2016	Change
Parts activity						
Total activity	<b>24,133</b>	23,364	769	<b>122,245</b>	121,782	463
Internal activity eliminated	<b>(3,311)</b>	(2,950)	(361)	<b>(12,663)</b>	(12,975)	312
Reported revenues	<b>20,822</b>	20,414	408	<b>109,582</b>	108,807	775
Service activity						
Total activity	<b>12,201</b>	11,517	684	<b>50,435</b>	49,414	1,021
Internal activity eliminated	<b>(4,257)</b>	(3,711)	(546)	<b>(17,922)</b>	(17,603)	(319)
Reported revenues	<b>7,944</b>	7,806	138	<b>32,513</b>	31,811	702
Total reported Product Support revenues	<b>28,766</b>	28,220	546	<b>142,095</b>	140,618	1,477

#### Q4 2017 vs. Q4 2016

Product Support revenues for the quarter increased by 1.9% or \$0.5 million to \$28.8 million compared with \$28.2 million in the same period of 2016, due to stronger acceptance of Product Support offerings during the quarter.

#### YTD 2017 vs. YTD 2016

Product Support revenues for 2017 increased by 1.1% or \$1.5 million to \$142.1 million compared with \$140.6 million in 2016, due to stronger acceptance of preventative maintenance service offerings slightly offset by weaker in-season Product Support sales stemming from less demanding harvest conditions. A drier, more rapid harvest season, such as the one experienced during 2017, limits crop throughput and machine failures and ultimately tempers Product Support demand.



## Gross Profit

### Q4 2017 vs. Q4 2016

Gross profit for the quarter ended December 31, 2017 increased by \$4.1 million or 12.0% to \$38.2 million compared with \$34.1 million for the same period in 2016, due to higher margin sales and a change in sales mix. Gross profit as a percent of sales increased to 14.0% for the fourth quarter of 2017 compared with 11.9% during the same period of 2016, led by improved transactional margins and complimented by increased incentives from our original equipment manufacturers (“OEMs”) and a shift in sales mix.

### YTD 2017 vs. YTD 2016

Gross profit for 2017 increased \$6.0 million or 4.5% to \$139.4 million due to increased sales and stronger transactional level margins, offset by changes in sales mix and lower incentives from our OEMs, which were a headwind for gross margins during the year. Despite increased new equipment sales volumes, manufacturer incentives recognized during the year are down \$0.5 million as compared with last year, as we were unable to fully offset the impact of changes in incentive programs with incremental sales.

## Selling, General and Administrative

RME assesses its Operating SG&A relative to total sales in analyzing its results (see the definition and reconciliation of Operating SG&A in the “Non-IFRS Measures” and “Reconciliation of Non-IFRS Measures to IFRS” sections below). Operating SG&A is comprised of facility, administrative and compensation related expenditure, the majority of which are fixed in the short-term. The largest variable component of RME’s Operating SG&A is commission associated with the sale of equipment inventory.

RME targets Operating SG&A of less than 10% of sales on an annual basis.

\$ thousands	For the quarter ended December 31,			For the year ended December 31,		
	2017	2016	Change	2017	2016	Change
Variable sales commissions	3,531	3,304	227	13,303	13,210	93
Other Operating SG&A	19,535	19,740	(205)	75,812	76,028	(216)
Operating SG&A	23,066	23,044	22	89,115	89,238	(123)
Operating SG&A as a % of sales	8.4%	8.1%	0.3%	9.3%	9.6%	(0.3%)

### Q4 2017 vs. Q4 2016

Operating SG&A for the fourth quarter of 2017 was \$23.1 million, roughly flat compared with the same period in 2016. Within Operating SG&A, \$0.2 million of additional sales commissions on incremental gross profits were offset by a comparable reduction in other Operating SG&A costs. The restructuring of our distribution network was completed in early 2016, which means that Operating SG&A during the current and prior year periods reflect a comparable cost structure.

Flat Operating SG&A on lower sales volumes translated into a 0.3% increase in Operating SG&A as a percentage of sales, amounting to 8.4% for the fourth quarter of 2017 compared to 8.1% for the same period last year.

### YTD 2017 vs. YTD 2016

For the year ended December 31, 2017, Operating SG&A was roughly flat at \$89.1 million compared with \$89.2 million in 2016.

As a percentage of sales, Operating SG&A for the year ended December 31, 2017 is down 0.3% to 9.3% compared with 9.6% in 2016 as a result of our cost structure holding steady while sales increased.

## Finance Costs

### Q4 2017 vs. Q4 2016

Finance costs for the quarter ended December 31, 2017 decreased 16.3% or \$0.5 million to \$2.8 million compared with \$3.3 million for the same period in 2016, due to a year-over-year decrease in the average amount drawn on RME’s interest-bearing credit facilities.

### YTD 2017 vs. YTD 2016

Full year finance costs for 2017 decreased 16.9% or \$2.4 million to \$11.9 million compared with \$14.3 million in 2016, as a result of lower average balances being carried on RME’s interest-bearing credit facilities.



## Net Earnings

### Q4 2017 vs. Q4 2016

Net earnings for quarter ended December 31, 2017 increased 73.7% or \$3.5 million to \$8.2 million compared with \$4.7 million for the same period in 2016, as a result of increased gross profit margin, a net gain on RME's derivative financial instruments, and lower finance costs on a year-over-year basis. Earnings per share on a basic and diluted basis for the fourth quarter of 2017 increased 75.0% or \$0.18 to \$0.42 compared with \$0.24 for the same period in 2016.

The impact on net earnings of RME's derivative financial instruments and other unusual or non-recurring items can be significant. Management uses the Non-IFRS measure Adjusted Diluted Earnings per Share to evaluate earnings excluding such items. Refer to the "Non-IFRS Measures" and "Reconciliation of Non-IFRS Measures to IFRS" sections below for the definition and reconciliation of Adjusted Diluted Earnings per Share.

Adjusted Diluted Earnings per Share for the quarter ended December 31, 2017 increased 69.6% or \$0.16 to \$0.39 compared with \$0.23 for the same period in 2016.

### YTD 2017 vs. YTD 2016

Net earnings for the year ended December 31, 2017 increased 53.0% or \$7.9 million to \$22.9 million compared with \$15.0 million in 2016, as a result of increased sales, increased gross profit margin and lower finance costs. During 2016, we also incurred \$3.6 million of restructuring charges and \$1.4 million of impairment charges/losses on vacant land, versus \$0.6 million in 2017. Earnings per share on a basic and diluted basis for 2017 increased 53.2% or \$0.41 to \$1.18 compared with \$0.77 in 2016.

Adjusted Diluted Earnings per Share for the year ended December 31, 2017 increased 39.8% or \$0.33 to \$1.16 compared with \$0.83 for the same period in 2016.

## Adjusted EBITDA

RME analyzes its Adjusted EBITDA in order to consistently compare periods by removing the impact of fluctuations in tax rates, long-term assets, financing costs related to our capital structure and our share price. See the definition and reconciliation of Adjusted EBITDA in the "Non-IFRS Measures" and "Reconciliation of Non-IFRS Measures to IFRS" sections below.

As part of our analysis of Adjusted EBITDA, RME deconstructs the period-over-period variance in gross profit dollars into the following components:

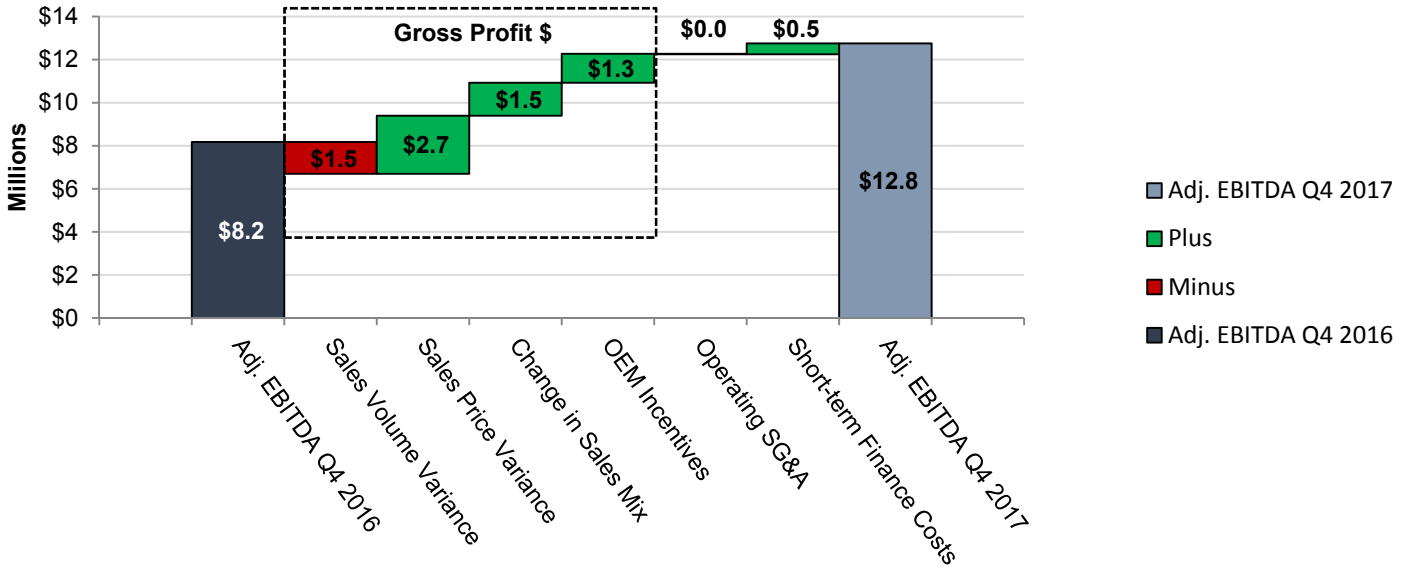
- Sales volume variance – quantifies the impact on gross profit dollars arising from the change in consolidated sales volume for the period, holding overall gross margin flat.
- Sales price variance – quantifies the impact on gross profit of period-over-period changes in gross margin percentages. RME quantifies this impact at a revenue stream level with our revenue streams consisting of sales of new equipment, used equipment, parts and service. The sum of these variances constitutes our sales price variance. RME notes that the impact of the period-over-period change in OEM incentives is presented separately (see below) and is therefore excluded from sales price variance.
- Change in sales mix – our revenue streams generate differing profit margins, with product support activities generating comparatively higher margins than equipment sales. The change in sales mix quantifies the impact of shifts in the relative contributions of our various revenue streams to our overall reported sales for a period. RME notes that this metric captures only shifts *between* revenue streams and does not capture the impact of mix *within* a revenue stream.
- OEM incentives recognized – quantifies the impact on gross profit dollars of the period-over-period change in OEM incentives recognized.



Q4 2017 vs. Q4 2016

Adjusted EBITDA for the quarter ended December 31, 2017 increased 56.0% or \$4.6 million to \$12.8 million compared with \$8.2 million for the same period in 2016 due to an increase in gross profit and reduced finance costs associated with RME’s floor plan facilities. The change in fourth quarter Adjusted EBITDA from 2016 to 2017 can be reconciled as follows:

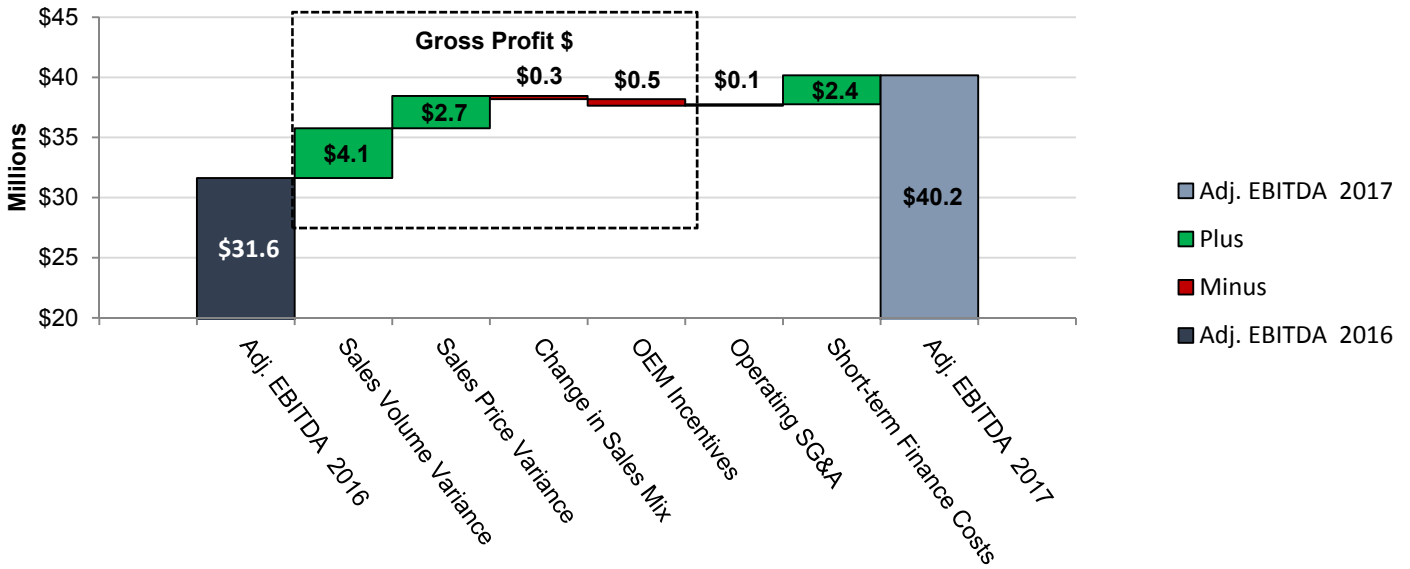
Reconciliation of Fourth Quarter Adjusted EBITDA 2016 - 2017



YTD 2017 vs. YTD 2016

For the year ended December 31, 2017, Adjusted EBITDA increased 27.0% or \$8.5 million to \$40.2 million compared with \$31.6 million in 2016 due to increased gross profit and reduced finance costs associated with RME’s floor plan facilities. The change in annual Adjusted EBITDA from 2016 to 2017 can be reconciled as follows:

Reconciliation of Annual Adjusted EBITDA 2016 - 2017





## SUMMARY OF QUARTERLY RESULTS

\$ thousands, except per share amounts	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Sales	273,389	238,884	237,156	209,926	285,749	222,647	232,575	189,464	285,587
Gross profit	38,213	38,832	35,611	26,773	34,116	36,861	34,147	28,283	37,538
Gross margin	14.0%	16.3%	15.0%	12.8%	11.9%	16.6%	14.7%	14.9%	13.1%
SG&A	27,275	24,560	24,743	23,194	25,205	23,855	24,693	24,217	27,175
Other expense (income)	(3,131)	(1,308)	923	(421)	(605)	(236)	762	252	274
Finance costs	2,799	3,105	3,026	2,991	3,346	3,700	3,751	3,546	3,813
Income taxes	3,099	3,408	2,069	198	1,466	2,910	1,575	4	1,696
Net earnings	8,171	9,067	4,850	811	4,704	6,632	3,366	264	4,580
Diluted earnings per share	0.42	0.47	0.25	0.04	0.24	0.34	0.17	0.01	0.24

Seasonal revenue cycles are common in the agriculture industry as a result of weather conditions, the timing of crop receipts and farming cycles and the timing of equipment deliveries from manufacturers. As a result, our financial results may vary between quarters. The first quarter is generally the weakest due to the lack of agriculture activity and winter shutdowns. Seeding activity typically commences between the latter part of the first quarter and the beginning of the second quarter. Harvest generally begins towards the middle of the third quarter, and continues through into the fourth quarter. Fourth quarter sales activity also includes post-harvest purchases that are typical in the agriculture sector.

Weather conditions including a prolonged winter, excess moisture or drought, may shift the timing of farming activities between fiscal periods, impacting sales activity and profitability as a consequence. While weather continues to have a significant influence on overall demand, advances made in farming practices, seed technology and application techniques, have helped to mitigate this exposure to some extent and reinforce the agriculture industry fundamentals.

## STATEMENT OF FINANCIAL POSITION – SUMMARY

\$ thousands	December 31, 2017	December 31, 2016	December 31, 2015
Assets			
Inventory	471,573	442,742	499,760
Other current assets	62,159	65,532	63,824
Total current assets	533,732	508,274	563,584
Property and equipment	42,229	48,586	39,888
Deferred tax asset	-	1,210	2,367
Derivative financial assets	4,109	578	-
Intangible assets	343	507	671
Goodwill	18,776	18,776	18,802
Total assets	599,189	577,931	625,312
Liabilities and equity			
Floor plan payable	305,342	296,061	356,568
Other current liabilities	61,633	61,519	53,893
Total current liabilities	366,975	357,580	410,461
Long-term debt	30,919	40,778	40,080
Obligations under finance leases	75	521	154
Deferred tax liability	652	-	-
Derivative financial liabilities	464	1,871	4,859
Total liabilities	399,085	400,750	455,554
Shareholders' equity	200,104	177,181	169,758
Total liabilities and equity	599,189	577,931	625,312

RME's asset base is comprised predominantly of inventory. In recent years, RME's focus has been to reduce the size and increase the efficiency of our investment in inventory, realigning with the market conditions that prevailed during the low-end of the agriculture equipment demand cycle. Through targeted sales efforts as well as disciplined procurement, including presale orders, our mandate going forward will be to maintain an inventory balance and profile which is conducive to continued improvement in inventory turns.





In measuring inventory turns, RME calculates average inventory as a simple average of five quarterly observations including opening and ending balances for the period as well as the three intervening quarter-end balances. Inventory turns and days in inventory for the trailing twelve-month periods ended December 31, are as follows:

\$ thousands, except turns and days	December 31, 2017	December 31, 2016	December 31, 2015
Inventory expensed through cost of sales – trailing 12 months	807,019	782,802	819,064
Average total inventory – trailing 12 months (quarterly observations)	448,063	478,468	516,732
Inventory turns	1.80	1.64	1.59
Days in inventory	203	223	230

RME's inventory profile, consists primarily of new and used agriculture equipment. RME has a diverse customer base for its equipment and strives to carry an appropriate mix of both new and used equipment to best serve our customers. Typically, our customers trade their used equipment in when making equipment purchases. RME finances its investment in inventory through various floor plan facilities. RME is under no obligation to finance any of its equipment inventory and can typically pay-down and redraw on these facilities to generate or make use of available cash.

The composition of RME's equipment inventory and associated floor plan payables can be summarized as follows:

\$ thousands	December 31, 2017	December 31, 2016	December 31, 2015
New equipment	115,928	113,517	172,335
Used equipment	314,994	289,485	287,784
Total equipment inventory	430,922	403,002	460,119
Floor plan payable	305,342	296,061	356,568
Inventory leverage ratio	70.9%	73.5%	77.5%

As anticipated, RME's inventory increased during the fourth quarter of 2017, due to a combination of trades taken on fourth quarter new equipment deliveries and restocking in preparation for the coming sales season. Despite our \$28.8 million investment in inventory during 2017, a year-over-year increase of 6.5%, we continued to reduce our inventory leverage ratio, limiting the increase in floor plan payable to \$9.3 million, or 3.1% year-over-year. As at December 31, 2017, our inventory leverage ratio was 70.9%, down from 73.5% at December 31, 2016 and constituting a third consecutive year of decline.

The decline in our inventory leverage, to the extent such leverage is interest-bearing, provides carrying cost relief in the form of reduced finance costs associated with short term debt, a key contributor to the improvement in net earnings during 2017.

Total non-current financial liabilities as at December 31, 2017 amounted to \$31.5 million (2016 – \$43.2 million, 2015 – \$45.1 million).

## LIQUIDITY AND CAPITAL RESOURCES

We assess liquidity in terms of our ability to generate sufficient cash flow, along with other sources of liquidity including cash and borrowings, to fund our operations and growth in operations. Net cash flow is affected by the following items:

- Operating activities, including, the levels of accounts receivable, inventory, accounts payable and floor plan payable;
- Financing activities, including bank credit facilities, long-term debt, distributions to shareholders and other capital market activities; and,
- Investing activities, including capital expenditures, dispositions of fixed assets and acquisitions of complementary businesses.





## Summary of Cash Inflows (Outflows)

\$ thousands	2017	2016	2015
Net earnings	22,899	14,966	11,293
Effect of non-cash items in net earnings and changes in working capital	(15,944)	12,197	24,167
Cash flows from operating activities	6,955	27,163	35,460
Cash flows from financing activities	(13,985)	(6,694)	(12,788)
Cash flows from investing activities	(1,415)	(8,617)	(28,934)
Net (decrease) increase in cash	(8,445)	11,852	(6,262)
Cash, beginning of period	28,542	16,690	22,952
Cash, end of period	20,097	28,542	16,690
Operating Cash Flow before Changes in Floor Plan <sup>(1)</sup>	(720)	87,626	92,193

(1) – See further discussion in “Non-IFRS Measures” and “Reconciliation of Non-IFRS Measures to IFRS” sections below.

### Cash Flows from Operating Activities

RME assesses its Operating Cash Flow before Changes in Floor Plan in analyzing its cash flows from operating activities. See the definition and reconciliation of Operating Cash Flow before Changes in Floor Plan in the “Non-IFRS Measures” and “Reconciliation of Non-IFRS Measures to IFRS” sections below.

RME is eligible to finance its equipment inventory using its various floor plan facilities. Floor plan facilities are asset-backed lending arrangements whereby each draw is associated with a specific piece of equipment. RME is under no obligation to finance any of its equipment inventory and, as a general rule, financed units can be paid out for a period of time and refinanced at a later date. Adjusting cash flows from operating activities for changes in the balance of floor plan payable allows management to isolate and analyze cash flows from operating activities, prior to any sources or uses of cash associated with equipment financing decisions.

Operating Cash Flow before Changes in Floor Plan for the year ended December 31, 2017 was an outflow of \$0.7 million compared to an inflow of \$87.6 million during 2016. This change reflects a considerable downsizing of our inventory in the comparative period, and the cash generated therefrom, as well as a net investment in inventory during 2017.

Cash flows from operating activities for the year ended December 31, 2017 declined by \$20.2 million compared to the same period in 2016. Despite our \$28.8 million investment in inventory during 2017, a year-over-year increase of 6.5%, we continued to reduce our inventory leverage ratio, holding the increase in floor plan payable to \$9.3 million, or 3.1% year-over-year. As at December 31, 2017, our inventory leverage ratio was 70.9%, down from 73.5% at December 31, 2016 and constituting a third consecutive year of decline.

### Cash Flows from Financing Activities

Cash flows from financing activities pertained primarily to debt and dividend payments as well as net proceeds associated with the financing of real estate assets.

During the year ended December 31, 2017, cash outflows from financing activities increased by \$7.3 million over the same period in 2016. In addition to our scheduled principal repayment, RME applied \$4.0 million of proceeds received on the disposition of a parcel of vacant land, which had been classified as held for sale, to its outstanding debt obligation under the Term Facility. This payment was offset by \$6.1 million of cash received on the exercise of employee stock options. Cash outflows for financing activities during 2016 were offset by a \$7.8 million draw on our Term Facility associated with the construction of our new branch in Yorkton, Saskatchewan.

### Cash Flows from Investing Activities

Cash flows from investing activities is comprised of maintenance capital spend, facility construction expenditures and consideration paid for the acquisition of complementary businesses, offset by any proceeds received on the disposition of such assets. The net cash outflow associated with investing activities for the year ended December 31, 2017 decreased by \$7.2 million compared to the same period last year. This decrease is attributable to facility construction costs incurred during 2016 absent from 2017. RME also disposed of a parcel of vacant land during 2017, resulting in a year-over-year increase in proceeds received on the disposition of property and equipment while offsetting our capital spend for the year.



## ADEQUACY OF CAPITAL RESOURCES

We use operating cash flows to finance the purchase of inventory, service our debt requirements, pay dividends, and fund our operating activities, including working capital, both operating and finance leases and floor plan payable. Our ability to service our debt and distribute dividends to shareholders will depend upon our ability to generate cash, which depends on our future operating performance, general economic conditions, availability of adequate credit facilities, compliance with debt covenants, as well as other factors, some of which are beyond our control. Based on our current operational performance, we believe that cash flows from operations, along with existing credit facilities, will provide for our capital needs.

### Finance Facilities

RME has a credit facility with a syndicate of lenders (the “Syndicated Facility”). The Syndicated Facility is a revolving facility, secured in favour of the syndicate by a general security agreement. Advances under the Syndicated Facility may be made based on our lenders’ prime rate or the U.S. base rate plus 1.0% – 2.5% or based on the banker’s acceptance (“BA”) rate plus 2.0% – 3.5%. RME pays standby fees of between 0.4% – 0.7% per annum on any undrawn portion of the Syndicated Facility. The standby fees and premiums on base interest rates within the respective ranges are determined based on RME’s ratio of debt to tangible net worth. During 2017, the Syndicated Facility was amended, extending the maturity date to September 24, 2020.

The Syndicated Facility consists of:

- The “Operating Facility” – which may be utilized to advance up to the lesser of the established borrowing base and \$60.0 million. The borrowing base is supported by otherwise unencumbered assets including certain accounts receivable, inventory and items of property and equipment, less priority payables. This facility may be used to finance general corporate operating requirements.
- The “Flooring Facility” – which may be utilized to finance up to 75% of the value of eligible equipment inventory to a maximum of \$125.0 million. Draws against the Flooring Facility are repayable over a term of 28 months, however, they become due in full upon the sale of the associated equipment.
- The “Term Facility” – which may be utilized to finance up to 60% of the cost of acquisitions and 75% of the cost of real estate assets to a maximum of \$75.0 million. Draws are repayable in quarterly installments with acquisition and real estate related draws amortized over periods of 7 and 15 years, respectively.

Including the syndicated Flooring Facility, we have total floor plan facilities of approximately \$558.6 million (inclusive of seasonal increases) from various lending institutions for the purpose of financing equipment inventory. These facilities are made available to RME by the equipment manufacturers’ captive finance companies or divisions (such as CNH Industrial Capital Canada Ltd.), as well as by banks and specialty lenders.

In addition to our available cash balance of \$20.1 million as at December 31, 2017, we have \$350.5 million available on our various credit facilities.

\$ millions	Facility limit	Amount drawn	Available
Operating Facility	60.0	-	<b>60.0</b>
Term Facility	75.0	37.2	<b>37.8</b>
Various floor plan facilities			
OEM floor plan facilities	205.0	115.3	<b>89.7</b>
Syndicated Flooring Facility	125.0	63.5	<b>61.5</b>
Other floor plan facilities	228.6	127.1	<b>101.5</b>
<b>Total</b>	<b>693.6</b>	<b>343.1</b>	<b>350.5</b>

In addition to the facility limits, the availability of funds under these credit facilities is limited or otherwise constrained by the adequacy of the underlying assets available to securitize a proposed draw and by customary negative covenants. These restrictions are not expected to affect RME’s access to required capital in the foreseeable future. The existing credit facilities are considered sufficient and appropriate for RME’s capital requirements.



## Financial Covenants

Pursuant to agreements with lenders, RME is required to monitor and report compliance with certain financial ratios on a quarterly basis. Each lender defines its own calculation of these measures. Detailed descriptions of covenant calculations are available within RME's various material credit agreements filed on Sedar at [www.sedar.com](http://www.sedar.com). These financial covenants are summarized as follows:

	December 31, 2017		December 31, 2016	
	Threshold	Result	Threshold	Result
<u>Fixed charge coverage ratio</u>				
Assesses the ability to cover fixed charges by expressing free-cash flows generated as a ratio of committed obligations on a trailing 12-month basis.	≥ 1.15	2.21	≥ 1.15	1.79
	≥ 1.20	1.67	≥ 1.20	1.46
<u>Debt to tangible net worth</u>				
Assesses solvency by expressing debt as a ratio of tangible net assets.	≤ 4.00	2.21	≤ 4.00	2.54
	≤ 5.00	1.83	≤ 5.00	2.06
<u>Current ratio</u>				
Assesses liquidity by expressing current assets as a ratio of current liabilities.	≥ 1.20	1.48	≥ 1.20	1.46

Historically, RME was also required to maintain a current ratio of at least 1.15:1.00. This covenant is no longer required under the applicable credit agreement. As at December 31, 2017 and December 31, 2016, RME was in compliance with all externally imposed capital requirements.

RME's continued compliance with its financial covenants is dependent on various factors which influence our financial results including, but not limited to, overall demand for our products and services and the timing of that demand influenced by weather and other factors. In the event that our financial results or position deteriorate, there is a risk that we may fail to comply with our financial covenants, most notably, our fixed charge coverage ratios.

Failing to meet these covenants would constitute a default event which may result in, among other restrictions and remedies, the associated debt becoming due and restrictions being placed on RME's ability to draw on its facilities or make distributions to shareholders.

## Derivative Financial Instruments

RME utilizes derivative financial instruments to hedge its exposure to changes in interest rates and fluctuations in the valuation of its common shares. We do not use derivatives to speculate, but rather as a risk management tool. RME's portfolio of derivative financial instruments consists of interest rate and total return swaps.

Gains recognized on derivative financial instruments are as follows:

\$ thousands	2017	2016
Recognized in net earnings	4,578	4,751
Recognized in accumulated other comprehensive loss – net of tax	2,852	1,238
Recognized in deferred tax position	1,055	458

## Interest Rate Swaps

RME has several interest rate swaps related to portions of its Term Facility and various floor plan facilities (collectively, the "Hedged Facilities").

The Hedged Facilities each bear interest at a floating rate based on the prevailing BA rate. The interest rate swaps hedge our exposure to fluctuations in the BA rate. During the year ended December 31, 2017, RME's Term Facility #1 interest rate swap matured and was replaced with a new floating-to-fixed interest rate swap with an initial notional amount of \$33.3 million, amortizing to \$3.4 million evenly over 24 quarters (the "Term Facility #2" swap).



RME's hedged and at risk positions are summarized as follows:

	Maturity	Type	December 31, 2017		December 31, 2016	
			Effective rate	Amount (\$ thousands)	Effective Rate	Amount (\$ thousands)
<b>Hedged position</b>						
<i>Current debt</i>						
Floor plan facility #1	August, 2018	Non-amortizing	4.2%	25,000	4.2%	25,000
Floor plan facility #2	September, 2020	Non-amortizing	5.1%	35,000	5.1%	35,000
Floor plan facility #3	September, 2022	Non-amortizing	5.4%	50,000	5.4%	50,000
			5.0%	110,000	5.0%	110,000
<i>Long-term debt</i>						
Term Facility #1	April, 2017	Amortizing	-	-	4.1%	19,250
Term Facility #2	April, 2023	Amortizing	3.5%	30,671	-	-
			3.5%	30,671	4.1%	19,250
<b>Total</b>			<b>4.7%</b>	<b>140,671</b>	<b>4.9%</b>	<b>129,250</b>
<b>Position at risk – floating-rate debt</b>				<b>229,754</b>		<b>247,783</b>
<b>Position hedged</b>				<b>61.2%</b>		<b>52.2%</b>

The interest rate swaps are accounted for using hedge accounting. If we sell or terminate a hedged item, or it matures before the related hedging instrument is terminated, we recognize in income any unrealized gain or loss on the derivative instrument. In accounting for these cash flow hedges, changes in fair value of the swaps are included in the consolidated statement of other comprehensive income to the extent the hedge continues to be effective. The related other comprehensive amounts are allocated to net earnings in the same period in which the hedged item affects net earnings. To the extent that changes in the fair value of these derivatives are not completely offset by changes in the fair value of the hedged items, the ineffective portions of the hedging relationships are recorded immediately in net earnings.

For the year ended December 31, 2017, we recognized in net earnings, a mark-to-market gain of \$0.1 million on our interest rate swaps (2016 – gain of \$0.3 million).

#### Total Return Swaps

RME has several total return swap arrangements to hedge the exposure associated with increases in its share price on its outstanding Director Share Units (“DSUs”) and Share Appreciation Rights (“SARs”). If not renewed or unwound by RME, these arrangements mature between July 2018 and April 2019. It is RME's intention to maintain a hedged position which approximately matches the quantity of, and terms associated with, the DSUs and SARs. The hedging relationship with the SARs is ineffective to the extent that RME's share price falls below the strike price of the SARs.

During the vesting period, the accounting treatment of the SARs creates an inherent discrepancy from the total return swaps in terms of the timing of the impact on net earnings. Changes in RME's share price are factored into the Black-Scholes option pricing model to determine the estimated fair value of the SARs at each reporting date. Each period, an expense (recovery) is recognized in net earnings such that the life-to-date expense associated with the SARs reflects the proportion of the estimated fair value earned by the holder between issuance and the reporting date. The value of the SARs is deemed earned by the holder evenly throughout the vesting period and is considered fully earned upon vesting. Once vested, the SARs will also be marked-to-market at each reporting date, eliminating the timing discrepancy.

RME does not apply hedge accounting to these relationships and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise. For the year ended December 31, 2017, we recognized an unrealized mark-to-market gain of \$4.5 million (2016 – gain of \$4.5 million).



RME's hedged and at risk positions are summarized as follows:

	December 31, 2017		December 31, 2016	
	Weighted average price/share \$	Shares/units	Weighted average price/share \$	Shares/units
In thousands of shares/units except per share amounts				
Hedged position:				
DSUs	10.54	100	10.54	100
SARs	9.23	1,070	9.21	1,170
Total	9.34	1,170	9.31	1,270
Position at risk:				
DSUs		60		71
SARs		599		1,057
Total		659		1,128
Position hedged		177.5%		112.6%

During late 2017, several SARs were exercised which caused the hedged position to significantly exceed the position at risk. Subsequent to year end, RME has unwound a portion of its hedged position to realign with the position at risk.

## Dividends

On February 7, 2018, RME's Board of Directors (the "Board") approved a quarterly dividend of \$0.115 per common share on its outstanding common shares. The common share dividend is payable on March 30, 2018, to shareholders of record at the close of business on February 28, 2018.

This dividend is designated by RME to be an "eligible dividend" for the purposes of the Income Tax Act (Canada) and any similar provincial or territorial legislation. An enhanced dividend tax credit applies to "eligible dividends" paid to Canadian residents. Please consult with your own tax advisor for advice with respect to the income tax consequences to you from RME designating its dividends as "eligible dividends." Investors are cautioned that quarterly dividends remain subject to approval by RME's Board, and that the Board may, at any time, increase, decrease or suspend payment of the dividend.

## SHARE CAPITAL – OUTSTANDING SHARES

Changes in the number of issued and outstanding common shares during the years ended December 31, 2017 and 2016 are as follows:

\$ thousands	2017	2016
Opening balance	19,384	19,384
Shares issued upon exercise of stock options	493	-
Closing balance	19,877	19,384

As at March 13, 2018, there were 19,883,586 common shares outstanding.

RME has a stock option plan under which the Board may grant options to directors, officers, and employees of RME at an exercise price equal to the market price of RME's common shares at the time of the grant. The plan limits the number of options issuable to a maximum of 10% of the issued and outstanding common shares from time to time. Options granted carry neither voting rights nor rights to dividends.

The general terms of stock options granted under the plan include a maximum exercise period of five years and a vesting period of three years with one-third of the grant vesting on each of the first three anniversary dates following the date of grant.



Options outstanding at December 31, 2017 are as follows:

Grant date	Options outstanding (thousands)	Options exercisable (thousands)	Weighted average exercise price (\$)	Weighted average contractual life (years)
March 13, 2013	24	24	12.89	0.2
March 13, 2014	149	149	11.52	1.2
Total	173	173	11.71	1.1

As at March 13, 2018, there were 162,500 options outstanding.

## CONTRACTUAL OBLIGATIONS

RME's contractual obligations consist primarily of its floor plan payable used to finance the purchase of new, and to a lesser extent, used equipment. RME has classified its floor plan payable as current as the corresponding inventory to which it relates has also been classified as current.

Floor plan payable accounts for the majority of RME's contractual obligations which will be discharged within the next 12 months. In addition to certain curtailment requirements, draws on our floor plan facilities become due upon the sale of the underlying piece of equipment inventory.

Other significant contractual obligations outstanding as at December 31, 2017, include trade payables, accruals and other, long-term debt consisting predominantly of the Term Facility and operating lease commitments which relate primarily to RME's facilities. Lease terms are between one and eleven years and most building leases contain renewal options for periods ranging from three to five years.

RME assesses its liquidity based on the period in which cash flows are expected to occur. The following table summarizes RME's expected undiscounted cash flows for obligations existing at December 31, 2017, assuming the Syndicated Facility is renewed prior to maturity on September 24, 2020. The analysis is based on foreign exchange rates and interest rates in effect at the date of the consolidated statement of financial position, and includes both principal and interest cash flows.

\$ thousands	Total	2018	2019-2020	2021-2022	Thereafter
Trade payables, accruals and other	46,748	46,748	-	-	-
Floor plan payable	314,968	314,968	-	-	-
Long-term debt	41,564	7,376	14,107	13,267	6,814
Obligations under finance leases	529	453	76	-	-
Operating lease obligations	35,506	7,925	12,687	9,320	5,574
Derivative financial liabilities	1,079	570	509	-	-
Total contractual obligations	440,394	378,040	27,379	22,587	12,388

In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for long-term debt outstanding as at December 31, 2017, would be \$32.5 million in 2019-2020 and \$Nil in all subsequent periods.

RME is also subject to various degrees of recourse, arising in the ordinary course of business, by assisting its customers in financing the purchase or rental of equipment. RME is exposed to potential losses arising from the difference between the assessed value of the underlying security and the amounts guaranteed by RME. Any resulting losses are recorded as soon as the amount of the loss can be reasonably estimated. As the assessed value of the underlying security generally exceeds the amount guaranteed by RME, management believes that the net exposure is not significant. As at December 31, 2017, gross recourse amounted to \$1.3 million (2016 – \$2.1 million), prior to any consideration of the value associated with the securitized assets. As at December 31, 2017, RME has accrued \$0.3 million (December 31, 2016 – \$0.7 million) for anticipated losses.





## RELATED PARTY TRANSACTIONS

During the years ended December 31, RME entered into the following transactions with related parties:

\$ thousands	December 31, 2017	December 31, 2016
Equipment and product support sales	2,683	514
Expenditures		
Rental payments on RME facilities	5,987	5,832
Equipment purchases	1,278	271
Flight costs	55	74
Contributions <sup>(1)</sup>	57	157
Other expenses	42	33

(1) – Contributions are comprised of payments to Ag for Life and the Alberta Prosperity Fund.

During 2017, RME settled the remaining lease obligation associated with a vacated industrial facility which was leased from a related party for total consideration of \$0.5 million. During 2017, RME also received \$0.4 million in lease inducements from a related party as part of a new leasehold agreement. Both of these amounts have been presented above within “Rental payments on RME facilities”.

All related parties are either directly or indirectly owned by a member of senior management or director of RME and/or a close family member thereof. These transactions were made on terms equivalent to those that prevail in arm’s length transactions and are made only if such terms can be substantiated.

The remuneration of the directors and officers of RME was determined for the years presented by the Compensation and Human Resources Committee (formerly, the Compensation, Governance and Nominating Committee) of the Board of Directors, based on performance and is consistent with market trends. The remuneration of directors and officers of RME identified as key management is as follows for the respective years ended December 31:

\$ thousands	December 31, 2017	December 31, 2016
Salary and short-term benefits	3,054	2,754
Post-retirement benefits	35	25
Share-based compensation	2,973	1,115
Total	6,062	3,894

Key management personnel consists of RME’s President and Chief Executive Officer, Chief Financial Officer, and members of its Board of Directors. Key management personnel for 2017 also includes RME’s Chief Sales and Operations Officer, who was appointed during the year. As at December 31, 2017, there is a \$2.0 million commitment (2016 – \$1.5 million) relating to the termination of employment of the key management personnel.

Amounts due from (to) related parties are included in the consolidated statement of financial position under trade receivables and other (trade payables, accruals and other) and are as follows:

\$ thousands	December 31, 2017	December 31, 2016
Due from related parties	27	45
Due to related parties	(1,087)	(766)

The amounts due from related parties are not secured and are to be settled in cash. As at December 31, 2017 and 2016, the amounts due from related parties are considered collectible and, therefore, have not been provided for in the allowance for doubtful accounts. During the year ended December 31, 2017, \$Nil has been recognized in bad debt expenses with respect to related party transactions (2016 – \$Nil).

RME has contractual obligations to related parties in the form of facility leases. As at December 31, 2017, these contractual obligations and due dates, are as follows:

\$ thousands	Total	2018	2019-2020	2021-2022	Thereafter
Operating lease obligations	31,663	5,777	11,011	9,320	5,555



## **OFF-BALANCE SHEET ARRANGEMENTS**

We use off-balance sheet financing in connection with numerous operating leases. These leases relate to RME's buildings and certain operating assets with lease terms of up to 11 years. Most building leases contain renewal options for periods of 3 to 5 years. We have paid monthly amounts under these operating leases of up to \$67.3 thousand. In some instances, the counterparty to RME's operating lease obligations is a related party. Refer to the "Related Party Transactions" section of this MD&A for a discussion of the terms and amounts of such arrangements. The range of expiry dates on the current operating leases extend until July 2027.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the consolidated financial statements requires that certain estimates and judgments be made with respect to the reported amounts of sales and expenses and the carrying amounts of assets and liabilities. These estimates are based on historical experience and management's judgment. Anticipating future events involves uncertainty and consequently, the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional information is acquired or RME's operating environment changes. Management considers the following items to be the most significant of these estimates:

### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts is reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. RME takes into consideration the customer's payment history, their creditworthiness and the current economic environment in which the customer operates to assess impairment. RME's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. Bad debt expenses are reported within SG&A expenses.

### **Inventory Valuation**

Equipment is valued at the lower of cost and net realizable value, with cost being determined on a specific item, actual cost basis, and net realizable value being determined by the recent sales of the same or similar equipment inventory or market values as established by industry publications, less the costs to sell. Value is assigned to equipment inventory acquired through trade-in by using recent sales of the same or similar equipment inventory or market values as established by industry publications. Parts inventory is recorded at the lower of cost and net realizable value, with cost being determined on an average cost basis and net realizable value being determined by recent sales of the same or similar parts inventory, less the costs to sell. Work-in-progress is valued on a specific item, actual cost basis. Impairment losses and reversals of impairment losses are recorded within cost of sales.

### **Timing of Revenue Recognition**

Revenue from the sale of goods including new and used equipment and parts is recognized when all the following conditions are satisfied:

- RME has transferred to the buyer the significant risks and rewards of ownership of the goods;
- RME retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to RME; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.





### Depreciation Periods and Methods

Each part of an item of property and equipment with a useful life that is significantly different from the useful lives of other parts is depreciated separately.

Items of property and equipment are depreciated commencing on the date they are ready for use using the following methods and rates:

Land	Not depreciated
Buildings	Straight-line over 20 years
Computer equipment	Straight-line over 3 – 6 years
Furniture and fixtures	Straight-line over 5 – 10 years
Leasehold improvements	Straight-line over the lesser of the lease term (including renewals) and useful life
Shop tools and equipment	Straight-line over 3 – 10 years
Vehicles	Straight-line over 3 – 5 years

### Net Recoverable Amount of Goodwill

For the purposes of impairment testing, goodwill is allocated to a cash-generating unit (“CGU”). The recoverable amount of a CGU is determined using a value in use calculation. The key assumptions for the value in use calculation are those regarding discount and growth rates. These key assumptions are based on past experience, which has been adjusted for anticipated changes in future periods.

As at December 31, 2017 and 2016, RME prepared cash flow forecasts derived from the most recent financial plans prepared by management and extrapolated these cash flows into perpetuity using growth assumptions relevant to the business sector. The growth rate used for the purposes of these analyses was 2.0%.

As at December 31, 2017, the rate used to discount the forecasted cash flows was 12.3% (2016 – 10.3%), and represents RME’s estimate of the pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the particular CGU. The recoverable amount of the CGU to which goodwill has been allocated exceeded its carrying value at the impairment test dates.

RME has conducted a sensitivity analysis based on possible changes in the key assumptions used for the impairment tests. Had the estimated cost of capital used in determining the pre-tax discount rates been 4.6% (2016 – 7.3%) higher than management’s estimates or had the estimated growth rate used in extrapolating forecasted results been 8.5% (2016 – 14.5%) lower than management’s estimates, the recoverable amount of the CGU would equal its carrying amount for the respective periods. Any additional negative change in the assumption would cause goodwill to be impaired with such impairment loss recognized in net earnings.

### Derivative Financial Instruments

RME utilizes floating-to-fixed interest rate swaps to manage its interest rate exposure. These derivatives are initially recognized on the date the contract is entered into and are subsequently re-measured at their fair values. The fair values of the interest rate swaps are calculated as the net present value of the estimated future cash flows expected to arise on the variable and fixed legs, determined using applicable yield curves at each measurement date. Swap curves, which incorporate credit spreads applicable to large commercial banks, are typically used to calculate expected future cash flows and the present values thereof. Adjustments are also made to reflect RME’s own credit risk and the credit risk of the counterparty, if different from the spread implicit in the swap curve.

RME also has several total return swap arrangements to hedge the exposure associated with increases in its share price on its outstanding DSUs and SARs. These derivatives accrue to RME, any gains (losses) associated with changes in the value of its common shares as well as dividends paid on its hedged position, net of interest costs charged by the bank to build and hold their positions. These derivatives are initially recognized on the date the contract is entered into and are subsequently re-measured at their fair values. The fair values are calculated as the net present value of estimated future cash flows.

### Business Combinations

Assets acquired and liabilities assumed pursuant to business combinations are measured at their acquisition date fair values. Where appropriate, management bases its fair value estimates on observable third party data as reported by sources deemed both reputable and qualified. In the case of inventory acquired, management estimates the value in the manner discussed within the “Net Realizable Value of Inventory” section above.

Goodwill is measured as the excess of the fair value of consideration transferred over the acquisition-date fair value of the net identifiable assets acquired.



The purchase price allocation is subject to change throughout the duration of the measurement period. The measurement period is the period from the date of acquisition, to the date RME obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

### **Impairment of Assets Other than Goodwill**

At the end of each reporting period, RME reviews the carrying amounts of its identifiable assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, RME estimates the recoverable amount of the CGU to which the asset belongs. Corporate assets are also allocated to a CGU on the basis of the distribution of assets deployed in the CGU. A CGU is subject to impairment testing as described under the heading "Net Recoverable Amount of Goodwill".

Where an impairment loss subsequently reverses, the carrying amount of the assets (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined net of amortization or depreciation had no impairment loss been recognized for the asset. A reversal of impairment loss is recognized immediately in net earnings.

### **Share-based Payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. RME follows the fair value based method of accounting, using the Black-Scholes option pricing model, whereby compensation expense is recognized over the vesting period and is based on RME's estimate of awards that will ultimately vest, with a corresponding increase to contributed surplus.

Cash-settled share-based payments are recorded as liabilities and are measured initially at their fair values. At the end of each reporting period and at the date of settlement, these liabilities are remeasured at fair value, with any changes recognized in net earnings for the period.

### **Manufacturer Incentives**

Certain manufacturers offer annual performance incentives which are linked to RME's market share achievement and annual settlement volumes. RME uses estimated annual market share statistics derived from current and historical results which have been adjusted for any anticipated changes in the current year, as well as annual settlement volume to accrue manufacturer incentives earned during the year. These programs are subject to change at the discretion of the OEM. Annual performance incentives are recorded as a reduction to cost of sales. A credit to our account for the annual performance incentive is typically received in the first quarter following year end.

## **KEY FINANCIAL STATEMENT COMPONENTS**

### **Equipment Sales**

Equipment revenues are derived from the sale of new and used equipment. Revenue is recognized when the customer has signed the sales agreement, has paid or is credit-approved, and title to and risk of loss for the piece of equipment have transferred. Equipment sales also include rental and other ancillary revenues.

### **Parts Sales**

Parts revenue is recognized when title to the product has transferred to the customer and collection is reasonably assured. This is evidenced by the goods being shipped or physically taken by the customer, or in the case of parts drawn to complete service work, when the service work order is completed.

### **Service Revenue**

Revenue from service is recognized by reference to the stage of completion of the contract when the outcome can be estimated reliably.

### **Cost of Sales**

Cost of sales is the accumulation of the costs attributable to the sources of revenue set forth in the financial statements. Revenues are matched to cost of sales attributable to specific revenue sources. The cost of equipment sales is determined based on the actual cost of the equipment. The cost of parts sales is determined based on the average actual cost for those parts. The cost of service revenues is determined based on actual costs to complete the service job, which include, without limitation, wages paid to service technicians and the actual cost of externally sourced labour, plus applicable overheads.



## **Selling, General and Administrative Expenses**

SG&A expenses include sales and marketing expenses, sales commissions, payroll, and related benefit costs, insurance expenses, professional fees, rent, and other facility costs and administrative overhead including depreciation of property and equipment.

## **Finance Costs**

Finance costs include interest and other finance-related expense, including amortization of deferred finance costs. These costs are primarily associated with the floor plan financing of our new and used equipment inventory. Finance costs were also incurred on RME's Operating and Term Facilities.

## **CHANGES IN ACCOUNTING POLICIES**

### **New Standards and Amendments in Effect on January 1, 2017**

#### Amendment to IAS 7, 'Statement of Cash Flows'

This amendment improves information provided to users of financial statements about changes in liabilities arising from the entity's financing activities. The adoption of this amendment had no material impact to RME's financial statements.

#### Amendment to IAS 12, 'Income Taxes'

This amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value. The adoption of this amendment had no material impact to RME's financial statements.

### **New Standards and Amendments not yet in Effect**

#### IFRS 15, 'Revenue from Contracts with Customers'

IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This standard is effective for fiscal periods beginning on or after January 1, 2018. Management has performed its initial assessment of the new standard and does not believe there will be a material impact to the consolidated financial statements, other than additional note disclosure and the presentation of a contract liability for parts returns on the statement of financial position.

#### IFRS 9, 'Financial Instruments'

IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. This standard is effective for fiscal periods beginning on or after January 1, 2018. Management has performed its initial assessment of the new standard and does not believe there will be a material impact to the consolidated financial statements.

#### Amendment to IFRS 7, 'Financial Instruments: Disclosures on Derecognition'

In conjunction with the transition from IAS 39 to IFRS 9 for fiscal years beginning on or after January 1, 2018, IFRS 7 will also be amended to require additional disclosure in the year of transition. Management has performed its initial assessment of the amendment and does not believe there will be a material impact to the consolidated financial statements, other than additional note disclosure.

#### IFRS 16, 'Leases'

IFRS 16 replaces IAS 17 and requires most leases to be recognized as assets and liabilities on the statement of financial position. This standard includes an optional exemption for certain short-term leases and leases of low-value assets and is effective for fiscal periods beginning on or after January 1, 2019. Management is currently in the process of assessing this standard.



## RISKS AND UNCERTAINTIES

Risk factors faced by RME are listed in RME's AIF under the heading "Risk Factors" and can be found on SEDAR. These risk factors include industry risks associated with agriculture and industrial equipment dealerships and others, including but not limited to: (i) economic conditions; (ii) weather and climate conditions; (iii) commodity prices; (iv) inventory risk; (v) reliance on key manufacturers; (vi) seasonality and cyclical; (vii) import product restrictions and foreign trade risks; (viii) information systems and cybersecurity; (ix) interest rates; (x) government regulation; (xi) health, safety and environmental laws and regulation; (xii) nature of dealership agreements; (xiii) foreign exchange exposure; (xiv) competition; (xv) restrictions on and impediments to acquisitions; (xvi) industry oversupply; (xvii) labour relations; (xviii) credit facilities; (xix) consolidation within the equipment manufacturing industry; (xx) customer credit risks; (xxi) available floor plan financing; (xxii) unfavorable conditions in key geographic markets; (xxiii) non-exclusive nature of key geographic markets; (xxiv) continued ability to pay dividend; (xxv) indemnification and insurance; (xxvi) branch leases; (xxvii) key personnel; (xxviii) labour costs and shortages; (xxix) changes in common share value; (xxx) product liability risks; (xxxi) issuance of additional common shares; (xxxii) freight costs; (xxxiii) aviation risks; (xxxiv) future warranty claims; (xxxv) growth risks; (xxxvi) integration of acquisitions; and, (xxxvii) forward-looking information may prove inaccurate.

Our success largely depends on the abilities and experience of our senior management team and other key personnel. These employees carry a significant amount of the management responsibility of our business and are important for setting strategic direction and dealing with certain significant customers.

Our future performance will also depend on our ability to attract, develop, and retain highly qualified employees in all areas of our business. We face significant competition for individuals with the skills required to develop, market and support our products and services. If we fail to recruit and retain sufficient numbers of these highly skilled employees, we may not be able to achieve our growth objectives and our business may be adversely affected.

## RISKS RELATED TO FINANCIAL INSTRUMENTS

Through its financial instruments, RME has exposure to the following risks: credit risk, market risk (consisting of foreign currency exchange risk, interest rate risk and equity price risk), and liquidity risk.

### Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to RME. RME has a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The creditworthiness of counterparties is determined using information supplied by independent rating agencies where available and, if not available, RME uses other publicly available financial information and its own trading records to rate its major customers. RME's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

RME's exposure to credit risk on its cash balance and derivative financial assets is mitigated as these financial assets are held with major financial institutions with strong credit ratings.

During 2017, RME recognized a \$0.1 million recovery of bad debts (2016 – recovery of \$0.1 million). Bad debt expense (recovery) is recognized within SG&A expenses.



## **Market Risk**

Market risk is the risk from changes in market prices, such as changes in foreign currency exchange rates, interest rates and the market price of RME's common shares, which will affect RME's earnings as well as the value of the financial instruments held and cash-settled share-based instruments outstanding.

### Foreign Currency Exchange Risk

The OEMs we do business with are geographically diversified, requiring us to conduct business in two currencies: U.S. dollars and Canadian dollars. As a result, we have foreign currency exposure with respect to purchases of U.S. dollar denominated products (inventory) and we experience foreign currency gains and losses thereon. The nature of exposure to foreign exchange fluctuations differs between equipment manufacturers and the various dealer agreements with them.

A weakening of the U.S. dollar in comparison to the Canadian dollar will generally have a positive effect on our performance by lowering our cost of goods sold. However, as the markets in which we operate are highly competitive, a declining U.S. dollar also has the effect of reducing sales prices in Canadian dollars and, as a consequence, we cannot capture the entire potential benefit of a declining U.S. dollar environment. By contrast, a strengthening U.S. dollar will increase the cost of equipment purchases. If we are unable to fully offset the increase in cost of goods through price increases, our financial results will be negatively affected. We mitigate some of this risk by occasionally purchasing forward contracts for U.S. dollars on large transactions to cover the period from the time the equipment is ordered from the manufacturer to the payment date.

During 2017, RME recognized a net foreign exchange gain of \$0.7 million (2016 – gain of \$0.7 million). Foreign exchange losses (gains) are recognized within SG&A expenses.

### Interest Rate Risk

We finance our equipment inventory, certain capital expenditures, business acquisitions and occasionally, our other general working capital requirements, by way of various financing facilities under which we are charged interest at floating rates. As a result, rising interest rates have the effect of increasing our overall costs. To the extent that we cannot pass on such increased costs to our customers, our net earnings or cash flow may decrease. In addition, many of our customers finance the equipment they purchase from us. A customer's decision to purchase may be affected by interest rates available to finance the purchase.

RME manages its interest rate risk by using floating-to-fixed interest rate swaps when appropriate. Generally, RME will obtain floor plan financing and long-term debt at floating rates. When RME enters into a floating-to-fixed interest rate swap, it agrees with a third party to exchange the difference between the fixed and floating contract rates based on agreed notional amounts.

Refer to the "Derivative Financial Instruments" section of this MD&A for additional information and gains (losses) on derivative financial instruments.

### Equity Price Risk

As part of its overall compensation of directors, officers and employees, RME has issued cash-settled share-based payments in the form of DSUs and SARs. The DSUs are valued on a per DSU basis at an amount equal to the volume weighted average trading price of RME's common shares over the immediately preceding 20-day trading period. The SARs are revalued at each reporting date using the Black-Scholes option pricing model. Increases in RME's share value result in additional compensation expense to RME related to these two programs. As share-based payments, the DSUs and SARs are not accounted for as financial instruments.

RME has entered into several total return swaps to hedge the exposure associated with increases in its share value on its outstanding DSUs and SARs. The total return swaps are classified as derivative financial instruments. The intent of these derivatives is to offset the incremental cost to RME associated with increases in its common share price on its cash-settled share-based payments.

Refer to the "Derivative Financial Instruments" section of this MD&A for additional information and gains (losses) on derivative financial instruments.





## Liquidity Risk

RME's objective is to have sufficient liquidity to meet its liabilities when due. RME monitors its cash balance and cash flows generated from operations as well as available credit facilities to meet its requirements.

Refer to the "Adequacy of Capital Resources" section of this MD&A for a discussion of the liquidity risks faced by RME as well as a description of RME's various credit facilities.

## SUBSEQUENT EVENT

In January 2018, RME initiated the unwinding of 510 thousand shares of our equity hedge position in order to realign the hedge position with the number of SARs and DSUs outstanding. RME anticipates that a loss will be recognized on the unwinding of this position as a result of the decline in the share price during the unwinding period, with such period culminating during the first quarter of 2018.

## NON-IFRS MEASURES

Throughout this MD&A, we use terms which do not have standardized meanings under IFRS. As these non-IFRS financial measures do not have standardized meanings prescribed by IFRS, they are unlikely to be comparable to similar measures presented by other issuers. Our definition for each term is as follows:

- **"Adjusted Diluted Earnings per Share"** is calculated by eliminating from net earnings, the after-tax impact of the losses (gains) arising from RME's derivative financial instruments and DSUs, as well as the expense (recovery) associated with its SARs. These items arise primarily from changes in RME's share price as well as fluctuations in interest rates and are not reflective of RME's core operations.

RME also adjusts for any non-recurring charges (recoveries) recognized in net earnings. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that RME incurs outside of its common day-to-day operations. Adjusting for these items allows management to isolate and analyze diluted earnings per share from core business operations. For the periods presented, restructuring costs associated with amalgamating the industrial operations and losses recognized on the impairment and subsequent disposition of vacant land have been classified as non-recurring charges. The losses on the sale of vacant land are not expected to give rise to a reduction in our tax provision.

- **"Adjusted EBITDA"** is derived by eliminating the following items from net earnings: finance costs associated with long-term debt; income taxes; depreciation and amortization; the impact of the losses (gains) arising from derivative financial instruments and DSUs; and the expense (recovery) associated with SARs. Adjusting net earnings for these items allows management to consistently compare periods by removing the impact of fluctuations in tax rates, long-term assets, financing costs related to RME's capital structure and RME's share price.

RME also adjusts for any non-recurring charges (recoveries) recognized in Adjusted EBITDA. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that RME incurs outside of its common day-to-day operations. Adjusting for these items allows management to isolate and analyze EBITDA from core business operations. For the periods presented, restructuring costs associated with amalgamating the industrial operations and losses recognized on the impairment and subsequent disposition of vacant land have been classified as non-recurring charges.

- **"Operating SG&A"** is calculated by eliminating from SG&A, depreciation and amortization expense as well as the impact of the losses (gains) arising from RME's DSUs and the expense (recovery) associated with its SARs. These items arise primarily from changes in RME's share price and are not reflective of RME's core operations.

RME also adjusts for any non-recurring charges (recoveries) recognized in SG&A. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that RME incurs outside of its common day-to-day operations. For the periods presented, no non-recurring charges (recoveries) have been identified. The assessment of Operating SG&A facilitates the evaluation of discretionary expenses from ongoing operations. We target a sub-10% Operating SG&A as a percentage of total sales on an annual basis.

- **"Operating Cash Flow before Changes in Floor Plan"** is calculated by eliminating the impact of the change in floor plan payable (excluding floor plan assumed pursuant to business combinations) from cash flows from operating activities. Adjusting cash flows from operating activities for changes in the balance of floor plan payable allows management to isolate and analyze operating cash flows during a period, prior to any sources or uses of cash associated with equipment financing decisions.



## RECONCILIATION OF NON-IFRS MEASURES TO IFRS

### Adjusted Diluted Earnings per Share

\$ thousands	For the quarter ended December 31,			For the year ended December 31,		
	2017	2016	2015	2017	2016	2015
Earnings used in the calculation of diluted earnings per share	8,171	4,704	4,580	22,899	14,966	11,293
(Gain) loss on derivative financial instruments	(3,131)	(605)	274	(4,578)	(4,751)	3,548
Loss (gain) on DSUs	162	16	(53)	245	220	(211)
SAR expense	2,231	230	6	2,995	757	24
Non-deductible loss on vacant land	-	-	-	641	1,360	-
Restructuring charges	-	-	-	-	3,564	-
Tax effect of adjustments (27%)	199	97	(61)	361	57	(907)
Earnings used in the calculation of Adjusted Diluted Earnings per Share	7,632	4,442	4,746	22,563	16,173	13,747
Weighted average diluted shares used in the calculation of diluted earnings per share (in thousands)	19,515	19,384	19,272	19,413	19,384	19,327
Adjusted Diluted Earnings per Share	0.39	0.23	0.25	1.16	0.83	0.71

### Adjusted EBITDA

\$ thousands	For the quarter ended December 31,			For the year ended December 31,		
	2017	2016	2015	2017	2016	2015
Net earnings	8,171	4,704	4,580	22,899	14,966	11,293
Finance costs associated with long-term debt	406	450	501	1,770	1,795	2,060
Depreciation and amortization expense	1,816	1,915	1,962	7,417	7,755	7,803
Income taxes	3,099	1,466	1,696	8,774	5,955	4,105
EBITDA	13,492	8,535	8,739	40,860	30,471	25,261
(Gain) loss on derivative financial instruments	(3,131)	(605)	274	(4,578)	(4,751)	3,548
Loss (gain) on DSUs	162	16	(53)	245	220	(211)
SAR expense	2,231	230	6	2,995	757	24
Loss on vacant land	-	-	-	641	1,360	-
Restructuring charges	-	-	-	-	3,564	-
Adjusted EBITDA	12,754	8,176	8,966	40,163	31,621	28,622

### Operating SG&A

\$ thousands	For the quarter ended December 31,			For the year ended December 31,		
	2017	2016	2015	2017	2016	2015
SG&A	27,275	25,205	27,175	99,772	97,970	108,228
Depreciation and amortization expense	(1,816)	(1,915)	(1,962)	(7,417)	(7,755)	(7,803)
(Loss) gain on DSUs	(162)	(16)	53	(245)	(220)	211
SAR expense	(2,231)	(230)	(6)	(2,995)	(757)	(24)
Operating SG&A	23,066	23,044	25,260	89,115	89,238	100,612
Operating SG&A as a % of sales	8.4%	8.1%	8.8%	9.3%	9.6%	10.3%



## Operating Cash Flow before Changes in Floor Plan

\$ thousands	For the quarter ended December 31,			For the year ended December 31,		
	2017	2016	2015	2017	2016	2015
Cash flow from operating activities	3,424	12,917	12,839	6,955	27,163	35,460
Net (increase) decrease in floor plan payable <sup>(1)</sup>	(39,791)	1,625	(5,995)	(7,675)	60,463	23,951
Floor plan assumed pursuant to business combinations	-	-	-	-	-	32,782
<b>Operating Cash Flow before Changes in Floor Plan</b>	<b>(36,367)</b>	<b>14,542</b>	<b>6,844</b>	<b>(720)</b>	<b>87,626</b>	<b>92,193</b>

(1) – Includes change in floor plan payable classified as liabilities associated with assets held for sale.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) have, as at December 31, 2017, designed, or caused to be designed under their supervision, disclosure controls and procedures (“DC&P”) to provide reasonable assurance that: (i) material information relating to RME is made known to them by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by RME in its annual filings, interim filings, or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The CEO and CFO have designed or caused to be designed under their supervision, internal controls over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of RME’s financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. RME’s management, under the supervision of the CEO and CFO, used the criteria and framework established in the 2013 Internal Controls - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) to design RME’s ICFR.

As at December 31, 2017, the CEO and CFO have evaluated the design and operation of RME’s DC&P and ICFR and concluded that they were effective. During the quarter ended December 31, 2017, there were no changes in RME’s ICFR that have materially affected, or are reasonably likely to materially affect RME’s ICFR.

It should be noted that a control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

## CAUTION REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains FLS within the meaning of applicable securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of RME or industry results, to be materially different from any future results, events, expectations, performance or achievements expressed or implied by such FLS. FLS typically contain words or phrases such as “may”, “outlook”, “objective”, “intend”, “estimate”, “anticipate”, “should”, “could”, “would”, “will”, “expect”, “believe”, “plan”, “predict” and other similar terminology suggesting future outcomes or events. FLS involve numerous assumptions and should not be read as guarantees of future performance or results. Such statements will not necessarily be accurate indications of whether or not such future performance or results will be achieved. Readers of this MD&A should not unduly rely on FLS as a number of factors, many of which are beyond the control of RME, could cause actual performance or results to differ materially from the performance or results discussed in the FLS.

In particular, FLS in this MD&A include, but are not limited to, the following: (i) disclosure under the heading “Market Fundamentals and Outlook”; (ii) continuing demand for RME’s products and services, and the cyclical nature of agriculture equipment demand and any revenue or inventory statements or forecasts attributed thereto; (iii) disclosure under the heading “Capital Allocation Strategy – Acquisition Strategy”, including discussion regarding RME’s acquisition plans, prospects and activities; (iv) disclosure under the heading “Capital Allocation Strategy – Dividend and Debt”, including any discussion regarding RME’s plans to maintain its current dividend, continue to pay down debt and keep RME’s balance sheet ready for a potential transaction; (v) statements pertaining to the anticipated crop outlook in Western Canada, including the anticipated area seeded to field crops, crop yield and quality and the weather conditions associated with crop yields; (vi) statements regarding the disparity between the Canadian and U.S. dollars and the impact such disparity may have on RME’s business and new equipment pricing in Canada; (vii) any discussion regarding RME’s anticipated inventory balance and profile; (viii) discussion on the fundamentals of RME’s business, including discussion regarding growth in GDP, farmers’ crop receipts and profitability, field crop outlook and the future demand for agriculture equipment and commodities; (ix) statements regarding customer buying patterns, including the extent to which we are able to convert new equipment customers to used equipment customers; (x) statements regarding the impact of a change in incentive programs from RME’s manufacturer on RME’s reported cost of sales during 2017; (xi) statements regarding RME’s anticipated gross margins; (xii) any statements





or discussions regarding RME's inventory management and any expected increases or decreases in RME's inventory levels, and the timing and delivery thereof; (xiii) statements that we believe cash flow from operations, along with existing credit facilities, will provide for our capital needs; (xiv) discussion around Operating SG&A expenses, including the seasonal variances and expectations in Operating SG&A and RME's targeted annual Operating SG&A; (xv) discussion that the first quarter is generally the weakest financial quarter and that the fourth quarter is generally the strongest quarter financially; (xvi) statements that our installed base and customer relationships create an annuity of equipment sales and product support revenue, which help drive dependable earnings and cash flow; (xvii) statements that weather conditions may impact sales activity for any given period; (xviii) statements concerning RME's ongoing compliance with, or potential breaches of, its covenants under its credit facilities, including the Syndicated Facility; (xix) statements concerning RME's expected undiscounted cash flows as at December 31, 2017, and (xx) statements regarding any anticipated losses recognized as a result of the unwinding of RME's equity hedge position.

With respect to the FLS listed above and contained in this MD&A, RME has made assumptions regarding, among other things: (i) expectations that commodity prices will continue to remain above historical levels; (ii) increasing food demand, as well as increasing crop land dedicated to bio-fuel production, will cause producers to improve their productivity, and as a result invest in new equipment, (iii) expectations that increases in farmer liquidity would generally correlate to farmers making capital re-investments in their business, so as to increase their productivity and lower their input costs, which investments may include RME's products and services, (iv) inventory levels will fluctuate during a year, both positively and negatively, based on timing of equipment deliveries, and volume of whole-good sales involving a unit taken in on trade, (v) the general GDP growth and/or relative economic stability in the markets we operate in, (vi) the trend towards larger farms in the agriculture sector will continue to benefit further farm equipment sales as larger farm operations tend to replace their equipment more frequently, (vii) RME's cash flow will remain sufficient to, in connection with its credit facilities, adequately finance its capital needs, (viii) as stores are consolidated, certain functions can be centralized thereby reducing SG&A costs as a result, (ix) the anticipated improvement in ongoing revenue and cash-flow, including parts and service revenue, as our installed base increases, (x) expectations that no material change will happen to our OEM relationships; (xi) expectations that customers who purchase their equipment from RME will, generally, return to RME for their product support needs; (xii) our realigned investment in inventory is consistent with current market demand; and, (xiii) RME will remain in compliance with all of its debt covenants under the terms of the Syndicated Facility and will be able to renew its Syndicated Facility prior to maturity on September 24, 2020.

RME's actual results could differ materially from those anticipated in the FLS in this MD&A as a result of the risk factors set forth herein under the heading "Risks and Uncertainties" and the risk factors set forth in RME's AIF. Although the FLS contained in this MD&A are based upon what management of RME believes are reasonable assumptions, RME cannot assure investors that actual performance or results will be consistent with these FLS. These statements reflect current expectations regarding future events and operating performance and are based on information currently available to RME's management. There can be no assurance that the plans, intentions or expectations upon which these FLS are based will occur. All FLS in this MD&A are qualified in their entirety by the cautionary statements herein and those set forth in RME's AIF available on SEDAR at [www.sedar.com](http://www.sedar.com). These FLS and outlook are made as of the date of this document and, except as required by applicable law, RME assumes no obligation to update or revise them to reflect new events or circumstances.