



# 2018



ANNUAL REPORT

**ROCKY MOUNTAIN DEALERSHIPS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended December 31, 2018

## ROCKY MOUNTAIN DEALERSHIPS INC. MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

This Management's Discussion and Analysis ("MD&A") was prepared as of March 12, 2019, and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the year ended December 31, 2018. It should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2018 and 2017 together with the notes thereto. 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, unless otherwise indicated, are presented in thousands of 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 subsidiaries, all of which are wholly-owned.

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 12, 2019 ("AIF"), is available at [www.sedar.com](http://www.sedar.com).

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

### SELECTED FINANCIAL INFORMATION

\$ thousands	Quarter ended December 31,			Year ended December 31,		
	2018	2017	2016	2018	2017	2016
Sales	<b>295,421</b>	273,699	285,749	<b>1,051,088</b>	959,341	930,435
Cost of sales	<b>255,257</b>	235,378	251,633	<b>909,626</b>	819,917	797,028
Gross profit	<b>40,164</b>	38,321	34,116	<b>141,462</b>	139,424	133,407
<i>Gross profit as a % of sales</i>	<b>13.6</b>	14.0	11.9	<b>13.5</b>	14.5	14.3
Selling, general and administrative	<b>26,595</b>	27,251	25,205	<b>100,129</b>	99,754	97,970
Loss (gain) on derivative financial instruments	<b>821</b>	(3,131)	(605)	<b>3,587</b>	(4,578)	(4,751)
Loss on vacant land	—	—	—	—	641	1,360
Restructuring charges	—	—	—	—	—	3,564
Earnings before finance costs and income taxes	<b>12,748</b>	14,201	9,516	<b>37,746</b>	43,607	35,264
Finance costs	<b>3,559</b>	2,799	3,346	<b>13,093</b>	11,921	14,343
Earnings before income taxes	<b>9,189</b>	11,402	6,170	<b>24,653</b>	31,686	20,921
Income taxes	<b>2,557</b>	3,134	1,466	<b>6,771</b>	8,777	5,955
Net earnings	<b>6,632</b>	8,268	4,704	<b>17,882</b>	22,909	14,966
<i>Net earnings as a % of sales</i>	<b>2.2</b>	3.0	1.6	<b>1.7</b>	2.4	1.6
Earnings per share						
Basic	<b>0.34</b>	0.42	0.24	<b>0.90</b>	1.18	0.77
Diluted	<b>0.34</b>	0.42	0.24	<b>0.90</b>	1.18	0.77
Dividends per share	<b>0.1225</b>	0.1150	0.1150	<b>0.4750</b>	0.4600	0.4600
Book value / share – December 31				<b>10.46</b>	10.05	9.13
<b>Non-IFRS Measures<sup>(1)</sup></b>						
Adjusted Diluted Earnings per Share	<b>0.33</b>	0.40	0.23	<b>0.95</b>	1.16	0.83
Adjusted EBITDA	<b>11,285</b>	12,886	8,176	<b>34,816</b>	40,176	31,621
Operating SG&A	<b>25,729</b>	23,042	23,044	<b>95,159</b>	89,097	89,238
<i>Operating SG&amp;A as a % of sales</i>	<b>8.7</b>	8.4	8.1	<b>9.1</b>	9.3	9.6
Operating Cash Flow before Changes in Floor Plan	<b>(34,858)</b>	(36,367)	14,542	<b>(50,509)</b>	(720)	87,626

(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, 2018

While early snowfalls in mid-to-late September across the Canadian Prairies delayed harvest, more normal weather for the remainder of the year allowed for essentially all crops to be harvested in most areas. Despite an uncertain start, we demonstrated strong sales in the face of equipment pricing headwinds.

### SALES AND MARGINS

- Sales increased 7.9% or \$21,722 to \$295,421 compared with \$273,699 for the same period in 2017 due primarily to \$15,953 of acquired sales for the quarter.
- Gross profit increased by 4.8% or \$1,843 to \$40,164 from \$38,321 for the same period in 2017.

### COST STRUCTURE

- As a percentage of sales, Operating SG&A for the fourth quarter of 2018 increased by 0.3% to 8.7% compared with 8.4% for the same period in 2017. The modest increase is due largely to the fixed nature of the costs associated with the recently acquired inventory/stores.
- Finance costs for the quarter ended December 31, 2018 increased 27.2% or \$760 to \$3,559 compared with \$2,799 during the same period in 2017 due primarily to an increase in the average level of interest-bearing floor plan.

### EARNINGS

- Adjusted EBITDA for the quarter ended December 31, 2018 decreased by 12.4% or \$1,601 to \$11,285 compared with \$12,886 for the same period in 2017.
- Adjusted Diluted Earnings per Share decreased by 17.5% or \$0.07 to \$0.33 for the fourth quarter of 2018, compared with \$0.40 for the same period of 2017.

### NORMAL COURSE ISSUER BID ("NCIB")

- During the fourth quarter of 2018, RME also repurchased 400 thousand of its outstanding common shares pursuant to an NCIB.

## SUMMARY OF THE YEAR ENDED DECEMBER 31, 2018

RME hit a significant milestone in 2018 reporting record revenues of \$1,051,088, up 9.6% year-over-year. This increase in revenue reflects growth in both same store and acquired sales and is in line with our growth plan that was announced in May of 2018.

### SALES AND MARGINS

- Sales increased 9.6% or \$91,747 to \$1,051,088 compared with \$959,341 for the same period in 2017. The increase is largely due to a \$65,389 increase in same store new equipment sales, reflecting both stronger market demand and out-of-season deliveries of harvest equipment.
- Gross profit increased by 1.5% or \$2,038 to \$141,462 from \$139,424 for the same period in 2017.

### COST STRUCTURE

- As a percentage of sales, Operating SG&A for the year ended December 31, 2018 decreased by 0.2% to 9.1% compared with 9.3% for the same period in 2017 due to increased sales.
- Finance costs for the year ended December 31, 2018 increased 9.8% or \$1,172 to \$13,093 compared with \$11,921 during the same period in 2017 due primarily to an increase in the average level of interest-bearing floor plan.

### EARNINGS

- Adjusted EBITDA for the year ended December 31, 2018 decreased by 13.3% or \$5,360 to \$34,816 compared with \$40,176 for the same period in 2017.
- Adjusted Diluted Earnings per Share decreased by 18.1% or \$0.21 to \$0.95 for the year ended December 31, 2018, compared with \$1.16 for the same period of 2017.

## **BALANCE SHEET AND INVENTORY**

For the year ended December 31, 2018, inventory turns were 1.73 times, down from 1.81 times for fiscal 2017. Used equipment inventories increased as a result of trades taken on increased new equipment sales as well as business acquisitions. The increase in used equipment inventory also reflects an increase in the average cost per unit.

## **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. During 2018, RME also established a presence in the United States ("U.S.") with our used equipment distribution location in Tonganoxie, Kansas.

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" 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.

## **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, as well as input costs. Many of these factors are influenced by weather conditions on both a local and, to an extent, 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 enables us to respond to these shifts in buying patterns and provides a measure of stability within our financial results.

## **COMPETITIVE LANDSCAPE**

Our distribution contracts grant us the right to sell new equipment and parts as well as provide warranty service 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 within our sales territories. Our installed base and customer relationships create an annuity of equipment sales and product support revenue, which help drive dependable earnings and cash flow.

## **CROP OUTLOOK**

In its Outlook for Principal Field Crops dated February 22, 2019, Agriculture and Agri-Foods Canada forecasted a modest 0.6% year-over-year decline in the production of principal field crops for the 2018-2019 farm year, despite an unusually late harvest in certain regions. While the early 2018 snowfall is expected to cause some deterioration in grade, the resulting additional moisture should bode well for the 2019 growing season.

## **U.S. MARKET**

In October 2018, RME commenced an initiative to sell late-model used equipment to farmers based in the U.S. To this end, RME entered into a lease for a property in Tonganoxie, Kansas, which is located on the outskirts of Kansas City. This location is situated in close proximity to the vibrant agriculture markets of Kansas, Iowa, Nebraska, Missouri and Oklahoma. With minimal capital and startup costs, we will be able to give our U.S. customers more visibility into RME's used equipment offerings, while also helping to establish RME within the U.S. dealership landscape. At present, we anticipate that this facility will only handle the sale of late-model used equipment. In early 2019, this location commenced operations.

## CAPITAL ALLOCATION STRATEGY AND GROWTH PLAN

Our success has enabled us to consider a variety of capital allocation strategies, including returning capital to shareholders, acquisitive growth and further debt reductions. To that end, RME repurchased and canceled 400 thousand of its common shares pursuant to an NCIB during the fourth quarter of 2018.

With the improvements we have made to our operational model and integration capabilities, we are well-positioned to pursue, and are actively seeking, further acquisitive growth opportunities. RME anticipates continued stability or modest growth in its dividend through this process.

During 2018, RME launched its growth plan that aims to grow revenues to at least \$1.5 billion in 2023. RME intends to do this through a combination of revenue sources including:

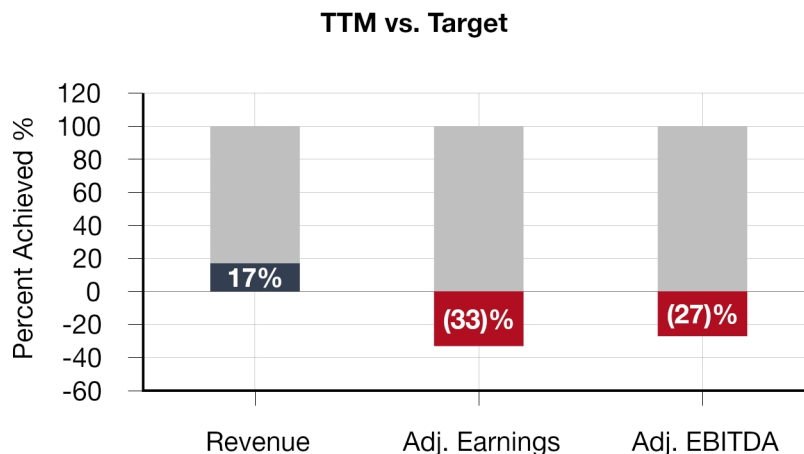
- \$200 million in organic growth through RME's present geographic foot print;
- \$200 million in acquired top-line revenue in Canada and/or the U.S.; and
- \$100 million in revenue synergies on assets that are acquired through this growth plan.

As part of this growth plan, during fiscal 2023 RME is targeting Adjusted Earnings of \$33.8 million and Adjusted EBITDA of \$60.0 million.

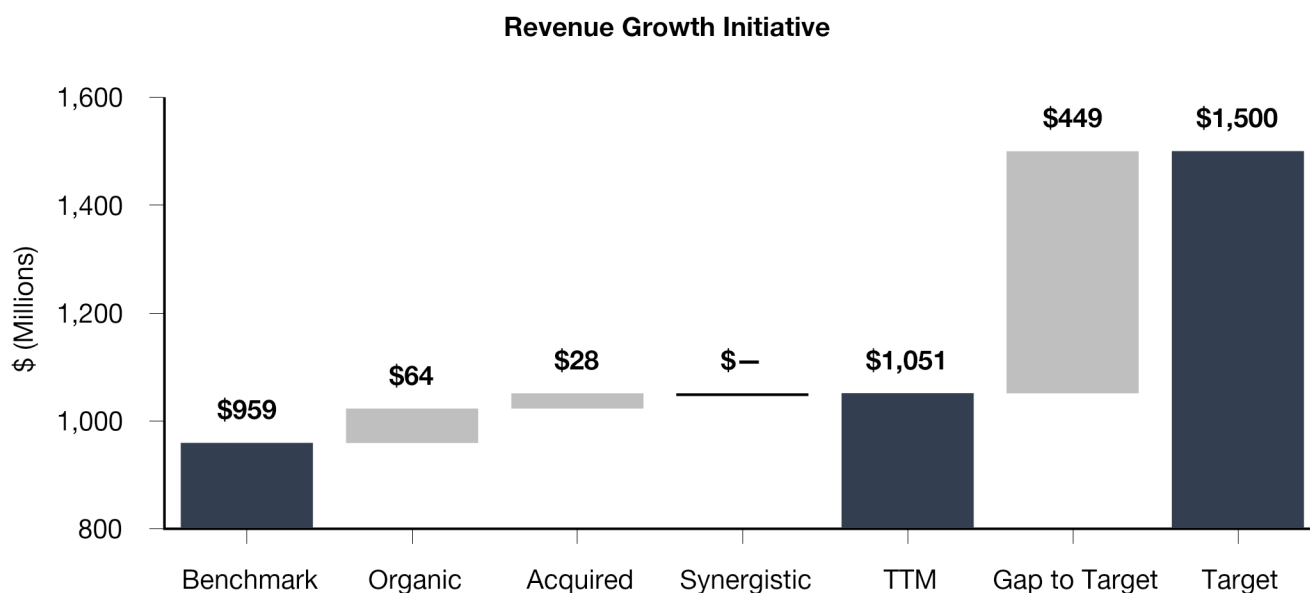
Please note that the adoption of IFRS 16, 'Leases' on January 1, 2019 is expected to increase Adjusted EBITDA. RME will recalibrate its Adjusted EBITDA target to reflect the new accounting standard once adopted and preserve the targeted \$19.8 million improvement in this metric.

Our progress to-date with respect to these growth initiatives as represented by RME's results on a trailing twelve month basis ("TTM") is summarized in the chart titled TTM vs. Target. While encouraging, our growth in revenues has yet to translate into progress against our Adjusted Earnings and Adjusted EBITDA targets.

Competitive market pressures have weighed on margins during the TTM ended December 31, 2018. Meanwhile, costs associated with acquired locations as well as investment in our sales force have contributed to increased operating costs and resulted in reductions in both Adjusted Earnings and Adjusted EBITDA relative to their respective 2017 benchmark values.



During 2018, RME completed the acquisitions of John Bob Farm Equipment (“JBFE”) and the New Holland Agriculture dealership in Olds, Alberta (“Olds”). RME estimates average historical sales for the acquired stores during the period from acquisition date to December 31, 2018, to be \$27,598 and has presented this as “acquired” revenues during the TTM ended December 31, 2018. The decomposition of progress towards our revenue growth initiative is presented in the chart titled Revenue Growth Initiative below.



In the near- to mid-term, we will continue to pursue acquisitive growth opportunities. We typically target dealership operations in areas with similar farm characteristics 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 U.S., particularly those states falling between the eastern slopes of the Rocky Mountains and the mid-west. U.S. regions with crops similar to the crop mix of the Canadian Prairies currently benefit from good economics, and farming operations in these regions are supportive of ongoing equipment purchases. While we would require manufacturer approval prior to doing so, a significant acquisition in these regions of the U.S. would be transformational.

## RESULTS OF OPERATIONS

We use the terms “acquired” versus “same store” in assessing our revenue. Each acquired store has an average historical level of sales prior to being acquired by RME. When we discuss “acquired” results, we are referring to these average historical levels. This base level of activity continues to be classified as acquired until such time as the acquired store has been included in our dealership network for twelve months after which point, all activity is classified as “same store”.

## SALES

### Fourth Quarter ("Q4") 2018 vs. Q4 2017

\$ thousands	2018	2017	Change		
			Total	Acquired	Same Store
Sales					
New equipment	163,757	155,378	8,379	7,477	902
Used equipment	99,369	89,245	10,124	4,776	5,348
Parts	23,690	21,132	2,558	2,649	(91)
Service	8,605	7,944	661	1,051	(390)
Total sales	295,421	273,699	21,722	15,953	5,769
Gross profit	40,164	38,321	1,843		
Gross margin %	13.6	14.0	(0.4)		

For the quarter ended December 31, 2018, total sales increased by \$21,722 or 7.9% to \$295,421 from \$273,699 during the same period in 2017 due primarily to \$15,953 of acquired sales for the quarter. On a same store basis, the late completion of harvest activity, namely in Central and Northern Alberta, supported activity levels during the fourth quarter of 2018. Meanwhile, RME continued to focus its sales efforts on used equipment leading to a \$5,348 improvement relative to Q4 2017.

### Year-to-Date ("YTD") 2018 vs. YTD 2017

\$ thousands	2018	2017	Change		
			Total	Acquired	Same Store
Sales					
New equipment	514,110	435,683	78,427	13,038	65,389
Used equipment	393,311	381,577	11,734	8,265	3,469
Parts	111,015	109,568	1,447	4,501	(3,054)
Service	32,652	32,513	139	1,794	(1,655)
Total sales	1,051,088	959,341	91,747	27,598	64,149
Gross profit	141,462	139,424	2,038		
Gross margin %	13.5	14.5	(1.0)		

For the year ended December 31, 2018, total sales increased by \$91,747 or 9.6% to \$1,051,088 from \$959,341 in 2017. The increase was largely due to a \$65,389 increase in same store new equipment sales, reflecting both stronger market demand and out-of-season deliveries of harvest equipment. Acquired sales contributed \$27,598 to the year-over-year increase.



## 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. Product Support activity is reconciled to our reported revenues for the respective departments as follows:

\$ thousands	Quarter ended December 31,			Year ended December 31,		
	2018	2017	Change	2018	2017	Change
Parts activity						
Total activity	27,075	24,443	2,632	126,234	122,231	4,003
Internal activity eliminated	(3,385)	(3,311)	(74)	(15,219)	(12,663)	(2,556)
Reported revenues	23,690	21,132	2,558	111,015	109,568	1,447
Service activity						
Total activity	13,197	12,201	996	54,755	50,435	4,320
Internal activity eliminated	(4,592)	(4,257)	(335)	(22,103)	(17,922)	(4,181)
Reported revenues	8,605	7,944	661	32,652	32,513	139
Total reported Product Support revenues	32,295	29,076	3,219	143,667	142,081	1,586

### Q4 2018 vs. Q4 2017

Product Support revenues for the quarter increased by 11.1% or \$3,219 to \$32,295 compared with \$29,076 in the same period of 2017 due primarily to locations acquired during 2018.

### YTD 2018 vs. YTD 2017

Product Support revenues for 2018 increased by 1.1% or \$1,586 to \$143,667 compared with \$142,081 in 2017. The reconditioning of trades taken on increased equipment sales volumes consumed much of the year-over-year increase in overall Product Support activity levels. So while activity levels were up 4.8%, the shift toward internal activity constrained reported Product Support revenue growth to 1.1%.

## GROSS PROFIT

### Q4 2018 vs. Q4 2017

Gross profit for the quarter ended December 31, 2018 increased by \$1,843 or 4.8% to \$40,164 compared with \$38,321 for the same period in 2017. As a percent of sales, gross profit decreased to 13.6% compared with 14.0% during the same period of 2017. During the fourth quarter of 2018, transactional level margins continued to reflect the highly competitive conditions in the Western Canadian agriculture equipment marketplace. Elevated sales levels have, however, largely negated the impact of lower margins on gross profit dollars. Our sales performance also translated into an increase in incentives from our original equipment manufacturers (“OEMs”).

### YTD 2018 vs. YTD 2017

Gross profit for 2018 increased by \$2,038 or 1.5% to \$141,462 compared with \$139,424 during the same period in 2017. Gross profit as a percent of sales decreased to 13.5% in 2018 compared with 14.5% during the same period of 2017. A favourable sales volume variance was largely offset by an unfavourable variance in sales prices, however, the elevated sales levels resulted in additional incentives recognized from our OEMs.

## 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 expenditures, 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	Quarter ended December 31,			Year ended December 31,		
	2018	2017	Change	2018	2017	Change
Variable sales commissions	3,449	3,531	(82)	13,617	13,303	314
Other Operating SG&A	22,280	19,511	2,769	81,542	75,794	5,748
Operating SG&A	25,729	23,042	2,687	95,159	89,097	6,062
<i>Operating SG&amp;A as a % of sales</i>	8.7	8.4	0.3	9.1	9.3	(0.2)

#### Q4 2018 vs. Q4 2017

Operating SG&A for the fourth quarter of 2018 increased by \$2,687 or 11.7% to \$25,729 from \$23,042 in 2017. The increase is due primarily to costs associated with the locations acquired during 2018.

As a percentage of sales, Operating SG&A for the quarter ended December 31, 2018 increased by 0.3% to 8.7% from 8.4% in 2017.

#### YTD 2018 vs. YTD 2017

For the year ended December 31, 2018, Operating SG&A increased by \$6,062 or 6.8% to \$95,159 from \$89,097 in 2017. The year-over-year increase reflects the impact of the locations acquired during 2018 as well as our investment in customer-facing personnel in response to elevated activity levels.

As a percentage of sales, Operating SG&A for the year ended December 31, 2018 decreased by 0.2% to 9.1% from 9.3% in 2017, within our target of 10% on an annual basis.

### FINANCE COSTS

#### Q4 2018 vs. Q4 2017

Finance costs for the quarter ended December 31, 2018 increased by \$760 or 27.2% to \$3,559 from \$2,799 for the same period in 2017, due to a quarter-over-quarter increase in the average amount drawn on RME's interest-bearing credit facilities.

#### YTD 2018 vs. YTD 2017

Finance costs for the year ended December 31, 2018 increased \$1,172 or 9.8% to \$13,093 from \$11,921 in 2017, as a result of an increase in the average balances being carried on RME's interest-bearing credit facilities.

### NET EARNINGS

#### Q4 2018 vs. Q4 2017

Net earnings for the quarter ended December 31, 2018 decreased by \$1,636 or 19.8% to \$6,632 from \$8,268 in 2017. Additional gross profit was more than offset by increases in Operating SG&A and finance costs. Earnings per share on a basic and diluted basis for the fourth quarter of 2018 decreased by \$0.08 or 19.0% to \$0.34 from \$0.42 for the same period in 2017.

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, 2018 decreased \$0.07 or 17.5% to \$0.33 from \$0.40 for the same period in 2017.

#### YTD 2018 vs. YTD 2017

Net earnings for the year ended December 31, 2018 decreased by \$5,027 or 21.9% to \$17,882 from \$22,909 in 2017. Additional gross profit was more than offset by increases in Operating SG&A and finance costs. Earnings per share on a basic and diluted basis for 2018 decreased by \$0.28 or 23.7% to \$0.90 from \$1.18 in 2017.

Adjusted Diluted Earnings per Share for the year ended December 31, 2018 decreased by \$0.21 or 18.1% to \$0.95 from \$1.16 for the same period in 2017.

## ADJUSTED EBITDA

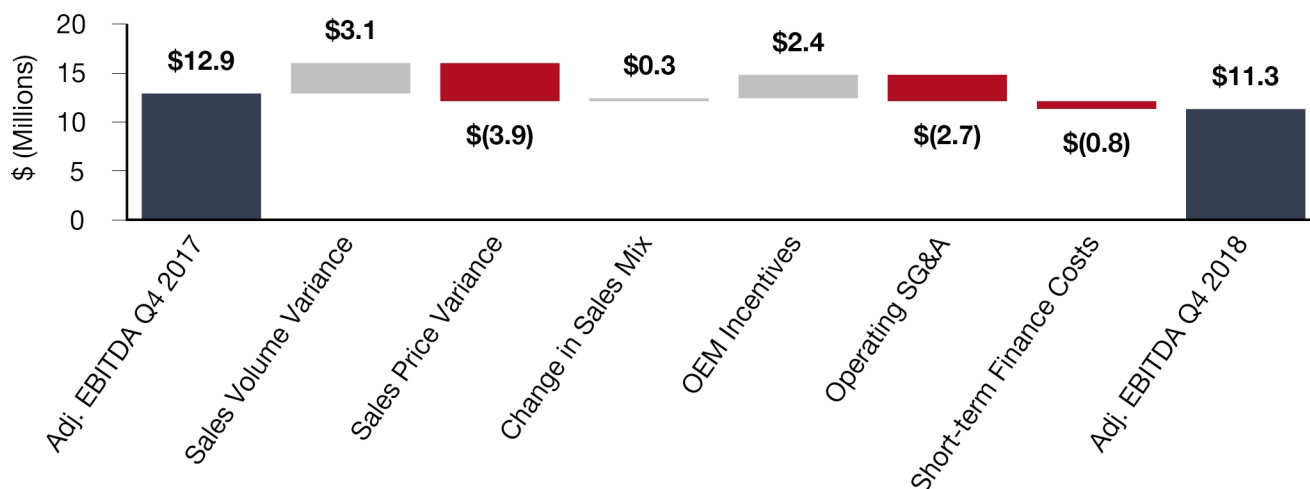
RME analyzes its Adjusted EBITDA in order to consistently compare periods by removing the impact of fluctuations in tax rates, long-term assets, financing costs related to our capital structure and our share price. See the definition and reconciliation of Adjusted EBITDA in the “Non-IFRS Measures” and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

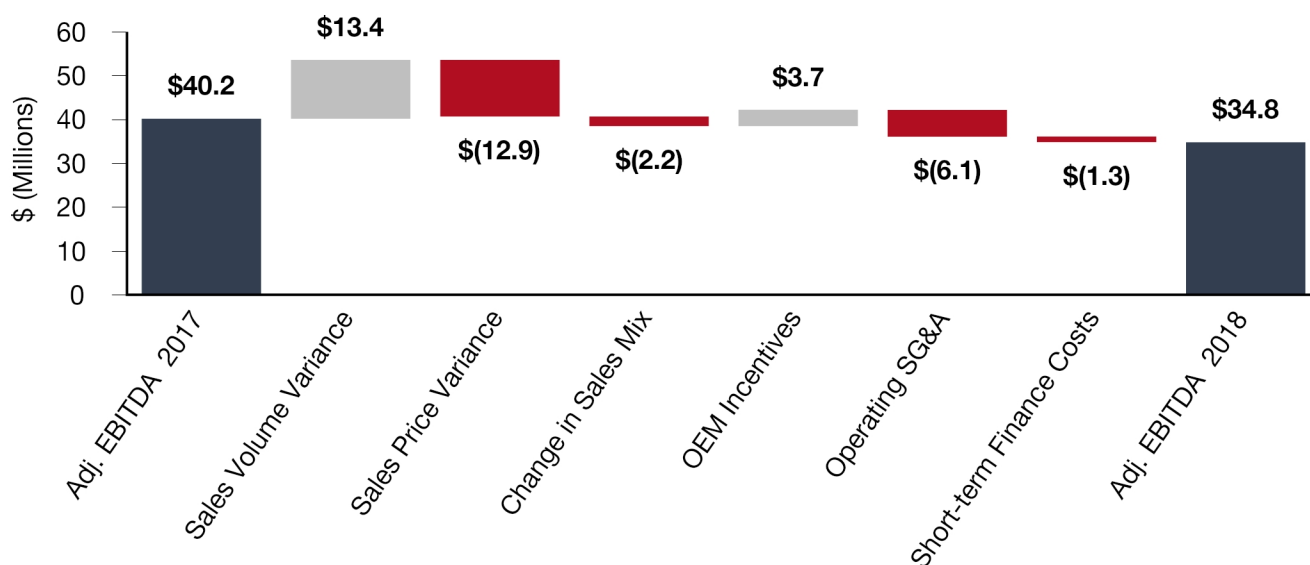
### Q4 2018 vs. Q4 2017

Adjusted EBITDA for the quarter ended December 31, 2018 decreased by \$1,601 or 12.4% to \$11,285 from \$12,886 for the same period in 2017. Increased gross profit was more than offset by increases in Operating SG&A and short-term finance costs associated with RME’s floor plan facilities. The change in fourth quarter Adjusted EBITDA from 2017 to 2018 can be reconciled as follows:



## YTD 2018 vs. YTD 2017

For the year ended December 31, 2018, Adjusted EBITDA decreased by \$5,360 or 13.3% to \$34,816 from \$40,176 in 2017. Additional gross profit year-over-year was more than offset by increases in Operating SG&A and short-term finance costs associated with RME's floor plan facilities. The change in annual Adjusted EBITDA from 2017 to 2018 can be reconciled as follows:



## SUMMARY OF QUARTERLY RESULTS

\$ thousands, except per share amounts	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Sales	295,421	233,374	302,639	219,654	273,699	238,812	236,890	209,940	285,749
Gross profit	40,164	36,235	38,100	26,963	38,321	38,807	35,518	26,778	34,116
Gross margin %	13.6	15.5	12.6	12.3	14.0	16.3	15.0	12.8	11.9
SG&A	26,595	24,434	25,631	23,469	27,251	24,834	24,566	23,103	25,205
Other expense (income)	821	511	829	1,426	(3,131)	(1,308)	923	(421)	(605)
Finance costs	3,559	3,659	3,133	2,742	2,799	3,105	3,026	2,991	3,346
Income taxes	2,557	2,083	2,385	(254)	3,134	3,327	2,092	224	1,466
Net earnings	6,632	5,548	6,122	(420)	8,268	8,849	4,911	881	4,704
Diluted earnings per share	0.34	0.28	0.31	(0.02)	0.42	0.46	0.25	0.05	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, 2018	December 31, 2017	December 31, 2016
<b>Assets</b>			
Inventory	560,518	469,540	440,783
Other current assets	60,107	64,112	67,384
Total current assets	620,625	533,652	508,167
Property and equipment	49,975	42,229	48,586
Deferred tax asset	420	—	1,304
Derivative financial assets	983	4,109	578
Intangible assets	178	343	507
Goodwill	21,856	18,776	18,776
Total assets	694,037	599,109	577,918
<b>Liabilities and equity</b>			
Floor plan payable	403,180	305,342	296,061
Other current liabilities	53,840	61,889	61,761
Total current liabilities	457,020	367,231	357,822
Long-term debt	31,282	30,919	40,778
Obligations under finance leases	254	75	521
Deferred tax liability	—	561	—
Derivative financial liabilities	1,672	464	1,871
Total liabilities	490,228	399,250	400,992
Shareholders' equity	203,809	199,859	176,926
Total liabilities and equity	694,037	599,109	577,918

RME's primary investment is in inventory, which is comprised predominantly of new and used agriculture equipment. We have a diverse customer base for our equipment and strive to carry an appropriate mix of both new and used equipment to best serve our customers. We manage our inventory levels and composition through our sales and procurement functions with the intention of growing our equipment revenues while improving the efficiency of our investment in inventory as measured by 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 are as follows:

\$ thousands, except turns and days	December 31, 2018	December 31, 2017	December 31, 2016
Inventory expensed through cost of sales – trailing 12 months	897,408	807,010	782,802
Average total inventory – trailing 12 months (quarterly observations)	519,238	445,497	476,198
Inventory turns	1.73	1.81	1.64
Days in inventory	211	201	222

RME's equipment inventory as at December 31, 2018 increased as follows:

- Used equipment inventory was \$388,488, representing an increase of \$73,494 or 23.3% compared with December 31, 2017. This increase is the result of trades taken on elevated equipment sales, particularly during the first half of 2018 as well as equipment inventory acquired through the purchase of complementary businesses. The increase in used equipment inventory also reflects an increase in average cost per unit.
- New equipment inventory was \$130,475, representing an increase of \$14,547 or 12.5% compared with December 31, 2017, due primarily to inventory acquired through the purchase of complementary businesses.

Overall, total inventory turns moderated during the trailing twelve-months ended December 31, 2018, as compared with the same period a year ago.

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, 2018	December 31, 2017	December 31, 2016
New equipment	130,475	115,928	113,517
Used equipment	388,488	314,994	289,485
Total equipment inventory	518,963	430,922	403,002
Floor plan payable	403,180	305,342	296,061
Inventory leverage ratio	77.7	70.9	73.5

During 2018, equipment inventory levels increased \$88,041 or 20.4%, whereas draws on our floor plan facilities have increased \$97,838 or 32.0% over the same period. In recent years, RME had made temporary use of available cash by paying down interest-bearing floor plan debt. In response to the acquisitive activity undertaken during 2018 as well as the repurchase of common shares pursuant to a NCIB, RME has reinstated a more historically normal level of inventory leverage and applied much of the cash generated therefrom to finance these initiatives. As a result, at December 31, 2018, our inventory leverage ratio was 77.7%, up from 70.9% at December 31, 2017, and from 73.5% at December 31, 2016.

Non-current financial liabilities as at December 31, 2018 amounted to \$33,208 (December 31, 2017 – \$31,458, December 31, 2016 – \$43,170).

## LIQUIDITY

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 inventory, floor plan payable and other components of working capital;
- 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)

For the respective years ended December 31, cash inflows (outflows) were as follows:

\$ thousands	2018	2017	2016
Net earnings	17,882	22,909	14,966
Effect of non-cash items in net earnings and changes in working capital	7,705	(15,954)	12,197
Cash flows from operating activities	25,587	6,955	27,163
Cash flows from financing activities	(12,572)	(13,985)	(6,694)
Cash flows from investing activities	(21,119)	(1,415)	(8,617)
Net (decrease) increase in cash	(8,104)	(8,445)	11,852
Effect of foreign exchange on cash	53	—	—
Cash, beginning of period	20,097	28,542	16,690
Cash, end of period	12,046	20,097	28,542
Operating Cash Flow before Changes in Floor Plan	(50,509)	(720)	87,626

## 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, 2018 was an outflow of \$50,509 compared to an outflow of \$720 during 2017. The incremental outflow year-over-year is primarily attributable to the growth in our inventory balance.

Cash flows from operating activities for the year ended December 31, 2018 increased by \$18,632 compared to the same period in 2017. In recent years, RME had been making temporary use of available cash by paying-down interest-bearing floor plan, reducing our carrying cost. During 2018, draws on our various floor plan facilities exceeded the growth in our inventory levels. The surplus funds generated were applied to businesses acquired during the year and shares repurchased pursuant to an NCIB. The increase in the level of floor plan payable relative to equipment inventory realigns our inventory leverage ratio to a more historically normal level as we redeploy some of this capital in a more productive capacity.

### **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 business acquisitions.

During the year ended December 31, 2018, cash outflows from financing activities decreased by \$1,413 over the same period in 2017. During the year ended December 31, 2018, dividends, scheduled principal repayments on our debt facilities and cash paid to repurchase common share under the NCIB were partially offset by \$7,401 in draws on our Term Facility associated with the acquisitive activity undertaken during 2018.

### **CASH FLOWS FROM INVESTING ACTIVITIES**

Cash flows from investing activities is comprised of consideration paid for the acquisition of complementary businesses, maintenance capital spend and facility construction expenditures, offset by any proceeds received on the disposition of such assets. Cash outflows associated with investing activities for the year ended December 31, 2018 increased by \$19,704 compared to the same period last year, due primarily to business acquisitions during 2018.

## **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. During 2018, the Syndicated Facility was amended, extending the maturity date to September 24, 2021. Other amendments included the redistribution of overall facility limits between the Operating and Term Facilities as well as a reduction of the debt to tangible net worth covenant threshold to 4.0:1.0 from 5.0:1.0. The reduction of this threshold also eliminated the highest pricing tier which was associated with a debt to tangible net worth ratio of between 4.0:1.0 – 5.0:1.0.

Subsequent to these amendments, advances under the Syndicated Facility may be made based on our lenders' prime rate or the U.S. base rate plus 1.0% – 1.8% or based on the banker's acceptance ("BA") rate plus 2.0% – 2.8%. RME pays standby fees of between 0.4% – 0.6% 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.

The Syndicated Facility consists of:

- The “Operating Facility” – which may be utilized to advance up to the lesser of the established borrowing base and \$50,000. 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 \$125,000. 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 \$85,000. 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 \$593,580 (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 \$12,046 as at December 31, 2018, we have \$286,538 available on our various credit facilities.

\$ thousands	Facility limit	Amount drawn	Available
Operating Facility	50,000	—	50,000
Term Facility	85,000	38,266	46,734
Various floor plan facilities			
OEM floor plan facilities	240,000	155,897	84,103
Syndicated Flooring Facility	125,000	75,448	49,552
Other floor plan facilities	228,580	172,431	56,149
<b>Total</b>	<b>728,580</b>	<b>442,042</b>	<b>286,538</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, 2018		December 31, 2017	
	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	1.91	≥ 1.15	2.21
	≥ 1.20	1.55	≥ 1.20	1.67
<u>Debt to tangible net worth</u>				
Assesses solvency by expressing debt as a ratio of tangible net assets.	≤ 4.00	2.70	≤ 4.00	2.21
	≤ 4.00	2.40	≤ 5.00	1.83
<u>Current ratio</u>				
Assesses liquidity by expressing current assets as a ratio of current liabilities.	≥ 1.20	1.38	≥ 1.20	1.48

As at December 31, 2018 and 2017, 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.

Losses (gains) recognized on derivative financial instruments are as follows:

\$ thousands	2018	2017
Recognized in net earnings	3,587	(4,578)
Recognized in other comprehensive (loss) income – net of tax	962	(2,852)
Tax on amount recognized in other comprehensive (loss) income	357	(1,055)

### 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.

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

\$ thousands	Maturity	Type	December 31, 2018		December 31, 2017	
			Rate %	Amount \$	Rate %	Amount \$
Hedged position						
<i>Current debt</i>						
Floor plan facility #1	August, 2018	Non-amortizing	—	—	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	4.4	50,000	5.4	50,000
Floor plan facility #4	August, 2025	Non-amortizing <sup>(1)</sup>	4.9	25,000	—	—
			4.7	110,000	5.0	110,000
<i>Long-term debt</i>						
Term Facility	April, 2023	Amortizing	3.5	25,479	3.5	30,671
Total position hedged			4.5	135,479	4.7	140,671
Position at risk – floating-rate debt				303,476		229,754
Position hedged %				44.6		61.2

(1) Notional amount expands to \$60,000 in October, 2020.

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, 2018, we recognized in net earnings, mark-to-market gain of \$91, respectively, on our interest rate swaps (2017 – gain of \$104).

## 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 March and July, 2020. 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.

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, 2018, we recognized an unrealized mark-to-market loss of \$3,678 (2017 – gain of \$4,474).

During the first quarter of 2018, RME also unwound its hedged position by 510 thousand shares for cash proceeds of \$1,683. This unwinding realigned our hedged position with our position at risk.

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

	December 31, 2018		December 31, 2017	
	Weighted average price/ share \$	Shares/ units	Weighted average price/ share \$	Shares/ units
In thousands of shares/units except per share amounts				
Hedged position	9.14	660	9.34	1,170
Position at risk:				
DSUs		85		60
SARs		565		599
Total		650		659
Position hedged %		101.5		177.5

## DIVIDENDS

On March 4, 2019, RME's Board of Directors (the "Board") approved a quarterly dividend of \$0.1225 per common share on its outstanding common shares. The common share dividend is payable on March 29, 2019, to shareholders of record at the close of business on March 15, 2019.

## SHARE CAPITAL – OUTSTANDING SHARES

Changes in the number of issued and outstanding common shares during the years ended December 31, 2018 and 2017 are as follows:

Thousands	2018	2017
January 1	19,877	19,384
Shares purchased under NCIB	(400)	—
Shares issued upon exercise of stock options	11	493
December 31	19,488	19,877

During 2018, RME implemented an NCIB to repurchase existing common shares. At December 31, 2018, RME had repurchased 400 thousand shares under the NCIB.

As at March 12, 2019, there were 19,488 thousand common shares outstanding.

RME also 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.

As at December 31, 2018, there were 139 thousand fully-vested options outstanding with an exercise price of \$11.52. These options expire on March 27, 2019. As at March 12, 2019, there were 139 thousand 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, 2018, 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, 2018, assuming the Syndicated Facility is renewed prior to maturity on September 24, 2021. 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	2019	2020-2021	2022-2023	Thereafter
Trade payables, accruals and other	24,283	24,283	—	—	—
Floor plan payable	416,441	416,441	—	—	—
Long-term debt	44,150	8,466	16,044	10,571	9,069
Obligations under finance leases	583	307	246	30	—
Operating lease obligations	35,101	8,491	13,773	8,688	4,149
Derivative financial liabilities	2,556	461	1,005	693	397
Total contractual obligations	523,114	458,449	31,068	19,982	13,615

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, 2018, would be \$33,257 in 2020-2021, \$11 in 2022-2023 and \$Nil thereafter.

## RELATED PARTY TRANSACTIONS

During the years ended December 31, 2018 and 2017, RME entered into the following transactions with related parties:

\$ thousands	2018	2017
Equipment and product support sales	4,398	2,683
Expenditures		
Rental payments on RME facilities	5,833	5,987
Equipment purchases	3,158	1,278
Vehicle purchases	1,376	—
Flight costs	101	55
Donations	—	57
Other expenses	39	42

Donations made by RME are comprised of payments to Ag for Life.

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 identified as RME's key management for the respective years ended December 31 is as follows:

\$ thousands	2018	2017
Salary and short-term benefits	1,881	3,054
Post-retirement benefits	32	35
Share-based compensation	(2,070)	2,973
Total	(157)	6,062

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, 2018	December 31, 2017
Due from related parties	4	27
Due to related parties	(106)	(1,087)

The amounts due from related parties are not secured and are to be settled in cash. As at December 31, 2018 and 2017, the amounts due from related parties are considered collectible and, therefore, have not been provided for in the loss allowance provision. During the year ended December 31, 2018, \$Nil has been recognized in bad debt expenses with respect to related party transactions (2017 – \$Nil).

RME has contractual obligations to related parties in the form of facility leases. As at December 31, 2018, these contractual obligations and due dates, are as follows:

\$ thousands	Total	2019	2020-2021	2022-2023	Thereafter
Operating lease obligations	26,530	5,890	10,328	6,599	3,713

## 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. 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.

### LOSS ALLOWANCE PROVISION

#### Trade Receivables

RME applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Historical loss rates are adjusted if, and to the extent that, future loss rates are expected to differ from historical averages.

#### Other Receivables

The credit quality of these financial assets is assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Historical loss rates are adjusted if, and to the extent that, future loss rates are expected to differ from historical averages.

## **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 based on the recent sales of the same or similar equipment inventory or market values as established by industry publications, less the costs to sell. The value assigned to equipment inventory acquired through trade-in is based on 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. Impairment losses and reversals of impairment losses are recorded within cost of sales.

## **REVENUE RECOGNITION**

### **Sale of goods**

RME sells goods which include new and used equipment and parts. Revenue is recognized when control of the goods has transferred to the customer. Control has been transferred at the point in time when the following conditions have been met:

- i. RME has transferred to the customer the control of ownership of the goods;
- ii. the goods have been delivered;
- iii. RME has a present right to payment;
- iv. the customer has legal title; and
- v. the customer has accepted the asset.

Payment of the parts transaction price is due immediately when the customer purchases the part or by the terms of the customer's established credit. It is RME's policy to sell parts to the end customer with the right of return and we estimate returns based on an analysis of historical results. Therefore, a contract liability (estimated parts refunds) and a right to the returned good (contract asset) are recognized for the parts estimated to be returned. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

### **Sale of goods - Bill and hold arrangement**

RME sells new and used equipment where RME retains physical possession of the equipment until it is transferred to the customer in the future. For a bill and hold arrangement, control has been transferred at a point in time when the following conditions have been met:

- i. the equipment is ready for physical transfer to the customer; the customer has made the decision to put the equipment in a bill and hold arrangement;
- ii. RME does not have the ability to use the equipment or to direct it to another customer; and
- iii. the equipment is identified separately as belonging to the customer.

The consideration on such transactions is due when the equipment arrives at one of RME's locations. When consideration has been received but one or more terms and/or conditions of the sale remain unfulfilled, any consideration received is recorded on the consolidated statements of financial position as a contract liability for customer deposits.

### **Rendering of service**

Revenue derived from the rendering of services is recognized upon completion of the service when the following has occurred:

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

Payment of the transaction price is due when the service is completed. Labour hours and parts used from rendering of a service that is not complete is considered a cost incurred to fulfill a contract and is disclosed in the consolidated statements of financial position as a contract asset.

### **Financing component**

RME does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, RME does not adjust any of the transaction prices for the time value of money.

## DEPRECIATION PERIODS AND METHODS

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

## 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, 2018 and 2017, 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, 2018, the rate used to discount the forecasted cash flows was 12.8% (2017 – 12.3%), and represents RME’s estimate of the appropriate pre-tax discount rate, given current market assessments of the time value of money and the risks specific to the particular CGU. As at December 31, 2018 and 2017, the recoverable amount of the CGU to which goodwill has been allocated exceeded its carrying value and therefore, no impairment charge was recognized.

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 4.5% (2017 – 4.6%) higher than management’s estimates or had the estimated growth rate used in extrapolating forecasted results been 10.0% (2017 – 8.5%) 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 these assumptions 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. A CGU is subject to impairment testing as described under the heading "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 of the fiscal year.

## **CHANGES IN ACCOUNTING POLICIES**

### **NEW STANDARDS AND AMENDMENTS IN EFFECT ON JANUARY 1, 2018**

As outlined in Note 4 to the consolidated financial statements for the years ended December 31, 2018 and 2017, certain prior period financial results contained herein have been restated pursuant to the retrospective adoption of IFRS 15 and 9

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

Effective January 1, 2018, the Company adopted IFRS 15, 'Revenue from Contracts with Customers'. IFRS 15 replaces IAS 11, 'Construction Contracts', IAS, '18 Revenue' and IFRS 13, 'Customer Loyalty Programs', as well as various other interpretations regarding revenue. 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. Refer to Note 4 of the consolidated financial statements for the years ended December 31, 2018 and 2017 for details on the impacts of this new accounting standard.

#### **IFRS 9, 'Financial Instruments'**

Effective January 1, 2018, the Company adopted IFRS 9, 'Financial Instruments'. IFRS 9 introduces new requirements for: (i) the classification and measurement of financial assets and financial liabilities and (ii) the recognition and measurement of impairment for financial assets. IFRS 9 introduces a simplified hedge accounting model that aligns more closely with risk management. Refer to Note 4 of the consolidated financial statements for the years ended December 31, 2018 and 2017 for details on the impacts of this new accounting standard.

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

Effective January 1, 2018, the Company adopted the amendments to IFRS 7, 'Financial Instruments: Disclosures'. In conjunction with the transition from IAS 39, 'Financial Instruments: Recognition and Measurement' to IFRS 9, 'Financial Instruments', IFRS 7 was amended to require additional disclosure in the year of transition.

## NEW STANDARDS AND AMENDMENTS NOT YET IN EFFECT

### IFRS 16, 'Leases'

IFRS 16, 'Leases' replaces IAS 17, 'Leases' 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. Refer to Note 2 of the consolidated financial statements for the years ended December 31, 2018 and 2017 for details on the impacts of this new accounting 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) import product restrictions and foreign trade risk; (vi) information systems and cybersecurity; (vii) interest rates; (viii) reliance on key manufacturers; (ix) seasonality and cyclical; (x) government regulation; (xi) labour relations; (xii) restrictions on and impediments to acquisitions; (xiii) foreign exchange exposure; (xiv) health, safety and environmental laws and regulation; (xv) nature of dealership agreements; (xvi) competition; (xvii) industry oversupply; (xviii) credit facilities; (xix) consolidation within the equipment manufacturing industry; (xx) customer credit risks; (xxi) growth risks; (xxii) available floor plan financing; (xxiii) unfavorable conditions in key geographic markets; (xxiv) non-exclusive nature of key geographic markets; (xxv) continued ability to pay dividend; (xxvi) indemnification and insurance; (xxvii) branch leases; (xxviii) key personnel; (xxix) labour costs and shortages; (xxx) product liability risks; (xxxi) freight costs; (xxxii) changes in common share value; (xxxiii) future warranty claims; (xxxiv) integration of acquisitions; (xxxv) issuance of additional common shares; (xxxvi) aviation risks; 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.

## 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 2018, RME recognized \$98 in bad debt expense (2017 – recovery of \$81). 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 2018, RME recognized a foreign exchange gain of \$556 (2017 – gain of \$692). Foreign exchange 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.

## 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 our industrial operations, losses recognized on the impairment and subsequent disposition of vacant land and costs associated with the acquisition and integration of complimentary business 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 our industrial operations, losses recognized on the impairment and subsequent disposition of vacant land and costs associated with the acquisition and integration of complimentary business 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, costs associated with the acquisition and integration of complimentary business have been classified as non-recurring charges. 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	Quarter Ended December 31,			Year Ended December 31,		
	2018	2017	2016	2018	2017	2016
Earnings used in the calculation of diluted earnings per share	6,632	8,268	4,704	17,882	22,909	14,966
Loss (gain) on derivative financial instruments	821	(3,131)	(605)	3,587	(4,578)	(4,751)
(Gain) loss on DSUs	(125)	162	16	(354)	245	220
SAR (recovery) expense	(841)	2,231	230	(2,443)	2,995	757
Acquisition and integration costs	6	—	—	541	—	—
Non-deductible loss on vacant land	—	—	—	—	641	1,360
Restructuring charges	—	—	—	—	—	3,564
Tax effect of adjustments (27%)	38	199	97	(359)	361	57
Earnings used in the calculation of Adjusted Diluted Earnings per Share	6,531	7,729	4,442	18,854	22,573	16,173
Weighted average diluted shares used in the calculation of diluted earnings per share (in thousands)	19,793	19,515	19,384	19,862	19,413	19,384
Adjusted Diluted Earnings per Share	0.33	0.40	0.23	0.95	1.16	0.83

### ADJUSTED EBITDA

\$ thousands	Quarter Ended December 31,			Year Ended December 31,		
	2018	2017	2016	2018	2017	2016
Net earnings	6,632	8,268	4,704	17,882	22,909	14,966
Finance costs associated with long-term debt	409	406	450	1,606	1,770	1,795
Depreciation and amortization expense	1,826	1,816	1,915	7,226	7,417	7,755
Income taxes	2,557	3,134	1,466	6,771	8,777	5,955
EBITDA	11,424	13,624	8,535	33,485	40,873	30,471
Loss (gain) on derivative financial instruments	821	(3,131)	(605)	3,587	(4,578)	(4,751)
(Gain) loss on DSUs	(125)	162	16	(354)	245	220
SAR (recovery) expense	(841)	2,231	230	(2,443)	2,995	757
Acquisition and integration costs	6	—	—	541	—	—
Loss on vacant land	—	—	—	—	641	1,360
Restructuring charges	—	—	—	—	—	3,564
Adjusted EBITDA	11,285	12,886	8,176	34,816	40,176	31,621

### OPERATING SG&A

\$ thousands	Quarter Ended December 31,			Year Ended December 31,		
	2018	2017	2016	2018	2017	2016
SG&A	26,595	27,251	25,205	100,129	99,754	97,970
Depreciation and amortization expense	(1,826)	(1,816)	(1,915)	(7,226)	(7,417)	(7,755)
Gain (loss) on DSUs	125	(162)	(16)	354	(245)	(220)
SAR recovery (expense)	841	(2,231)	(230)	2,443	(2,995)	(757)
Acquisition and integration costs	(6)	—	—	(541)	—	—
Operating SG&A	25,729	23,042	23,044	95,159	89,097	89,238
Operating SG&A as a % of sales	8.7	8.4	8.1	9.1	9.3	9.6

## OPERATING CASH FLOW BEFORE CHANGES IN FLOOR PLAN

\$ thousands	Quarter Ended December 31,			Year Ended December 31,		
	2018	2017	2016	2018	2017	2016
Cash flow from operating activities	11,228	3,424	12,917	25,587	6,955	27,163
Net (increase) decrease in floor plan payable <sup>(1)</sup>	(46,061)	(39,791)	1,625	(97,838)	(7,675)	60,463
Floor plan assumed pursuant to business combinations	(25)	—	—	21,742	—	—
Operating Cash Flow before Changes in Floor Plan	(34,858)	(36,367)	14,542	(50,509)	(720)	87,626

(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, 2018, 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, 2018, 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, 2018, 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. All statements, other than statements of historical fact, included herein may be 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 and Growth Plan”, including discussion regarding RME’s acquisition plans, prospects and activities; (iv) statements 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 seed 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, and a continued availability of brand name products carried by RME; (viii) discussion on the fundamentals of RME’s business, including discussions 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 2018; (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, 2018; (xx) statements that imply any future earnings, profitability, economic benefit or other financial results resulting from any future acquisitions; (xxi) statements implying or discussing future growth or acquisition opportunities in Canada, the U.S. or elsewhere; and (xxii) 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, 2021.

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.

Certain measures set forth in this MD&A may be considered to be future-oriented financial information or a financial outlook within the meaning of applicable securities legislation. Financial outlook and future-oriented financial information contained in this MD&A are based on assumptions about future events based on management's assessment of the relevant information currently available. In particular, this MD&A contains RME's projected revenue growth as at 2023, which is based on, among other things: (i) the various assumptions as to RME's increased revenue sources through 2023 as disclosed in this MD&A or in RME's AIF; (ii) RME's ability to find parties willing to sell their dealership operations at reasonable prices; (iii) RME's ability to obtain and/or maintain OEM approval for its acquisitive growth strategy; (iv) the products RME sells (and by implication, the products RME's OEMs manufacture) continue to meet the ever-evolving needs of RME's customer base; (v) that demand drivers including, but not limited to, weather, foreign exchange or government regulation will not materially impact customer demand; and (vi) that farmer cash receipts and balance sheets remain strong. The future-oriented financial information and financial outlook contained in this MD&A is included to provide readers with information regarding RME's current expectations and plans regarding its future operations. Readers are cautioned that any such financial outlook and future-oriented financial information contained herein may not be appropriate for other purposes and therefore should not be used for purposes other than those for which it is disclosed herein.

**ROCKY MOUNTAIN DEALERSHIPS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS AND NOTES**

For the Years Ended December 31, 2018 & 2017



## *Independent auditor's report*

To the Shareholders of Rocky Mountain Dealerships Inc.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Rocky Mountain Dealerships Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017 and January 1, 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017 in accordance with International Financial Reporting Standards (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017 and January 1, 2017;
- the consolidated statements of net earnings for the years ended December 31, 2018 and 2017;
- the consolidated statements of comprehensive income for the years ended December 31, 2018 and 2017;
- the consolidated statements of changes in equity for the years ended December 31, 2018 and 2017;
- the consolidated statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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*PricewaterhouseCoopers LLP*  
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

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





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

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

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



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

The engagement partner on the audit resulting in this independent auditor's report is Calvin Blain Jacober.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Calgary, Alberta  
March 12, 2019

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

\$ thousands	Note	December 31, 2018	December 31, 2017	January 1, 2017
<b>Assets</b>			Note 4	Note 4
<b>Current</b>				
Cash		12,046	20,097	28,542
Trade receivables and other	6	38,594	32,685	27,240
Contract assets	16.2	2,409	2,199	2,116
Inventory	7	560,518	469,540	440,783
Income taxes receivable		—	—	487
Prepaid expenses and other		6,472	6,210	6,208
Current portion of derivative financial assets	24.6	586	2,921	290
Assets held for sale		—	—	2,501
<b>Total current assets</b>		<b>620,625</b>	533,652	508,167
<b>Non-current</b>				
Property and equipment	9	49,975	42,229	48,586
Deferred tax asset	19.2	420	—	1,304
Derivative financial assets	24.6	983	4,109	578
Intangible assets	8	178	343	507
Goodwill	10	21,856	18,776	18,776
<b>Total non-current assets</b>		<b>73,412</b>	65,457	69,751
<b>Total assets</b>		<b>694,037</b>	599,109	577,918
<b>Liabilities</b>				
<b>Current</b>				
Trade payables, accruals and other	11	24,283	28,009	36,653
Floor plan payable	12	403,180	305,342	296,061
Income tax payable		523	1,079	—
Contract liabilities	16.2	21,430	25,719	14,788
Current portion of long-term debt	13	6,871	6,104	6,825
Current portion of obligations under finance leases	14	280	445	440
Current portion of derivative financial liabilities	24.6	453	533	1,449
Liabilities associated with assets held for sale		—	—	1,606
<b>Total current liabilities</b>		<b>457,020</b>	367,231	357,822
<b>Non-current</b>				
Long-term debt	13	31,282	30,919	40,778
Obligations under finance leases	14	254	75	521
Deferred tax liability	19.2	—	561	—
Derivative financial liabilities	24.6	1,672	464	1,871
<b>Total non-current liabilities</b>		<b>33,208</b>	32,019	43,170
<b>Total liabilities</b>		<b>490,228</b>	399,250	400,992
Commitments and contingencies	22			
<b>Shareholders' Equity</b>				
Common shares		93,700	95,477	87,709
Contributed surplus		4,380	4,400	6,065
Accumulated other comprehensive (loss) income		(476)	481	(2,371)
Retained earnings		106,205	99,501	85,523
<b>Total shareholders' equity</b>		<b>203,809</b>	199,859	176,926
<b>Total liabilities and shareholders' equity</b>		<b>694,037</b>	599,109	577,918

### 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

<b>For the years ended</b>		<b>December 31,</b>	December 31,
\$ thousands, except per share amounts	Note	<b>2018</b>	2017
			Note 4
Sales	16.1	1,051,088	959,341
Cost of sales	7	909,626	819,917
Gross profit		141,462	139,424
Selling, general and administrative	17	100,129	99,754
Loss (gain) on derivative financial instruments	24.6	3,587	(4,578)
Loss on sale of vacant land		—	641
Earnings before finance costs and income taxes		37,746	43,607
Finance costs	18	13,093	11,921
Earnings before income taxes		24,653	31,686
Income taxes	19.1	6,771	8,777
Net earnings		17,882	22,909
Earnings per share			
Basic	20	0.90	1.18
Diluted	20	0.90	1.18

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended \$ thousands	Note	December 31, 2018	December 31, 2017
Net earnings		17,882	22,909
Other comprehensive (loss) income			Note 4
Items which will subsequently be reclassified to net earnings:			
Foreign currency translation adjustments		5	—
Unrealized (loss) gain on derivative financial instruments, net of tax	24.6	(962)	2,852
Total other comprehensive (loss) income for the year, net of tax		(957)	2,852
Comprehensive income		16,925	25,761

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

\$ thousands and thousands of shares	Common shares			Contributed surplus	Accumulated other comprehensive (loss) income	Retained earnings	Total equity
	Note	Number of shares	Amount				
						Note 4	
<b>Balance, December 31, 2017</b>		19,877	95,477	4,400	481	99,501	199,859
Shares issued upon exercise of stock options	15.3	11	146	(20)	—	—	126
Shares purchased under normal course issuer bid	15.5	(400)	(1,923)	—	—	(1,772)	(3,695)
Net earnings		—	—	—	—	17,882	17,882
Other comprehensive loss		—	—	—	(957)	—	(957)
Dividends paid	15.2	—	—	—	—	(9,406)	(9,406)
<b>Balance, December 31, 2018</b>	15.1	<b>19,488</b>	<b>93,700</b>	<b>4,380</b>	<b>(476)</b>	<b>106,205</b>	<b>203,809</b>

\$ thousands and thousands of shares	Common shares			Contributed surplus	Accumulated other comprehensive (loss) income	Retained earnings	Total equity
	Note	Number of shares	Amount				
						Note 4	
<b>Balance, January 1, 2017</b>		19,384	87,709	6,065	(2,371)	85,523	176,926
Shares issued upon exercise of stock options	15.3	493	7,768	(1,680)	—	—	6,088
Equity-settled share-based payment expense	17	—	—	15	—	—	15
Net earnings		—	—	—	—	22,909	22,909
Other comprehensive income		—	—	—	2,852	—	2,852
Dividends paid	15.2	—	—	—	—	(8,931)	(8,931)
<b>Balance, December 31, 2017</b>	15.1	<b>19,877</b>	<b>95,477</b>	<b>4,400</b>	<b>481</b>	<b>99,501</b>	<b>199,859</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended \$ thousands	Note	December 31, 2018	December 31, 2017
<b>Operating activities</b>			Note 4
Net earnings		17,882	22,909
Adjustments for:			
Depreciation and amortization expense	8,9,17	7,226	7,417
Deferred tax (recovery) expense	19.2	(734)	810
Equity-settled share-based payment expense	17	—	15
(Gain) loss on disposal of property and equipment	9	(79)	519
Loss (gain) on derivative financial instruments	24.6	3,587	(4,578)
Cash received on settlement of total return swaps	24.6	1,683	—
Amortization of deferred debt issuance costs		148	121
Changes in non-cash working capital	21.1	(4,126)	(20,258)
Total cash generated from operating activities		25,587	6,955
<b>Financing activities</b>			
Repayment of long-term debt		(6,276)	(10,590)
Proceeds from long-term debt		7,401	—
Repayment of obligations under finance leases		(533)	(441)
Dividends paid	15.2	(9,406)	(8,931)
Proceeds from issuance of common shares		126	6,088
Purchase of common shares for cancellation	15.5	(3,695)	—
Debt issuance costs		(189)	(111)
Total cash used from financing activities		(12,572)	(13,985)
<b>Investing activities</b>			
Purchase of property and equipment	9	(8,751)	(5,993)
Disposal of property and equipment, including assets held for sale	9	1,055	4,578
Purchase of equipment dealerships, net of cash acquired	5	(13,423)	—
Total cash used from investing activities		(21,119)	(1,415)
Decrease increase in cash		(8,104)	(8,445)
Effect of foreign exchange on cash		53	—
Cash, beginning of year		20,097	28,542
Cash, end of year		12,046	20,097
Taxes paid		8,639	6,401
Interest paid		12,580	11,491

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

## 1. GENERAL INFORMATION

Rocky Mountain Dealerships Inc. ("RME") is incorporated under the Business Corporations Act of 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 and Kansas, United States (U.S.). RME's operating subsidiaries are incorporated in Alberta, Canada and Delaware, U.S.

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 ("IFRS"). These consolidated financial statements were authorized for issue by the Board of Directors on March 12, 2019.

### 2.2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The International Accounting Standards Board ("IASB") issued amendments to International Accounting Standards which are effective for RME's financial year beginning on January 1, 2018. For the purpose of preparing and presenting the consolidated financial statements for the relevant periods, RME has consistently adopted all of these amendments.

#### 2.2.1. New Standards and amendments in effect on January 1, 2018

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

Effective January 1, 2018, RME adopted IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 replaces IAS 11 'Construction Contracts', IAS 18 'Revenue', IFRS 13 'Customer Loyalty Programs', as well as various other interpretations regarding revenue. 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. See Note 4 for the impacts of this new accounting standard.

*IFRS 9, 'Financial Instruments'*

Effective January 1, 2018, RME adopted IFRS 9 'Financial Instruments'. IFRS 9 introduces new requirements for: (i) the classification and measurement of financial assets and financial liabilities and (ii) the recognition and measurement of impairment for financial assets. IFRS 9 also introduces a simplified hedge accounting model that aligns more closely with risk management. See Note 4 for the impact of this new accounting standard.

At the date of authorization of these consolidated financial statements, the IASB has issued the following new standard which is not yet effective for the relevant reporting periods. RME has not early adopted this standard.

#### 2.2.2. New Standards and amendments not yet in effect

*IFRS 16, 'Leases'*

IFRS 16 'Leases' replaces IAS 17 'Leases' and requires most leases to be recognized as assets and liabilities on the statements 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. Contracts assessed as falling within the scope of this standard are limited to RME's operating lease obligations. At initial recognition the lease asset and liability are recorded at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. 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.

RME has elected to retrospectively apply IFRS 16 'Leases', with an adoption date of January 1, 2018. As a result of this retrospective application at the period ending March 31, 2019, comparatives will be adjusted for the periods of January 1, 2018, March 31, 2018 and December 31, 2018.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

As of January 1, 2019, management has assessed this standard and the impact for the year ended December 31, 2018 on both the statement of financial position and statement of net earnings is summarized below.

<b>Statement of Financial Position</b> \$ thousands	December 31, 2018 As reported	IFRS 16 Adjustments & Reclassifications	December 31, 2018 Post adoption
<b>Assets</b>			
Property and equipment	49,975	26,234	<b>76,209</b>
Deferred tax asset	420	4	<b>424</b>
Total non-current assets	73,412	26,238	<b>99,650</b>
Total assets	694,037	26,238	<b>720,275</b>
<b>Liabilities</b>			
Current			
Trade payables, accruals and other	24,283	(1,136)	<b>23,147</b>
Current portion of obligations under finance leases	280	7,913	<b>8,193</b>
Total current liabilities	457,020	6,777	<b>463,797</b>
Non-current			
Obligations under finance leases	254	21,525	<b>21,779</b>
Total non-current liabilities	33,208	21,525	<b>54,733</b>
Total liabilities	490,228	28,302	<b>518,530</b>
<b>Shareholders' Equity</b>			
Retained earnings	106,205	(2,064)	<b>104,141</b>
Total shareholders' equity	203,809	(2,064)	<b>201,745</b>
Total liabilities and shareholders' equity	694,037	26,238	<b>720,275</b>

<b>Statement of Net Earnings</b> \$ thousands	December 31, 2018 As reported	IFRS 16 Adjustments & Reclassifications	December 31, 2018 Post adoption
Selling, general and administrative	100,129	(909)	<b>99,220</b>
Earnings before finance costs and income taxes	37,746	909	<b>38,655</b>
Finance costs	13,093	924	<b>14,017</b>
Earnings before income taxes	24,653	(15)	<b>24,638</b>
Income taxes	6,771	(4)	<b>6,767</b>
<b>Net earnings</b>	17,882	(11)	<b>17,871</b>
Earnings per share			
Basic	0.90	—	<b>0.90</b>
Diluted	0.90	—	<b>0.90</b>

Below is a summary of the effects of IFRS 16 'Leases' on selling, general and administrative expense.

<b>Selling, General and Administrative Expenses</b> \$ thousands	December 31, 2018 As reported	IFRS 16 Adjustments & Reclassifications	December 31, 2018 Post adoption
Rent and other facility expenses	14,070	(8,492)	<b>5,578</b>
Depreciation and amortization expense	7,226	7,583	<b>14,809</b>
Total SG&A	100,129	(909)	<b>99,220</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

### 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 upon consolidation.

For the purpose of presenting consolidated financial statements, the results of entities denominated in currencies other than Canadian dollars are translated at the average rate of exchange for the period. The assets and liabilities of these entities are translated at the period end rate of exchange. These translation adjustments are recognized in other comprehensive income (loss) and accumulated in the cumulative translation account with other comprehensive income (loss).

#### 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.

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 President and Chief Executive Officer. RME has one reportable operating segment.

#### 3.5. 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:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

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 3.9.

### 3.6. KEY ESTIMATES AND JUDGEMENTS

The preparation of consolidated 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 loss allowance provision (Note 6), the net realizable value of inventory (Note 3.12), the valuation of equipment taken in on trade (Note 3.12), the timing of revenue recognition (Note 3.13), the depreciation periods and methods applied to items of property and equipment (Note 3.5), the recoverable amount of goodwill (Note 10), the fair value of derivative financial instruments (Note 3.19.6), impairment of assets other than goodwill (Note 3.9), share-based transactions (Note 3.15), the fair value of business combinations (Note 3.3), income taxes (Note 3.17) and the value of annual performance incentives from manufacturers (Note 3.14.1).

### 3.7. 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 associated with our geomatics technology. RME expects the useful life of these assets to be five years.

### 3.8. 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 or its fair value less costs of disposal. 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 eligible for reversal in subsequent periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

### 3.9. 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 3.8.

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.

### 3.10. 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.

### 3.11. 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 is included in the consolidated statements 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.

### 3.12. 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 with reference to 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 referencing 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.

### 3.13. REVENUE RECOGNITION

#### 3.13.1. Sale of goods

RME sells goods which include new and used equipment and parts. Revenue is recognized when control of the goods has transferred to the customer. Control has been transferred at the point in time when the following conditions have been met:

- i. RME has transferred to the customer the control of ownership of the goods;
- ii. the goods have been delivered;
- iii. RME has a present right to payment;
- iv. the customer has legal title; and
- v. the customer has accepted the asset.

Payment of the parts transaction price is due immediately when the customer purchases the part or by the terms of the customer's established credit. It is RME's policy to sell parts to the end customer with the right of return and we estimate

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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returns based on an analysis of historical results. Therefore, a contract liability (estimated parts refunds) and a right to the returned good (contract asset) are recognized for the parts estimated to be returned. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

### 3.13.2. Sale of goods - Bill and hold arrangement

RME sells new and used equipment where RME retains physical possession of the equipment until it is transferred to the customer in the future. For a bill and hold arrangement, control has been transferred at a point in time when the following conditions have been met:

- i. the equipment is ready for physical transfer to the customer; the customer has made the decision to put the equipment in a bill and hold arrangement;
- ii. RME does not have the ability to use the equipment or to direct it to another customer; and
- iii. the equipment is identified separately as belonging to the customer.

The consideration on such transactions is due when the equipment arrives at one of RME's locations. When consideration has been received but one or more terms and/or conditions of the sale remain unfulfilled, any consideration received is recorded on the consolidated statements of financial position as a contract liability for customer deposits.

### 3.13.3. Rendering of service

Revenue derived from the rendering of services is recognized upon completion of the service when the following has occurred:

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

Payment of the transaction price is due when the service is completed. Labour hours and parts used from rendering of a service that is not complete is considered a cost incurred to fulfill a contract and is disclosed in the consolidated statements of financial position as a contract asset.

### 3.13.4. Financing component

RME does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, RME does not adjust any of the transaction prices for the time value of money.

## 3.14. MANUFACTURERS INCENTIVES

### 3.14.1. 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 of the following fiscal year.

### 3.14.2. Transactional incentives

Certain manufacturers offer incentives on the sale of qualifying equipment. These transactional incentives are earned and recognized when a qualifying 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.

## 3.15. 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.

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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 11.

### 3.16. 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 Compensation and Human Resources Committee may approve modifications to these 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.

### 3.17. 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.

### 3.18. FOREIGN CURRENCY TRANSACTIONS

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, assets and liabilities denominated in foreign currencies are retranslated at the period-end rate of exchange prevailing rates.

### 3.19. FINANCIAL INSTRUMENTS

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

#### 3.19.1. Financial instruments - Initial recognition

Financial instruments are initially 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 (“FVPL”) are added to or deducted from the fair value of the financial instrument, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial instruments at FVPL are recognized immediately in net earnings.

#### 3.19.2. Financial instruments - Classification and subsequent measurement

The classification and subsequent measurement of financial instruments depends on the nature and purpose of each instrument and is determined at the time of initial recognition. Financial instruments are classified and subsequently measured as outlined below.

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### *Financial Assets*

A financial asset is subsequently measured at:

- i. amortized cost if it is held for the purposes of collecting contractual cash flows with such cash flows solely comprising payments of principal and interest on the principal amount outstanding;
- ii. fair value through other comprehensive income ("FVOCI") if it is:
  - held for the purposes of collecting contractual cash flows and selling financial assets with such cash flows solely comprising payments of principal and interest on the principal amount outstanding; or
  - irrevocably designated as such upon initial recognition; and
- iii. FVPL if it is:
  - neither classified as subsequently measured at amortized cost nor FVOCI; or
  - irrevocably designated as such upon initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

### *Financial Liabilities*

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.

A financial liability is subsequently measured at amortized cost, except for financial liabilities at FVPL. A financial liability is classified as FVPL when the liability is:

- i. contingent consideration of an acquirer in a business combination;
- ii. held for trading; or
- iii. designated as FVPL.

### *Financial Liabilities - Held for Trading*

A financial liability is classified as held for trading if:

- i. it has been acquired principally for the purpose of repurchasing it in the near term; or
- ii. on initial recognition it is part of a portfolio of identified financial instruments that is managed together, for which a recent actual pattern of short term profit taking exists; or
- iii. it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

RME currently has no financial liabilities classified as held for trading.

### *Financial Liabilities - designated as FVLP*

Notwithstanding the foregoing, a financial liability may be designated as FVPL if:

- i. such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- ii. the financial liability 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 risk management strategy, and information about the grouping is provided internally on that basis; or
- iii. it forms part of a contract containing one or more embedded derivatives, and IFRS permits the entire combined contract to be designated as at FVPL.

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.

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### 3.19.3. Measurement of amortized cost - The 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 payments (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.

### 3.19.4. Impairment of financial assets

Financial assets which are measured subsequent to initial recognition at amortized cost are assessed for indicators of impairment at the end of each reporting period. 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. RME's financial assets carried at amortized cost consist only of cash and trade receivables and other.

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

A loss allowance provision, which reflects RME's estimate of credit losses, is applied to reduce the carrying amount of trade receivables and other. 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.

### 3.19.5. Derecognition of financial instruments

RME derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when RME 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, canceled 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.

### 3.19.6. 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 fair value. The fair value 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.

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 uses 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



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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 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 net earnings in the period in which they arise.

### 4. IMPACTS OF NEW ACCOUNTING STANDARDS

#### 4.1 IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the transition provisions in IFRS 15 and IFRS 9, the new standards have been adopted retrospectively and summarized comparatives for the 2017 financial year have been restated as follows:

Statement of Financial Position \$ thousands	December 31, 2017	IFRS 15 Adjustments & Reclassifications	IFRS 9 Adjustments	December 31, 2017 Restated	
Note	As Originally Presented				
<b>Assets</b>					
Current					
Trade receivables and other	4.3.2	32,931	—	(246)	32,685
Inventory	4.2.2	471,573	(2,033)	—	469,540
Contract assets	4.2.1,4.2.2	—	2,199	—	2,199
Total current assets		533,732	166	(246)	533,652
Total assets		599,189	166	(246)	599,109
<b>Liabilities</b>					
Current					
Trade payables, accruals and other	4.2.2	46,748	(18,739)	—	28,009
Deferred revenue	4.2.2	6,724	(6,724)	—	—
Contract liabilities	4.2.1,4.2.2	—	25,719	—	25,719
Total current liabilities		366,975	256	—	367,231
Non-current					
Deferred tax liability		652	(25)	(66)	561
Total non-current liabilities		32,110	(25)	(66)	32,019
Total liabilities		399,085	231	(66)	399,250
<b>Shareholders' Equity</b>					
Retained earnings		99,746	(65)	(180)	99,501
Total shareholders' equity		200,104	(65)	(180)	199,859
Total liabilities and shareholders' equity		599,189	166	(246)	599,109

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Statement of Financial Position		December 31,			January 1,
\$ thousands		2016	IFRS 15	IFRS 9	2017
	Note	As Originally Presented	Adjustments & Reclassifications	Adjustments	Restated
<b>Assets</b>					
Current					
Trade receivables and other	4.3.2	27,504	—	(264)	27,240
Inventory	4.2.2	442,742	(1,959)	—	440,783
Contract assets	4.2.1,4.2.2	—	2,116	—	2,116
Total current assets		508,274	157	(264)	508,167
Non-current					
Deferred tax asset		1,210	23	71	1,304
Total non-current assets		69,657	23	71	69,751
Total assets		577,931	180	(193)	577,918
<b>Liabilities</b>					
Current					
Trade payables, accruals and other	4.2.2	47,995	(11,342)	—	36,653
Deferred revenue	4.2.2	3,204	(3,204)	—	—
Contract liabilities	4.2.1,4.2.2	—	14,788	—	14,788
Total current liabilities		357,580	242	—	357,822
Total liabilities		400,750	242	—	400,992
<b>Shareholders' Equity</b>					
Retained earnings		85,778	(62)	(193)	85,523
Total shareholders' equity		177,181	(62)	(193)	176,926
Total liabilities and shareholders' equity		577,931	180	(193)	577,918

Statement of Net Earnings		December 31,			December 31,
\$ thousands		2017	IFRS 15	IFRS 9	2017
	Note	As Originally Presented	Adjustments	Adjustments	Restated
Sales	4.2.1	959,355	(14)	—	959,341
Cost of sales	4.2.1	819,926	(9)	—	819,917
Gross profit		139,429	(5)	—	139,424
Selling, general and administrative	4.3.2	99,772	—	(18)	99,754
Earnings before income taxes		31,673	(5)	18	31,686
Income taxes		8,774	(2)	5	8,777
Net earnings		22,899	(3)	13	22,909
Earnings per share					
Basic		1.18	—	—	1.18
Diluted		1.18	—	—	1.18

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### 4.2. IFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

The IFRS 15 adjustments shown in Note 4.1 are the result of the following:

#### 4.2.1. Accounting for the refund of returned parts

When the customer has the right to return parts within a given period, RME will refund the purchase price. Under IFRS 15, a contract liability (refund liability) for estimated refunds to customers is recognized as an adjustment to revenue (December 31, 2017 - \$256, and, January 1, 2017 - \$242). At the same time, RME has a right to recover the parts from the customer where the customer exercises their right of return and has recognized a contract asset and the corresponding adjustment to the cost of sales (December 31, 2017 - \$166, and January 1, 2017 - \$157). The asset is measured by reference to the former carrying amount of the product. The costs to recover the parts are not material because the customer usually returns the product in a salable condition at the store. To reflect this change in policy, RME has recognized a contract liability and a contract asset.

#### 4.2.2. Presentation of contract assets and contract liabilities

RME has voluntarily changed the presentation of certain amounts in the comparative statements of financial position to reflect the terminology of IFRS 15. Contract assets recognized in relation to work-in-progress on our service contracts were previously presented as inventory (December 31 2017 - \$2,033, and January 1, 2017 - \$1,959). Contract liabilities in relation to deferred revenue were previously presented as deferred revenue (December 31 2017 - \$6,724, and January 1, 2017 - \$3,204). Contract liabilities in relation to equipment deposits of used trade-ins previously presented within trade payables, accruals and other (December 31, 2017 - \$18,739, and January 1, 2017 - \$11,342).

### 4.3. IFRS 9 'FINANCIAL INSTRUMENTS'

#### 4.3.1. Classification and measurement of financial instruments

RME has classified its financial instruments into the appropriate IFRS 9 categories. There was no impact from this reclassification. The change in the carrying amount is due to the IFRS 15 adjustments and an impairment of financial assets under IFRS 9. RME's existing financial instruments as at January 1, 2017 were reviewed and assessed as follows:

Financial Instruments	Classifications		Carrying Amount \$	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Cash		Amortized cost	28,542	28,542
Trade receivables and other	Loans and receivables		27,504	27,240
Derivative financial assets	Financial instruments at fair value through profit and loss	Fair value through profit or loss	868	868
Derivative financial liabilities			3,320	3,320
Trade payables, accruals and others <sup>(1)</sup>			46,528	35,186
Floor plan payable			296,061	296,061
Long-term debt	Financial liabilities measured at amortized cost	Amortized cost	47,603	47,603
Obligations under finance leases			961	961
Liabilities associated with assets held for sale			1,606	1,606

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

#### 4.3.2. Impairment of financial assets

The adjustments for IFRS 9 were made to the loss allowance provision recorded within trade receivables and other on the statement of financial position.

RME has two types of financial assets that are subject to IFRS 9's new expected credit loss model including trade receivables and other receivables. RME was required to revise its impairment methodology under IFRS 9 for each class of assets. While cash and derivative financial assets are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial. See Note 6 for further information.

Due to the adoption of IFRS 9, the aggregate loss allowance provision for trade receivables and other receivables as at January 1, 2017 increased \$264, from \$1,206 to \$1,470.

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### 4.3.3. Hedging

The adoption of IFRS 9 had no impact to our designated hedging arrangements.

## 5. ACQUISITIONS

On July 3, 2018, RME acquired 100% of the issued and outstanding common shares of John Bob Farm Equipment Ltd. ("JBFE"), a Saskatchewan-based dealer of New Holland agriculture equipment with locations in Outlook and Tisdale. The operating results of the business acquired are consolidated from July 3, 2018, the date control was acquired.

On August 17, 2018, RME acquired certain business assets and sales territory of a New Holland agriculture equipment dealer in Olds, Alberta ("Olds"). The operating results of the business acquired are consolidated from August 17, 2018, the date control was acquired.

The acquisitions have been accounted for as business combinations using the acquisition method of accounting based on recording the assets and liabilities at the estimated fair value on the acquisition date.

The following tables summarizes the revised consideration paid and payable as well as the revised fair values of the assets and liabilities assumed the with respect to these acquisitions.

\$ thousands	JBFE	Olds	Total
Cash consideration			
Paid	10,930	2,493	13,423
Payable	282	—	282
Total purchase consideration	11,212	2,493	13,705

The allocation of purchase consideration is as follows:

\$ thousands	JBFE	Olds	Total
Net working capital			
Trade receivables and other	1,787	600	2,387
Inventory	23,482	6,252	29,734
Prepaid expenses and other	48	37	85
Bank indebtedness	(2,799)	—	(2,799)
Trade payables, accruals and other	(1,574)	(1,218)	(2,792)
Income tax payable	(578)	—	(578)
Floor plan payable	(18,413)	(3,329)	(21,742)
	1,953	2,342	4,295
Property and equipment	6,367	118	6,485
Long-term debt	(46)	—	(46)
Deferred tax liability	(109)	—	(109)
Goodwill	3,047	33	3,080
Net assets	11,212	2,493	13,705

Concurrent with the acquisition of the business assets of Olds, RME entered into a sublease with the acquiree and received a \$1,200 lease inducement. Of this amount, \$600 was offset against the acquisition purchase consideration, resulting in net consideration of \$2,493. The remaining \$600 inducement receivable is to be received by RME over a period of 15 months commencing September 1, 2018, which is presented in the above table within trade receivables and other. The \$1,200 deferred lease inducement is presented in the table above within trade payables.

The purchase consideration for the JBFE acquisition includes an earn-out provision of up to \$500 based on the performance of the acquired stores for a period of 24 months following the purchase date. Based on historical results, RME estimates the payable amount to be \$154.

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As at December 31, 2018, purchase consideration payable for the JBFE acquisition of \$282 is comprised of the \$154 estimated earn-out provision as well as a \$500 environmental holdback, releasable upon satisfactory third-party confirmation that no remediation is required. These amounts have been partially offset by \$372 in excess purchase consideration paid by RME as a result of deficient working capital delivered. This amount was received in full by RME subsequent to December 31, 2018.

As part of the terms of the JBFE share purchase agreement, RME placed \$1,250 in escrow. These funds constituted holdbacks of \$750, pending final resolution of working capital delivered and \$500 associated with the aforementioned environmental confirmation. These funds have been presented as a deposit within prepaid expenses and other on the statement of financial position. The \$750 holdback associated with the purchase consideration was not required and was returned in full to RME subsequent to December 31, 2018.

During the year ended December 31, 2018, RME incurred \$541 of acquisition related costs (2017 - \$nil). These costs are recognized as administrative expenses within selling, general and administrative expenses in the period in which they were incurred.

Revenue and net loss generated by the acquired locations and included in the consolidated statement of net earnings for the twelve months ended December 31, 2018 amounted to \$17,445 and \$537, respectively. Had these acquisitions been in effect at January 1, 2018, RME estimates that consolidated revenue and net earnings for the year ended December 31, 2018 would have been \$1,067,152 and \$17,678, respectively. The pro forma revenues and income are not necessarily indicative of the results that actually would have occurred if the acquisitions had taken place on January 1, 2018 or of the results which may be obtained in the future.

Goodwill arose on these acquisitions due to the potential future revenue growth and synergies expected to occur. This amount is recognized as goodwill as it does not meet the recognition criteria for separately identifiable intangible assets. Goodwill generated on acquisition is not deductible for tax purposes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 6. TRADE RECEIVABLES AND OTHER

#### TRADE RECEIVABLES

RME applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision is determined using the expected credit loss rates presented in the table below. The expected credit loss rate is based on historical results, adjusted to the extent future events are expected to differ from historical results.

#### OTHER RECEIVABLES

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Default rates are based on historical results, adjusted to the extent future events are expected to differ from historical results.

\$ thousands, unless otherwise noted	December 31, 2018		December 31, 2017	
	Expected loss rate	Amount	Expected loss rate	Amount
<b>Trade receivables</b>				
Current	0.4%	12,498	0.5%	11,139
Aged between 31 – 60 days	1.2%	2,171	2.0%	1,678
Aged between 61 – 90 days	3.9%	1,020	5.0%	789
Aged between 91 – 120 days	6.1%	518	9.0%	494
Aged greater than 120 days	56.1%	1,571	75.0%	1,040
Total gross trade receivables		17,778		15,140
<b>Other receivables</b>				
Contracts in transit				
Counterparties with external credit ratings (Moody's)				
A3-Aaa		134		540
B3-Baa		20,725		16,360
Counterparties without external credit ratings		195		1,288
Total gross contracts in transit		21,054		18,188
Warranty receivables				
Counterparties with external credit ratings (Moody's)				
B3-Baa		539		325
Counterparties without external credit ratings		353		126
Total gross warranty receivables		892		451
Gross trade receivables and other		39,724		33,779
Loss allowance provision				
Trade receivables		(1,033)		(953)
Contracts in transit		(95)		(139)
Warranty receivable		(2)		(2)
Total loss allowance provision		(1,130)		(1,094)
Trade receivables and other		38,594		32,685

Counterparties without external credit ratings are counterparties with existing relationships of at least 12 months with no defaults in the past.

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

\$ thousands, except per share and per option amounts or unless otherwise stated

The loss allowance provision on trade receivables and other can be reconciled as follows:

\$ thousands	December 31, 2018	December 31, 2017
As at January 1,	1,094	1,470
Net provision (recovery)	167	(64)
Written-off during the year	(131)	(312)
As at December 31,	1,130	1,094

### 7. INVENTORY

\$ thousands	December 31, 2018	December 31, 2017
New equipment	130,475	115,928
Used equipment	388,488	314,994
Parts	41,555	38,618
Inventory	560,518	469,540

For the year ended December 31, 2018, inventory recognized as an expense amounted to \$897,408 (2017 – \$807,010), which is included in cost of sales in the consolidated statement of net earnings.

For the year ended December 31, 2018, there were write downs of inventory to net realizable value of \$8,228 (2017 – \$5,845) 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 years ended December 31, 2018 and 2017, there were no reversals of write downs of inventory to net realizable. RME's inventory has been pledged as security for its floor plan payable and long-term debt.

### 8. INTANGIBLE ASSETS

Intangible assets are comprised of intellectual properties associated with our geomatics technology.

\$ thousands	Cost	Accumulated amortization	Net book value
December 31, 2016	822	(315)	507
Amortization expense	—	(164)	(164)
December 31, 2017	822	(479)	343
Amortization expense	—	(165)	(165)
<b>December 31, 2018</b>	<b>822</b>	<b>(644)</b>	<b>178</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

### 9. PROPERTY AND EQUIPMENT

\$ thousands	Land	Buildings	Computer equipment	Furniture and fixtures	Leasehold improvements	Shop tools and equipment	Vehicles	Total
<b>Cost</b>								
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)
December 31, 2017	10,743	17,171	8,434	5,467	6,582	12,229	20,386	81,012
Additions	1,869	498	1,671	335	884	663	3,378	9,298
Business combinations	1,225	4,271	—	215	—	199	575	6,485
Disposals	(96)	(333)	(1,302)	(569)	(11)	85	(3,023)	(5,249)
<b>December 31, 2018</b>	<b>13,741</b>	<b>21,607</b>	<b>8,803</b>	<b>5,448</b>	<b>7,455</b>	<b>13,176</b>	<b>21,316</b>	<b>91,546</b>
<b>Accumulated depreciation</b>								
December 31, 2016	—	1,278	5,699	2,902	2,615	9,181	11,983	33,658
Depreciation expense	—	868	1,168	487	689	1,266	2,775	7,253
Disposals	—	(37)	(896)	(29)	(70)	(72)	(1,024)	(2,128)
December 31, 2017	—	2,109	5,971	3,360	3,234	10,375	13,734	38,783
Depreciation expense	—	930	1,246	446	676	1,071	2,692	7,061
Disposals	—	(63)	(898)	(415)	(55)	(530)	(2,312)	(4,273)
<b>December 31, 2018</b>	<b>—</b>	<b>2,976</b>	<b>6,319</b>	<b>3,391</b>	<b>3,855</b>	<b>10,916</b>	<b>14,114</b>	<b>41,571</b>
<b>Net book value</b>								
December 31, 2016	15,484	15,953	2,722	2,303	3,526	2,454	6,144	48,586
December 31, 2017	10,743	15,062	2,463	2,107	3,348	1,854	6,652	42,229
<b>December 31, 2018</b>	<b>13,741</b>	<b>18,631</b>	<b>2,484</b>	<b>2,057</b>	<b>3,600</b>	<b>2,260</b>	<b>7,202</b>	<b>49,975</b>

Included in selling, general and administrative expenses for the year ended December 31, 2018 is depreciation expense of \$7,061 (2017 – \$7,253) and a gain on the disposal of property and equipment of \$79 (2017 – loss of \$519). As at December 31, 2018, assets under finance leases included in computer equipment and vehicles have net carrying amounts of \$572 and \$386 (2017 – \$755 and \$21), 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 2018 additions are non-cash assets under finance lease of \$547 (2017 - \$nil).

During 2018, additional land and buildings of \$3,297 and \$1,107, respectively, were classified as non-current assets held for sale. There were no asset impairment charges recognized. As at December 31, 2018, total non-current assets held for sale included in land and buildings have net carrying amounts of \$5,510 and \$1,107 (2017 – \$2,213 and \$nil), respectively.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

### 10. GOODWILL

\$ thousands	December 31, 2018	December 31, 2017
Opening balance	18,776	18,776
Recognized on business acquisitions	3,080	—
Ending balance	21,856	18,776

As at December 31, 2018 and 2017, RME has identified one CGU, to which all goodwill has been allocated.

RME's CGU was assessed for impairment on December 31, 2018 and 2017. 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, 2018 and 2017, RME prepared cash flow forecasts derived from the most recent financial plans prepared by management, and approved by the Board of Directors, and extrapolated these cash flows into perpetuity using growth assumptions relevant to the business sector. For the years ended December 31, 2018 and 2017, the growth rate used for the purposes of these analysis was 2.0%.

As at December 31, 2018, the rate used to discount the forecasted cash flows was 12.8% (2017 – 12.3%), 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 4.5% (2017 – 4.6%) higher than management's estimates or the estimated growth rate used in extrapolating forecasted results been 10.0% (2017 – 8.5%) 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

\$ thousands	December 31, 2018	December 31, 2017
Trade payables and accruals	23,399	24,661
Directors' share units	760	823
Share appreciation rights	—	2,525
Restricted share units	111	—
Preferred share units	13	—
Trade payables, accruals and other	24,283	28,009

#### 11.1. 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 subsequent to the director's termination date at the director's option. 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 common shares over the immediately preceding 20 day trading period. At December 31, 2018, \$760 was included in trade payables, accruals and other with respect to the DSUs (2017 – \$823).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

\$ and units in thousands	2018		2017	
	Units	\$	Units	\$
January 1,	60	823	71	667
Granted <sup>(1)</sup>	25	291	26	264
Redeemed	—	—	(37)	(353)
(Gain) loss on revaluation <sup>(1)</sup>	—	(354)	—	245
December 31,	85	760	60	823

(1) Included in selling general and administrative expenses.

As at December 31, 2018 and 2017, RME has several total return swaps as an economic hedge for RME's DSUs (Note 24.6).

### 11.2. SHARE APPRECIATION RIGHTS PLAN

RME maintains a share appreciation rights ("SAR") plan as a component of overall compensation for 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 on the fifth anniversary of their grant date. During the vesting period, the SARs are revalued at each reporting period using the Black-Scholes option pricing model. Once vested, the SARs are revalued at each reporting period using the five day volume weighted average price of RME's common shares. RME recognizes a liability to the extent that the fair value of the SARs has been earned by the holder, with the resulting expense being recognized within selling, general and administrative expense.

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

\$ and rights in thousands	2018		2017	
	Rights	\$	Rights	\$
January 1,	599	2,525	1,057	800
Exercised	(26)	(82)	(425)	(1,270)
Forfeited	(8)	(32)	(33)	(39)
(Gain) loss on revaluation <sup>(1)</sup>	—	(2,411)	—	3,034
December 31,	565	—	599	2,525

(1) Included in selling general and administrative expenses.

As of December 31, 2018, all outstanding SARs had fully vested and were therefore fair valued using market pricing. As of December 31 2017, the weighted average fair value of the SARs outstanding were determined using the Black-Scholes option pricing model using the following assumptions:

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

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

As at December 31, 2018 and 2017, RME has several total return swaps as an economic hedge for RME's SARs (Note 24.6).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

### 11.3. RESTRICTED AND PERFORMANCE SHARE UNIT PLAN

Effective March 13, 2018, RME adopted a restricted and performance share unit plan. Under this plan, the Board of Directors may grant both restricted share units (“RSUs”) or performance share units (“PSUs”) to employees of RME for services rendered. Both RSUs and PSUs are notional grants of units and are to be settled within 90 days of the vesting date with either cash or RME common shares purchased on the open market.

Additional RSUs and PSUs are credited to the holder when cash dividends are paid to the common shareholders of RME. Such amount of additional units are determined by dividing the dividends which would have been paid on the units 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 vesting, and at each reporting date, both the RSUs and PSUs are valued on a per unit basis at an amount equal to the volume weighted average trading price of RME’s shares over the immediately preceding 20 day trading period. The PSU value also contains a Company performance multiplier, ranging from zero to two. One third of the RSUs vest annually beginning on January 1, 2019. The PSUs vest on January 1, 2021.

RSUs granted and the unrealized (gain) loss recognized during the year ended December 31, 2018 are as follows:

\$ and units in thousands	2018	
	Units	\$
January 1,	—	—
Granted	24	—
(Gain) loss on revaluation <sup>(1)</sup>	—	111
December 31,	24	111

(1) Included in selling general and administrative expenses.

PSUs granted and the unrealized (gain) loss recognized during the year ended December 31, 2018 are as follows:

\$ and units in thousands	2018	
	Units	\$
January 1,	—	—
Granted	36	—
(Gain) loss on revaluation <sup>(1)</sup>	—	13
December 31,	36	13

(1) Included in selling general and administrative expenses.

No RSUs or PSUs were issued or outstanding in 2017.

### 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 3.3% at December 31, 2018 (2017 – ranging from 0.0% to the bank’s prime rate plus 4.3%). At December 31, 2018, RME had unused floor plan of approximately \$189,804 available (2017 – \$252,666). The amounts due are secured by specific new and used equipment inventories and the payments are due when the equipment is sold or transferred, up to a maximum term of 48 months. At December 31, 2018, RME’s U.S. denominated floor plan payable translated into Canadian currency was \$12,518 (2017 – \$3,050). 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 25).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

### 13. LONG-TERM DEBT

During 2018, RME renewed its Syndicated Facility extending the maturity date to September 24, 2021.

Term Facility is a revolving facility with tranches payable in quarterly principal installments plus interest over periods of 7 to 15 years (2017 – 7 to 15 years). The effective interest rate at December 31, 2018 was 4.3% (2017 – 3.5%).

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

\$ thousands	December 31, 2018	December 31, 2017
Term Facility	38,266	37,243
Various other facilities	158	9
Total principal outstanding	38,424	37,252
Less: current portion	(6,871)	(6,104)
Less: deferred debt issuance costs	(271)	(229)
Long-term portion	31,282	30,919

Estimated principal repayments of long-term debt are as follows:

\$ thousands	December 31, 2018	December 31, 2017
Within one year	7,003	6,236
Within years two and three	14,007	12,455
Within years four and five	9,639	12,454
Thereafter	7,775	6,107
Total principal outstanding	38,424	37,252

### 14. OBLIGATIONS UNDER FINANCE LEASES

Finance leases relate to vehicles and computer equipment with lease terms ranging from three to four 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 9.6% at December 31, 2018 (2017 – 1.9% to 5.5%).

The fair values of the obligations under finance leases approximate their carrying amounts.

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

\$ thousands	December 31, 2018	December 31, 2017
Due within one year	307	453
Due later than one year and not later than five years	276	76
Total future minimum lease payments	583	529
Less: future finance charges	(49)	(9)
Present value of future minimum lease payments	534	520
Less: current portion of obligations under finance leases	(280)	(445)
Long-term portion of obligations under finance leases	254	75

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

### 15. SHARE CAPITAL

#### 15.1. COMMON SHARES

RME is authorized to issue an unlimited amount of common shares with no par value. As at December 31, 2018, 19,488 thousand shares were issued and outstanding (2017 – 19,877 thousand). All issued and outstanding shares were fully paid as at December 31, 2018 and 2017.

#### 15.2. DIVIDENDS PAID

Dividends declared and paid during the year ended December 31, 2018 were \$9,406 or \$0.475 per share (2017 – \$8,931 or \$0.46 per share).

On March 4, 2019, the Board of Directors declared a dividend of \$0.1225 per common share on RME's outstanding common shares. The dividend is payable on March 29, 2019, to shareholders of record at the close of business on March 15, 2019.

#### 15.3. 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.

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

Thousands of options and \$ per share	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
January 1,	173	11.71	904	12.13
Exercised	(11)	11.52	(493)	12.35
Expired	(23)	12.89	(30)	12.15
Forfeited	—	—	(208)	11.96
December 31,	139	11.52	173	11.71

No new options were granted during the years ended December 31, 2018 and December 31, 2017.

Options outstanding at December 31, 2018 are summarized as follows:

Grant date	Options outstanding (thousands)	Options exercisable (thousands)	Weighted average exercise price (\$)	Weighted average contractual life (years)
March 13, 2014	139	139	11.52	0.2

#### 15.4. EMPLOYEE SHARE OWNERSHIP PLAN

During the year ended December 31, 2018, RME recognized \$1,398 in selling, general and administrative expenses with respect to ESOP contributions matched by RME (2017 – \$1,201).

#### 15.5. NORMAL COURSE ISSUER BID

On November 19, 2018, RME announced a normal course issuer bid ("NCIB") to repurchase existing common shares. Under the NCIB program RME has the ability to repurchase up to 1,561 thousand common shares. The NCIB commenced on November 21, 2018 and will expire on or before November 20, 2019. All shares that are purchased under this NCIB will be cancelled.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

During the year ended December 31, 2018, the Company repurchased and cancelled 400 thousand shares under the NCIB for consideration of \$3,695. Of the consideration paid, \$1,923 was charged to share capital and \$1,772 was charged to retained earnings. During the year ended December 31, 2017, no shares were repurchased or cancelled.

### 16. REVENUE

#### 16.1 DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

RME derives revenue from the transfer of goods and services at a point in time in the following major product lines:

\$ thousands	December 31, 2018	December 31, 2017
New equipment sales	514,110	435,683
Used equipment sales	393,311	381,577
Parts sales	111,015	109,568
Sale of goods	1,018,436	926,828
Service sales	32,652	32,513
Total sales	1,051,088	959,341

#### 16.2. CONTRACT ASSETS AND LIABILITIES

\$ thousands	December 31, 2018	December 31, 2017
Contract assets		
Estimated parts refunds	185	166
Asset recognized for costs incurred to fulfill service contracts	2,224	2,033
Total contract assets	2,409	2,199
Contract liabilities		
Estimated parts refunds	285	256
Customer deposits - equipment	18,713	18,739
Customer deposits - cash	2,432	6,724
Total contract liabilities	21,430	25,719

The costs to fulfill a service contract are non-amortizing and have no impairment losses.

Revenue recognized in the fulfillment of prior period contract liabilities for the respective years ended are as follows:

\$ thousands	December 31, 2018	December 31, 2017
Estimated parts refunds	256	242
Customer deposits - equipment	18,739	11,343
Customer deposits - cash	6,697	3,142

There are no impacts on RME's revenue regarding unsatisfied performance obligations as of the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

### 17. SELLING, GENERAL AND ADMINISTRATIVE

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

\$ thousands	December 31, 2018	December 31, 2017
Compensation and related expenses	61,662	64,541
Administrative expenses	22,985	19,642
Rent and other facility expenses	14,070	13,319
Depreciation and amortization expense	7,226	7,417
Equity-settled share-based payment expense	—	15
Total SG&A before overhead	105,943	104,934
Product support overhead	(5,814)	(5,180)
Total SG&A	100,129	99,754

Included in compensation and related expenses for the year ended December 31, 2018 are variable sales commissions of \$13,617 (2017 – \$13,303).

Depreciation and amortization expense for the year ended December 31, 2018 is comprised of depreciation of property and equipment of \$7,061 (2017 - \$7,253) and amortization of intangible assets of \$165 (2017 - \$164).

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

Product support overhead represents the allocation of overhead expense to equipment inventory pursuant to internal work performed to prepare these units for sale

### 18. 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:

\$ thousands	December 31, 2018	December 31, 2017
Finance costs associated with short-term debt	11,487	10,151
Finance costs associated with long-term debt	1,606	1,770
Finance costs	13,093	11,921

### 19. INCOME TAXES

#### 19.1. INCOME TAX RECOGNIZED IN NET EARNINGS

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

\$ thousands	December 31, 2018	December 31, 2017
Current	7,505	7,967
Deferred	(734)	810
Income tax expense	6,771	8,777

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

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

\$ thousands	December 31, 2018	December 31, 2017
Earnings before income taxes	24,653	31,686
Computed tax at statutory tax rate of 27%	6,656	8,555
Non-deductible expenses and losses	136	277
Income tax credits	(84)	(103)
Adjustment from prior year income tax expenses	60	20
Other	3	28
<b>Total tax expense</b>	<b>6,771</b>	<b>8,777</b>

### 19.2. DEFERRED TAX ASSET (LIABILITY)

\$ thousands	Share issue costs	Property and equipment	Intangible asset	Share based payments	Derivatives	Tax credits	Provision	Total
December 31, 2016	27	262	(137)	396	662	—	94	1,304
Recognized in net earnings	21	(107)	45	508	(1,236)	(38)	(3)	(810)
Recognized in equity	—	—	—	—	(1,055)	—	—	(1,055)
December 31, 2017	48	155	(92)	904	(1,629)	(38)	91	(561)
Added in acquisition	—	(109)	—	—	—	—	—	(109)
Recognized in net earnings	3	14	43	(665)	1,423	7	(91)	734
Recognized in equity	—	—	—	—	356	—	—	356
<b>December 31, 2018</b>	<b>51</b>	<b>60</b>	<b>(49)</b>	<b>239</b>	<b>150</b>	<b>(31)</b>	<b>—</b>	<b>420</b>

RME has net allowable capital losses in the amount of \$3,855 with no fixed expiry date for which no deferred tax asset has been recognized as RME does not expect to have sufficient future taxable capital gains against which these losses can be utilized.

RME also has non-capital losses of \$3,592 which expire between 2033 and 2038 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.

Effective January 1, 2017, cumulative eligible capital was classified as depreciable property for tax purposes, and removed from its previous separate category. It has therefore been added to property and equipment in the table above.

### 20. EARNINGS PER SHARE

During the year ended December 31, 2018, there were no dilutive and 139 anti-dilutive stock options outstanding (2017 – no dilutive and 173 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, 2018	December 31, 2017
Net earnings used in the calculation of basic and diluted EPS (\$ thousands)	17,882	22,909
Weighted average number of ordinary shares used in the calculation of basic and diluted EPS (thousands)	19,862	19,413
<b>Basic and diluted EPS (\$ per common share)</b>	<b>0.90</b>	<b>1.18</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$ thousands, except per share and per option amounts or unless otherwise stated

### 21. SUPPLEMENTAL CASH FLOW INFORMATION

#### 21.1. 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:

\$ thousands	December 31, 2018	December 31, 2017
Trade receivables and other	(3,522)	(5,445)
Contract assets	(210)	(83)
Income taxes receivable	—	487
Inventory	(60,771)	(28,757)
Prepaid expenses and other	(175)	(2)
Assets held for sale	—	2,501
Bank indebtedness	(2,799)	—
Trade payables, accruals and other	(6,962)	(8,644)
Income taxes payable	(1,141)	1,079
Floor plan payable	75,743	9,281
Liabilities associated with assets held for sale	—	(1,606)
Contract liabilities	(4,289)	10,931
Changes in non-cash working capital	(4,126)	(20,258)

#### 21.2 NET DEBT COMPOSITION AND RECONCILIATION

Net debt is comprised of long-term debt and obligations under finance leases less cash as outlined below:

\$ thousands	December 31, 2018	December 31, 2017
Current portion of long-term debt	6,871	6,104
Current portion of obligations under finance leases	280	445
Borrowings - repayable within one year	7,151	6,549
Long-term debt	31,282	30,919
Obligations under finance leases	254	75
Borrowings - repayable after one year	31,536	30,994
Less: Cash	(12,046)	(20,097)
Net debt	26,641	17,446

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A reconciliation for the movements in net debt is as follows:

\$ thousands	Liabilities from financing activities				Cash	Total
	Current portion of long-term debt	Long-term debt	Current portion of obligations under finance leases	Obligations under finance leases		
January 1, 2017	6,825	40,778	440	521	(28,542)	20,022
Cash flows	(842)	(9,748)	5	(446)	8,445	(2,586)
Amortization of deferred debt issuance costs	121	—	—	—	—	121
Deferred debt issuance costs	—	(111)	—	—	—	(111)
December 31, 2017	6,104	30,919	445	75	(20,097)	17,446
Cash flows	619	506	(165)	(368)	8,104	8,696
Acquisitions	—	46	—	—	—	46
Additions	—	—	—	547	—	547
Foreign exchange	—	—	—	—	(53)	(53)
Amortization of deferred debt issuance costs	148	—	—	—	—	148
Deferred debt issuance costs	—	(189)	—	—	—	(189)
<b>December 31, 2018</b>	<b>6,871</b>	<b>31,282</b>	<b>280</b>	<b>254</b>	<b>(12,046)</b>	<b>26,641</b>

## 22. 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, 2018, RME recognized \$8,533 of operating lease payments as expenses (2017 – \$9,253).

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

\$ thousands	December 31, 2018	December 31, 2017
Not later than one year	8,491	7,925
Later than one year and not later than five years	22,461	22,007
Later than five years	4,149	5,574
<b>Total operating lease obligations</b>	<b>35,101</b>	<b>35,506</b>

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### 23. RELATED PARTY TRANSACTIONS

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

\$ thousands	December 31, 2018	December 31, 2017
Equipment and product support sales	4,398	2,683
Expenditures		
Rental payment on RME facilities	5,833	5,987
Equipment purchases	3,158	1,278
Vehicle purchases	1,376	—
Flight costs	101	55
Donations	—	57
Other expenses	39	42

Donations made by RME are comprised of payments to Ag for Life.

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 identified as RME's key management for the respective years ended December 31 is as follows:

\$ thousands	December 31, 2018	December 31, 2017
Salary and short-term benefits	1,881	3,054
Post-retirement benefits	32	35
Share-based compensation	(2,070)	2,973
Total remuneration	(157)	6,062

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:

\$ thousands	December 31, 2018	December 31, 2017
Due from related parties	4	27
Due to related parties	(106)	(1,087)

The amounts due from related parties are not secured and are to be settled in cash. As at December 31, 2018 and 2017, the amounts due from related parties are considered collectible and therefore have not been provided for in the loss allowance provision. During the year ended December 31, 2018, \$Nil has been recognized in loss allowance expenses with respect to related party transactions (2017 – \$Nil).

RME has contractual obligations to related parties in the form of facility leases. As at December 31, 2018, these contractual obligations and due dates are as follows:

\$ thousands	Total	2019	2020-2021	2022-2023	Thereafter
Operating lease obligations	26,530	5,890	10,328	6,599	3,713

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### 24. 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, 2018 and 2017.

#### 24.1. 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 6. 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. Tradereceivables consist of amounts due from a large number of customers, spread across geographic areas.

#### 24.2. 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.

##### 24.2.1. 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.

The following table details RME's exposure to currency risk at December 31, 2018 and 2017 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 appreciation in the USD relative to the Canadian dollar ("CAD"). For respective weakening in the USD, there would be an equal and opposite effect on net earnings. The effect on net earnings is presented net of tax.

\$ thousands, unless otherwise noted	Change in currency rates %	December 31, 2018		December 31, 2017	
		Expressed in CAD	Effect on net earnings year ended	Expressed in CAD	Effect on net earnings year ended
Cash	5.0	10,187	372	2,297	84
Trade payables, accruals and other	5.0	(1,421)	(52)	(422)	(15)
Floor plan payable	10.0	(12,518)	(914)	(3,050)	(222)
Total		(3,752)	(594)	(1,175)	(153)

Included in selling, general and administrative expense are net gains recognized due to foreign currency translation for transactions and balances aggregating \$556 for the year ended December 31, 2018 (2017 – gains of \$692).

##### 24.2.2. 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

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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, 2018 and 2017 and a sensitivity analysis to an increase in interest rates of 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 the interest rate swaps themselves.

\$ thousands, unless otherwise noted	Change in interest rates %	December 31, 2018		December 31, 2017	
		Floating rate financial liabilities	Effect on net earnings year ended	Floating rate financial liabilities	Effect on net earnings year ended
Floor plan payable	0.5	155,211	567	82,511	301
Term Facility	0.5	12,787	47	6,572	24
<b>Total</b>		<b>167,998</b>	<b>614</b>	<b>89,083</b>	<b>325</b>

### 24.2.3. 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, 2018 and 2017, including a sensitivity analysis measuring the impact on net earnings of a 5.0% decrease in RME's share price. An increase of 5.0% would result in an equal and opposite effect on net earnings. The effect on net earning is presented net of tax.

\$ thousands, unless otherwise noted	Change in stock price %	December 31, 2018		December 31, 2017	
		Total return swap financial liability	Effect on net earnings year ended	Total return swap financial asset	Effect on net earnings year ended
Total return swaps	5.0	(18)	(212)	5,343	(585)

### 24.3. 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 2018, advances under the Syndicated Facility can be made based on our lender's prime rate or the US base rate plus 1.0% - 1.8% (2017 - 1.0% - 2.5%) or based on the banker's acceptance ("BA") rate plus 2.0% - 2.8% (2017 - 2.0% - 3.5%). RME paid standby fees of between 0.4% and 0.6% per annum on any undrawn portion of the Syndicated Facility. The Syndicated Facility matures on September 24, 2021, 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:

\$ thousands	December 31, 2018	December 31, 2017
Operating Facility	50,000	60,000
Term Facility	85,000	75,000
Flooring Facility	125,000	125,000

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In addition to the Flooring Facility, RME has additional floor plan facilities of approximately \$468,580 as at December 31, 2018 (2017 – \$433,580).

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, 2018 \$ thousands	Interest and principal outstanding	2019	2020-2021	2022-2023	Thereafter
Trade payables, accruals and other <sup>(1)</sup>	23,399	23,399	—	—	—
Floor plan payable	416,441	416,441	—	—	—
Long-term debt	44,150	8,466	16,044	10,571	9,069
Obligations under finance leases	583	307	246	30	—
Derivative financial liabilities	2,556	461	1,005	693	397
<b>Total</b>	<b>487,129</b>	<b>449,074</b>	<b>17,295</b>	<b>11,294</b>	<b>9,466</b>

As at December 31, 2017 \$ thousands	Interest and principal outstanding	2018	2019-2020	2021-2022	Thereafter
Trade payables, accruals and other <sup>(1)</sup>	24,661	24,661	—	—	—
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	—	—
<b>Total</b>	<b>382,801</b>	<b>348,028</b>	<b>14,692</b>	<b>13,267</b>	<b>6,814</b>

(1) Trade payables, accruals and other excludes DSUs, SARs, RSUs and PSUs which are not financial instruments. Refer to Note 11.

The Term Facility included in long-term debt is governed by a syndicated credit agreement which, if not renewed, will mature on September 24, 2021. 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, 2018 would be \$33,257 in 2020-2021, \$11 in 2022-2023 and \$Nil thereafter (2017 – \$32,507 for 2019-2020 and \$Nil thereafter).

### 24.4. FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST

The carrying amounts of cash, trade receivables and other, trade payables, accruals and other (excluding DSUs, SARs, RSUs and PSUs) 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.

### 24.5. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

RME's financial instruments which are measured subsequent to initial recognition at fair value in the consolidated statements of financial position 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 of interest rate swaps and total return swaps. As at December 31, 2018, RME had a net derivative financial liability of \$556 associated with these derivatives (2017 – net derivative financial asset of \$6,033).
- 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.

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There were no transfers between Level 1 and 2 during 2018 or 2017.

### 24.6. 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 3.19.5. For the year ended, December 31, 2018, RME recognized a gain of \$91 (2017 – gain of \$104) associated with its interest rate swaps in the statement of net earnings and an unrealized loss of \$962 (2017 – gain of \$2,852), net of tax in other comprehensive income.

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

\$ thousands, unless otherwise noted	December 31, 2018	December 31, 2017
Notional amount	135,479	140,671
Effective fixed interest rate	4.5%	4.7%
Effective floating interest rate	4.6%	4.0%
Maturity dates	Sept. 2020 - Aug. 2025	Aug. 2018 – Apr. 2023

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, 2018, RME's total return swaps cover 660 thousand of RME's underlying common shares (2017 – 1,170 thousand). For the year ended, December 31, 2018, RME recognized a loss of \$3,678 (2017 – gain of \$4,474) associated with its total return swaps.

Derivative financial assets consist of:

\$ thousands	December 31, 2018	December 31, 2017
Total return swaps	151	5,343
Interest rate swaps	1,418	1,687
Total derivative financial assets	1,569	7,030
Less: current portion	(586)	(2,921)
Long-term portion	983	4,109

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Derivative financial liabilities consist of:

\$ thousands	December 31, 2018	December 31, 2017
Total return swaps	169	—
Interest rate swaps	1,956	997
Total derivative financial liabilities	2,125	997
Less: current portion	(453)	(533)
Long-term portion	1,672	464

Losses (gains) on derivative financial instruments are as follows:

\$ thousands	December 31, 2018	December 31, 2017
Opening net derivative financial (asset) liability	(6,033)	2,452
Loss (gain) recognized in net earnings	3,587	(4,578)
Loss (gain) recognized in other comprehensive income – net of tax	962	(2,852)
Tax on loss (gain) recognized in other comprehensive income	357	(1,055)
Cash received on settlement of total return swaps	1,683	—
Ending net derivative financial (asset) liability	556	(6,033)

A portion of the balance in accumulated other comprehensive income (loss) related 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 loss (gain) 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.

## 25. MANAGEMENT OF CAPITAL

RME's objectives when managing capital are:

- To maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and
- 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, 2018 and 2017 RME was slightly outside its target range for this ratio. The debt to equity ratio target for RME including floor plan payable is debt between 2.0 and 3.0 to 1.0. As at December 31, 2018 RME was within its target range for this ratio (2017, RME was outside its target range for this ratio). In recent years, RME has made temporary use of available cash by paying down interest bearing floor plan debt. In response to the acquisitive activity undertaken during 2018, as well as the repurchase



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of common shares pursuant to the normal course issuer bid, RME has reinstated a more historically normal level of inventory leverage.

The components of debt to equity ratios are as follows:

\$ thousands	December 31, 2018	December 31, 2017
Current portion of long-term debt	6,871	6,104
Current portion of obligations under finance leases	280	445
Long-term debt	31,282	30,919
Obligations under finance leases	254	75
Total debt excluding floor plan payable	38,687	37,543
Floor plan payable	403,180	305,342
Total debt including floor plan payable	441,867	342,885
Shareholders' equity	203,809	199,859
Debt equity ratios		
Excluding floor plan payable	0.19	0.19
Including floor plan payable	2.17	1.72

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, 2018	December 31, 2017
Fixed charge coverage of at least	1.15-1.20:1	1.15-1.20:1
Debt to tangible net worth less than	4.00:1	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, 2018 and 2017, RME was in compliance with all externally imposed capital requirements.

### 26. 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.