



Consolidated Financial Statements and Notes

Years Ended December 31, 2017 and 2016



March 13, 2018

## **Independent Auditor's Report**

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

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

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### **Opinion**

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

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

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

**Consolidated Statements of Financial Position**

Expressed in thousands of Canadian dollars

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

**APPROVED BY THE BOARD**
"Signed" Robert Herdman

Robert Herdman, Director

"Signed" Matthew Campbell

Matthew Campbell, Director

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

**Consolidated Statements of Net Earnings**

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars except per share amounts



		December 31, 2017 \$	December 31, 2016 \$
	<b>Note</b>		
<b>Sales</b>	<b>17</b>	<b>959,355</b>	930,435
Cost of sales	<b>6</b>	<b>819,926</b>	797,028
Gross profit		<b>139,429</b>	133,407
Selling, general and administrative	<b>18</b>	<b>99,772</b>	97,970
Gain on derivative financial instruments	<b>26.6</b>	<b>(4,578)</b>	(4,751)
Loss on sale of vacant land	<b>7</b>	<b>641</b>	1,360
Restructuring charges	<b>19</b>	<b>-</b>	3,564
Earnings before finance costs and income taxes		<b>43,594</b>	35,264
Finance costs	<b>20</b>	<b>11,921</b>	14,343
Earnings before income taxes		<b>31,673</b>	20,921
Income taxes	<b>21.1</b>	<b>8,774</b>	5,955
<b>Net earnings</b>		<b>22,899</b>	14,966
Earnings per share			
Basic	<b>22</b>	<b>1.18</b>	0.77
Diluted	<b>22</b>	<b>1.18</b>	0.77

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

**Consolidated Statements of Comprehensive Income**

Years ended December 31, 2017 and 2016

Expressed in thousands of Canadian dollars



	December 31, 2017 \$	December 31, 2016 \$
<b>Net earnings</b>	<b>22,899</b>	<b>14,966</b>
<b>Other comprehensive income</b>		
Items which will subsequently be reclassified to net earnings:		
Unrealized gain on derivative financial instruments, net of tax	26.6      2,852	1,238
<b>Total other comprehensive income for the year, net of tax</b>	<b>2,852</b>	<b>1,238</b>
<b>Comprehensive income</b>	<b>25,751</b>	<b>16,204</b>

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

**Consolidated Statements of Changes in Equity**

Expressed in thousands of Canadian dollars and thousands of common shares

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

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

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

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



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

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



## Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

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

### 1. General information

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

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

### 2. Basis of preparation

#### 2.1. Statement of compliance

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

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

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

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

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

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

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

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

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

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





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

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

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

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

### *IFRS 16, 'Leases'*

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

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

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

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

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

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

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

### **3.3. Business combinations**

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



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

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

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

### 3.4. Segment reporting

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

### 3.5. Cash

Cash consists of cash on hand.

### 3.6. Property and equipment

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

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

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

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

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



## Notes to the Consolidated Financial Statements

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### 3.7. Key estimates and judgements

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

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

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

### 3.8. Identifiable intangible assets

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

### 3.9. Goodwill and impairment of goodwill

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

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

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

### 3.10. Impairment of assets other than goodwill

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



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

### 3.11. Earnings per share

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

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

### 3.12. Leases

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

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

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

### 3.13. Inventory

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

### 3.14. Revenue recognition

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

#### 3.14.1. Sale of goods

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

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



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

### 3.14.2. Rendering of services

Revenue derived from the rendering of services is recognized when:

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

## **3.15. Manufacturers Incentives**

### 3.15.1. Annual performance incentives

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

### 3.15.2. Transactional incentives

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

## **3.16. Deferred revenue**

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

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

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

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

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

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



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

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

### 3.19. Income taxes

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

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

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

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

### 3.20. Foreign currency translation

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

### 3.21. Financial instruments

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

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

#### 3.21.1. Classification of financial instruments

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





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### 3.21.2. Effective interest method

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

### 3.21.3. Financial instruments at FVTPL

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

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

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

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

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

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

### 3.21.4. Loans and receivables

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

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

### 3.21.5. Other financial liabilities

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

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



## Notes to the Consolidated Financial Statements

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### 3.21.6. Impairment of financial assets

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

### 3.21.7. Derecognition of financial instruments

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

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

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

### 3.21.8. Classification as debt or equity

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

### 3.21.9. Equity instruments

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

### 3.21.10. Derivative financial instruments and hedging activities

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

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

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





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

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

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

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

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

### 4. Prior year comparative disclosures

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

### 5. Trade receivables and other

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

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.



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The allowance for doubtful accounts can be reconciled as follows:

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

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

## 6. Inventory

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

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

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



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### 7. Assets held for sale

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

#### Assets held for sale

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

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

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

#### Liabilities associated with assets held for sale include:

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



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### 8. Intangible assets

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

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

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



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### 9. Property and equipment

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

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



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### 10. Goodwill

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

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

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

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

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

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

### 11. Trade payables, accruals and other

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

### 12. Floor plan payable

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



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

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

### 13. Long-term debt

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

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

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

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

### 14. Obligations under finance leases

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

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

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



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

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

### 15. Contingency and guarantee

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

### 16. Share capital

#### 16.1. Common shares

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

#### 16.2. Dividends paid

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

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

#### 16.3. Stock options

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

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





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

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

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

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

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

### 16.4. Directors' share unit plan

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

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

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

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

(1) Included in selling general and administrative expenses.



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

### 16.5. Share appreciation rights plan

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

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

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

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

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

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

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

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

### 16.6. Employee share ownership plan

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



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### 17. Sales

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

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

### 18. Selling, general and administrative

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

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

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

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

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

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

### 19. Restructuring costs

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



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### 20. Finance costs

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

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

### 21. Income taxes

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

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

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

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

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



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### 21.2. Deferred tax asset (liability)

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

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

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

### 22. Earnings per share

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

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



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

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

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

### 24. Operating lease arrangements

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

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

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



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### 25. Related party transactions

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

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

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

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

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

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

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

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

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

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



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

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

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

## 26. Financial instruments and financial risk management

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

### 26.1. Credit risk

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

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

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

### 26.2. Market risk

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

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

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





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

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

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

### 26.2.2. Interest rate risk and sensitivity analysis

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

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

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

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

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



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### 26.2.3. Equity price risk and sensitivity analysis

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

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

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

### 26.3. Liquidity risk

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

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

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

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

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

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



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

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

  

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

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

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

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

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

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

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

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

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



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

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

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

### 26.6. Derivative financial instruments and hedges

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

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

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

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

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

Derivative financial assets consist of:

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



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Derivative financial liabilities consist of:

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

Gains on derivative financial instruments are as follows:

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

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

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

## 27. Management of capital

RME's objectives when managing capital are:

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

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

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

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

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

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



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

The components of debt to equity ratios are as follows:

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

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

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

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

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

## 28. Economic dependence

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

## 29. Subsequent event

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