



**BRP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS**  
**FOR THE THREE- AND TWELVE-MONTH PERIODS ENDED JANUARY 31, 2018**

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*The following management's discussion and analysis ("MD&A") provides information concerning financial condition and results of operations of BRP Inc. (the "Company" or "BRP") for the fourth quarter and the fiscal year ended January 31, 2018. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended January 31, 2018. Some of the information contained in this discussion and analysis contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from underlying forward-looking statements as a result of various factors, including those described in the "Forward-Looking Statements" section of this MD&A. This MD&A reflects information available to the Company as at March 20, 2018.*

### **Basis of Presentation**

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The audited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts presented are in Canadian dollars unless otherwise indicated. All references in this MD&A to "Fiscal 2018" are to the Company's fiscal year ended January 31, 2018, to "Fiscal 2017" are to the Company's fiscal year ended January 31, 2017 and to "Fiscal 2016" are to the Company's fiscal year ended January 31, 2016.

This MD&A, approved by the Board of Directors on March 20, 2018, is based on the Company's audited consolidated financial statements and accompanying notes thereto for the years ended January 31, 2018 and 2017.

The Company's Year-Round Products consist of all-terrain vehicles (referred to as "ATVs"), side-by-side vehicles (referred to as "SSVs") and Spyder vehicles; the Company's Seasonal Products consist of personal watercraft (referred to as "PWCs") and snowmobiles; and the Company's Propulsion Systems consist of outboard and jet boat engines, kart, motorcycle and recreational aircraft engines sold to third parties. The Company's "PAC" business includes parts, accessories and clothing and other services sold to third parties.

### **Forward-Looking Statements**

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Certain statements in this MD&A about the Company's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate and reasonable in the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct or that the Company's business guidance, objectives, plans and strategic priorities will be achieved.

Many factors could cause the Company's actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risk factors described in the "Risk Factors" section of this MD&A.



The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding the Company's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities regulations. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

## **Non-IFRS Measures**

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This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non-IFRS measures including Normalized EBITDA, Normalized Net Income, Normalized income tax expense, Normalized effective tax rate, Normalized basic earnings per share and Normalized diluted earnings per share.

Normalized EBITDA is provided to assist investors in determining the financial performance of the Company's operating activities on a consistent basis by excluding certain non-cash elements such as depreciation expense, impairment charge and foreign exchange gain or loss on the Company's long-term debt denominated in U.S. dollars. Other elements, such as restructuring costs, may also be excluded from net income in the determination of Normalized EBITDA as they are considered not being reflective of the operational performance of the Company. Normalized Net Income, Normalized income tax expense, Normalized effective tax rate, Normalized basic earnings per share and Normalized diluted earnings per share, in addition to the financial performance of operating activities, take into account the impact of investing activities, financing activities and income taxes on the Company's financial results.

The Company believes non-IFRS measures are important supplemental measures of financial performance because they eliminate items that have less bearing on the Company's financial performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of companies, many of which present similar metrics when reporting their results. Management also uses non-IFRS measures in order to facilitate financial performance comparisons from period to period, prepare annual operating budgets, assess the Company's ability to meet its future debt service, capital expenditure and working capital requirements and, also, as a component in the determination of the short-term incentive compensation for the Company's employees. Because other companies may calculate these non-IFRS measures differently than the Company does, these metrics are not comparable to similarly titled measures reported by other companies.

Normalized EBITDA is defined as net income before financing costs, financing income, income tax expense (recovery), depreciation expense and normalized elements. Normalized Net Income is defined as net income before normalized elements adjusted to reflect the tax effect on these elements. Normalized income tax expense is defined as income tax expense adjusted to reflect the tax effect on normalized elements and to normalize specific tax elements. Normalized effective tax rate is based on normalized net income before normalized income tax expense. Normalized earnings per share - basic and normalized earnings per share - diluted are calculated respectively by dividing the normalized net income by the weighted average number of shares - basic and the weighted average number of shares - diluted. The Company refers the reader to the "Selected Consolidated Financial Information" section of this MD&A for the reconciliations of Normalized EBITDA and Normalized Net Income presented by the Company to the most directly comparable IFRS measure.



## Overview

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BRP is a global leader in the design, development, manufacturing, distribution and marketing of powersports vehicles and propulsion systems. The Company is one of the most diversified manufacturers of powersports vehicles and propulsion systems, providing enthusiasts with a variety of exhilarating, stylish and powerful products for all year use on a variety of terrains. The Company's diversified portfolio of brands and products includes *Can-Am* ATVs, SSVs and Spyder vehicles, *Ski-Doo* and *Lynx* snowmobiles, *Sea-Doo* PWCs, and propulsion systems consisting of *Evinrude* outboard boat engines and *Rotax* engines for jet boats, karts, motorcycles and recreational aircraft. Additionally, the Company supports its line of products with a dedicated PAC business.

The Company employs approximately 10,100 people mainly in manufacturing and distribution sites in Mexico, Canada, Austria, the United States and Finland. The Company sells its products in over 100 countries. The products are sold directly through a network of approximately 3,200 dealers in 21 countries as well as through approximately 185 distributors serving approximately 915 additional dealers.

### **Highlights of the three-month period ended January 31, 2018**

For the three-month period ended January 31, 2018, the Company's financial performance was the following when compared to the three-month period ended January 31, 2017:

- Revenues of \$1,263.2 million, a decrease of \$42.1 million;
- Gross profit of \$317.2 million representing 25.1% of revenues, a decrease of \$18.4 million;
- Normalized EBITDA <sup>[1]</sup> of \$197.2 million representing 15.6% of revenues, a decrease of \$7.1 million;
- Net income of \$115.1 million, a decrease of \$21.3 million, which resulted in a diluted earnings per share of \$1.12, a decrease of \$0.10 per share;
- Normalized net income <sup>[1]</sup> of \$98.7 million, a decrease of \$13.1 million, which resulted in a normalized diluted earnings per share <sup>[1]</sup> of \$0.96, a decrease of \$0.04 per share.

In addition, during the three-month period ended January 31, 2018:

- The Company introduced the most powerful and first factory-made turbocharged mud SSV, the Maverick X3 X mr Turbo R.
- The Company relocated its North American sales office in Texas, U.S., to be closer and better connected with the United States market, the largest market for BRP.

### **Highlights of the year ended January 31, 2018**

For the year ended January 31, 2018, the Company's financial performance was the following when compared to the year ended January 31, 2017:

- Revenues of \$4,486.9 million, an increase of \$315.4 million;
- Gross profit of \$1,067.5 million representing 23.8% of revenues, an increase of \$58.6 million;
- Normalized EBITDA <sup>[1]</sup> of \$558.6 million representing 12.4% of revenues, an increase of \$55.9 million;
- Net income of \$274.5 million, an increase of \$17.5 million, which resulted in a diluted earnings per share of \$2.54, an increase of \$0.27 per share;
- Normalized net income <sup>[1]</sup> of \$256.9 million, an increase of \$34.9 million, which resulted in a normalized diluted earnings per share <sup>[1]</sup> of \$2.38, an increase of \$0.42 per share.

<sup>[1]</sup> See "Non-IFRS Measures" section.



In addition, during the year:

- The Company revealed its first SSV in the trail segment, the *Can-Am Maverick Trail*, introduced a new PWC platform and expanded the snowmobile *Rev Gen4* platform to more models.
- The Company announced an investment of approximately \$100 million that the Company intends to make in its manufacturing activities within the next two fiscal years in order to increase its SSV and global engine production capacity, and thereby respond to increasing demand.
- The Company completed its substantial issuer bid offer (“SIB”) launched in June 2017 with the repurchase of 8,599,508 subordinate voting shares for a total consideration of \$350.0 million. In addition, the Company repurchased 2,320,900 subordinate voting shares under its normal course issuer bid program (“NCIB”) launched in March 2017 for a total consideration of \$106.7 million.
- The Company successfully amended its term facility by reducing the cost of borrowing by 0.50% and increasing the amount of borrowing by U.S. \$100.0 million. It also amended its revolving credit facilities agreement to increase the availability by \$50.0 million for a total availability of \$475.0 million.
- The Company declared the first dividend in its history, a quarterly dividend of \$0.08 per share.

#### ***Recent event – normal course issuer bid***

On March 20, 2018, the Company’s Board of Directors authorized the renewal of its NCIB to purchase for cancellation up to 3,625,271 subordinate voting shares over the twelve-month period commencing on April 2, 2018 and ending no later than April 1, 2019, representing approximately 10% of the public float of 36,252,716 subordinate voting shares as at March 19, 2018. BRP’s public float does not include any of its multiple voting shares.

### **Factors Affecting the Company’s Results of Operations**

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#### ***Revenues and Sales Program Costs***

The Company’s revenues are derived primarily from the wholesale activities of the Company’s manufactured vehicles, including Year-Round Products, Seasonal Products, as well as Propulsion Systems and related PAC to dealers and distributors. Revenue recognition normally occurs when products are shipped to dealers or distributors from the Company’s facilities.

In order to support the wholesale activities of the Company and the retail activities of dealers and distributors, the Company may provide support in the form of various sales programs consisting of cash and non-cash incentives. The cash incentives consist mainly of rebates given to dealers, distributors and consumers, volume discounts to dealers and distributors, free or extended coverage period under dealer and distributor inventory financing programs and retail financing programs. The cost of these cash incentives is recorded as a reduction of revenues. The non-cash incentives consist mainly of extended warranty coverage or free PAC. The cost of these non-cash incentives is recorded in cost of sales.

The support provided to dealers, distributors and consumers tends to increase when general economic conditions are difficult, when changing market conditions require the launch of new or more aggressive programs or when dealer and distributor inventory is above appropriate levels.

Under dealer and distributor inventory financing arrangements, the Company could be required to purchase repossessed new and unused products in certain cases of default by dealers or distributors. The cost of repossession tends to increase when dealers or distributors are facing challenging and prolonged difficult retail conditions and when their non-current inventory level is high. During the current fiscal year and previous fiscal year, the Company did not experience significant repossessions under its dealer and distributor inventory financing arrangements. Refer to the “Off-Balance Sheet Arrangements” section of this MD&A for more information on dealer and distributor inventory financing arrangements.



## **Commodity Costs**

Approximately 75% of the Company's cost of sales consists of material used in the manufacturing process. Therefore, the Company is exposed to the fluctuation of prices of certain raw materials such as aluminum, steel, plastic, resins, stainless steel, copper, rubber and certain rare earth metals. Additionally, the Company is exposed to fuel price fluctuations related to its procurement and distribution activities. The Company does not hedge its long-term exposure to such price fluctuations. Therefore, an increase in commodity prices could negatively impact the Company's operating results if it is not able to transfer these cost increases to dealers, distributors or consumers.

## **Warranty Costs**

The Company's manufacturer product warranties generally cover periods ranging from 6 months to 3 years for most products. In certain circumstances, the Company provides extended warranty coverage as a result of sales programs, under certain commercial accounts, or as required by local regulations. During the warranty period, the Company reimburses dealers and distributors the entire cost of repair or replacement performed on the products (mainly composed of parts or accessories provided by the Company and labour costs incurred by dealers or distributors). In addition, the Company sells in the normal course of business and provides under certain sales programs, extended product warranties.

During its product development process, the Company ensures that high quality standards are maintained at each development stage of a new product. This includes the development of detailed product specifications, the evaluation of the quality of the supply chain and the manufacturing methods and detailed testing requirements over the development stage of the products. Additionally, product quality is ensured by quality inspections during and after the manufacturing process.

The Company records a warranty provision when products are sold. Management believes that, based on available information, the Company has adequate provisions to cover any future warranty or extended warranty claims on products sold. However, future claim amounts can differ significantly from provisions that are recorded in the consolidated statements of financial position.

## **Foreign Exchange**

The Company's revenues are reported in Canadian dollars but are mostly generated in U.S. dollars, Canadian dollars and euros. The Company's revenues reported in Canadian dollars are to a lesser extent exposed to foreign exchange fluctuations with the Australian dollar, the Brazilian real, the Swedish krona and the Norwegian krone. The costs incurred by the Company are mainly denominated in Canadian dollars, U.S. dollars and euros and to a lesser extent in Mexican pesos. Therefore recorded revenues, gross profit and operating income in Canadian dollars are exposed to foreign exchange fluctuations. The Company's facilities are located in several different countries, which helps mitigate some of its foreign currency exposure.

The Company has an outstanding U.S. \$789.0 million under its U.S. \$800.0 million term facility agreement (the "Term Facility" or the "Term Credit Agreement"), which results in a gain or loss in net income when the U.S. dollar/Canadian dollar exchange rate at the end of the period is different from the opening period rate. Additionally, the Company's interest expense on the Term Facility is exposed to U.S. dollar/Canadian dollar exchange rate fluctuations. The Company does not currently hedge the U.S. dollar/Canadian dollar exchange rate fluctuation exposures related to its Term Facility, and therefore, an increase in the value of the U.S. dollar against the Canadian dollar could negatively impact the Company's net income.

For further details relating to the Company's exposure to foreign currency fluctuations, see "Financial Instruments – Foreign Exchange Risk" section of this MD&A.



### ***Net Financing Costs (Financing Costs less Financing Income)***

Net financing costs are incurred principally on long-term debt, defined benefit pension plan liabilities and revolving credit facilities. As at January 31, 2018, the Company's long-term debt of \$990.6 million was mainly comprised of the Term Facility, which bears interest at LIBOR plus 2.50%. The Company does not hedge its exposure to interest rates fluctuation. Therefore, an increase in interest rates could negatively impact the Company's operating results.

### ***Income Taxes***

The Company is subject to federal, state and provincial income taxes in jurisdictions in which it conducts business. The Canadian income tax statutory rate was 26.8% for the three- and twelve-month periods ended January 31, 2018. However, the Company's effective consolidated tax rate is influenced by various factors, including the mix of accounting profits or losses before income tax among tax jurisdictions it operates in and the foreign exchange gain or loss on the Term Facility. The Company expects to pay cash taxes in all tax jurisdictions for the fiscal year ending January 31, 2019, except in the United States where the Company plans to utilize its tax attributes to offset taxable income or income tax payable.

### ***Seasonality***

The Company's revenues and operating income experience substantial fluctuations from quarter to quarter. In general, wholesale sales of the Company's products are highest in the period immediately preceding and during their particular season of use. However, the mix of product sales may vary considerably from time to time as a result of changes in seasonal and geographic demand, the introduction of new products and models and production scheduling for particular types of products. As a result, the Company's financial results are likely to fluctuate significantly from period to period.



## Selected Consolidated Financial Information

The selected consolidated financial information set out below for the twelve-month period ended January 31, 2018, and January 31, 2017, has been derived from the audited consolidated financial statements and related notes issued March 20, 2018. The selected consolidated financial information set out below for the twelve-month period ended January 31, 2016, has been derived from the audited consolidated financial statements and related notes issued March 23, 2017. The selected quarterly consolidated financial information set out below has been derived from the annual audited consolidated financial statements and related notes issued March 20, 2018 and from the third-quarter unaudited consolidated financial statements and related notes issued November 30, 2017. All of these documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Net Income data

(in millions of Canadian dollars)	Three-month periods ended		Twelve-month periods ended		
	January 31, 2018	January 31, 2017	January 31, 2018	January 31, 2017	January 31, 2016
<b>Revenues by category</b>					
Year-Round Products	\$ 538.8	\$ 527.3	\$ 1,829.5	\$ 1,637.7	\$ 1,439.2
Seasonal Products	443.3	489.5	1,560.1	1,473.9	1,367.3
Propulsion Systems	90.2	111.5	394.7	416.7	395.4
PAC	190.9	177.0	702.6	643.2	627.3
<b>Total Revenues</b>	<b>1,263.2</b>	<b>1,305.3</b>	<b>4,486.9</b>	<b>4,171.5</b>	<b>3,829.2</b>
Cost of sales	946.0	969.7	3,419.4	3,162.6	2,915.0
<b>Gross profit</b>	<b>317.2</b>	<b>335.6</b>	<b>1,067.5</b>	<b>1,008.9</b>	<b>914.2</b>
<i>As a percentage of revenues</i>	<b>25.1%</b>	<b>25.7%</b>	<b>23.8%</b>	<b>24.2%</b>	<b>23.9%</b>
<b>Operating expenses</b>					
Selling and marketing	68.8	67.0	288.6	281.5	265.0
Research and development	52.6	46.7	198.6	184.1	164.4
General and administrative	40.3	45.2	166.3	163.9	143.5
Impairment charge	—	—	—	—	70.3
Other operating expenses	2.8	9.3	13.9	73.1	5.7
<b>Total operating expenses</b>	<b>164.5</b>	<b>168.2</b>	<b>667.4</b>	<b>702.6</b>	<b>648.9</b>
<b>Operating income</b>	<b>152.7</b>	<b>167.4</b>	<b>400.1</b>	<b>306.3</b>	<b>265.3</b>
Net financing costs	16.0	13.8	57.9	61.2	59.1
Foreign exchange (gain) loss on long-term debt	(46.2)	(25.3)	(51.9)	(82.0)	105.8
<b>Income before income taxes</b>	<b>182.9</b>	<b>178.9</b>	<b>394.1</b>	<b>327.1</b>	<b>100.4</b>
Income tax expense	67.8	42.5	119.6	70.1	48.8
<b>Net income</b>	<b>\$ 115.1</b>	<b>\$ 136.4</b>	<b>\$ 274.5</b>	<b>\$ 257.0</b>	<b>\$ 51.6</b>
Attributable to shareholders	\$ 115.2	\$ 136.6	\$ 274.2	\$ 257.2	\$ 51.6
Attributable to non-controlling interest	\$ (0.1)	\$ (0.2)	\$ 0.3	\$ (0.2)	\$ -
<b>Normalized EBITDA</b> <sup>[1]</sup>	<b>\$ 197.2</b>	<b>\$ 204.3</b>	<b>\$ 558.6</b>	<b>\$ 502.7</b>	<b>\$ 460.0</b>
<b>Normalized net income</b> <sup>[1]</sup>	<b>\$ 98.7</b>	<b>\$ 111.8</b>	<b>\$ 256.9</b>	<b>\$ 222.0</b>	<b>\$ 200.8</b>

<sup>[1]</sup> See "Non-IFRS Measures" section.



### Financial Position data

As at (in millions of Canadian dollars)	January 31, 2018	January 31, 2017	January 31, 2016
<b>Cash</b>	<b>\$ 226.0</b>	\$ 298.6	\$ 235.0
<b>Working capital</b>	<b>94.6</b>	279.0	363.3
<b>Property, plant and equipment</b>	<b>766.8</b>	673.2	636.6
<b>Total assets</b>	<b>2,558.4</b>	2,516.2	2,445.2
<b>Total non-current financial liabilities</b>	<b>998.6</b>	929.7	1,163.6
<b>Total liabilities</b>	<b>2,615.8</b>	2,350.7	2,459.3
<b>Shareholders equity (deficit)</b>	<b>(57.4)</b>	165.5	(14.1)

### Other Financial data

(in millions of Canadian dollars, except per share data)	Three-month periods ended		Twelve-month periods ended		
	January 31, 2018	January 31, 2017	January 31, 2018	January 31, 2017	January 31, 2016
<b>Revenues by geography</b>					
United States	<b>\$ 639.5</b>	\$ 664.5	<b>\$ 2,267.1</b>	\$ 2,119.8	\$ 1,938.6
Canada	<b>186.5</b>	205.7	<b>773.5</b>	736.9	700.1
International <sup>[1]</sup>	<b>437.2</b>	435.1	<b>1,446.3</b>	1,314.8	1,190.5
	<b>\$ 1,263.2</b>	\$ 1,305.3	<b>\$ 4,486.9</b>	\$ 4,171.5	\$ 3,829.2
Declared dividends per share	<b>\$ 0.08</b>	\$ —	<b>\$ 0.24</b>	\$ —	\$ —
Weighted average number of shares – basic	<b>102,073,886</b>	111,624,207	<b>106,961,014</b>	112,946,239	117,013,234
Weighted average number of shares – diluted	<b>103,197,608</b>	111,987,290	<b>107,917,087</b>	113,205,095	117,457,146
Earnings per share - basic	<b>\$ 1.13</b>	\$ 1.22	<b>\$ 2.56</b>	\$ 2.28	\$ 0.44
Earnings per share - diluted	<b>1.12</b>	1.22	<b>2.54</b>	2.27	0.44
Normalized earnings per share – basic <sup>[2]</sup>	<b>0.97</b>	1.00	<b>2.40</b>	1.97	1.72
Normalized earnings per share – diluted <sup>[2]</sup>	<b>0.96</b>	1.00	<b>2.38</b>	1.96	1.71

<sup>[1]</sup> International is defined as all jurisdictions except the United States and Canada.

<sup>[2]</sup> See “Non-IFRS Measures” section.



## Reconciliation Tables

The following table presents the reconciliation of Net income to Normalized net income <sup>[1]</sup> and Normalized EBITDA <sup>[1]</sup>.

(in millions of Canadian dollars)	Three-month periods ended		Twelve-month periods ended		
	January 31, 2018	January 31, 2017	January 31, 2018	January 31, 2017	January 31, 2016
<b>Net income</b>	<b>\$ 115.1</b>	\$ 136.4	<b>\$ 274.5</b>	\$ 257.0	\$ 51.6
Normalized elements					
Foreign exchange (gain) loss on long-term debt	(46.2)	(25.3)	(51.9)	(82.0)	105.8
Restructuring and related costs (reversal) <sup>[2]</sup>	2.9	(0.3)	2.9	(1.1)	4.6
Impairment charge <sup>[3]</sup>	—	—	—	—	70.3
Loss on litigation <sup>[4]</sup>	0.2	7.8	5.9	70.7	—
Gain on disposal of property, plant and equipment	—	—	—	—	(6.4)
Pension plan past service gains	—	(6.3)	—	(6.3)	—
Other elements	1.0	—	1.5	2.7	(1.1)
Income tax adjustment <sup>[5]</sup>	25.7	(0.5)	24.0	(19.0)	(24.0)
<b>Normalized net income <sup>[1]</sup></b>	<b>98.7</b>	111.8	<b>256.9</b>	222.0	200.8
Normalized income tax expense <sup>[1]</sup>	42.1	43.0	95.6	89.1	72.8
Financing costs adjusted	15.3	13.8	59.1	60.0	62.6
Financing income adjusted	(0.3)	—	(2.2)	(1.5)	(2.4)
Depreciation expense	41.4	35.7	149.2	133.1	126.2
<b>Normalized EBITDA <sup>[1]</sup></b>	<b>\$ 197.2</b>	\$ 204.3	<b>\$ 558.6</b>	\$ 502.7	\$ 460.0

<sup>[1]</sup> See “Non-IFRS Measures” section.

<sup>[2]</sup> The Company is involved, from time to time, in restructuring and reorganization activities in order to gain flexibility and improve efficiency. The costs related to these activities are mainly composed of severance costs and retention salaries.

<sup>[3]</sup> During the twelve-month period ended January 31, 2016, the Company recorded an impairment charge of \$70.3 million related to its outboard engines cash generating unit (“CGU”).

<sup>[4]</sup> The Company is involved in patent infringement litigation cases with one of its competitors (see “Operating expenses” section in the “Analysis of Results for the twelve-month period ended January 31, 2018” section).

<sup>[5]</sup> For the three- and twelve-month periods ended January 31, 2018, the income tax adjustment is mainly related to the tax rate changes on deferred income taxes following the U.S. tax reform.



## Results of operations

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### ***Analysis of Results for the fourth quarter of Fiscal 2018***

The following section provides an overview of the financial performance of the Company for the three-month period ended January 31, 2018 compared to the same period ended January 31, 2017.

#### *Revenues*

Revenues decreased by \$42.1 million, or 3.2%, to \$1,263.2 million for the three-month period ended January 31, 2018, compared with \$1,305.3 million for the corresponding period ended January 31, 2017. The revenue decrease was mainly due to lower wholesale in Seasonal Products and an unfavourable foreign exchange rate variation of \$14 million.

The Company's North American retail sales for powersports vehicles and outboard engines increased by 5% for the three-month period ended January 31, 2018 compared with the three-month period ended January 31, 2017, mainly due to an increase in SSV.

As at January 31, 2018, North American dealer inventories for powersports vehicles and outboard engines increased by 5% compared to January 31, 2017.

Significant trends by category were as follows:

#### Year-Round Products

Revenues from Year-Round Products increased by \$11.5 million, or 2.2%, to \$538.8 million for the three-month period ended January 31, 2018, compared with \$527.3 million for the corresponding period ended January 31, 2017. The increase resulted mainly from a higher volume of SSV and Spyder vehicles sold, partially offset by an unfavourable product mix of SSV sold and by an unfavourable foreign exchange rate variation of \$9 million.

North American Year-Round Products retail sales increased on a percentage basis in the high-teen range compared with the three-month period ended January 31, 2017.

#### Seasonal Products

Revenues from Seasonal Products decreased by \$46.2 million, or 9.4%, to \$443.3 million for the three-month period ended January 31, 2018, compared with \$489.5 million for the corresponding period ended January 31, 2017. The decrease was driven by a lower volume of snowmobiles sold resulting from the late introduction of the *REV Gen4* platform last year and from an unfavourable foreign exchange rate variation of \$3 million. The decrease was partially offset by a higher volume of PWC sold due to industry growth.

North American Seasonal Products retail sales remained flat compared with the three-month period ended January 31, 2017.

#### Propulsion Systems

Revenues from Propulsion Systems decreased by \$21.3 million, or 19.1%, to \$90.2 million for the three-month period ended January 31, 2018, compared with \$111.5 million for the corresponding period ended January 31, 2017. The decrease was mainly attributable to a lower volume of motorcycle engines sold and to a lower wholesale of outboard engines. The decrease was partially offset by a favourable foreign exchange rate variation of \$1 million.

North American outboard engines retail sales increased on a percentage basis by mid-single digits compared with the three-month period ended January 31, 2017.

#### PAC

Revenues from PAC increased by \$13.9 million, or 7.9%, to \$190.9 million for the three-month period ended January 31, 2018, compared with \$177.0 million for the corresponding period ended January 31, 2017. The increase was mainly attributable to a higher volume of SSV accessories, partially offset by an unfavourable foreign exchange rate variation of \$3 million.



Significant geographical trends were as follows:

#### United States

Revenues from the United States decreased by \$25.0 million, or 3.8%, to \$639.5 million for the three-month period ended January 31, 2018, compared with \$664.5 million for the corresponding period ended January 31, 2017. The decrease resulted from a lower volume of snowmobiles sold and from an unfavourable foreign exchange impact of \$25 million. The decrease was partially offset by a higher volume of PWC and Spyder vehicles sold. The United States represented 50.6% and 50.9% of revenues during the three-month periods ended January 31, 2018 and 2017, respectively.

#### Canada

Revenues from Canada decreased by \$19.2 million, or 9.3%, to \$186.5 million for the three-month period ended January 31, 2018, compared with \$205.7 million for the corresponding period ended January 31, 2017. The decrease was driven by a lower volume of snowmobiles sold. Canada represented 14.8% and 15.8% of revenues during the three-month periods ended January 31, 2018 and 2017, respectively.

#### International

Revenues from International increased by \$2.1 million, or 0.5%, to \$437.2 million for the three-month period ended January 31, 2018, compared with \$435.1 million for the corresponding period ended January 31, 2017. The increase primarily resulted from a higher volume of PWC sold and a favourable foreign exchange impact of \$11 million. The increase was partially offset by a lower volume of snowmobiles and motorcycle engines sold. International represented 34.6% and 33.3% of revenues during the three-month periods ended January 31, 2018 and 2017, respectively.

#### *Gross Profit*

Gross profit decreased by \$18.4 million, or 5.5%, to \$317.2 million for the three-month period ended January 31, 2018, compared with \$335.6 million for the corresponding period ended January 31, 2017. The gross profit decrease includes an unfavourable foreign exchange rate variation of \$1 million. Gross profit margin percentage decreased by 60 basis points to 25.1% from 25.7% for the three-month period ended January 31, 2017. The decrease was primarily due to higher production costs and higher sales program costs driven by the increase in retail sales, partially offset by a higher volume of products sold.

#### *Operating Expenses*

Operating expenses remained relatively stable at \$164.5 million for the three-month period ended January 31, 2018, compared with \$168.2 million for the three-month period ended January 31, 2017.

#### *Normalized EBITDA* <sup>[1]</sup>

Normalized EBITDA <sup>[1]</sup> remained relatively stable at \$197.2 million for the three-month period ended January 31, 2018, compared with \$204.3 million for the three-month period ended January 31, 2017.

#### *Net Financing Costs*

Net financing costs increased by \$2.2 million, or 15.9%, to \$16.0 million for the three-month period ended January 31, 2018, compared with \$13.8 million for the three-month period ended January 31, 2017. The increase primarily resulted from a higher interest expense on the Term Facility due to a higher outstanding nominal amount and from a \$1.0 million loss on the NCIB. The \$1.0 million loss on the NCIB represents the difference between the share price used to establish the financial liability and the amount actually paid to repurchase shares during the regulatory restrictions or self-imposed blackout periods.

<sup>[1]</sup> See "Non-IFRS Measures" section.



### Foreign Exchange

The key average exchange rates used to translate foreign-denominated revenues and expenses, excluding any effect of the Company's hedging program, were as follows for the three-month periods ended January 31, 2018 and 2017:

	January 31, 2018		January 31, 2017	
U.S. dollars	1.2655	CA\$/US\$	1.3324	CA\$/US\$
Euro	1.5083	CA\$/Euro	1.4213	CA\$/Euro

When comparing the operating income and the income before income tax for the three-month period ended January 31, 2018 to the corresponding period ended January 31, 2017, the foreign exchange fluctuations impact was the following:

	Foreign exchange (gain) loss
(in millions of Canadian dollars)	Three-month period
Revenues	\$ 13.8
Cost of sales	(13.0)
<b>Impact of foreign exchange fluctuations on gross profit</b>	<b>0.8</b>
Operating expenses	(4.0)
<b>Impact of foreign exchange fluctuations on operating income</b>	<b>(3.2)</b>
Long-term debt	(20.9)
Net financing costs	(0.5)
<b>Impact of foreign exchange fluctuations on income before income taxes</b>	<b>\$ (24.6)</b>

### Income Taxes

Income tax expense increased by \$25.3 million to \$67.8 million for the three-month period ended January 31, 2018, compared with \$42.5 million for the three-month period ended January 31, 2017. The increase was primarily due to the effect of income tax rate changes on deferred income taxes arising from the U.S. tax reform. The effective income tax rate amounted to 37.1% for the three-month period ended January 31, 2018 compared with 23.8% for the three-month period ended January 31, 2017. The increase resulted primarily from the effect of income tax rate changes on deferred income taxes arising from the U.S. tax reform, partially offset by the tax and accounting treatment of the foreign exchange gain (loss) on the Term Facility.

### Net Income

Net income decreased by \$21.3 million to \$115.1 million for the three-month period ended January 31, 2018, compared with \$136.4 million for the three-month period ended January 31, 2017. The decrease was primarily due to a lower operating income and a higher income tax expense, partially offset by a favourable foreign exchange rate variation impact on the U.S. denominated long-term debt.



## ***Analysis of Results for the twelve-month period ended January 31, 2018***

The following section provides an overview of the financial performance of the Company for the twelve-month period ended January 31, 2018 compared to the same period ended January 31, 2017.

### ***Revenues***

Revenues increased by \$315.4 million, or 7.6%, to \$4,486.9 million for the twelve-month period ended January 31, 2018, compared with \$4,171.5 million for the corresponding period ended January 31, 2017. The revenue increase was primarily attributable to higher wholesale of Year-Round Products and Seasonal Products. The increase was partially offset by an unfavourable foreign exchange rate variation of \$36 million.

The Company's North American retail sales for powersports vehicles and outboard engines increased by 10% for the twelve-month period ended January 31, 2018 compared with the twelve-month period ended January 31, 2017, mainly due to an increase in SSV and snowmobiles.

Significant trends by category were as follows:

### ***Year-Round Products***

Revenues from Year-Round Products increased by \$191.8 million, or 11.7%, to \$1,829.5 million for the twelve-month period ended January 31, 2018, compared with \$1,637.7 million for the corresponding period ended January 31, 2017. The increase was primarily attributable to a higher volume and a favourable product mix of SSV sold due mainly to the *Can-Am Maverick X3*, partially offset by a lower volume of Spyder vehicles sold and by an unfavourable foreign exchange rate variation of \$16 million.

North American Year-Round Products retail sales increased on a percentage basis in the mid-teen range compared with the twelve-month period ended January 31, 2017.

### ***Seasonal Products***

Revenues from Seasonal Products increased by \$86.2 million, or 5.8%, to \$1,560.1 million for the twelve-month period ended January 31, 2018, compared with \$1,473.9 million for the corresponding period ended January 31, 2017. The increase resulted primarily from a higher volume of PWC sold, partially offset by a lower volume of snowmobiles sold and an unfavourable foreign exchange rate variation of \$13 million.

North American Seasonal Products retail sales increased on a percentage basis by high-single digits compared with the twelve-month period ended January 31, 2017.

### ***Propulsion Systems***

Revenues from Propulsion Systems decreased by \$22.0 million, or 5.3%, to \$394.7 million for the twelve-month period ended January 31, 2018, compared with \$416.7 million for the corresponding period ended January 31, 2017. The decrease was mainly attributable to a lower volume of motorcycle engines sold and to an unfavourable foreign exchange rate variation of \$1 million.

North American outboard engine retail sales increased on a percentage basis by mid-single digits compared with the twelve-month period ended January 31, 2017.

### ***PAC***

Revenues from PAC increased by \$59.4 million, or 9.2%, to \$702.6 million for the twelve-month period ended January 31, 2018, compared with \$643.2 million for the corresponding period ended January 31, 2017. The increase was mainly attributable to a higher volume of SSV accessories and snowmobile parts sold, partially offset by an unfavourable foreign exchange rate variation of \$6 million.



Significant geographical trends were as follows:

#### United States

Revenues from the United States increased by \$147.3 million, or 6.9%, to \$2,267.1 million for the twelve-month period ended January 31, 2018, compared with \$2,119.8 million for the corresponding period ended January 31, 2017. The increase is mainly due to a higher volume and a favourable product mix of SSV sold and a higher wholesale in PWC. The increase was partially offset by lower wholesale in snowmobiles and Spyder vehicles and by an unfavourable foreign exchange impact of \$39 million. The United States represented 50.6% and 50.8% of revenues during the twelve-month periods ended January 31, 2018 and 2017, respectively.

#### Canada

Revenues from Canada increased by \$36.6 million, or 5.0%, to \$773.5 million for the twelve-month period ended January 31, 2018, compared with \$736.9 million for the corresponding period ended January 31, 2017. The increase was attributable to snowmobile due to a favourable product mix and a higher volume. The increase was also attributable to a higher volume of PWC and SSV sold. The increase was partially offset by lower wholesale in Spyder vehicles. Canada represented 17.2% and 17.7% of revenues during the twelve-month periods ended January 31, 2018 and 2017, respectively.

#### International

Revenues from International increased by \$131.5 million, or 10.0%, to \$1,446.3 million for the twelve-month period ended January 31, 2018, compared with \$1,314.8 million for the corresponding period ended January 31, 2017. The increase primarily resulted from a higher volume and a favourable product mix of SSV and snowmobile sold, a higher wholesale in PWC and a favourable foreign exchange impact of \$3 million. The increase was partially offset by a lower volume of motorcycle engines sold. International represented 32.2% and 31.5% of revenues during the twelve-month periods ended January 31, 2018 and 2017, respectively.

#### *Gross Profit*

Gross profit increased by \$58.6 million, or 5.8%, to \$1,067.5 million for the twelve-month period ended January 31, 2018, compared with \$1,008.9 million for the corresponding period ended January 31, 2017. The gross profit increase includes an unfavourable foreign exchange rate variation of \$11 million. Gross profit margin percentage decreased by 40 basis points to 23.8% from 24.2% for the twelve-month period ended January 31, 2017. The decrease was primarily due to higher production costs and higher sales program costs driven by the increase in retail sales, partially offset by a favourable product mix and a higher volume in SSV as well as general price increases.

#### *Operating Expenses*

Operating expenses decreased by \$35.2 million, or 5.0%, to \$667.4 million for the twelve-month period ended January 31, 2018, compared with \$702.6 million for the twelve-month period ended January 31, 2017. This decrease was mainly attributable to the specific expense recorded last year following the unfavourable litigation decision described below, partially offset by higher selling and marketing and research and development expenses for continued product investments.

The Company is involved in multiple lawsuits with one of its competitors whereby each party is claiming damages for the alleged infringement of some of its patents. On June 1, 2016, a verdict was rendered in one of those lawsuits against the Company for an amount of U.S. \$15.5 million (\$19.5 million) in compensatory damages. On June 13, 2016, the trial judge formalized the verdict rendered on June 1, 2016 and awarded additional damages in favour of the plaintiff. Subsequently, the trial judge also established a royalty payable upon the sale of any future contravening vehicles. The Company appealed this decision and, on December 7, 2017, the U.S. Court of Appeals for the Federal Circuit partially reversed the decision and ordered a new trial over a portion of the awarded damages.

Judgments were also rendered in two other lawsuits involving the same parties during the twelve-month period ended January 31, 2017, each party suing the other in Canada on alleged patent infringements. Both lawsuits were dismissed and each party filed an appeal. For the twelve-month periods ended January 31, 2018 and 2017, the Company recorded as expenses the total damages and related costs of respectively \$5.9 million and \$70.7 million related to these lawsuits.



### Normalized EBITDA <sup>[1]</sup>

Normalized EBITDA <sup>[1]</sup> increased by \$55.9 million, or 11.1%, to \$558.6 million for the twelve-month period ended January 31, 2018, compared with \$502.7 million for the twelve-month period ended January 31, 2017. The increase was primarily due to higher gross profit, partially offset by higher operating expenses when excluding the unfavourable litigation decision previously described.

### Net Financing Costs

Net financing costs decreased by \$3.3 million, or 5.4%, to \$57.9 million for the twelve-month period ended January 31, 2018, compared with \$61.2 million for the twelve-month period ended January 31, 2017. The decrease resulted mainly from the \$1.7 million accelerated amortization of transaction costs on long-term debt recorded last year as a result of the repayment of U.S. \$92.0 million in the outstanding nominal amount of the Term Facility.

### Foreign Exchange

The key average exchange rates used to translate foreign-denominated revenues and expenses, excluding any effect of the Company's hedging program, were as follows for the twelve-month periods ended January 31, 2018 and 2017:

	January 31, 2018		January 31, 2017	
U.S. dollars	1.2921	CA\$/US\$	1.3176	CA\$/US\$
Euro	1.4741	CA\$/Euro	1.4556	CA\$/Euro

The key period-end exchange rates used to translate foreign-denominated assets and liabilities were as follows:

	January 31, 2018		January 31, 2017	
U.S. dollars	1.2293	CA\$/US\$	1.3030	CA\$/US\$
Euro	1.5280	CA\$/Euro	1.4063	CA\$/Euro

When comparing the operating income and the income before income tax for the twelve-month period ended January 31, 2018 to the corresponding period ended January 31, 2017, the foreign exchange fluctuations impact was the following:

	Foreign exchange (gain) loss
(in millions of Canadian dollars)	Twelve-month period
Revenues	\$ 35.9
Cost of sales	(25.3)
<b>Impact of foreign exchange fluctuations on gross profit</b>	<b>10.6</b>
Operating expenses	(2.7)
<b>Impact of foreign exchange fluctuations on operating income</b>	<b>7.9</b>
Long-term debt	30.1
Net financing costs	(0.8)
<b>Impact of foreign exchange fluctuations on income before income taxes</b>	<b>\$ 37.2</b>

### Income Taxes

Income tax expense increased by \$49.5 million to \$119.6 million for the twelve-month period ended January 31, 2018, compared with \$70.1 million for the twelve-month period ended January 31, 2017. The increase was primarily due to a higher operating income and the effect of income tax rate changes on deferred income taxes arising from the U.S. tax reform. The effective income tax rate amounted to 30.3% for the twelve-month period ended January 31, 2018 compared with 21.4% for the twelve-month period ended January 31, 2017. The increase resulted primarily from the effect of income tax rate changes on deferred income taxes arising from the U.S. tax reform and from the tax and accounting treatment of the foreign exchange gain (loss) on the Term Facility.

<sup>[1]</sup> See "Non-IFRS Measures" section.



### Net Income

Net income increased by \$17.5 million to \$274.5 million for the twelve-month period ended January 31, 2018, compared with \$257.0 million for the twelve-month period ended January 31, 2017. The increase was primarily due to a higher operating income, partially offset by an unfavourable foreign exchange rate variation impact on the U.S. denominated long-term debt and by a higher income tax expense.

### Assessment of the Company's performance against its Fiscal 2018 guidance

On March 24, 2017, the Company issued guidance for the year ending January 31, 2018, which was revised on June 1, 2017, to adjust the normalized EBITDA <sup>[1]</sup> and the capital expenditures and on December 1, 2017, to adjust the revenues, the normalized effective tax rate <sup>[1]</sup>, the normalized net income <sup>[1]</sup> and the normalized earnings per share – diluted <sup>[1]</sup>. The following table provides a comparison of the Company's performance reported for the year ended January 31, 2018, against the issued and revised guidance for this year:

	<b>Target for Fiscal 2018 (compared to Fiscal 2017)</b>			
	<b>As issued on March 24, 2017</b>	<b>As revised on December 1, 2017 and June 1, 2017</b>	<b>Results for Fiscal 2018 (compared to Fiscal 2017)</b>	
Revenues	Increase 2% to 6%	Increase 6% to 8%	Increase of 8%	As expected
Normalized EBITDA <sup>[1]</sup>	Increase 7% to 10%	Increase 10% to 13%	Increase of 11%	As expected
Normalized effective tax rate <sup>[1]</sup>	28% - 29%	27% - 28%	27.1%	As expected
Normalized net income <sup>[1]</sup>	Increase 7% to 13%	Increase 11% to 16%	Increase of 16%	As expected
Normalized earnings per share - diluted <sup>[1]</sup>	\$2.15 to \$2.27	\$2.25 to \$2.35	\$2.38	Above
Capital expenditures	\$215 million to \$230 million	\$240 million to \$255 million	\$230 million	Below due to projects postponed to Fiscal 2019

<sup>[1]</sup> See "Non-IFRS Measures" section.



## Summary of Consolidated Quarterly Results

	Three-month periods ended							
	January 31, 2018	October 31, 2017	July 31, 2017	April 30, 2017	January 31, 2017	October 31, 2016	July 31, 2016	April 30, 2016
(millions of Canadian dollars, except per share data)	Fiscal 2018	Fiscal 2018	Fiscal 2018	Fiscal 2018	Fiscal 2017	Fiscal 2017	Fiscal 2017	Fiscal 2017
<b>Revenues by category</b>								
Year-Round Products	\$ 538.8	\$ 460.9	\$ 439.4	\$ 390.4	\$ 527.3	\$ 383.9	\$ 326.3	\$ 400.2
Seasonal Products	443.3	491.7	318.6	306.5	489.5	417.1	280.5	286.8
Propulsion Systems	90.2	93.5	105.4	105.6	111.5	94.2	99.9	111.1
PAC	190.9	194.4	163.6	153.7	177.0	185.0	149.4	131.8
<b>Total Revenues</b>	<b>1,263.2</b>	<b>1,240.5</b>	<b>1,027.0</b>	<b>956.2</b>	<b>1,305.3</b>	<b>1,080.2</b>	<b>856.1</b>	<b>929.9</b>
<b>Gross profit</b>	<b>317.2</b>	<b>329.4</b>	<b>213.7</b>	<b>207.2</b>	<b>335.6</b>	<b>307.2</b>	<b>172.0</b>	<b>194.1</b>
<i>As a percentage of revenues</i>	<b>25.1%</b>	<b>26.6%</b>	<b>20.8%</b>	<b>21.7%</b>	<b>25.7%</b>	<b>28.4%</b>	<b>20.1%</b>	<b>20.9%</b>
<b>Net income (loss)</b>	<b>115.1</b>	<b>77.8</b>	<b>100.1</b>	<b>(18.5)</b>	<b>136.4</b>	<b>78.7</b>	<b>(68.8)</b>	<b>110.7</b>
<b>Normalized EBITDA <sup>[1]</sup></b>	<b>197.2</b>	<b>199.2</b>	<b>81.5</b>	<b>80.7</b>	<b>204.3</b>	<b>196.9</b>	<b>44.4</b>	<b>57.1</b>
<b>Normalized net income <sup>[1]</sup></b>	<b>98.7</b>	<b>109.3</b>	<b>20.6</b>	<b>28.3</b>	<b>111.8</b>	<b>104.4</b>	<b>1.0</b>	<b>4.8</b>
<b>Basic earnings (loss) per share</b>	<b>1.13</b>	<b>0.75</b>	<b>0.90</b>	<b>(0.17)</b>	<b>1.22</b>	<b>0.70</b>	<b>(0.61)</b>	<b>0.96</b>
<b>Diluted earnings (loss) per share</b>	<b>1.12</b>	<b>0.75</b>	<b>0.89</b>	<b>(0.17)</b>	<b>1.22</b>	<b>0.70</b>	<b>(0.61)</b>	<b>0.96</b>
<b>Normalized basic earnings per share <sup>[1]</sup></b>	<b>0.97</b>	<b>1.06</b>	<b>0.18</b>	<b>0.25</b>	<b>1.00</b>	<b>0.93</b>	<b>0.01</b>	<b>0.04</b>
<b>Normalized diluted earnings per share <sup>[1]</sup></b>	<b>\$ 0.96</b>	<b>\$ 1.05</b>	<b>\$ 0.18</b>	<b>\$ 0.25</b>	<b>\$ 1.00</b>	<b>\$ 0.93</b>	<b>\$ 0.01</b>	<b>\$ 0.04</b>

<sup>[1]</sup> See "Non-IFRS Measures" section.



## Reconciliation Table for Consolidated Quarterly Results

	Three-month periods ended							
	January	October	July	April	January	October	July	April
	31, 2018	31, 2017	31, 2017	30, 2017	31, 2017	31, 2016	31, 2016	30, 2016
(millions of Canadian dollars)	Fiscal 2018	Fiscal 2018	Fiscal 2018	Fiscal 2018	Fiscal 2017	Fiscal 2017	Fiscal 2017	Fiscal 2017
<b>Net income (loss)</b>	<b>\$ 115.1</b>	\$ 77.8	\$ 100.1	\$ (18.5)	\$ 136.4	\$ 78.7	\$ (68.8)	\$ 110.7
Normalized elements								
Foreign exchange (gain) loss on long-term debt	(46.2)	30.9	(79.5)	42.9	(25.3)	24.5	38.0	(119.2)
Restructuring and related costs (reversal) <sup>[1]</sup>	2.9	—	—	—	(0.3)	(0.4)	0.1	(0.5)
Loss on litigation <sup>[2]</sup>	0.2	—	0.9	4.8	7.8	0.3	43.1	19.5
Pension plan past service gains	—	—	—	—	(6.3)	—	—	—
Other elements	1.0	0.5	—	—	—	1.1	1.6	—
Income tax adjustment <sup>[3]</sup>	25.7	0.1	(0.9)	(0.9)	(0.5)	0.2	(13.0)	(5.7)
<b>Normalized net income</b> <sup>[4]</sup>	<b>98.7</b>	109.3	20.6	28.3	111.8	104.4	1.0	4.8
Normalized income tax expense (recovery) <sup>[4]</sup>	42.1	38.6	11.0	3.9	43.0	43.7	(3.2)	5.6
Financing costs adjusted	15.3	15.1	14.9	13.8	13.8	14.8	15.6	15.8
Financing income adjusted	(0.3)	(0.5)	(0.7)	(0.7)	—	—	(0.8)	(0.7)
Depreciation expense	41.4	36.7	35.7	35.4	35.7	34.0	31.8	31.6
<b>Normalized EBITDA</b> <sup>[4]</sup>	<b>\$ 197.2</b>	\$ 199.2	\$ 81.5	\$ 80.7	\$ 204.3	\$ 196.9	\$ 44.4	\$ 57.1

<sup>[1]</sup> The Company is involved, from time to time, in restructuring and reorganization activities in order to gain flexibility and improve efficiency. The costs related to these activities are mainly composed of severance costs and retention salaries.

<sup>[2]</sup> In Fiscal 2018 and Fiscal 2017, the Company recorded expenses of respectively \$5.9 million and \$70.7 million related to patent infringement litigation cases with one of its competitors (see "Operating expenses" in the "Analysis of Results for the twelve-month period ended January 31, 2018" section).

<sup>[3]</sup> For the three-month period ended January 31, 2018, the income tax adjustment is mainly related to the tax rate changes on deferred income taxes following the U.S. tax reform.

<sup>[4]</sup> See "Non-IFRS Measures" section.



## Liquidity and Capital Resources

### Liquidity

The Company's primary sources of cash consist of existing cash balances, operating activities and available borrowings under the revolving credit facilities and Term Facility.

The Company's primary uses of cash are to fund operations, working capital requirements and capital expenditures in connection with product development and manufacturing infrastructure. The fluctuation of working capital requirements is primarily due to the seasonality of the Company's production schedule and product shipments.

A summary of net cash flows by activities is presented below for the twelve-month periods ended January 31, 2018 and 2017:

(millions of Canadian dollars)	Twelve-month periods ended	
	January 31, 2018	January 31, 2017
Net cash flows generated from operating activities	\$ 560.8	\$ 505.9
Net cash flows used in investing activities	(231.2)	(184.5)
Net cash flows used in financing activities	(404.5)	(270.9)
Effect of exchange rate changes on cash	2.3	13.1
Net increase (decrease) in cash	(72.6)	63.6
Cash at beginning of period	298.6	235.0
Cash at end of period	\$ 226.0	\$ 298.6

#### *Net Cash Flows Generated from Operating Activities*

Net cash flows generated from operating activities totalled \$560.8 million for the twelve-month period ended January 31, 2018 compared with \$505.9 million for the twelve-month period ended January 31, 2017. The \$54.9 million increase in net cash flows generated was mainly due to higher operating income, partially offset by unfavourable changes in working capital of \$42.3 million. The unfavourable changes in working capital were primarily driven by Provisions and Trade payables and accruals to support production increase, partially offset by a favourable change in Trade and other receivables due to a faster collection.

#### *Net Cash Flows Used in Investing Activities*

Net cash flows used in investing activities totalled \$231.2 million for the twelve-month period ended January 31, 2018 compared to \$184.5 million for the twelve-month period ended January 31, 2017. The \$46.7 million increase was mainly attributable to production capacity increase and optimization of manufacturing infrastructure and logistics.

#### *Net Cash Flows Used in Financing Activities*

Net cash flows used in financing activities totalled \$404.5 million for the twelve-month period ended January 31, 2018 compared with \$270.9 million for the twelve-month period ended January 31, 2017. The \$133.6 million increase in net cash flows used was mainly attributable to the SIB and the dividends paid, partially offset by the increase in the amount borrowed under the term facility during Fiscal 2018 and the partial repayment of the term facility during Fiscal 2017.



## Contractual Obligations

The following table summarizes the Company's significant contractual obligations as at January 31, 2018, including commitments related to leasing contracts:

(millions of Canadian dollars)	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total amount
<b>Commitments</b>					
Operating lease agreements	\$ 31.4	\$ 55.1	\$ 47.1	\$ 109.0	\$ 242.6
<b>Financial obligations</b>					
Trade payables and accruals	805.5	—	—	—	805.5
Long-term debt (including interest)	61.0	109.8	105.3	960.1	1,236.2
Derivative financial instruments	7.8	—	—	2.2	10.0
Other financial liabilities (including interest)	125.7	1.1	0.1	24.3	151.2
	1,000.0	110.9	105.4	986.6	2,202.9
<b>Total obligations</b>	<b>\$ 1,031.4</b>	<b>\$ 166.0</b>	<b>\$ 152.5</b>	<b>\$ 1,095.6</b>	<b>\$ 2,445.5</b>

The Company enters into purchasing agreements with suppliers related to material used in production. These agreements are usually entered into before production begins and may specify a fixed or variable quantity of material to be purchased. Due to the uncertainty as to the amount and pricing of material that may be purchased, the Company is not able to determine with precision its commitments in connection with these supply agreements.

Management believes that the Company's operating activities and available financing capacity will provide adequate sources of liquidity to meet its short-term and long-term needs.

## Capital Resources

### Revolving Credit Facilities

On May 31, 2017, the Company amended its \$425.0 million revolving credit facilities agreement to increase the availability by \$50.0 million for a total availability of \$475.0 million (the "Revolving Credit Facilities"). All other conditions of the Revolving Credit Facilities remained unchanged. The Company incurred transaction fees of \$0.5 million. The total available borrowing under the Revolving Credit Facilities is subject to a borrowing base calculation representing 75% of the carrying amount of trade and other receivables plus 50% of the carrying amount of inventories. The Revolving Credit Facilities are available to finance working capital requirements and capital expenditures, or for other general corporate purposes.

As at January 31, 2018, the Company had no outstanding indebtedness under the Revolving Credit Facilities.

The applicable cost of borrowing under the Revolving Credit Facilities for the quarter ended January 31, 2018 was the following based on:

- (i) U.S. dollars at either
  - (a) LIBOR plus 2.00% per annum; or
  - (b) U.S. Base Rate plus 1.00% per annum; or
  - (c) U.S. Prime Rate plus 1.00% per annum;
- (ii) Canadian dollars at either
  - (a) Bankers' Acceptances plus 2.00% per annum; or
  - (b) Canadian Prime Rate plus 1.00% per annum
- (iii) Euros at Euro LIBOR plus 2.00% per annum.

As at January 31, 2018, the commitment fees on the undrawn amount of the Revolving Credit Facilities were 0.30% per annum.



For future periods, the cost of borrowing could increase by up to 1.50% or decrease by 0.25% and the commitment fees on the undrawn amount could increase by up to 0.15% depending on the leverage ratio represented by the ratio of net debt to consolidated cash flows of the Company's subsidiary, Bombardier Recreational Products Inc.

Under certain conditions, the Company is required to maintain a minimum fixed charge coverage ratio in order to have full access to its Revolving Credit Facilities.

As at January 31, 2018, the Company had issued letters of credit for an amount of \$2.1 million under the Revolving Credit Facilities (\$2.2 million as at January 31, 2017). In addition, \$5.2 million of letters of credit were outstanding under other agreements as at January 31, 2018, (\$4.1 million as at January 31, 2017).

#### *Term Facility*

On October 10, 2017, the Company amended its Term Facility. This amendment reduces the cost of borrowing by 0.50% and reduced the LIBOR floor to 0.00%. It also increases the amount of borrowing by U.S. \$100.0 million for a total nominal outstanding amount of U.S. \$793.0 million. The maturity remains unchanged in June 2023 and the Company has the option to increase the amount of borrowing by U.S. \$150.0 million under certain conditions. The Company incurred transaction costs of \$2.1 million.

As at January 31, 2018, the cost of borrowing under the Term Facility was as follows:

- (i) LIBOR plus 2.50% per annum, with a LIBOR floor of 0.00%; or
- (ii) U.S. Base Rate plus 1.50%; or
- (iii) U.S. Prime Rate plus 1.50%

Under the Term Facility, the cost of borrowing in U.S. Base Rate or U.S. Prime Rate cannot be lower than the cost of borrowing in LIBOR.

The Company is required to repay a minimum of 1% of the original nominal amount of U.S. \$800.0 million each year in two equal payments in July and January. During the twelve-month period ended January 31, 2018, the Company repaid an amount of U.S. \$7.5 million. Also, the Company may be required to repay a portion of the Term Facility in the event that Bombardier Recreational Products Inc. has an excess cash position at the end of the fiscal year and its Leverage ratio is above a certain threshold level. As at January 31, 2018, the Company was not required to repay any portion of the Term Facility under this requirement. The Term Facility agreement contains customary representations and warranties but includes no financial covenants.

#### *Austrian Term Loans*

During the twelve-month period ended January 31, 2018, the Company entered into term loan agreements at favourable interest rates under Austrian government programs. These programs support research and development projects based on the Company's incurred expenses in Austria. The term loans have a total nominal amount of euro 8.3 million (\$12.5 million), interest rates at 1.65% (1.90% starting in December 2021) or at Euribor three-months plus 1.00% and maturities between December 2021 and December 2028.

As at January 31, 2018, the Company had euro 24.7 million outstanding under its Austrian term loans bearing interest at a range between 0.75% and 2.19% and maturing between December 2018 and December 2028.

#### *Finance Lease Liabilities*

As at January 31, 2018, the contractual obligations in relation to assets acquired under finance lease agreements amounted to \$14.0 million to be settled over a period ending in December 2030.

#### *SIB*

On June 1, 2017, the Company announced an SIB to repurchase its subordinate voting shares for cancellation for a maximum amount of \$350.0 million. During the twelve-month period ended January 31,



2018, the Company repurchased 8,599,508 subordinate voting shares following the completion of the SIB for a total consideration of \$350.0 million. Prior to the completion of the SIB, 6,070,872 multiple voting shares were converted into an equivalent number of subordinate voting shares. These converted shares were repurchased in the SIB. The Company incurred \$1.0 million of fees and expenses related to the SIB, which were recorded in capital stock.

#### *Normal Course Issuer Bid Program ("NCIB")*

In March 2017, the Company announced the renewal of its NCIB to purchase for cancellation up to 3,078,999 of its outstanding subordinate voting shares. During the twelve-month period ended January 31, 2018, the Company repurchased a total of 2,320,900 subordinate voting shares for a total consideration of \$106.7 million.

As at January 31, 2018, a \$38.6 million liability, with a corresponding amount in equity, was recorded in the condensed consolidated interim statements of financial position in relation with the NCIB. This liability represented the value of subordinate voting shares expected to be repurchased by a designated broker under an automatic share purchase plan from February 1 to March 22, 2018. This automatic share purchase plan allows for the purchase of subordinate voting shares under pre-set conditions at times when the Company would ordinarily not be permitted due to regulatory restrictions or self-imposed blackout periods.

### **Consolidated Financial Position**

The following table shows the main variances that have occurred in the audited consolidated statements of financial position of the Company between January 31, 2018 and January 31, 2017, the impact of the fluctuation of exchange rates on such variance, the related net variance (excluding the impact of the fluctuation of exchange rates on such variance) as well as explanations for the net variance:

(millions of Canadian dollars)	January 31, 2018	January 31, 2017	Variance	Exchange Rate Impact	Net Variance	Explanation of Net Variance
Trade and other receivables	<b>\$ 330.1</b>	\$ 326.7	\$ 3.4	\$ (11.5)	\$ (8.1)	No significant variances
Inventories	<b>752.5</b>	689.8	62.7	(10.3)	52.4	Mostly explained by higher raw material inventory of SSV and PWC due to increased production level and higher PAC inventory of SSV due to expanded line-up and increased demand
Property, plant and equipment	<b>766.8</b>	673.2	93.6	(10.0)	83.6	Mostly explained by investments related to production capacity increase and optimization of manufacturing infrastructure and logistics
Trade payables and accruals	<b>805.5</b>	718.5	87.0	4.0	91.0	Mostly explained by an increased production level
Long-term debt, including current portion	<b>990.6</b>	923.7	66.9	49.0	115.9	Mostly explained by the increase in the amount borrowed under the Term Facility
Employee future benefit liabilities	<b>224.8</b>	194.1	30.7	(8.6)	22.1	Mostly explained by the decrease of the discount rate by approximately 35 basis points on Canadian defined benefit obligations, partially offset by an increased fair value of Canadian plan assets



## Post-Employment Benefits

The Company sponsors defined contribution retirement plans to a majority of its employees and sponsors non-contributory defined benefit plans that provide for pensions and other post-retirement benefits to certain employees mainly located in Canada and Austria.

In Canada, the Company's defined benefit pension plans coverage are mainly related to pension benefits for its executive employees and life insurance benefits and healthcare benefits to executive and certain eligible employees. Additionally, the Company retained defined benefit obligations with certain active and former Canadian employees for services rendered prior to 2005. During Fiscal 2017, the Company modified the eligibility criteria for the non-contributory life insurance benefits in the other post-retirement benefit plans. The Company recorded a gain of \$7.1 million in operating income on this transaction. During the same period, the Company improved the earnings formula of the defined benefit pension plan for the non-executive employees. The Company recorded a loss of \$0.8 million in operating income on this transaction.

In Austria, the Company's defined benefit pension plan coverage is related to a lump sum retirement indemnity plan and a defined benefit plan.

A summary of the carrying amounts of employee future benefit liabilities and the discount rates used to establish their carrying amounts for the last two fiscal years were as follows, as at:

(in millions of Canadian dollars)	January 31, 2018			January 31, 2017		
	Canada	Foreign	Total	Canada	Foreign	Total
Employee future benefit liabilities	\$ 98.9	\$ 125.9	\$ 224.8	\$ 83.1	\$ 111.0	\$ 194.1
Discount rate	3.70%	1.64%		4.05%	1.86%	
Compensation increase	3.00%	3.00%		3.00%	3.00%	

The Company's liabilities related to defined benefit obligations are highly dependent of prevailing actual and future discount rates, future compensation increases and participant longevity. An increase or decrease of those factors could increase or decrease significantly the employee future benefit liabilities and future cash contributions. The following table presents the impact on the employee future benefit liabilities as at January 31, 2018 of reasonable possible changes of the respective assumptions, while holding all other assumptions constant:

	Increase (Decrease) of the employee future benefit liabilities
<b>Discount rate</b>	
Impact of a 1.0% increase	\$ (67.0)
Impact of a 1.0% decrease	84.6
<b>Expected rate of compensation increase</b>	
Impact of a 0.5% increase	9.2
Impact of a 0.5% decrease	(8.6)
<b>Participant longevity</b>	
Impact of a 1 year increase	9.2
Impact of a 1 year decrease	(9.4)

The sensitivity analysis presented above may not be representative of the potential change in the employee future benefit liabilities as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In accordance with the minimum funding obligations required under the current regulations, the Company expects to contribute \$13.8 million to all defined benefit pension plans for the year ending January 31, 2019.

The pension expense incurred by the Company for its defined benefit and defined contribution pension plans was \$43.0 million and \$36.7 million for the years ended January 31, 2018 and January 31, 2017, respectively, of which 13.5% and 19.6% is related to current service costs under defined benefit plans.



## Off-Balance Sheet Arrangements

### Dealer and Distributor Financing Arrangements

The Company, most of its independent dealers and some of its independent distributors are parties to agreements with third-party financing service providers. These agreements provide financing to facilitate the purchase of the Company's products and improve the Company's working capital by allowing an earlier collection of accounts receivable from dealers and distributors. Approximately three-quarters of the Company's sales are made under such agreements. The parties listed above have agreements with TCF Inventory Finance Inc. and TCF Commercial Finance Canada Inc. (collectively, "TCF"), to provide financing facilities in North America and Latin America, and with Wells Fargo Commercial Distribution Finance, Wells Fargo Bank International, Wells Fargo International Finance LLC and Wells Fargo International Finance (New Zealand) Limited (collectively "Wells Fargo") for financing facilities in North America, Europe, Australia and New Zealand. The agreement between the Company and TCF will expire on January 31, 2023. For the contracts with Wells Fargo, the maximum commitment period is up to March 20, 2019.

The total amount of financing provided to the Company's independent dealers and distributors totalled \$903.3 million and \$3,262.5 million for the three- and twelve-month periods ended January 31, 2018, compared to \$955.3 million and \$3,063.6 million for the three- and twelve-month periods ended January 31, 2017. The outstanding financing between the Company's independent dealers and distributors and third-party finance companies amounted to \$1,576.9 million and \$1,605.0 million as at January 31, 2018, and January 31, 2017, respectively.

The breakdown of outstanding amounts by country and local currency between the Company's independent dealers and distributors with third-party finance companies were as follows, as at:

(in millions)	Currency	January 31, 2018	January 31, 2017
<b>Total outstanding</b>	<b>CAD</b>	<b>\$ 1,577</b>	<b>\$ 1,605</b>
United States	USD	877	867
Canada	CAD	387	378
Europe	Euro	38	37
Australia and New Zealand	AUD	54	45
Latin America	USD	—	1

The costs incurred by the Company under the dealers' and distributors' financing agreements totalled \$0.6 million and \$33.3 million for the three- and twelve-month periods ended January 31, 2018 compared with \$5.0 million and \$29.6 million for the three- and twelve-month periods ended January 31, 2017.

Under the dealer and distributor financing agreements, in the event of default, the Company may be required to purchase, from the finance companies, repossessed new and unused products at the total unpaid principal balance of the dealer or distributor to the finance companies. In North America, the obligation is limited to the greater of U.S. \$25.0 million (\$30.7 million) or 10% of the last twelve-month average amount of financing outstanding under the financing agreements, whereas in Europe, the obligation is limited to the greater of U.S. \$10.0 million (\$12.3 million) or 10% of the last twelve-month average amount of financing outstanding under the financing agreements. In Australia and New Zealand, the obligation to purchase repossessed new and unused products is limited to the greater of AU \$5.0 million (\$5.0 million) or 10% of the last twelve-month average amount of financing outstanding under the financing agreements.

The maximum amount subject to the Company's obligation to purchase repossessed new and unused products from the finance companies was \$162 million as at January 31, 2018 (\$145 million in North America, \$12 million in Europe and \$5 million in Australia and New Zealand) and \$152 million as at January 31, 2017 (\$134 million in North America, \$13 million in Europe and \$5 million in Australia and New Zealand).

The Company did not incur significant losses related to new and unused products repossessed by the finance companies for the three- and twelve-month periods ended January 31, 2018 and 2017.



## **Consumer Financing Arrangements**

The Company has contractual relationships with third-party financing companies in order to facilitate consumer credit for the purchase of its products in North America. The agreements generally allow the Company to offer under certain sales programs a subsidized interest rate to consumers for a certain limited period. In Canada, the Company has agreements with TD Financing Services and the Fédération des caisses Desjardins du Québec for such purposes. In the United States, the Company has agreements with Sheffield Financial, Citi Retail Services and Roadrunner Financial. Under these contracts, the Company's financial obligations are mainly related to the commitments made under certain sales programs.

## **Transactions Between Related Parties**

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### **Transactions with Key Management Personnel**

Key management personnel of the Company, defined as employees with authority and responsibility for planning, directing and controlling the activities of the Company, are considered related parties to the Company. The key management personnel of the Company are the directors and the executive officers listed in the Annual Information Form of the Company dated March 20, 2018, and available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company incurred the following benefit expenses in relation with key management personnel:

(in millions of Canadian dollars)	Twelve-month periods ended	
	January 31, 2018	January 31, 2017
Current remuneration	\$ 14.2	\$ 9.9
Post-employment benefits	1.6	1.3
Termination benefits	—	0.6
Stock-based compensation expense	4.6	3.3
<b>Total</b>	<b>\$ 20.4</b>	<b>\$ 15.1</b>

### **Transactions with the Principal Shareholders**

On October 17, 2017, Beaudier Inc. and 4338618 Canada Inc. (collectively, "Beaudier group"), Bain Capital Luxembourg Investments S.à r.l. ("Bain Capital") and La Caisse de dépôt et placement du Québec ("CDPQ") completed a secondary offering of 10,000,000 subordinate voting shares of the Company to a syndicate of underwriters. Prior to such transaction, Beaudier group, Bain Capital and CDPQ converted respectively 5,218,391, 4,017,091 and 764,518 multiple voting shares into an equivalent number of subordinate voting shares. The Company did not receive any of the proceeds of the secondary offering. In accordance with the terms of the registration rights agreement entered into in connection with the initial public offering of the Company's subordinate voting shares, the Company incurred approximately \$0.5 million of fees and expenses related to this secondary offering.

### **Transactions with Bombardier Inc., a Company Related to Beaudier Group**

Pursuant to the purchase agreement entered into in 2003 in connection with the acquisition of the recreational product business of Bombardier Inc., the Company is committed to reimburse to Bombardier Inc. income taxes amounting to \$22.0 million as at January 31, 2018 and \$22.2 million as at January 31, 2017, respectively. The payments will begin when Bombardier Inc. starts making income tax payments in Canada and/or in the United States. The Company does not expect to make any payments to Bombardier Inc. in relation with that obligation for the year ending January 31, 2019.



## Financial Instruments

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The Company's financial instruments, divided into financial assets and financial liabilities, are measured at the end of each period at fair value or amortized costs using the effective interest method depending on their classification determined by IFRS. By nature, financial assets are exposed to credit risk whereas financial liabilities are exposed to liquidity risk. Additionally, the Company's financial instruments and transactions could be denominated in foreign currency creating a foreign exchange exposure that could be mitigated by the use of derivative financial instruments. The Company is to a lesser extent exposed to interest risk associated to its Revolving Credit Facilities, Term Facility and Austrian term loans.

### **Foreign Exchange Risk**

The elements reported in the consolidated statements of net income, in the consolidated statements of financial position and in the consolidated statements of cash flows presented in the Company's audited consolidated financial statements in Canadian dollars are significantly exposed to the fluctuation of exchange rates, mainly the Canadian dollar/U.S. dollar rate and the Canadian dollar/euro rate.

The Company's cash inflows and outflows are mainly comprised of Canadian dollars, U.S. dollars and euros. The Company intends to maintain, as a result of its business transactions, a certain offset position on U.S. dollar and euro denominated cash inflows and outflows.

For currencies over which the Company cannot achieve an offset through its recurring business transactions, mainly for the Australian dollar, the Swedish krona and the Norwegian krone, the Company uses foreign exchange contracts according to the Company's hedging policy. Under this policy, the Company hedges up to 50% of the budgeted revenue exposure in these currencies during the annual budget period and continually increases the coverage up to 80% six months before the expected exposures arise. Management periodically reviews the relevant hedging position and may hedge at any level within the authorized parameters of the policy, up to the maximum percentage allowed. Those contracts are accounted for under the cash flow hedge model covering highly probable forecasted sales in these currencies and the gains or losses on those derivatives are recorded in net income only when the forecasted sales occur.

Finally, the Company reduces the exposure on its net income arising from the revaluation at period-end of U.S. dollar-denominated trade payables and accruals by using foreign exchange contracts having the same inception and maturity dates. Those contracts are recorded in net income at each period end in order to mitigate the gains or losses resulting from the revaluation at spot rate of these foreign-denominated liabilities.

While the Company's operating income is protected, to a certain extent, from significant fluctuations of foreign exchange rates resulting from the application of the Company's hedging strategy, the net income is significantly exposed to Canadian dollar/U.S. dollar rate fluctuations due to the U.S. dollar-denominated long-term debt. However, the Company's normalized net income <sup>[1]</sup> does not take into account the foreign exchange (gain) loss on long-term debt.

### **Liquidity Risk**

The Company is exposed to the risk of encountering difficulty in meeting obligations related to its financial liabilities. In order to manage its liquidity risk accurately, the Company continuously monitors its operating cash requirements taking into account the seasonality of the Company's working capital needs, revenues and expenses. The Company believes the cash flows generated from operations combined with its cash on hand and the availability of funds under its credit facilities ensures its financial flexibility and mitigates its liquidity risk.

<sup>[1]</sup> See "Non-IFRS Measures" section.



## **Credit Risk**

The Company could be exposed, in the normal course of business, to the potential inability of dealers, distributors and other business partners to meet their contractual obligations on financial assets and on amounts guaranteed under dealer and distributor financing arrangements with TCF and Wells Fargo.

The Company considers that its credit risk associated with its trade receivables and its limited responsibilities under the dealer and distributor financing agreements with TCF and Wells Fargo does not represent a significant concentration of risk and loss due to the large number of dealers, distributors and other business partners and their dispersion across many geographic areas. Moreover, the Company mitigates such risk by doing business through its own distribution channels and by monitoring the creditworthiness of the dealers and distributors in the different geographic areas.

## **Interest Rate Risk**

The Company is exposed to the variation of interest rates mainly resulting from the LIBOR on its Term Facility and the Company does not hedge this exposure. Therefore, an increase in interest rates could negatively impact the Company's operating results.

## **Critical Accounting Estimates**

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### ***Significant Estimates and Judgments***

The preparation of the audited consolidated financial statements in accordance with the Company's accounting policies requires management to make estimates and judgments that can affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, other comprehensive income and disclosures made.

The Company's best estimates are based on the information, facts and circumstances available at the time estimates are made. Management uses historical experience and information, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used and such differences could be significant.

The Company's annual operating budget and operating budget revisions performed during the year (collectively "Budget") and the Company's strategic plan comprise fundamental information used as a basis for some significant estimates necessary to prepare the audited consolidated financial statements. Management prepares the annual operating budget and strategic plan each year using a process whereby a detailed one-year budget and three-year strategic plan are prepared by each entity and then consolidated.

Cash flows and profitability included in the Budget are based on the existing and future expected sales orders, general market conditions, current cost structures, anticipated cost variations and current agreements with third parties. Management uses the annual operating budget information as well as additional projections or assumptions to derive the expected results for the strategic plan and periods thereafter.

The Budget and the strategic plan are approved by management and the Board of Directors. Management then tracks performance as compared to the Budget. Significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

Management needs to rely on estimates in order to apply the Company's accounting policies and considers that the most critical ones are the following:



#### *Estimating the Net Realizable Value of Inventory*

The net realizable value of materials and work in progress is determined by comparing inventory components and value with production needs, current and future product features, expected production costs to be incurred and the expected profitability of finished products. The net realizable value of finished products and parts and accessories is determined by comparing inventory components and value with expected sales prices, sales program and new product features.

#### *Estimating the Useful Life of Tooling*

Tooling useful life is estimated by product line based on their expected physical life and on the expected life of the product platform they are related to.

#### *Estimating Impairment on Property, Plant and Equipment and Intangible Assets*

Management assesses the value in use of property, plant and equipment and intangible assets mainly at groups of CGU level using a discounted cash flow approach by product line determined during the annual budget and strategic plan process. When the Company acquired the recreational products business from Bombardier Inc. in 2003, trademarks and goodwill were recorded as part of the business acquisition. As at January 31, 2018, the entire carrying amount of trademarks of \$136.0 million and \$114.7 million of the \$116.0 million carrying amount of goodwill were related to this transaction.

##### *(i) Trademarks Impairment Test*

For the purpose of impairment testing, Ski-Doo<sup>®</sup>, Sea-Doo<sup>®</sup> and Evinrude<sup>®</sup> trademarks are allocated to their respective CGU. The carrying amount of trademarks amounting to \$136.0 million is related to *Ski-Doo*, *Sea-Doo* and *Evinrude* for \$63.5 million, \$59.1 million and \$13.4 million respectively.

##### Recoverable Amount

The Company determines the recoverable amount of these trademarks separately using value in use calculation. Value in use uses cash flow projections from the Company's one-year budget and three-year strategic plan, with a terminal value calculated by discounting the final year in perpetuity. These figures used as the basis for the key assumptions in the value in use calculation includes sales volume, sales price, production costs, distribution costs and operating expenses as well as discount rates. This information represents the best available information as at the date of impairment testing. The estimated future cash flows are discounted to their present value. The Company performs sensitivity analysis on the cash flows and growth rate in order to confirm that the trademarks are not impaired.

##### *(ii) Goodwill Impairment Test*

For the purpose of impairment testing, goodwill of \$114.7 million created in 2003 was allocated to the group of CGU representing all the Company's product lines.

##### Recoverable Amount

The recoverable amount of the group of CGUs is based on a value in use calculation using cash flow projections, which takes into account the Company's one-year budget and three-year strategic plan, with a terminal value calculated by discounting the final year in perpetuity. These figures used as the basis for the key assumptions in the value in use calculation includes sales volume, sales price, production costs, distribution costs and operating expenses as well as discount rates. This information represents the best available information as at the date of impairment testing. The estimated future cash flows are discounted to their present value. The Company performs sensitivity analysis on the cash flows and growth rate in order to confirm that goodwill is not impaired.

#### *Estimating Recoverability of Deferred Tax Assets*

Deferred tax assets are recognized only if management believes it is probable that they will be realized based on annual budget, strategic plan and additional projections to derive the expected results for the periods thereafter.



### *Estimating Provisions for Product Warranty, Product Liability, Sales Program and Restructuring*

The warranty cost is established by product and recorded at the time of sale based on management's best estimate, using historical cost rates and trends. Adjustments to the warranty provision are made when the Company identifies a significant and recurring issue on products sold or when costs and trend differences are identified in the analysis of warranty claims.

The product liability provision at period end is based on management's best estimate of the amounts necessary to resolve existing claims. In addition, the product liability provision at the end of the reporting period includes incurred, but not reported claims, based on average historical cost information.

Sales program provision is estimated based on current program features, historical data and expected retail sales for each product line.

Restructuring provision is initially estimated based on restructuring plan estimated costs in relation with the plan features approved by management. Restructuring provision is reviewed at each period end in order to take into account updated information in relation with the realization of the plan. If necessary, the provision is adjusted accordingly.

### *Estimating the Discount Rates Used in Assessing Defined Benefit Plan Expenses and Liability*

In order to select the discount rates used to determine defined benefit plan expenses and liabilities, management consults with external actuarial firms to provide commonly used and applicable discount rates that are based on the yield of high quality corporate fixed income investments with cash flows that match expected benefit payments for each defined benefit plan. Management uses its knowledge and comprehension of general economic factors in order to conclude on the accuracy of the discount rates used.

### **Significant Judgments in Applying the Company's Accounting Policies**

Management needs to make certain judgments in order to apply the Company's accounting policies and the most significant ones are the following:

#### *Impairment of Property, Plant and Equipment and Intangible Assets*

The Company operates using a high level of integration and interdependency between design, development, manufacturing and distribution operations. The cash inflows generated by each product line require the use of various assets of the Company, limiting the impairment testing to be done for a single asset. Therefore, management performs impairment testing by grouping CGUs.

#### *Functional Currency*

The Company operates worldwide but its design, development, manufacturing and distribution operations are highly integrated, which require significant judgements from management in order to determine the functional currency of each entity using factors provided by IAS 21 "The Effects of Changes in Foreign Exchange Rates". Management established an accounting policy where the functional currency of each entity is deemed to be its local currency unless the assessment of the criteria established by IAS 21 to assess the functional currency leads to the determination of another currency. IAS 21 criteria are reviewed annually for each entity and are based on transactions with third-parties only.

## **Changes in Accounting Policies**

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### IAS 7 Statement of cash flows

On February 1, 2017, the Company adopted the amendment to IAS 7 "Statement of cash flows" that require companies to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Following the adoption of this amendment, the Company added in the long-term debt note of its financial statements a reconciliation between the opening and closing balances of its long-term debt.



## Future Accounting Changes

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### IFRS 15 Revenue from contracts with customers

In May 2014, the International Accounting Standards Board (“IASB”) issued *IFRS 15 “Revenue from contracts with customers”*. The objective of this standard is to establish a single comprehensive model for entities to be used in accounting for revenue arising from contracts with customers. The effective date of IFRS 15 for the Company is February 1, 2018 and the Company will apply the standard retrospectively to prior reporting periods presented, subject to permitted practical expedients. According to the Company’s analysis, the most significant impact will be (i) the recognition of all sales promotions at the time of sale rather than at the later of either revenue recognition or the announcement of the sales program under *IAS 18 “Revenue”*, and (ii) the deferral of a portion of the revenue recognized upon the sale of a product when, in addition to the regular warranty coverage, an extended warranty coverage is given with the purchase of the product.

The Company is currently finalizing the quantification of the impact of IFRS 15 on its consolidated financial statements. Although the Company has made progress in the implementation of IFRS 15 on its consolidated financial statements, the amounts disclosed below represent estimated impacts and actual results may differ from these estimates.

As at February 1, 2017, it is estimated that equity will decrease by approximately \$180 million, net of income taxes.

Net income for the year ended January 31, 2018 will decrease by approximately \$40 million, net of income taxes, with the corresponding decrease in equity. This amount includes an income tax expense of approximately \$25 million related to the adoption of IFRS 15 in conjunction with the tax rate changes on deferred income taxes following the U.S. tax reform. Basic and diluted earnings per share will decrease by approximately \$0.35.

The Company is continuing to assess the overall impact of the new standard, including the required changes to the disclosures in its consolidated financial statements. The Company is finalizing the review and implementation of revised internal controls over financial reporting and changes to the information technology systems.

### IFRS 9 Financial instruments

In July 2014, the IASB published the final version of IFRS 9 “Financial instruments” that introduced new classification requirements, new measurement requirements and a new hedge accounting model. The final version of the Standard replaces earlier versions of IFRS 9 and completes the IASB project to replace IAS 39 “Financial instruments: recognition and measurement”. In October 2017, the IASB issued clarification on IFRS 9 to recognize an adjustment to the amortized cost of a financial liability in the statement of net income at the date of a modification arising from a debt modification or exchange that does not result in derecognition. The adjustment is calculated as the difference between the modified cash flows and the original cash flows discounted at the original effective interest rate. The effective date of IFRS 9 for the Company is February 1, 2018. Following the clarification issued in October 2017, the Company may be impacted by IFRS 9 due to the long-term debt amendments completed during the current and previous years. The analysis of this new standard is not finalized yet. According to the current analysis, the impact of this new standard would be an increase of equity by approximately \$40 million, net of income taxes, as at February 1, 2017. For the year ended January 31, 2018, the Company anticipates net income will increase by approximately \$10 million, net of income taxes, with the corresponding increase in equity. Additional disclosures will also be required under IFRS 9.



### IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 “Leases” that sets out the principles for recognition, measurement, presentation and disclosure of leases for both lessee and lessor. IFRS 16 introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases, except when the term is twelve months or less or when the underlying asset has a low value. The effective date of IFRS 16 for the Company is February 1, 2019. According to the Company’s preliminary analysis, the most significant impact will be the recognition of the present value of the future lease payments of lease assets and lease liabilities on the statement of financial position for a majority of its leases that are considered operating leases under IAS 17 “Leases”. The Company will provide further updates as it advances in its assessment.

### IFRIC 23 Uncertainty over income tax treatments

In June 2017, the IASB released IFRIC 23 “Uncertainty over income tax treatments”. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12 “Income taxes”, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 will be effective for the Company fiscal year beginning on February 1, 2019. The Company is assessing the impact of the adoption of this standard on its consolidated financial statements.

### Other standards or amendments

The IASB issued other standards or amendments to existing standards that are not expected to have a significant impact on the Company’s consolidated financial statements.

## **Controls and Procedures**

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### ***Disclosure controls and procedures***

The President and Chief Executive Officer and the Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures (as defined under National Instrument 52-109) in order to provide reasonable assurance that:

- Material information relating to the Company has been made known to them; and
- Information required to be disclosed in the Company’s filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

An evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, of the design and effectiveness of the Company’s disclosure controls and procedures. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded, as of January 31, 2018, that such disclosure controls and procedures are effective.

### ***Management’s report on internal controls over financial reporting***

The President and Chief Executive Officer and the Chief Financial Officer have also designed, or caused to be designed under their supervision, internal controls over financial reporting (as defined under National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

An evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer of the design and effectiveness of the Company’s internal controls over financial reporting. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded, as of January 31, 2018, that the internal controls over financial reporting are effective. In making this evaluation, the President and Chief Executive Officer and the Chief Financial



Officer used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control – Integrated Framework (commonly referred to as the “2013 Framework”).

There were no changes in the Company’s internal controls over financial reporting during the three- and twelve-month periods ended January 31, 2018, that have materially affected, or are reasonably likely to materially affect the Company’s internal controls over financial reporting.

## Dividend

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On March 20, 2018, the Company’s Board of Directors declared a quarterly dividend of \$0.09 per share for holders of its multiple voting shares and subordinate voting shares. The dividend will be paid on April 13, 2018 to shareholders of record at the close of business on March 30, 2018.

The Board of Directors has determined that this quarterly dividend is appropriate based on the Company’s results of operations, current and anticipated cash requirements and surplus, financial condition, contractual restrictions and financing agreement covenants (including restrictions in the Term Credit Agreement and the Revolving Credit Agreement or other material agreements), solvency tests imposed by corporate law and on other relevant factors.

The payment of each quarterly dividend remains subject to the declaration of that dividend by the Board of Directors. The actual amount, the declaration date, the record date and the payment date of each quarterly dividend are subject to the discretion of the Board of Directors.

## Risk Factors

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The risks and uncertainties described in this MD&A are those the Company currently believes to be material, but they are not the only ones it faces. If any of the following risks, or any other risks and uncertainties that the Company has not yet identified or that it currently considers not to be material, actually occur or become material, the Company’s business, guidance, prospects, financial condition, results of operations and cash flows and consequently the price of the subordinate voting shares could be materially and adversely affected.

*Economic conditions that impact consumer spending may have a material adverse effect on the Company’s business, results of operations or financial condition*

The Company’s business is cyclical in nature, and the Company’s products compete with a variety of other recreational products and activities for consumers’ discretionary income and leisure time. The Company’s results of operations are sensitive to changes in overall economic conditions, primarily in North America and Europe, that impact consumer spending and particularly discretionary spending. Fluctuations in economic conditions affecting disposable consumer income such as personal income levels, the availability of consumer credit, employment levels, consumer confidence, business conditions, changes in housing market conditions, capital markets, tax rates, savings rates, interest rates, exchange rates, fuel and energy costs, tariffs, as well as the impacts of natural disasters, acts of terrorism or other similar events could reduce consumer spending generally or discretionary spending in particular. Such reductions could materially adversely affect the Company’s business, results of operations or financial condition. Changes in economic conditions could also result in a deterioration or increased volatility in the credit and lending markets, which could adversely impact the consumers who purchase the Company’s products from dealers and rely upon financing for such purchases as well as the availability of financing arrangements for dealers and distributors to finance their inventory. If financing is not available to consumers or dealers and distributors on satisfactory terms, it is possible that the Company’s business, results of operations or financial condition could be materially adversely affected.



*Any decline in the social acceptability of the Company's products or any increased restrictions on the access or the use of the Company's products in certain locations could materially adversely affect its business, results of operations or financial condition*

Demand for the Company's products depends in part on their social acceptability. Public concerns about the environmental impact of the Company's products or their perceived safety could result in diminished social acceptance. Circumstances outside the Company's control, such as social action to reduce the use of fossil fuels, could also negatively impact consumers' perceptions of its products. Any decline in the social acceptability of the Company's products could negatively impact their sales or lead to changes in laws, rules and regulations that prevent their access to certain locations, including trails and lakes, or restrict their use or manner of use in certain areas or during certain times. Additionally, while the Company has implemented various initiatives to address these risks, including the improvement of the environmental footprint and safety of its products, there can be no assurance that the perceptions of the Company's customers will not change. Consumers' attitudes towards the Company's products and the activities in which they are used also affect demand. Any failure by the Company to maintain the social acceptability of its products could impact its ability to retain existing customers and attract new ones that, in turn, could have a material adverse effect on its business, results of operations or financial condition.

*Fluctuations in foreign currency exchange rates could result in declines in reported sales and net earnings*

The Company reports its financial results in Canadian dollars and the majority of its sales and operating costs are realized in currencies other than the Canadian dollar, including the Australian dollar, the Brazilian real, the Euro, the Mexican peso, the Norwegian krone, the Swedish krona and the U.S. dollar. If the value of any currencies in which sales are realized depreciates relative to the Canadian dollar, the Company's foreign currency revenue will decrease when translated to Canadian dollars for reporting purposes. In addition, any depreciation in foreign currencies could result in higher local prices, which may negatively impact local demand and have a material adverse effect on the Company's business, results of operations or financial condition. Alternatively, if the value of any of the currencies in which operating costs are realized appreciates relative to the Canadian dollar, the Company's operating costs will increase when translated to Canadian dollars for reporting purposes. Although these risks may sometimes be naturally hedged by a match in the Company's sales and operating costs denominated in the same currency, fluctuations in foreign currency exchange rates could create discrepancies between the Company's sales and its operating costs in a given currency that could have a material adverse effect on its business, results of operations or financial condition. Fluctuations in foreign currency exchange rates could also have a material adverse effect on the relative competitive position of the Company's products in markets where they face competition from manufacturers who are less affected by such fluctuations in exchange rates.

In addition, the Company's indebtedness under the Term Credit Agreement is denominated in U.S. dollars. As a result, any strengthening of the U.S. dollar versus the Canadian dollar or any revaluation of the denomination of the Term Credit Agreement into Canadian dollars at the end of each reporting period can result in significant fluctuations of net income, which could have a material adverse effect on the Company's business, results of operations or financial condition.

While the Company actively manages its exposure to foreign-exchange rate fluctuations and enters into hedging contracts from time to time, such contracts hedge foreign-currency denominated transactions and any change in the fair value of the contracts could be offset by changes in the underlying value of the transactions being hedged. Furthermore, the Company does not have foreign-exchange hedging contracts in place with respect to all currencies in which it does business. As a result, there can be no assurance that the Company's approach to managing its exposure to foreign-exchange rate fluctuations will be effective in the future or that the Company will be able to enter into foreign-exchange hedging contracts as deemed necessary on satisfactory terms.



*The Company has, and is expected to continue to have and incur, a significant amount of indebtedness and there can be no assurance that it will be able to pay its indebtedness as it becomes due*

The Company has, and is expected to continue to have and incur, a significant amount of indebtedness, including substantial fixed obligations under the Term Facility, and as a result of any challenging economic or other conditions affecting the Company, the Company may incur greater levels of indebtedness than currently exist. The amount of indebtedness that the Company has from time to time may, among other things, limit the Company's ability to obtain additional financing, require the Company to dedicate a substantial portion of its cash flow generated from operations to payments on its indebtedness or fixed costs (thereby reducing the funds available for other purposes), make the Company more vulnerable to economic downturns, or limit the Company's flexibility in planning for, or reacting to, competitive pressures or changes in its business environment, and have a material adverse effect on its business, results of operations or financial condition.

The ability of the Company to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance and its ability to refinance its indebtedness, if necessary. In addition, as the Company incurs indebtedness that bears interest at fluctuating interest rates and is mainly denominated in U.S. dollars, to the extent that interest rates increase or the U.S. dollar appreciates relative to the Canadian dollar, its interest expense will increase. Each of these factors is, to a large extent, subject to economic, financial, competitive, regulatory, operational and other factors, many of which are beyond the Company's control. Any failure by the Company to generate sufficient cash from its operations to pay its debt and other financial obligations could have a material adverse effect on its business, results of operations and financial condition.

*The Company uses cash generated from its operating activities to fund its business and execute its growth strategy and may require additional capital that may not be available to the Company*

The Company relies on net cash generated from its operating activities as its primary source of liquidity. To support the Company's business and execute its growth strategy as planned, the Company will need to continue to generate significant amounts of cash from operations, including funds to pay personnel, invest further in its infrastructure and facilities and invest in research and development. If the Company's business does not generate cash flow from operating activities sufficient to fund these activities, and if sufficient funds are not otherwise available from its credit facilities, the Company may need to seek additional capital, through debt or equity financings, to fund its business or execute its growth strategy. Conditions in the credit markets (such as availability of financing and fluctuations in interest rates) may make it difficult for the Company to obtain such financing on attractive terms, or even at all. Additional debt financing that the Company may undertake may be expensive and might impose on it covenants that restrict the Company's operations and strategic initiatives, including limitations on its ability to incur liens or additional debt, pay dividends, repurchase its capital stock, make investments and engage in merger, consolidation and asset sale transactions. Equity financing may be on terms that are dilutive to the Company's shareholders, and the prices at which new investors would be willing to purchase equity securities may be lower than the price per share of the Company's subordinate voting shares. If new sources of financing are required, but are unattractive, insufficient or unavailable, then the Company could be required to modify its business plans or growth strategy based on available funding, if any, which could have a material adverse effect on the Company's business, results of operations or financial condition.



*Unfavourable weather conditions may reduce demand and negatively impact sales and production of certain of the Company's products*

The sales of the Company's products are affected by unfavourable weather conditions. Unfavourable weather in any particular geographic region may have a material adverse effect on sales of the Company's products in that region. In particular, lack of snowfall during winter may materially adversely affect snowmobile sales, while excessive rain before and during spring and summer may materially adversely affect sales of off-road vehicles, three-wheel vehicles, PWCs and marine propulsion systems. To the extent that unfavourable weather conditions are exacerbated by global climate change or otherwise, the Company's sales may be affected to a greater degree than previously experienced. There is no assurance that unfavourable weather conditions could not affect the Company's sales for any of its products, which, in turn, could have a material adverse effect on the Company's business, results of operations or financial condition.

*The Company's results of operations fluctuate from quarter to quarter and from year to year as they are affected, among other things, by the seasonal nature of its business*

The Company's results of operations experience substantial fluctuations from quarter to quarter and year to year. In general, retail sales of the Company's products are highest in their particular season of use and in the immediately preceding period. For example, retail sales for snowmobiles will be highest in fall and winter while retail sales for PWCs will be highest in spring and summer. Revenues in the first half of the fiscal year have generally been lower than those in the second half. However, the mix of product sales may vary considerably from time to time as a result of changes in seasonal and geographic demand, the introduction of new products and models and production scheduling for particular types of products. In addition, the Company's dealers and distributors may modify orders, change delivery schedules or change the mix of products ordered. The Company may also make strategic decisions to deliver and invoice products at certain dates in order to lower costs or improve supply chain efficiencies. As a result, the Company's results of operations are likely to fluctuate significantly from period to period such that any historical results should not be considered indicative of the results to be expected for any future period. In addition, the Company incurs significant additional expenses in the periods leading up to the introduction of new products which may also result in fluctuations in the Company's results of operations. The Company's annual and quarterly gross profit margins are also sensitive to a number of factors, many of which are beyond its control, including shifts in product sales mix, geographic sales trends, and currency exchange rate fluctuations, all of which the Company expects will continue. This seasonality in revenues, expenses and margins, along with other factors that are beyond the Company's control, including general economic conditions, changes in consumer preferences, weather conditions, tariffs, free-trade arrangements, the cost or availability of raw materials or labour, discretionary spending habits and currency exchange rate fluctuations, could materially adversely affect the Company's business, results of operations or financial condition.

*The Company is subject to laws, rules and regulations regarding product safety, health, environmental and noise pollution and other issues that could cause the Company to incur fines or penalties or increase its capital or operating costs*

The Company is subject to federal, provincial/state and local/municipal laws, rules and regulations in Canada, the United States and other countries regarding product safety, health, environmental and noise pollution and other issues that could cause the Company to incur fines or penalties or increase the Company's capital or operating costs, all of which could have a material adverse effect on the Company's business, results of operations or financial condition. The Company's products are also subject to laws, rules and regulations relating to product safety. A failure to comply with, or compliance with, any such requirements or any new requirements could result in increased expenses to modify the Company's products, or harm to its reputation, which could have a material adverse effect on the Company's business, results of operations or financial condition. Certain jurisdictions require or are considering requiring a license to operate the Company's products. While such licensing requirements are not expected to be unduly restrictive, they may deter potential customers, thereby reducing the Company's sales. The Company's products are also subject to laws, rules and regulations imposing environmental,



noise emission, zoning and permitting restrictions, which laws, rules and regulations are subject to change and may limit the locations where the Company's products may be sold or used or restrict their use during certain times or on certain conditions.

Climate change is receiving increasing attention worldwide. A perceived consensus among scientists, legislators and others regarding the impact of increased levels of greenhouse gases, including carbon dioxide, on climate change has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. Greenhouse gas regulations could require the Company to purchase allowances to offset the Company's own emissions or result in an overall increase in costs of raw materials or operating expenses, any of which could reduce competitiveness in a global economy or otherwise have a material adverse effect on the Company's business, results of operations or financial condition. Many of the Company's suppliers face similar circumstances. Moreover, the Company may face greater regulatory or customer pressure to develop products that generate less emissions. This may require the Company to spend additional funds on research and development and implementation and subject the Company to the risk that the Company's competitors may respond to these pressures in a manner that gives them a competitive advantage. While additional regulation of emissions in the future appears likely, it is too early to predict whether this regulation could ultimately have a material adverse effect on the Company's business, results of operations or financial condition. The Company is also subject to environmental laws, rules and regulations pursuant to which, among other things, current or previous owners or occupants of property may become liable for the contamination of such property and, as a result, may be liable for the costs of investigating, removing and monitoring any hazardous substances found on the property. Given the nature of the Company's manufacturing activities and the fact that certain of its facilities have been in operation for many years, the Company and the prior owners or occupants of its property may have generated and disposed of materials that are or may be considered hazardous. The Company is aware of certain current environmental liabilities in relation to certain of its property and it is possible that additional environmental liabilities may arise in the future as a result of any prior or future generation or disposal of hazardous materials. From time to time, the Company has incurred and continues to incur material costs and obligations related to environmental compliance and remediation matters. Any failure to comply with, or the compliance with, any applicable environmental laws, rules or regulations, could have a material adverse effect on the Company's business, results of operations or financial condition.

*The Company has a relatively large fixed cost base that can affect its profitability in a declining sales environment*

The fixed costs involved in owning and operating the Company's facilities can reduce the Company's gross profit margins when sales and production decline. The Company's profitability is dependent, in part, on its ability to spread fixed costs over an increasing number of products sold and shipped, and if the Company is required to reduce its rate of production, gross profit margins could be negatively affected. Consequently, decreased demand or the need to reduce inventories can lower the Company's ability to absorb fixed costs, which could have a material adverse effect on its business, results of operations or financial condition.

*The inability of the Company's dealers and distributors to secure adequate access to capital could materially adversely affect the Company's business, results of operations or financial condition*

The Company's dealers and distributors require adequate liquidity to finance their operations and to purchase the Company's products. Dealers and distributors are subject to numerous risks and uncertainties that could unfavourably affect their liquidity positions, including, among other things, continued access to adequate financing sources on a timely basis and on reasonable terms. The Company currently has agreements in place with large financing companies to provide inventory financing to its dealers and distributors to facilitate their purchase of the Company's products. These sources of financing are instrumental to the Company's ability to sell products through the Company's distribution network, as a significant percentage of the Company's sales are done under such arrangements. The Company's business, results of operations or financial condition could be materially adversely affected if a decline in financing availability to the Company's dealers and distributors occurs, or if financing terms change unfavourably. This could require the Company to find alternative sources of financing, including



the Company providing this financing directly to dealers and distributors, which could require additional capital to fund the associated receivables.

In the event of a dealer or distributor default, the Company may be required to purchase new and unused products at the total unpaid principal balance to the finance company from financing companies providing inventory financing to the Company's dealers and distributors, subject to certain caps. Any requirement of the Company to purchase the inventory of several of its dealers or distributors could result in a material adverse effect on the Company's business, results of operations or financial condition.

*Supply problems, termination or interruption of supply arrangements or increases in the cost of materials could have a material adverse effect on the Company's business, results of operations or financial condition*

The primary raw materials used in manufacturing the Company's products are aluminum, steel, plastic, resins, stainless steel, copper, rubber and certain rare earth metals. Certain suppliers also provide the Company with certain product parts and components. The Company cannot be certain that it will not experience supply problems, such as the untimely delivery of, or defects or variations in, raw materials, parts or components. As well, the Company obtains certain of the raw materials, parts and components it uses from either sole suppliers or a limited number of suppliers. If these supply arrangements were terminated or interrupted for reasons such as supplied goods not meeting the Company's quality or safety standards or the suppliers' operations being disrupted as a result of a variety of internal or external risks, including a deterioration in general economic conditions, the Company could have difficulty establishing substitute supply arrangements on satisfactory terms. Problems with the Company's supplies could have a material adverse effect on the Company's business, results of operations or financial condition.

Moreover, the Company's profitability is affected by significant fluctuations in the prices of the raw materials, parts and components it uses. The Company may not be able to pass along price increases in raw materials, parts or components to its customers. As a result, an increase in the cost of raw materials, parts and components used in the manufacturing of the Company's products could reduce its profitability and have a material adverse effect on its business, results of operations or financial condition.

*The Company faces intense competition in all product lines and any failure to compete effectively against competitors could materially adversely impact the Company's business, results of operations or financial condition*

The powersports industry is highly competitive. Competition in such industry is based upon a number of factors, including price, quality, reliability, styling, product features and warranties. At the dealer and distributor level, factors impacting competition include sales and marketing support programs such as retail sales promotions, dealer and distributor performance bonuses, and dealer and distributor inventory financing. Some of the Company's competitors are more diversified and have financial and marketing resources that are substantially greater than the Company's, which allow these competitors to invest more heavily in intellectual property, product development, and sales and marketing support. The Company is also subject to competitive pricing. Such pricing pressure may limit the Company's ability to maintain prices or to increase prices for its products in response to raw material, component and other cost increases, and therefore negatively affect the Company's profit margins. If the Company is not able to compete with new products, product features, models or product prices of its competitors, or attract new dealers and distributors, the Company's business, results of operations or financial condition could be materially adversely affected.



*The Company may be unable to successfully execute its growth strategy*

The Company's strategic plan established by management includes an organic growth strategy, which is focused in part on the development of new products and features, but could also involve growth through strategic acquisitions, investments, alliances, joint ventures and similar transactions.

While the Company makes significant investments in research and development and emerging product lines, there can be no assurance that it will be able to continue to successfully enhance its existing products, develop new innovative products and distinguish its products from its competitors' products through innovation and design. Product improvements and new product introductions also require significant planning, design, development, and testing at the technological, product, and manufacturing process levels and the Company may not be able to develop product improvements or new products in a timely manner. The new products of the Company's competitors may beat the Company's products to market, be more effective with more features and/or less expensive than the Company's products, obtain better market acceptance, or render the Company's products obsolete. The Company may therefore not be able to satisfy the needs and preferences of customers and compete effectively with its competitors. Product development requires significant financial, technological, and other resources. The Company expended \$198.6 million for research and development efforts in Fiscal 2018. There can be no assurance that the Company will be able to sustain this level of investment or that this level of investment in research and development will be sufficient to successfully maintain the Company's competitive advantages in product innovation and design in the future. Further, the sales of any new products are expected to decline over such new products' life cycle, with sales being higher early in the life cycle of the new products and sales decreasing over time as the new products age. The Company cannot predict the length of the life cycle for any new product. Any failure by the Company to continue to enhance existing products and develop and market new products that respond to customer needs and preferences and achieve market acceptance could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, even if the Company is able to successfully enhance existing products and develop new products, there is no guarantee that the markets for the Company's existing products and new products will evolve as anticipated. If any of the markets in which the Company's existing products compete do not develop as expected, the Company's business, results of operations or financial condition could be materially adversely affected.

The Company may also consider growing its business through strategic acquisitions, investments, alliances, joint ventures or similar transactions in the future. Any such transactions would involve a number of risks, including:

- difficulties in integrating the operations of any acquired or new businesses with the Company's existing operations and the failure by management to accomplish such integration successfully;
- the necessity to raise additional capital, through debt or equity, or use cash that would otherwise have been available to support the Company's existing business operations and research and development activities to finance the transaction (see "Risk Factors — The Company uses cash generated from its operating activities to fund its business and execute its growth strategy and may require additional capital that may not be available to the Company");
- the diversion of management's attention;
- difficulties in realizing projected efficiencies, cost savings, and synergies;
- the potential loss of key employees or customers of an acquired business or adverse effects on existing business relationships with suppliers and customers;
- the adverse impact on overall profitability if any acquired or new businesses do not achieve the financial results projected in the Company's valuation models;



- the dilution to existing shareholders if securities of the Company are issued as part of transaction consideration or to fund transaction consideration; and
- the inability to direct the management and policies of a joint venture, strategic alliance, or partnership, where other participants may be able to take action contrary to the Company's instructions or requests and against its policies and objectives.

The Company's ability to grow through strategic acquisitions, investments, alliances, joint ventures or other similar transactions will depend, among other things, on the availability of such strategic opportunities, their cost, their terms and conditions, the Company's ability to compete effectively for such strategic opportunities and the availability to the Company of required capital and personnel. The Company may also be precluded from pursuing such transactions as a result of financial or other covenants in agreements to which it is a party. The Company's inability to take advantage of future strategic opportunities, or its failure to successfully address the risks associated with any strategic opportunities that is completed, could have a material adverse effect on the Company's business, results of operations or financial condition.

*The Company's international sales and operations subject it to additional risks, which risks may differ in each country in which the Company operates*

The Company manufactures its products in Austria, Canada, Finland, Mexico and the United States. The Company maintains sales and administration facilities in approximately 20 countries. The Company's primary distribution facilities distribute the Company's products to its North American dealers and the Company relies on various other locations around the world, including in Australia, Belgium, and Finland, that distribute its products to its international dealers and distributors. The Company's total sales outside Canada and the United States represented 32.2% of the Company's total sales for Fiscal 2018 and the Company intends to continue to expand its international operations by investing in developing its dealer network and promoting the Company's brands and products in international markets. International markets have been and are expected to continue generating sales growth. Several factors, including weakened international economic conditions, the introduction of new trade restrictions, increased protectionism or changed in free-trade arrangements, tariffs or negative geo-political events, could adversely affect such growth. Additionally, the expansion of the Company's existing international operations and entry into additional international markets require significant management attention and financial resources. The risks inherent in having sales or operations in foreign countries include:

- increased costs of adapting products for foreign countries' laws, rules and regulations;
- difficulties in managing and staffing international operations and increased infrastructure and operational costs;
- the imposition of additional Canadian or foreign governmental controls or regulations; new or enhanced trade restrictions and restrictions on the activities of foreign agents, representatives, and distributors; the imposition of increased costs or delays, or the introduction of new import and export licensing and other compliance requirements, customs duties or tariffs, or other non-tariff barriers to trade;
- breaches or violation of any anti-corruption laws, rules or regulations by any of the Company's employees, consultants, dealers or distributors;
- the imposition of Canadian and/or international sanctions against a country, company, person, or entity with whom the Company does business that would restrict or prohibit the Company's continued business with the sanctioned country, company, person, or entity;
- international pricing pressures;
- laws and business practices favouring local companies;



- governmental expropriation;
- adverse currency exchange rate fluctuations;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems; and
- difficulties and inconsistencies relating to the enforcement of laws, rules, and regulations, including rules relating to environmental, health, safety and intellectual property matters.

Some of the Company's manufacturing facilities are located in Mexico, and could be impacted by changes in economic, regulatory, social or political conditions affecting such country. In the past, Mexico has been subject to political instability, changes and uncertainties and there can be no assurance that similar events will not occur again in the future. In addition, the impact of any changes in economic, regulatory, social and political conditions affecting Mexico would be beyond the Company's control, and there can be no assurance that any mitigating actions by the Company would be effective. As a result, the Company's business, results of operations or financial condition could be materially adversely affected by any significant change in economic, regulatory, social and political conditions affecting Mexico. Moreover, goods produced in Mexico and Canada and sold to the United States benefit from the *North American Free Trade Agreement*. As this trade agreement is currently under negotiation, the related trade benefits could be reduced or completely removed, which could have a material adverse effect on the Company's business, results of operations or financial condition.

*The failure of the Company's information technology systems or a security breach involving consumer or employee personal data could materially adversely affect the Company's business, results of operations or financial condition*

The Company's global business operations are managed through a variety of information technology systems. These systems govern all aspects of the Company's operations around the world. The Company is dependent on these systems for all commercial transactions, financial reporting, dealership and distributorship interactions, and supply chain and inventory management. Certain of the Company's key IT systems are dated and require, or are in the process of, modernization. If one of the Company's key IT systems were to suffer a failure, no assurance can be given that the Company's backup systems or contingency plans will sustain critical aspects of the Company's operations, and the Company's business, results of operations or financial condition could be materially adversely affected. Further, the Company relies on large outsourcing contracts for IT services with a major third-party service provider, and if such service provider were to fail or the relationship with the Company were to end, and the Company were unable to find a suitable replacement in a timely manner, the Company's business, results of operations or financial condition could be materially adversely affected. The Company is continually modifying and enhancing its IT systems and technologies to increase productivity and efficiency. As new systems and technologies are implemented, the Company could experience unanticipated difficulties resulting in unexpected costs and adverse impacts to its financial reporting and manufacturing and other business processes. When implemented, the systems and technologies may not provide the benefits anticipated and could add costs and complications to ongoing operations, which may have a material adverse effect on the Company's business, results of operations or financial condition.

The Company and its dealers and distributors receive and store personal information in connection with their human resources operations, credit operations, warranty management, marketing efforts and other aspects of their businesses. Additionally, the Company maintains financial information in its IT system and exchanges electronically information with a large number of trading partners across all aspects of its commercial operations. The Company makes significant investments in research and development each year and data from such activities is maintained in the Company's IT systems. Any security breach of the Company's IT systems could result in disruptions to its operations or erroneous transactions or reporting. In addition, despite the Company's preventive efforts to address cybersecurity threats, these threats are increasingly complex and can change frequently such that the Company may be unable to proactively address those threats or to implement adequate preventive measures. To the extent



that a cybersecurity breach results in a loss or damage to the Company's data, or in inappropriate disclosure of confidential or personal information, it could cause significant damage to the Company's reputation, affect its relationships with its customers, lead to claims against the Company and ultimately materially adversely affect its business, results of operations or financial condition.

*If the Company loses the services of members of its management team or employees who possess specialized market knowledge and technical skills, the Company's ability to compete, to manage its operations effectively, or to develop new products could be materially adversely affected*

Many members of the Company's management team have extensive experience in the Company's industry and with its business, products and customers. The loss of the technical, management and operational knowledge and expertise of one or more members of the management team could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any senior executive who leaves the Company and would need to spend time usually reserved for managing the Company's business to search for, hire and train new members of management. The loss of some or all of the members of Company's management team, particularly if combined with difficulties in finding qualified substitutes, could negatively affect the Company's ability to develop and pursue its business strategy, which could materially adversely affect the Company's business, results of operations or financial condition.

In addition, the Company's success depends to a large extent upon its ability to retain skilled employees. There is intense competition for qualified and skilled employees, and the Company's failure to recruit, train and retain such employees could have a material adverse effect on its business, results of operations or financial condition. To implement and manage the Company's business and operating strategies effectively, the Company must maintain a high level of efficiency, performance and content quality, continue to enhance its operational and management systems and continue to effectively attract, train, motivate and manage its employees. If the Company is not successful in doing so, it may have a material adverse effect on its business, results of operations or financial condition.

*The Company's success depends upon the continued strength of its reputation and brands*

The Company's well-established brands include *Can-Am* off-road vehicles (ATVs and SSVs) and *Can-Am* on-road vehicles (*Spyder* vehicles), *Ski-Doo* and *Lynx* snowmobiles, *Sea-Doo* PWCs, *Rotax* engines and *Evinrude* outboard engines. The Company believes that its reputation and brands are significant contributors to the success of its business. Any negative publicity about the Company's products could diminish customer trust, do significant damage to the Company's reputation and brands and negatively impact sales. As the Company expands into new geographical markets, maintaining and enhancing its brands may become increasingly difficult and expensive, as consumers in these markets may not accept its brand image. Failure to maintain and enhance the Company's brands in any of its markets may materially adversely affect the Company's business, results of operations or financial condition.

The Company's brands and branded products could also be adversely affected by incidents that reflect negatively on the Company. Moreover, the negative impact of these events may be aggravated as the perceptions of consumers and others are formed based on modern communication and social media tools over which the Company has no control. The increasing use of social media has heightened the need for reputational risk management. Any actions the Company takes that cause negative public opinion have the potential to negatively impact the Company's reputation, which may materially adversely affect its business, results of operations or financial condition.



*An adverse determination in any significant product liability claim against the Company could materially adversely affect its business, results of operations or financial condition*

The development, manufacturing, sale and usage of the Company's products expose the Company to significant risks associated with product liability claims. If the Company's products are defective, malfunction or are used incorrectly by its consumers, it may result in bodily injury, property damage or other injury, including death, which could give rise to product liability claims against the Company. Changes to the Company's manufacturing processes and the production of new products could result in product quality issues, thereby increasing the risk of litigation and potential liability. Any losses that the Company may suffer from any liability claims and the effect that any product liability litigation may have upon the brand image, reputation and marketability of the Company's products could have a material adverse impact on its business, results of operations or financial condition.

The Company does not believe the outcome of any pending product liability claim could have a material adverse effect on its business, results of operations or financial condition, and the Company has insurance with respect to future claims in amounts it believes to be appropriate. However, no assurance can be given that the Company's historical claims record will not change, that material product liability claims will not be made in the future against the Company, or that claims will not arise in the future in excess or outside the coverage of the Company's indemnities and insurance. The Company records provisions for known potential liabilities, but there is the possibility that actual losses may exceed these provisions and therefore negatively impact earnings. Also, the Company may not be able in the future to obtain adequate product liability insurance or the cost of doing so may be prohibitive. Adverse determinations of material product liability claims made against the Company could also harm the Company's reputation and cause it to lose customers and could have a material adverse effect on its business, results of operations or financial condition.

*Significant product repair and/or replacement due to product warranty claims or product recalls could have a material adverse impact on the Company's business, results of operations or financial condition*

The Company provides a limited warranty against defects for all of its products for a period generally varying from six months to three years. The Company may provide extended warranty coverage related to certain promotional programs, as well as extended warranty coverage in certain geographical markets as determined by local laws, rules or regulations and market conditions. The Company also provides a limited emissions warranty for certain emissions related parts in its products as required by the United States Environmental Protection Agency and the California Air Resources Board. Although the Company employs quality control procedures, it happens that a product manufactured by the Company needs repair or replacement or be recalled. The Company's standard warranties require that dealers repair or replace defective products during such warranty periods at no cost to the consumer. The Company records provisions based on an estimate of product warranty claims, but there is the possibility that actual claims may exceed these provisions and therefore negatively impact earnings. The Company could make major product recalls or could be held liable in the event that some of its products do not meet safety standards or statutory requirements on product safety or consumer protection. In addition, the risks associated with product recalls may be aggravated if production volumes increase significantly, supplied goods do not meet the Company's standards, the Company fails to perform its risk analysis systematically or product-related decisions are not fully documented. Historically, product recalls have been administered through the Company's dealers and distributors. The repair and replacement costs that the Company could incur in connection with a recall could have a material adverse effect on the Company's business, results of operations or financial condition. Product recalls could also harm the Company's reputation and cause it to lose customers, particularly if recalls cause consumers to question the safety or reliability of the Company's products, which could have a material adverse effect on the Company's business, results of operations or financial condition.



*The Company relies on a network of independent dealers and distributors to manage the retail distribution of its products*

The Company depends on the capability of its independent dealers and distributors to develop and implement effective retail sales plans to create demand among retail purchasers for its products. If the Company's independent dealers and distributors are not successful in these endeavours, then the Company will be unable to maintain or grow its sales. Further, independent dealers and distributors may experience difficulty in funding their day-to-day cash flow needs and paying their obligations resulting from adverse business conditions, including weakened consumer spending or tightened credit. Inability to fund operations can force dealers and distributors to cease business, and the Company may not be able to obtain alternate distribution in the vacated market, which could negatively impact the Company's sales through reduced market presence or inadequate market coverage. In the event of a dealer or distributor default under any financing arrangement, the Company may also be required to repurchase such dealer's or distributor's inventory from the financing company. See "Risk Factors — The inability of the Company's dealers and distributors to secure adequate access to capital could materially adversely affect the Company's business, results of operations or financial condition". In addition to dealers or distributors ceasing business, in some cases, the Company may seek to terminate relationships with some dealers or distributors leading to a reduction in the number of its dealers or distributors. Being forced to liquidate a former dealer's or distributor's inventory of the Company's products could add downward pressure on such products' prices. Further, the unplanned loss of any of the Company's independent dealers or distributors may create negative impressions of the Company with its retail customers and have a material adverse impact on the Company's ability to collect wholesale receivables that are associated with that dealer or distributor. Also, if the Company's dealer and distributor base were to consolidate, competition for the business of fewer dealers and distributors would intensify. If the Company does not provide product offerings and pricing that meet the needs of its dealers and distributors, or if the Company loses a substantial amount of, or is not able to expand in certain key regions as North America, its dealer and distributor base, its business, results of operations or financial condition could be materially adversely affected.

The Company sells a majority of its products through dealer and distributor agreements. In general, distributors are contractually obligated to offer the Company's products on an exclusive basis. On the other hand, many of the dealers through which the Company sells its products also carry competing product offerings and most dealers who sell the Company's products exclusively are not contractually obligated to continue to do so and may choose to sell competing products at any time, which may lower the Company's sales. The Company also relies on its dealers and distributors to service and repair its products. There can be no assurance that its dealers and distributors will provide high quality repair services to the Company's customers. If dealers or distributors fail to provide quality service during either trial, delivery or after-sales service to the Company's customers, the Company's brand identity and reputation may be damaged, which could have a material adverse effect on the Company's business, results of operations or financial condition.

*The Company depends upon the successful management of the inventory levels, both at the Company's and the dealers' and distributors' levels, and any failure to successfully manage inventory levels could have a material adverse effect on the Company's business, results of operations or financial condition*

The Company must maintain sufficient inventory levels to operate its business successfully. However, the Company must also guard against accumulating excess inventory as it seeks to minimize lost sales. The nature of the Company's product lines require the Company to purchase supplies and manufacture products well in advance of the time these products are offered for sale. As a result, the Company may experience difficulty in responding to a changing retail environment, which may lead to excess inventory or to inventory shortages if supply does not meet demand.

Sales for certain product lines are managed through longer term purchase commitments, and the Company plans annual production levels and long-term product development and introduction based on anticipated demand, as determined by the Company in reliance on its own market assessment and



regular communication with its dealers, distributors and other customers. If the Company does not accurately anticipate the future demand for a particular product or the time it will take to adjust inventory, its inventory levels will not be appropriate and its results of operations may be negatively impacted, including through lower gross profit margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels. On the other hand, the sales of certain other product lines are managed through shorter-term purchase commitments, and the Company has introduced a flexible order management system for some of its products. Any failure by the Company to maintain adequate inventory levels for such products could result in undesirable delivery delays for its customers or result in the loss of certain sales, which could, in turn, have a material adverse effect on the Company's business, results of operations or financial condition.

Additionally, the Company's dealers and distributors could decide to reduce the number of units of the Company's products they hold. Such a decision would likely require the Company to reduce its production levels, thus resulting in lower rates of absorption of fixed costs in the Company's manufacturing facilities and lower gross profit margins. If the Company's dealers and distributors then placed additional orders for the Company's products, this could impair the Company's ability to respond rapidly to these demands and adequately manage its inventory levels, which could materially adversely affect its business, results of operations or financial condition.

*The Company may be unable to protect its intellectual property or it may incur substantial costs as a result of litigation or other proceedings relating to protection of its intellectual property*

The Company's success depends in part on its ability to protect its patents, trademarks, copyrights and trade secrets from unauthorized use by others. If substantial unauthorized use of the Company's intellectual property rights occurs, the Company may incur significant costs in enforcing such rights by prosecuting actions for infringement of its rights, particularly taking into account that policing unauthorized use of the Company's intellectual property may be particularly difficult outside North America and Europe. Such unauthorized use could also result in the diversion of engineering and management resources to these matters at the expense of other tasks related to the business. Others may also initiate litigation to challenge the validity of the Company's patents, trademarks, copyrights and trade secrets, or allege that the Company infringes their patents, trademarks, copyrights or trade secrets. If the Company's competitors initiate litigation to challenge the validity of the Company's patents, trademarks, copyrights and trade secrets, or allege that the Company infringes theirs, the Company may incur substantial costs to defend its rights. If the outcome of any such litigation is unfavourable to the Company, its business, results of operations or financial condition could be materially adversely affected. The Company also cannot be sure that the patents it has obtained, or other protections such as confidentiality and trade secrets, will be adequate to prevent imitation of its products and technology by others. If the Company is unable to protect its technology through the enforcement of intellectual property rights, its ability to compete based on technological advantages may be harmed. If the Company fails to prevent substantial unauthorized use of its trade secrets, it risks the loss of certain competitive advantages, which could have a material adverse effect on its business, results of operations or financial condition.

Some of the Company's direct competitors and indirect competitors may have significantly more resources to direct toward developing and patenting new technologies. It is possible that the Company's competitors will develop and patent equivalent or superior engine technologies and other products that compete with the Company's products. They may assert these patents against the Company and the Company may be required to license these patents on unfavourable terms or cease using the technology covered by these patents, either of which could harm the Company's competitive position and may materially adversely affect its business, results of operation or financial condition.

Additionally, the Company is currently a defendant in patent proceedings relating to its snowmobiles and PWCs, and similar actions could be introduced by others. If the Company is unsuccessful in its defense of any of these actions, there could be material adverse consequences including payment of monetary damages, licensing of patents on unfavourable terms, limitations on its ability to use certain technology and removal of desirable features from the Company's products. Even if the Company is able to defeat such claims, the allegation that it is infringing on others' intellectual property rights could harm its



reputation and cause it to incur significant costs in connection with its defense of these actions. Also, from time to time, third parties have challenged, and may in the future try to challenge, the Company's trademark rights and branding practices. The Company may be required to institute or defend litigation to enforce its trademark rights, which, regardless of the outcome, could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, results of operations or financial condition. If the Company loses the use of a product name, its efforts spent building that brand will be lost and it will have to rebuild a brand for that product, which it may or may not be able to do.

*The Company may not be able to successfully execute its manufacturing strategy*

One of the priorities of the strategic plan established by management consists of sustained efforts in the areas of cost reduction and operational efficiencies. This priority aims in part at leveraging the strength of the Company's established manufacturing centers. In addition, in order to help the Company respond to ongoing changes in the market place and reduce inventory across the supply chain, the Company's cost reduction and operational efficiencies efforts also focus on further implementing model mix production on its assembly lines, which allows the Company to produce a greater range of models on a weekly and daily basis, without expensive set-up costs or production downtime. The Company believes that flexible manufacturing is the key element to enable improvements in the Company's ability to respond to customers in a cost-effective manner. The success of the Company in implementing this priority of its strategic plan is dependent on the involvement of management, production employees and suppliers. Any failure to achieve this cost reduction and operational efficiencies priority (including the anticipated levels of productivity and operational efficiencies) in the Company's manufacturing facilities, could materially adversely impact the Company's business, results of operations or financial condition and its ability to deliver the right product at the right time to the customer.

*Covenants contained in agreements to which the Company is a party affect and, in some cases, significantly limit or prohibit the manner in which the Company operates its business*

Some of the financing and other major agreements to which the Company is a party, including the Term Credit Agreement and the Revolving Credit Agreement, contain certain covenants that affect and, in some cases, significantly limit, among other things, the activities in which the Company may engage, the ability of the Company to incur debt, issue preferred stock, grant liens over its assets, engage in lines of business different from its own, consummate asset sales, pay dividends or make other distributions, redeem or otherwise retire capital stock or make other restricted payments, make loans, advances and other investments, and merge consolidate or amalgamate with another person. Under the Revolving Credit Agreement, the Company is bound by a fixed charge coverage ratio applicable in certain conditions.

A failure by the Company to comply with such contractual obligations or to pay amounts due under financing and other major agreements could result in an acceleration of the debt incurred under such agreements, a termination of the commitments made thereunder, as well as an exercise of remedies provided therein by the creditors of the Company (including foreclosure over substantially all of the assets of the Company). In such a situation, the Company may not be able to repay the accelerated indebtedness, fulfill its obligations under certain contracts or otherwise cover its fixed costs, which could result in a material adverse effect on the Company's business, results of operations or financial condition.



*Tax matters and changes in tax laws could materially adversely affect the Company's business, results of operations or financial condition*

The Company, as a multinational company conducting operations through subsidiaries in multiple jurisdictions, is subject to income taxes in Canada, the United States and numerous other foreign jurisdictions. The Company's effective income tax rate in the future could be adversely affected as a result of a number of factors, including changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and the outcome of income tax audits in various jurisdictions around the world. The Company regularly assesses all of these matters to determine the adequacy of its tax liabilities. If any of the Company's assessments turn out to be incorrect, the Company's business, results of operations or financial condition could be materially adversely affected.

The Company's Canadian and foreign entities undertake certain operations with other currently existing or new subsidiaries in different jurisdictions, including Canada, the United States, Mexico, Finland, Austria and Switzerland. The tax laws of these jurisdictions, including Canada, have detailed transfer pricing rules that require that all transactions with non-resident related parties be priced using arm's length pricing principles. Although the Company believes that its transfer pricing policies have been reasonably determined in accordance with arm's length principles, the taxation authorities in the jurisdictions where the Company carries on business could challenge its arm's length related party transfer pricing policies. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment. If any of these taxation authorities were to successfully challenge the Company's transfer pricing policies, its income tax expense may be adversely affected and the Company could also be subjected to interest and penalties. Any such increase in the Company's income tax expense and related interest and penalties could have a material adverse effect on its business, results of operations or financial condition.

The Company's Canadian and foreign entities are entitled to claim certain expenses and tax credits, including research and development expenses and Scientific Research and Experimental Development tax credits. Although the Company believes that the claims or deductions have been reasonably determined, there can be no assurance that the Canadian or the relevant foreign taxation authorities will agree. If a taxation authority were to successfully challenge the correctness of such expenses or tax credits claimed, or if a taxation authority were to reduce any tax credit either by reducing the rate of the grant or the eligibility of some research and development expenses in the future, the Company's business, results of operations or financial condition could be materially adversely affected.

*Deterioration in relationships with the Company's non-unionized and unionized employees could have a material adverse effect on the business, results of operations or financial condition*

A majority of the Company's employees are non-unionized, including in all facilities in Canada and the United States. The maintenance of a productive and efficient labour environment and, in the event of unionization of these employees, the successful negotiation of a collective bargaining agreement, cannot be assured. A deterioration in relationships with employees or in the labour environment could result in work interruptions or other disruptions, or cause management to divert time and resources from other aspects of the Company's business, which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company is party to some national collective arrangements in Austria, Finland and Mexico that expire at various times in the future. As the Company is dependent on national unions to renew these agreements on terms that are satisfactory as they become subject to renegotiation from time to time, the outcome of these labour negotiations could have a material adverse effect on the Company's business, results of operations or financial condition. Such could be the case if current or future labour negotiations or contracts were to further restrict its ability to maximize the efficiency of its operations. In addition, its ability to make short-term adjustments to control compensation and benefit costs is limited by the terms of its national collective arrangements.



The Company cannot predict the outcome of any current or future negotiations relating to labour disputes, union representation or the renewal of its national collective arrangements, nor can the Company assure that it will not experience work stoppages, strikes, property damage or other forms of labour protests pending the outcome of any current or future negotiations. If its unionized workers engage in a strike or any other form of work stoppage, it could experience a significant disruption to its operations, damage to its property and/or interruption to its services, which could have a material adverse effect on the Company's business, results of operations or financial condition.

*Pension plan liability may have a material adverse effect on the Company*

Economic cycles can have a negative impact on the funding of the Company's remaining defined benefit pension obligations and related expenditures. In particular, a portion of the Company's pension plan assets are invested in equity securities, which can experience significant declines if financial markets weaken. The Company's latest actuarial funding valuation reports show that the defined benefit components of the Company's registered pension plans present a combined deficit and, as a result of such deficit combined with the application of the stabilization provisions of the law, the Company is required to make additional contributions to fund that deficit. There is no guarantee that the expenditures and contributions required to fund these defined benefit pension obligations will not increase in the future and therefore negatively impact the Company's operating results, liquidity and financial position. Risks related to the funding of defined benefit pension plans may materialize if total obligations with respect to such a pension plan exceed the total value of the plan fund's assets. Shortfalls may arise due to lower-than-expected returns on investments, changes in the discount rate used to assess the pension plan's obligations, and actuarial losses. Any of these risks could result in a material adverse effect on the Company's business, results of operations or financial condition.

*Natural disasters, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events could materially adversely affect the Company's business, results of operations or financial condition*

The occurrence of one or more natural disasters, such as hurricanes and earthquakes, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events, such as civil unrest and acts of terrorism, or similar disruptions could materially adversely affect the Company's business, results of operations or financial condition. These events could result in physical damage to one or more of the Company's properties, increases in fuel or other energy prices, temporary or permanent closure of one or more of the Company's facilities, temporary lack of an adequate workforce in a market, temporary or long-term disruption in the supply of raw materials, product parts and components, temporary disruption in transport to and from overseas, disruption in the Company's distribution network and disruption to the Company's information systems.

*Failure to carry adequate insurance coverage may have a material adverse effect on the Company*

The Company maintains liability insurance, property and business interruption insurance, cargo insurance, workers' compensation coverage in the United States to the required statutory limits, automotive liability insurance, aviation insurance and directors and officers insurance, and its insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions. However, there is no guarantee that the Company's insurance coverage will be sufficient, or that insurance proceeds will be paid to it in a timely manner. In addition, there are types of losses the Company may incur but against which it cannot be insured or which it believes are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters. If the Company incurs these losses and they are material, the Company's business, results of operations or financial condition could be materially adversely affected.



### *Volatile market price for subordinate voting shares*

The market price for subordinate voting shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control. Such factors include the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in estimates of the Company's future results of operations by the Company;
- changes in forecasts, estimates or recommendations of securities research analysts regarding the Company's future results of operations or financial performance;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- additions or departures of the Company's senior management team or other key employees;
- sales or perceived sales of additional subordinate voting shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have in the past experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the subordinate voting shares may decline even if the Company's operating results, financial condition or prospects have not changed. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the subordinate voting shares by those institutions, which could materially adversely affect the trading price of the subordinate voting shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's business, results of operations or financial condition could be materially adversely impacted and the trading price of the subordinate voting shares could be materially adversely affected.

### *BRP Inc. is a holding company*

BRP Inc. is a holding company and a substantial portion of its assets consists in the shares of its direct and indirect subsidiaries. As a result, BRP Inc. is subject to the risks attributable to its subsidiaries. As a holding company, BRP Inc. conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, BRP Inc.'s cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to BRP Inc. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations that require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of its subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to BRP Inc. As at January 31, 2018, the shares were effectively junior to approximately 2,813.0 million of indebtedness of BRP Inc.'s subsidiaries.



*Beaudier Group and Bain Capital will have significant influence with respect to matters put before the shareholders, which may have a negative impact on the trading price of the subordinate voting shares*

As at March 19, 2018, Beaudier Group and Bain Capital owned 32,851,066 and 25,288,578 multiple voting shares, respectively, which represented approximately 47.5% and 36.5%, respectively, of the combined voting power of the Company's outstanding shares. Accordingly, Beaudier Group and Bain Capital have significant influence with respect to all matters submitted to the Company's shareholders for approval, including without limitation the election and removal of directors, amendments to the articles of incorporation and by-laws of the Company and the approval of certain business combinations. Holders of subordinate voting shares have a limited role in the Company's affairs. This concentration of voting power may cause the market price of the subordinate voting shares to decline, delay or prevent any acquisition or delay or discourage take-over attempts that shareholders may consider to be favourable, or make it more difficult or impossible for a third party to acquire control of the Company or effect a change in the Company's Board of Directors and management. Any delay or prevention of a change of control transaction could deter potential acquirors or prevent the completion of a transaction in which the Company's shareholders could receive a substantial premium over the then current market price for their subordinate voting shares.

In addition, Beaudier Group's and Bain Capital's interests may not in all cases be aligned with interests of the other shareholders of the Company. Beaudier Group and Bain Capital may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of their management, could enhance their equity investment, even though such transactions might involve risks to the shareholders of the Company and may ultimately affect the market price of the subordinate voting shares.

*Future sales of subordinate voting shares by Beaudier Group, Bain Capital or the Company's officers, directors or senior management*

As at March 19, 2018, Beaudier Group owned 32,851,066 multiple voting shares, which in the aggregate represented approximately 52.2% of the issued and outstanding multiple voting shares of the Company, and Bain Capital owned 25,288,578 multiple voting shares, which in the aggregate represented approximately 40.2% of the issued and outstanding multiple voting shares of the Company. Each outstanding multiple voting share may at any time, at the option of the holder, be converted into one subordinate voting share.

Subject to compliance with applicable securities laws, Beaudier Group, Bain Capital or the Company's officers, directors, or senior management may sell some or all of their subordinate voting shares in the future. No prediction can be made as to the effect, if any, such future sales of subordinate voting shares will have on the market price of the subordinate voting shares prevailing from time to time. However, the future sale of a substantial number of subordinate voting shares by Beaudier Group, Bain Capital or the Company's officers, directors, or senior management, or the perception that such sales could occur, could materially adversely affect prevailing market prices for the subordinate voting shares.

Pursuant to the registration rights agreement, each of Beaudier Group and Bain Capital is granted certain registration rights.



## Disclosure of Outstanding Shares

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As at March 19, 2018, the Company had the following issued and outstanding shares and stock options:

- 62,952,472 multiple voting shares with no par value.
- 37,676,327 subordinate voting shares with no par value.
- 3,397,634 stock options to acquire subordinate voting shares.

## Additional Information

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Additional information relating to BRP Inc. is available on SEDAR at [www.sedar.com](http://www.sedar.com).

