RME

# 2019

## ANNUAL REPORT

# ROCKY MOUNTAIN DEALERSHIPS INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2019

# ROCKY MOUNTAIN DEALERSHIPS INC.
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# FOR THE YEAR ENDED DECEMBER 31, 2019

This Management's Discussion and Analysis ("MD&A") was prepared as of March 10, 2020 and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the year ended December 31, 2019. It should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2019 and 2018, together with the notes thereto. The results reported herein have been derived from the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and, unless otherwise indicated, are presented in thousands of Canadian dollars.

Unless the context otherwise requires, use in this MD&A of "RME", "we", "us", or "our" means Rocky Mountain Dealerships Inc. and its subsidiaries, all of which are wholly-owned.

RME's common shares trade on the Toronto Stock Exchange under the symbol 'RME'. Additional information relating to RME, including RME's Annual Information Form ("AIF"), dated March 10, 2020, is available at www.sedar.com.

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

## SELECTED FINANCIAL INFORMATION

| $ thousands, except per share and percentage amounts | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | 2017(2) | **2019** | 2018 | 2017(2) |
| Sales | **218,748** | 295,421 | 273,699 | **775,070** | 1,051,088 | 959,341 |
| Cost of sales | **191,233** | 255,257 | 235,378 | **664,533** | 909,626 | 819,917 |
| Gross profit | **27,515** | 40,164 | 38,321 | **110,537** | 141,462 | 139,424 |
| *Gross profit as a % of sales* | ***12.6*** | *13.6* | *14.0* | ***14.3*** | *13.5* | *14.5* |
| Selling, general and administrative | **20,496** | 26,186 | 27,251 | **90,880** | 99,262 | 99,754 |
| Loss (gain) on derivative financial instruments | **459** | 821 | (3,131) | **1,697** | 3,587 | (4,578) |
| Loss on sale of disposal group | **—** | — | — | **789** | — | — |
| Loss on vacant land | **—** | — | — | **—** | — | 641 |
| Earnings before finance costs and income taxes | **6,560** | 13,157 | 14,201 | **17,171** | 38,613 | 43,607 |
| Finance costs | **4,728** | 3,804 | 2,799 | **18,573** | 14,017 | 11,921 |
| Earnings (loss) before income taxes | **1,832** | 9,353 | 11,402 | **(1,402)** | 24,596 | 31,686 |
| Income taxes expense (recovery) | **510** | 2,602 | 3,134 | **(314)** | 6,756 | 8,777 |
| Net earnings (loss) | **1,322** | 6,751 | 8,268 | **(1,088)** | 17,840 | 22,909 |
| *Net earnings (loss) as a % of sales* | ***0.6*** | *2.3* | *3.0* | ***(0.1)*** | *1.7* | *2.4* |
| Earnings (loss) per share | | | | | | |
| Basic | **0.07** | 0.34 | 0.42 | **(0.06)** | 0.90 | 1.18 |
| Diluted | **0.07** | 0.34 | 0.42 | **(0.06)** | 0.90 | 1.18 |
| Dividends per share | **0.1225** | 0.1225 | 0.1150 | **0.4900** | 0.4750 | 0.4600 |
| Book value / share – December 31 | | | | **9.81** | 10.39 | 10.05 |
| **Non-IFRS Measures(1)** | | | | | | |
| Adjusted Diluted Earnings per Share | **0.08** | 0.34 | 0.40 | **0.03** | 0.95 | 1.16 |
| Adjusted EBITDA | **6,646** | 13,629 | 12,886 | **18,449** | 43,052 | 40,176 |
| Operating SG&A | **16,774** | 23,385 | 23,042 | **76,138** | 86,923 | 89,097 |
| *Operating SG&A as a % of sales* | ***7.7*** | *7.9* | *8.4* | ***9.8*** | *8.3* | *9.3* |
| Operating Cash Flow before Changes in Floor Plan | **(9,423)** | (32,467) | (36,367) | **20,010** | (42,523) | (720) |

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

(2) 2017 amounts have not been adjusted to reflect the adoption of IFRS 16 'Leases', which may limit their comparability.

## SUMMARY OF THE QUARTER ENDED DECEMBER 31, 2019

Unresolved trade disputes surrounding Canadian agriculture commodities continued to weigh on farmer sentiment during the fourth quarter of 2019. The quarter also saw the continuation of the challenging and difficult harvest, which began in the later part of the third quarter, resulting in a portion of crops being left in the fields until Spring. These factors continued to weigh negatively on customer equipment demand, while, on a positive note, both parts and service revenues were able to remain consistent with the prior year.

### SALES AND MARGINS

- Sales decreased 26.0% or $76,673 to $218,748 compared with $295,421 for the same period in 2018 due primarily to declines in new and used equipment sales of $55,042 and $21,071, respectively. These declines reflect the continued weaker 2019 demand and the overall negative farmer sentiment across the Canadian Prairies.
- Gross margin percentage decreased by 1.0% to 12.6% from 13.6% in the same period in 2018 as a result of lower margins realized on used equipment sales combined with a reduction in manufacturer incentives.
- Gross profit dollars decreased by 31.5% or $12,649 to $27,515 from $40,164 for the same period in 2018 on reduced sales levels.

### COST STRUCTURE

- As a percentage of sales, Operating SG&A for the fourth quarter of 2019 was comparable to the same period in 2018, as the decline in sales was proportionally consistent to the reduction in Operating SG&A.
- Finance costs for the quarter ended December 31, 2019 increased 24.3% or $924 to $4,728 compared with $3,804 during the same period in 2018 due primarily to an increase in the average level of interest-bearing floor plan payable.

### EARNINGS

- Adjusted EBITDA for the quarter ended December 31, 2019 decreased by 51.2% or $6,983 to $6,646 compared with $13,629 for the same period in 2018.
- Adjusted Diluted Earnings per Share decreased by $0.26 to $0.08 for the fourth quarter of 2019, compared with $0.34 for the same period of 2018.

## SUMMARY OF THE YEAR ENDED DECEMBER 31, 2019

Throughout the Canadian agriculture equipment industry, 2019 saw significant declines in equipment sales as unresolved trade disputes surrounding Canadian agriculture commodities weighed heavily on farmer sentiment. This was combined with a challenging harvest, due to poor weather conditions, limiting yield and quality of our customers crops. On a positive note, our parts and service sales, which are less susceptible to macro-economic factors, positively contributed to our revenues as farmers choose to repair their equipment, rather than replace it.

### SALES AND MARGINS

- Sales decreased 26.3% or $276,018 to $775,070 compared with $1,051,088 for the same period in 2018 due primarily to negative customer sentiment driven by the unresolved trade disputes.
- Gross margin percentage increased by 0.8% to 14.3% from 13.5% in the same period in 2018 as sales mix shifted towards higher-margin parts and service sales.
- Gross profit dollars decreased by 21.9% or $30,925 to $110,537 from $141,462 for the same period in 2018 on reduced sales.

### COST STRUCTURE

- As a percentage of sales, Operating SG&A for the year ended December 31, 2019 increased by 1.5% to 9.8% compared with 8.3% for the same period in 2018 as the decline in sales outpaced the reductions in Operating SG&A.
- Finance costs for the year ended December 31, 2019 increased 32.5% or $4,556 to $18,573 compared with $14,017 during the same period in 2018 due primarily to an increase in the average level of interest-bearing floor plan.

### EARNINGS

- Adjusted EBITDA for the year ended December 31, 2019 decreased by 57.1% or $24,603 to $18,449 compared with $43,052 for the same period in 2018.
- Adjusted Diluted Earnings per Share for the year ended December 31, 2019 decreased by $0.92 to $0.03 compared with $0.95 for the same period of 2018.

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

- During the year ended December 31, 2019, RME repurchased and cancelled 231 thousand of its outstanding common shares pursuant to an NCIB.

### BALANCE SHEET AND INVENTORY

Inventory turns over the trailing twelve-months ended December 31, 2019 were 1.13 times, down from 1.73 times for fiscal 2018, reflecting the aforementioned decline in sales activity in combination with an increase in the average level of inventory on hand.

## COMPANY OVERVIEW

Headquartered in Calgary, Alberta, RME is Canada's largest agriculture equipment dealer with a network of full-service equipment stores across the Canadian Prairie Provinces as well as a used equipment distribution location in Tonganoxie, Kansas.

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

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

## MARKET FUNDAMENTALS AND OUTLOOK

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

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

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

### COMPETITIVE LANDSCAPE

Our distribution contracts grant us the right to sell new equipment and parts as well as provide warranty service for some of the world's leading equipment brands across Canada's Prairie Provinces. Significant barriers to entry exist in this market, which help us maintain our position as an exclusive supplier of these brands within our sales territories.

### TRADE DISPUTES AND MARKET UNCERTAINTY

Trade barriers between Canada and several of its agriculture commodity trading partners continue to impede farmers' ability to deliver their crops to key end markets. China combined with India, Saudi Arabia and others have implemented trade barriers affecting Canadian agriculture products including canola, wheat and lentils.

The severity of these disputes continues to weigh on overall farmer sentiment which, in turn, tempers demand for RME's product and service offerings. In its December 2019 Ag Tractor and Combine Report for Canada, the Association of Equipment Manufacturers reported year-to-date sales declines in major product categories including 4WD tractors (down 36%) and self-propelled combines (down 19%), a manifestation of this downturn in sentiment.

In 2020, Canada, the U.S. and Mexico began finalizing the Canada United States Mexico Agreement ("CUSMA"), which is intended to replace the North American Free Trade Agreement. Throughout the CUSMA negotiations the lack of clarity surrounding commodity trading created economic uncertainty for RME's customers. This set of uncertainties should begin to fade when the agreement is finally ratified and as grain traders become familiar with operating under the new rules. However, 2020 has seen additional disruptions which are potentially significant to the Canadian agriculture market, creating uncertainty throughout our industry and operations. For our customers, shipping uncertainty has risen from disruptions in rail traffic due to protester blockades. Meanwhile, the COVID-19 epidemic, beginning in China, has created manufacturing disruptions there. These disruptions could impede our OEMs' manufacturing processes and/or impact their production input costs, which, in turn, may obstruct our access to and/or cost of inventories, including parts inventories. If COVID-19 continues to spread to countries outside of China our operations may also be impacted by staffing disruptions in order to limit the spread of the disease.

### CROP OUTLOOK

In its Outlook for Principal Field Crops dated February 14, 2020, Agriculture and Agri-Foods Canada estimates 2019 overall production to be comparable with 2018 but notes a deterioration of the crop quality. During harvest, higher than average precipitation, some in the form of snow, created significant harvest disruptions and forced some crops to go unharvested. All three Canadian Prairie Provinces reported a portion of crops remaining unharvested with Alberta 10% unharvested[1] (2018 - 5%), Saskatchewan 7% unharvested[2] (2018 - 1%) and Manitoba 9% unharvested[3] (2018 - 3%).

The 2020 season is forecast to see a 2.2% increase in production tonnes as there is a shift in crop towards grains combined with improved growing conditions relative to 2019. Due to a forecasted abundant world supply of grains there is expected to be negative pricing pressure, but Canadian producers should be relatively sheltered due to the weak Canadian dollar. Customer sentiment early in 2020 remains guarded, due in part to the considerable overwintered crop remaining to be harvested this spring. In addition to deterioration in grade due to exposure to winter weather conditions, the spring harvesting of these crops may delay the commencement of 2020 seeding activities.

## RESULTS OF OPERATIONS

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

### SALES

#### Fourth Quarter ("Q4") 2019 vs. Q4 2018

| | | | Change | | |
|---|---|---|---|---|---|
| $ thousands | **2019** | 2018 | Total | Acquired | Same Store |
| Sales | | | | | |
| New equipment | **108,715** | 163,757 | (55,042) | — | (55,042) |
| Used equipment | **78,298** | 99,369 | (21,071) | — | (21,071) |
| Parts | **23,435** | 23,690 | (255) | — | (255) |
| Service | **8,300** | 8,605 | (305) | — | (305) |
| Total sales | **218,748** | 295,421 | (76,673) | — | (76,673) |
| Gross profit | **27,515** | 40,164 | (12,649) | | |
| *Gross margin %* | ***12.6*** | *13.6* | *(1.0)* | | |

Q4 2019 total sales decreased by $76,673 or 26.0% to $218,748 from $295,421 during the same period in 2018 due to declines in new and used equipment sales of $55,042 and $21,071, respectively. Agriculture trade disputes between Canada and some of its key trading partners, namely China and India, continue to weigh on certain commodity demand. This combined with a difficult harvest eroded overall farmer sentiment resulting in reduced equipment demand relative to Q4 2018.

[1] AFSC & Alberta Agriculture and Forestry - Alberta Crop Report - December 3, 2019

[2] Saskatchewan Minister of Agriculture - Crop Report #28 - November 21, 2019

[3] Manitoba Agriculture - 2019 Crop Report Summary - November 12, 2019

The comparatively smaller decline in used equipment sales relative to new equipment reflects our continued focus on distributing used equipment and intentionally limiting our new equipment pre-sales to better regulate trade-ins received, a critical component of our overall inventory management strategy.

### Year-to-Date ("YTD") 2019 vs. YTD 2018

| $ thousands | 2019 | 2018 | Change: Total | Change: Acquired | Change: Same Store |
|---|---|---|---|---|---|
| Sales | | | | | |
| New equipment | **322,723** | 514,110 | (191,387) | 11,886 | (203,273) |
| Used equipment | **300,812** | 393,311 | (92,499) | 7,655 | (100,154) |
| Parts | **116,557** | 111,015 | 5,542 | 4,329 | 1,213 |
| Service | **34,978** | 32,652 | 2,326 | 1,711 | 615 |
| Total sales | **775,070** | 1,051,088 | (276,018) | 25,581 | (301,599) |
| Gross profit | **110,537** | 141,462 | (30,925) | | |
| *Gross margin %* | ***14.3*** | *13.5* | *0.8* | | |

YTD 2019 total sales decreased by $276,018 or 26.3% to $775,070 from $1,051,088 during the same period in 2018 due to declines in new and used same store equipment sales of $203,273 and $100,154, respectively. As outlined above, weaker 2019 demand stemming from trade uncertainty has negatively impacted equipment sales throughout most of 2019. This, combined with an unusually high level of out-of-season equipment deliveries realized during the first half of 2018, contributed to the decline in overall same store equipment sales.

## PARTS AND SERVICE ACTIVITY

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

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| $ thousands | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Parts activity | | | | | | |
| Total activity | **26,055** | 27,075 | (1,020) | **128,754** | 126,234 | 2,520 |
| Internal activity eliminated | **(2,620)** | (3,385) | 765 | **(12,197)** | (15,219) | 3,022 |
| Reported revenues | **23,435** | 23,690 | (255) | **116,557** | 111,015 | 5,542 |
| Service activity | | | | | | |
| Total activity | **11,335** | 13,197 | (1,862) | **52,586** | 54,755 | (2,169) |
| Internal activity eliminated | **(3,035)** | (4,592) | 1,557 | **(17,608)** | (22,103) | 4,495 |
| Reported revenues | **8,300** | 8,605 | (305) | **34,978** | 32,652 | 2,326 |
| Total reported Product Support revenues | **31,735** | 32,295 | (560) | **151,535** | 143,667 | 7,868 |

### Q4 2019 vs. Q4 2018

Q4 2019 Product Support revenues decreased by 1.7% or $560 to $31,735 compared with $32,295 in the same period of 2018. While not immune to the macroeconomic challenges facing Western Canadian farmers, our Product Support business is comparatively less susceptible to these factors than our equipment sales in the short-term. A reduction in internal activity, improved efficiencies and our customers electing to repair rather than replace their fleets all contributed to continued strength in our Product Support sales during the quarter.

### YTD 2019 vs. YTD 2018

YTD 2019 Product Support revenues increased by 5.5% or $7,868 to $151,535 compared with $143,667 in the same period of 2018, with acquired sales contributing $6,040 of this increase.

## GROSS PROFIT

### Q4 2019 vs. Q4 2018

Q4 2019 gross profit decreased by $12,649 or 31.5% to $27,515 compared with $40,164 for the same period in 2018. Decreased equipment sales volumes combined with reduced original equipment manufacturer ("OEM") incentives resulted in lower gross profit dollars for the quarter. Refer to the waterfall chart in the subsection entitled "Adjusted EBITDA" for additional analysis of the variance in gross profit.

As a percent of sales, gross profit decreased to 12.6% compared with 13.6% during the same period of 2018.

### YTD 2019 vs. YTD 2018

YTD 2019 gross profit decreased by $30,925 or 21.9% to $110,537 compared with $141,462 for the same period in 2018. The period-over-period decline in gross profit is primarily a function of reduced overall sales levels and less OEM incentives, partially offset by a favourable shift in sales mix towards higher margin Product Support revenues. Refer to the waterfall chart in the subsection entitled "Adjusted EBITDA" for additional analysis of the variance in gross profit.

As a percent of sales, gross profit increased to 14.3% compared with 13.5% during the same period of 2018.

## SELLING, GENERAL AND ADMINISTRATIVE

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

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| $ thousands | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Variable sales commissions | **2,181** | 3,449 | (1,268) | **9,013** | 13,617 | (4,604) |
| Other Operating SG&A | **14,593** | 19,936 | (5,343) | **67,125** | 73,306 | (6,181) |
| Operating SG&A | **16,774** | 23,385 | (6,611) | **76,138** | 86,923 | (10,785) |
| *Operating SG&A as a % of sales* | ***7.7*** | *7.9* | *(0.2)* | ***9.8*** | *8.3* | *1.5* |

### Q4 2019 vs. Q4 2018

Operating SG&A for the three months ended December 31, 2019 decreased by $6,611 or 28.3% to $16,774 from $23,385 in 2018. This decline reflects reduced staffing levels, sales commissions and incentive compensation as well as other operating cost reductions.

As a percentage of sales, Operating SG&A for the quarter ended December 31, 2019 was comparable to 2018, as the decline in sales was proportionate to the reduction in Operating SG&A.

### YTD 2019 vs. YTD 2018

Operating SG&A for the year ended December 31, 2019 decreased by $10,785 or 12.4% to $76,138 from $86,923 in 2018. Additional operating costs associated with locations acquired during 2018 as well as our Kansas location were more than offset by the aforementioned reductions in staffing levels, sales commissions and incentive compensation as well as other operating cost reductions.

As a percentage of sales, Operating SG&A for the years ended December 31, 2019 increased by 1.5% to 9.8% from 8.3% in 2018, as the decline in sales outpaced the reduction in Operating SG&A.

## LOSS ON SALE OF DISPOSAL GROUP

During YTD 2019, RME ceased its geomatics operations. The associated assets as well as the liabilities arising on the termination of related contracts were disposed of for a loss of $789.

## FINANCE COSTS

### Q4 2019 vs. Q4 2018

Q4 2019 finance costs increased by $924 or 24.3% to $4,728 from $3,804 for the same period in 2018, due to an increase in the average amount drawn on RME's interest-bearing floor plan facilities.

### YTD 2019 vs. YTD 2018

YTD 2019 finance costs increased by $4,556 or 32.5% to $18,573 from $14,017 for the same period in 2018, due to an increase in the average amount drawn on RME's interest-bearing floor plan facilities.

## NET EARNINGS (LOSS)

### Q4 2019 vs. Q4 2018

Q4 2019 net earnings amounted to $1,322, down $5,429 or 80.4% compared to net earnings of $6,751 in Q4 2018. This decrease is due primarily to reduced equipment sales and the associated gross profit. Both basic and diluted earnings per share for Q4 2019 decreased by $0.27 or 79.4% to $0.07 from $0.34 for the same period in 2018.

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

Q4 2019 Adjusted Diluted Earnings per Share decreased by $0.26 or 76.5% to $0.08 from $0.34 for the same period in 2018.

### YTD 2019 vs. YTD 2018

YTD 2019 net loss amounted to $1,088, down $18,928 or 106.1% compared to net earnings of $17,840 in 2018. This decrease is due primarily to reduced equipment sales and the associated gross profit. Both basic and diluted loss per share for YTD 2019 amounted to $0.06, down $0.96 or 106.7% compared to earnings per share of $0.90 for the same period in 2018.

YTD 2019 Adjusted Diluted Earnings per Share amounted to $0.03, down $0.92 or 96.8% as compared to Adjusted Diluted Earnings per Share of $0.95 for the same period in 2018.

## ADJUSTED EBITDA

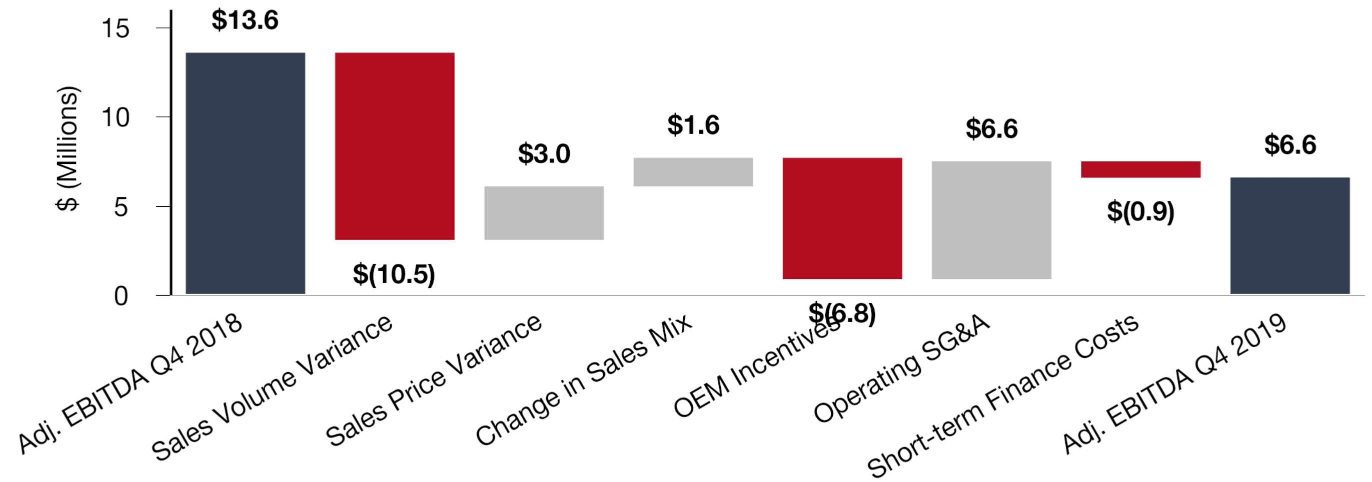
RME analyzes its Adjusted EBITDA in order to consistently compare periods by removing from net earnings, the impact of fluctuations in tax rates, long-term assets, financing costs related to our capital structure and our share price. See the definition and reconciliation of Adjusted EBITDA in the "Non-IFRS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

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

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

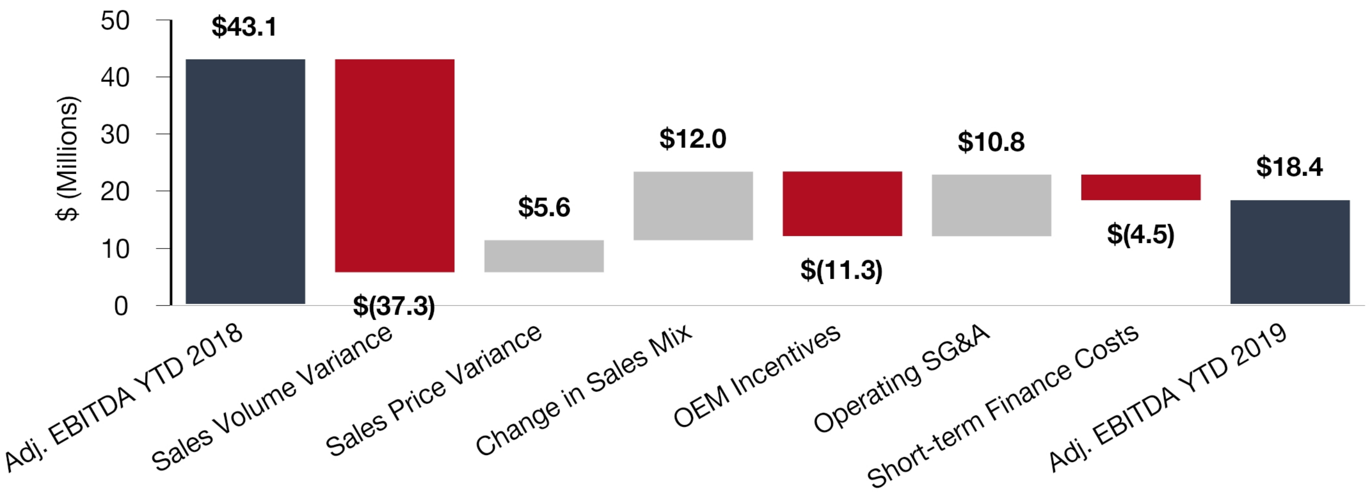
**Q4 2019 vs. Q4 2018**

Q4 2019 Adjusted EBITDA decreased by $6,983 or 51.2% to $6,646 from $13,629 for the same period in 2018. This decline reflects reduced gross profit combined with elevated short-term finance costs associated with RME's floor plan facilities, offset in part by reduced Operating SG&A. The change in Adjusted EBITDA from Q4 2018 to Q4 2019 can be reconciled as follows:




**YTD 2019 vs. YTD 2018**

YTD 2019 Adjusted EBITDA decreased by $24,603 or 57.1% to $18,449 from $43,052 for the same period in 2018. This decline reflects reduced gross profit combined with elevated short-term finance costs associated with RME's floor plan facilities, offset in part by reduced Operating SG&A. The change in Adjusted EBITDA from YTD 2018 to YTD 2019 can be reconciled as follows:



## SUMMARY OF QUARTERLY RESULTS

| $ thousands, except per share amounts | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Restated for Adoption of IFRS 16 Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 | Q4 2017 |
|---|---|---|---|---|---|---|---|---|---|
| Sales | **218,748** | 184,067 | 194,574 | 177,681 | 295,421 | 233,374 | 302,639 | 219,654 | 273,699 |
| Gross profit | **27,515** | 27,647 | 29,818 | 25,557 | 40,164 | 36,235 | 38,100 | 26,963 | 38,321 |
| *Gross margin %* | ***12.6*** | *15.0* | *15.3* | *14.4* | *13.6* | *15.5* | *12.6* | *12.3* | *14.0* |
| Selling, general and administrative | **20,496** | 22,365 | 23,497 | 24,522 | 26,186 | 24,255 | 25,484 | 23,337 | 27,251 |
| Other expense (income) | **459** | 426 | 536 | 1,065 | 821 | 511 | 829 | 1,426 | (3,131) |
| Finance costs | **4,728** | 4,953 | 4,679 | 4,213 | 3,804 | 3,885 | 3,364 | 2,964 | 2,799 |
| Income taxes | **510** | 19 | 356 | (1,199) | 2,601 | 2,070 | 2,362 | (278) | 3,134 |
| Net earnings (loss) | **1,322** | (116) | 750 | (3,044) | 6,752 | 5,514 | 6,061 | (486) | 8,268 |
| Diluted earnings (loss) per share | **0.07** | (0.01) | 0.04 | (0.16) | 0.34 | 0.28 | 0.30 | (0.02) | 0.42 |

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

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

## STATEMENT OF FINANCIAL POSITION – SUMMARY

| $ thousands | December 31, 2019 | December 31, 2018[(1)] | January 1, 2018[(1)] |
|---|---|---|---|
| Assets | | | |
| Inventory | **563,174** | 560,518 | 469,540 |
| Other current assets | **37,866** | 60,107 | 64,112 |
| Total current assets | **601,040** | 620,625 | 533,652 |
| Property and equipment | **79,892** | 75,976 | 71,451 |
| Deferred tax asset | **1,759** | 890 | — |
| Derivative financial assets | **357** | 983 | 4,109 |
| Intangible assets | **—** | 178 | 343 |
| Goodwill | **20,807** | 21,856 | 18,776 |
| Total assets | **703,855** | 720,508 | 628,331 |
| Liabilities and equity | | | |
| Floor plan payable | **416,414** | 403,180 | 305,342 |
| Other current liabilities | **50,709** | 59,989 | 68,534 |
| Total current liabilities | **467,123** | 463,169 | 373,876 |
| Long-term debt | **24,359** | 31,282 | 30,919 |
| Lease obligations | **20,060** | 21,848 | 24,337 |
| Deferred tax liability | **—** | — | 106 |
| Derivative financial liabilities | **3,453** | 1,672 | 464 |
| Total liabilities | **514,995** | 517,971 | 429,702 |
| Shareholders' equity | **188,860** | 202,537 | 198,629 |
| Total liabilities and equity | **703,855** | 720,508 | 628,331 |

(1) Amounts have been adjusted to reflect the adoption of IFRS 16 'Leases'.

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

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

| $ thousands, except turns and days | **December 31, 2019** | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Inventory expensed through cost of sales – TTM | **651,764** | 897,408 | 807,010 |
| Average total inventory – TTM (quarterly observations) | **578,510** | 519,238 | 445,497 |
| Inventory turns | **1.13** | 1.73 | 1.81 |
| Days in inventory | **324** | 211 | 201 |

Overall, total inventory turns declined during the TTM ended December 31, 2019, as compared with the same period a year ago, reflecting a decline in sales activity in combination with an increase in the average level of inventory on hand.

During the first half of 2019, unexpected macroeconomic circumstances resulted in record high inventory levels. Management responded to these inventory levels through intentional efforts to limit new equipment pre-sale activity, thereby reducing trade-ins received. This, combined with a focus on used equipment sales initiatives allowed us to restore our inventory to levels comparable to December 31, 2018.

Changes in RME's equipment inventory during YTD 2019 were as follows:

- New equipment inventory at December 31, 2019 was $126,689, representing a decrease of $3,786 or 2.9% compared with December 31, 2018.
- Used equipment inventory at December 31, 2019 was $397,289, representing an increase of $8,801 or 2.3% compared with December 31, 2018.

RME finances its investment in inventory through various floor plan facilities. RME is under no obligation to finance any of its equipment inventory and can typically pay-down and redraw on these facilities to generate or make use of available cash.

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

| $ thousands | **December 31, 2019** | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| New equipment | **126,689** | 130,475 | 115,928 |
| Used equipment | **397,289** | 388,488 | 314,997 |
| Total equipment inventory | **523,978** | 518,963 | 430,925 |
| Floor plan payable | | | |
| Interest-bearing | **303,447** | 264,614 | 191,939 |
| Non-interest-bearing | **112,967** | 138,566 | 113,403 |
| Total | **416,414** | 403,180 | 305,342 |
| *Inventory leverage ratio %* | ***79.5*** | *77.7* | *70.9* |

During YTD 2019, equipment inventory levels increased $5,015 or 1.0%, whereas draws on our floor plan facilities have increased $13,234 or 3.3% over the same period. As a result, at December 31, 2019, our inventory leverage ratio was 79.5%, up from 77.7% at December 31, 2018.

Non-current financial liabilities as at December 31, 2019 amounted to $47,872, down from $54,802 at December 31, 2018.

## LIQUIDITY

We assess liquidity in terms of our ability to generate sufficient cash flow, along with other sources of liquidity including cash and borrowings, to fund our operations and growth in operations. Refer to the section entitled "Contractual Obligations" for a summary of expected undiscounted cash flows for obligations existing at December 31, 2019. Net cash flow is affected by the following items:

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

### SUMMARY OF CASH INFLOWS (OUTFLOWS)

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

| $ thousands | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net (loss) earnings | **(1,088)** | 17,840 | 22,909 |
| Effect of non-cash items in net (loss) earnings and changes in working capital | **34,812** | 15,380 | (15,954) |
| Cash flows from operating activities | **33,724** | 33,220 | 6,955 |
| Cash flows from financing activities | **(27,038)** | (20,205) | (13,985) |
| Cash flows from investing activities | **(12,133)** | (21,119) | (1,415) |
| Net decrease in cash | **(5,447)** | (8,104) | (8,445) |
| Effect of foreign exchange on cash | **(45)** | 53 | — |
| Cash, beginning of period | **12,046** | 20,097 | 28,542 |
| Cash, end of period | **6,554** | 12,046 | 20,097 |
| Operating Cash Flow before Changes in Floor Plan | **20,010** | (42,523) | (720) |

### CASH FLOWS FROM OPERATING ACTIVITIES

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

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

Operating Cash Flow before Changes in Floor Plan for the year ended December 31, 2019 amounted to an inflow of $20,010 compared to an outflow of $42,523 during the same period in 2018. This improvement is primarily attributable to a large investment in inventory during 2018, which did not reoccur in 2019.

Cash flows from operating activities for YTD 2019 increased by $504 compared to the same period in 2018. The impact of weaker earnings was more than offset by net cash inflows from changes in working capital.

### CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows from financing activities pertained primarily to repayments under our various debt and lease obligations as well as distributions made to shareholders.

During the year ended December 31, 2019 cash outflows from financing activities increased by $6,833 over the same period in 2018, due predominantly to loan proceeds received during 2018. This was offset by more common share repurchases pursuant to a normal course issuer bid ("NCIB") in 2018 compared to 2019.

### CASH FLOWS FROM INVESTING ACTIVITIES

Cash flows from investing activities is comprised of maintenance capital spend, facility construction expenditures and acquisitions of complementary businesses, offset by any proceeds received on the disposition of fixed assets.

During the year ended December 31, 2019 cash outflows associated with investing activities decreased by $8,986 over the same period in 2018, predominantly due to two acquisitions during 2018, which did not recur during 2019. This was partially offset by the construction of our Kindersley, Saskatchewan branch.

## CAPITAL RESOURCES

We use operating cash flows to finance the purchase of inventory, service our debt requirements, make distributions to shareholders, and fund our operating activities, including working capital, lease obligations and floor plan payable. Our ability to service our debt and make distributions to shareholders will depend upon our ability to generate cash, which depends on our future operating performance, general economic conditions, availability of adequate credit facilities, compliance with debt covenants, as well as other factors, some of which are beyond our control. Based on our current operational performance, there is a risk that we may fail to comply with our financial covenants. Refer to the subsection entitled "Financial Covenants" for a discussion of the implications of failing to comply with our various financial and other covenants.

### FINANCE FACILITIES

RME has a credit facility with a syndicate of lenders (the “Syndicated Facility”). The Syndicated Facility is a revolving facility which matures on September 24, 2021. During 2019, at the request of RME, the Syndicated Facility was amended to, among other things, reduce excess facility limits and amend the definition and calculation of certain covenants as discussed below. As part of these amendments, the pricing was temporarily increased through June 30, 2020. Subsequent to the amendments, advances under the Syndicated Facility may be made based on our lenders’ prime rate or the U.S. base rate plus 1.5% – 2.3% or based on the banker’s acceptance (“BA”) rate plus 2.5% – 3.3%. Subsequent to June 30, 2020 the pricing is set to revert to original levels of our lenders’ prime rate or the U.S. base rate plus 1.0% – 1.8% or based on the BA rate plus 2.0% – 2.8%. RME pays standby fees of between 0.4% – 0.6% per annum on any undrawn portion of the Syndicated Facility. The standby fees and premiums on base interest rates within the respective ranges are determined based on RME’s ratio of debt to tangible net worth.

The Syndicated Facility consists of:

- The “Operating Facility” – which may be utilized to advance up to the lesser of the established borrowing base and $40,000 (2018 - $50,000). The borrowing base is supported by otherwise unencumbered assets including certain accounts receivable, inventory and items of property and equipment, less priority payables. This facility may be used to finance general corporate operating requirements.
- The “Flooring Facility” – which may be utilized to finance up to 75% of the value of eligible equipment inventory to a maximum of $125,000 (2018 - $125,000). Draws against the Flooring Facility are repayable over a term of 28 months, however, they become due in full upon the sale of the associated equipment.
- The “Term Facility” – which may be utilized to finance up to 60% of the cost of acquisitions and 75% of the cost of real estate assets to a maximum of $35,000 (2018 - $85,000). Draws are repayable in quarterly installments with acquisition and real estate related draws amortized over periods of 7 and 15 years, respectively.

Including the syndicated Flooring Facility, we have total floor plan facilities of approximately $644,500 (inclusive of seasonal increases) from various lending institutions for the purpose of financing equipment inventory. These facilities are made available to RME by the equipment manufacturers’ captive finance companies or divisions (such as CNH Industrial Capital Canada Ltd.), as well as by banks and specialty lenders.

In addition to our available cash balance of $6,554 as at December 31, 2019, we have $261,479 available on our various credit facilities.

| $ thousands | Facility limit | Amount drawn | **Available** |
|---|---|---|---|
| Operating Facility | 40,000 | 10,000 | **30,000** |
| Term Facility | 35,000 | 31,311 | **3,689**[4] |
| Various floor plan facilities | | | |
| OEM floor plan facilities | 270,000 | 189,436 | **80,564** |
| Syndicated Flooring Facility | 125,000 | 111,883 | **13,117** |
| Other floor plan facilities | 249,500 | 115,391 | **134,109** |
| Total | 719,500 | 458,021 | **261,479** |

In addition to the facility limits, the availability of funds under these credit facilities is limited or otherwise constrained by the adequacy of the underlying assets available to securitize a proposed draw and by financial and other customary negative covenants. Refer to the subsection entitled "Financial Covenants" for a discussion of the implications of failing to comply with our various financial and other covenants.

### FINANCIAL COVENANTS

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

| | **December 31, 2019** | | December 31, 2018 | |
|---|---|---|---|---|
| | **Threshold** | **Result** | Threshold | Result |
| Fixed charge coverage ratio | | | | |
| Assesses the ability to cover fixed charges by expressing free-cash flows generated as a ratio of committed obligations on a trailing 12-month basis. | **≥ 1.05(1)** | **1.11** | ≥ 1.20 | 1.55 |
| | **≥ 1.15** | **1.25** | ≥ 1.15 | 1.91 |
| Debt to tangible net worth | | | | |
| Assesses solvency by expressing debt as a ratio of tangible net assets. | **≤ 4.00** | **3.06** | ≤ 4.00 | 2.70 |
| | **≤ 4.00(1)** | **2.67** | ≤ 4.00 | 2.40 |
| Current ratio | | | | |
| Assesses liquidity by expressing current assets as a ratio of current liabilities. | **≥ 1.20(1)** | **1.32** | ≥ 1.20 | 1.38 |

(1) Pursuant to the terms of the applicable credit agreements, RME continues to calculate and report these financial covenants exclusive of any changes resulting from the adoption of IFRS 16, 'Leases'.

During the year ended December 31, 2019, the covenant threshold for RME's fixed charge coverage ratio under the Syndicated Facility was amended to 1.05:1.00 beginning in the second quarter of 2019 and continues at this rate up to and including June 30, 2020, after which it will revert back to 1.20:1.00. During the year ended December 31, 2019, the calculation of the fixed charge coverage ratio under the Syndicated Facility was amended to exclude from the trailing-12 month results, the principal repayments under the Term Facility. This amendment is effective for the purposes of calculating the fixed charge coverage ratio for fiscal quarters up to and including June 30, 2020. During 2019, the calculation of the fixed charge coverage ratio under the Syndicated Facility was also amended to exclude from the trailing-12 month results up to $6,500 of impairment charges taken against inventory.

Subsequent to year end, the Company has agreed with its syndicate of lenders that the previously announced April 30, 2020 deadline to dispose of its Kindersley property has been extended to October 31, 2020.

As at December 31, 2019 and December 31, 2018, RME was in compliance with all externally imposed capital requirements.

RME's continued compliance with its financial covenants is dependent on various factors which influence our financial results including, but not limited to, overall demand for our products and services and the timing of that demand influenced

[4] As part of the Syndicated Facility amendments, further advances under the Term Facility are prohibited until after June 30, 2020..

by weather and other factors. Given our current operating environment and our recent financial performance, there is a risk that we may fail to comply with our financial covenants, most notably our fixed charge coverage ratios.

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

## DERIVATIVE FINANCIAL INSTRUMENTS

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

Losses recognized on derivative financial instruments for the year ended December 31, are as follows:

| $ thousands | **2019** | 2018 |
|---|---|---|
| Recognized in net (loss) earnings | **1,697** | 3,587 |
| Recognized in other comprehensive loss – net of tax | **1,069** | 962 |
| Tax on amount recognized in other comprehensive loss | **314** | 357 |

### Interest Rate Swaps

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

The Hedged Facilities each bear interest at a floating rate based on the prevailing BA rate. The interest rate swaps hedge our exposure to fluctuations in the BA rate.

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

| | | | **December 31, 2019** | | December 31, 2018 | |
|---|---|---|---|---|---|---|
| $ thousands | Maturity | Type | **Rate %** | **Amount $** | Rate % | Amount $ |
| Hedged position | | | | | | |
| *Current debt* | | | | | | |
| Floor plan facility #1 | September, 2020 | Non-amortizing | **5.6** | **35,000** | 5.1 | 35,000 |
| Floor plan facility #2 | September, 2022 | Non-amortizing | **4.4** | **50,000** | 4.4 | 50,000 |
| Floor plan facility #3 | August, 2025 | Non-amortizing(1) | **5.4** | **25,000** | 4.9 | 25,000 |
| | | | **5.0** | **110,000** | 4.7 | 110,000 |
| *Long-term debt* | | | | | | |
| Term Facility | April, 2023 | Amortizing | **4.0** | **20,287** | 3.5 | 25,479 |
| Total position hedged | | | **4.8** | **130,287** | 4.5 | 135,479 |
| Position at risk – floating-rate debt | | | | **335,055** | | 303,476 |
| Position hedged % | | | | **38.9** | | 44.6 |

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

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

For the year ended December 31, 2019, we recognized in net (loss) earnings, mark-to-market losses of $46 (2018 – gains of $91).

### Total Return Swaps

RME has several total return swap arrangements to hedge the exposure associated with increases in its share price on its outstanding Director Share Units ("DSUs") and Share Appreciation Rights ("SARs"). If not renewed or unwound by RME, these arrangements mature between July 2020 and March 2021. It is RME's intention to maintain a hedged position which approximately matches the quantity of, and terms associated with, the DSUs and SARs. The hedging relationship with the SARs is ineffective to the extent that RME's share price falls below the $8.82 strike price of the SARs.

RME does not apply hedge accounting to these relationships and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise. For the year ended December 31, 2019, we recognized unrealized mark-to-market losses of $1,651 (2018 – $3,678).

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

| | **December 31, 2019** | | December 31, 2018 | |
|---|---|---|---|---|
| In thousands of shares/units except per share amounts | **Weighted average price/ share $** | **Shares/ units** | Weighted average price/ share $ | Shares/ units |
| Hedged position | **9.14** | **660** | 9.14 | 660 |
| Position at risk: | | | | |
| DSUs | | **120** | | 85 |
| SARs | | **556** | | 565 |
| Total | | **676** | | 650 |
| Position hedged % | | **97.6** | | 101.5 |

**DIVIDENDS**

On March 3, 2020, RME's Board of Directors (the "Board") approved a quarterly dividend of $0.1225 per common share on its outstanding common shares. The common share dividend is payable on March 31, 2020, to shareholders of record at the close of business on March 13, 2020.

## SHARE CAPITAL – OUTSTANDING SHARES

Changes in the number of issued and outstanding common shares during the years ended December 31, 2019 and 2018 are as follows:

| Thousands | **2019** | 2018 |
|---|---|---|
| January 1 | **19,488** | 19,877 |
| Shares repurchased and cancelled under NCIB | **(231)** | (400) |
| Shares issued upon exercise of stock options | **—** | 11 |
| December 31 | **19,257** | 19,488 |

During YTD 2019, RME repurchased and cancelled 231 thousand common shares pursuant to an NCIB (2018 - 400 thousand common shares).

As at March 10, 2020, there were 19,257 thousand common shares outstanding.

## CONTRACTUAL OBLIGATIONS

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

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

Other significant contractual obligations outstanding as at December 31, 2019, include trade payables, accruals and other, long-term debt consisting predominantly of the Term Facility, bank indebtedness consisting of the Operating Facility and lease obligations which relate primarily to RME's facilities. Lease terms are between one and eleven years and most building leases contain renewal options for periods ranging from three to five years.

RME assesses its liquidity based on the period in which cash flows are expected to occur. The following table summarizes RME's expected undiscounted cash flows for obligations existing at December 31, 2019, assuming the Syndicated Facility is renewed prior to maturity on September 24, 2021. The analysis is based on foreign exchange rates and interest rates in effect at the date of the consolidated statement of financial position and includes both principal and interest cash flows.

| $ thousands | **Total** | 2020 | 2021-2022 | 2023-2024 | Thereafter |
|---|---|---|---|---|---|
| Bank indebtedness | **10,423** | 10,423 | — | — | — |
| Trade payables, accruals and other | **14,532** | 14,532 | — | — | — |
| Floor plan payable | **431,601** | 431,601 | — | — | — |
| Long-term debt | **35,926** | 8,230 | 15,493 | 4,618 | 7,585 |
| Lease obligations | **29,818** | 8,462 | 13,505 | 5,719 | 2,132 |
| Derivative financial liabilities | **4,358** | 784 | 2,425 | 882 | 267 |
| Total contractual obligations | **526,658** | 474,032 | 31,423 | 11,219 | 9,984 |

In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for long-term debt outstanding as at December 31, 2019, would be $25,130 in 2021-2022 and $Nil in 2023-2024 and thereafter.

## RELATED PARTY TRANSACTIONS

During the years ended December 31, 2019 and 2018, RME entered into the following transactions with related parties:

| $ thousands | **2019** | 2018 |
|---|---|---|
| Equipment and product support sales | **2,555** | 4,398 |
| Expenditures | | |
| Rental payments on RME facilities | **5,890** | 5,833 |
| Equipment purchases | **362** | 3,158 |
| Vehicle purchases | **449** | 1,376 |
| Flight costs | **60** | 101 |
| Other expenses | **18** | 39 |

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

The remuneration of the directors and officers identified as RME's key management for the respective years ended December 31 is as follows:

| $ thousands | **2019** | 2018 |
|---|---|---|
| Salary and short-term benefits | **1,825** | 1,881 |
| Post-retirement benefits | **16** | 32 |
| Share-based compensation | **136** | (2,070) |
| Total | **1,977** | (157) |

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Due from related parties | **75** | 4 |
| Due to related parties | **—** | (106) |

The amounts due from related parties are not secured and are to be settled in cash. As at December 31, 2019 and 2018, the amounts due from related parties are considered collectible and, therefore, have not been provided for in the loss allowance provision. During the year ended December 31, 2019, $Nil has been recognized in bad debt expense with respect to related party transactions (2018 – $Nil).

RME has contractual obligations to related parties in the form of facility leases. The following table summarizes RME's expected undiscounted cash flows for lease obligations to related parties existing at December 31, 2019:

| $ thousands | Total | 2020 | 2021-2022 | 2023-2024 | Thereafter |
|---|---|---|---|---|---|
| Lease obligations | **23,341** | 5,938 | 10,676 | 4,335 | 2,392 |

## CRITICAL ACCOUNTING ESTIMATES

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

### LOSS ALLOWANCE PROVISION

#### Trade Receivables

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

#### Other Receivables

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

### INVENTORY VALUATION

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

### REVENUE RECOGNITION

#### Sale of goods

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

i. RME has transferred to the customer the control of ownership of the goods;

ii. the goods have been delivered;

iii. RME has a present right to payment;

iv. the customer has legal title; and

v. the customer has accepted the asset.

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

### Sale of goods - Bill and hold arrangement

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

i. the equipment is ready for physical transfer to the customer;

ii. the customer has made the decision to put the equipment in a bill and hold arrangement;

iii. RME does not have the ability to use the equipment or to direct it to another customer; and

iv. the equipment is identified separately as belonging to the customer.

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

### Rendering of service

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

i. the amount of revenue can be measured reliably;

ii. it is probable that the economic benefits associated with the transaction will flow to RME; and

iii. the stage of completion of the transaction at the end of the reporting period can be measured reliably.

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

### Financing component

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

## DEPRECIATION PERIODS AND METHODS

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

| | |
|---|---|
| Land | Not depreciated |
| Buildings | Straight-line over 20 years |
| Leased assets | Straight-line over the estimated lease term |
| Furniture, fixtures and equipment | Straight-line over 3 – 10 years |
| Leasehold improvements | Straight-line over the lesser of the estimated lease term and useful life |
| Vehicles | Straight-line over 3 – 5 years |

## GOODWILL

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

As at December 31, 2019 and 2018, RME prepared cash flow forecasts derived from the most recent financial plans prepared by management and extrapolated these cash flows into perpetuity using growth assumptions relevant to the business sector. The growth rate used for the purposes of this analysis was 2.0%.

As at December 31, 2019, the rate used to discount the forecasted cash flows was 11.3% (2018 – 12.8%), and represents RME's estimate of the appropriate pre-tax discount rate, given current market assessments of the time value of money and the risks specific to the particular CGU. As at December 31, 2019 and 2018, the recoverable amount of the CGU to which goodwill has been allocated exceeded its carrying value and therefore, no impairment charge was recognized.

RME has conducted a sensitivity analysis based on possible changes in the key assumptions used for the impairment tests. Had the estimated cost of capital used in determining the pre-tax discount rates been 3.5% (2018 – 4.5%) higher than management's estimates or had the estimated growth rate used in extrapolating forecasted results been 6.0% (2018 – 10.0%) lower than management's estimates, the recoverable amount of the CGU would equal its carrying amount for the respective periods. Any additional negative change in these assumptions would cause goodwill to be impaired with such impairment loss recognized in net earnings. Impairment losses on goodwill are not eligible for reversal in subsequent periods.

### DERIVATIVE FINANCIAL INSTRUMENTS

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

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

### BUSINESS COMBINATIONS

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

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

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

### IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

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

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

### MANUFACTURER INCENTIVES

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

## CHANGES IN ACCOUNTING POLICIES

### IFRS 16, 'LEASES'

IFRS 16, 'Leases' replaces IAS 17, 'Leases' and requires most leases to be recognized as assets and liabilities on the statement of financial position. This standard includes an optional exemption for certain short-term leases and leases of low-value assets and is effective for fiscal periods beginning on or after January 1, 2019. Refer to Note 25 of the consolidated financial statements for the years ended December 31, 2019 and 2018 for details on the impact of this new accounting standard.

## RISKS AND UNCERTAINTIES

Risk factors faced by RME are listed in RME's AIF under the heading "Risk Factors" and can be found on SEDAR. These risk factors include industry risks associated with agriculture and industrial equipment dealerships and others, including but not limited to:

(i) economic conditions; (ii) import product restrictions and foreign trade risk; (iii) commodity prices; (iv) inventory risk; (v) information systems and cybersecurity; (vi) reliance on key manufacturers; (vii) credit facilities; (viii) continued ability to pay dividend; (ix) interest rates; (x) seasonality and cyclicality; (xi) climate change; (xii) government regulation; (xiii) labour relations; (xiv) restrictions on and impediments to acquisitions; (xv) foreign exchange exposure; (xvi) health, safety and environmental laws and regulation; (xvii) nature of dealership agreements; (xviii) competition; (xix) industry oversupply; (xx) consolidation within the equipment manufacturing industry; (xxi) customer credit risks; (xxii) growth risks; (xxiii) unfavorable conditions in key geographic markets; (xxiv) non-exclusive nature of key geographic markets; (xxv) indemnification and insurance; (xxvi) branch leases; (xxvii) key personnel; (xxviii) labour costs and shortages; (xxix) product liability risks; (xxx) freight costs; (xxxi) changes in common share value; (xxxii) future warranty claims; (xxxiii) integration of acquisitions; (xxxiv) issuance of additional common shares; and (xxxv) forward-looking information may prove inaccurate.

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

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

## FINANCIAL INSTRUMENTS

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

### CREDIT RISK

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

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

During 2019, RME recognized $196 in bad debt expense (2018 – expense of $167). Bad debt expense (recovery) is recognized within SG&A expenses.

### MARKET RISK

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

### Foreign Currency Exchange Risk

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

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

During 2019, RME recognized a foreign exchange gain of $82 (2018 – gain of $556). Foreign exchange gains are recognized within SG&A expenses.

### Interest Rate Risk

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

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

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

### Equity Price Risk

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

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

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

## LIQUIDITY RISK

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

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

## NON-IFRS MEASURES

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

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

  RME also adjusts for any non-recurring charges (recoveries) recognized in net (loss) earnings. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that RME incurs outside of its common day-to-day operations. Adjusting for these items allows management to isolate and analyze diluted (loss) earnings per share from core business operations. For the periods presented, the loss on the sale of the geomatics disposal group, costs associated with the acquisition and integration of complementary businesses, and losses recognized on the disposition of vacant land have been classified as non-recurring charges.

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

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

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

  RME also adjusts for any non-recurring charges (recoveries) recognized in SG&A. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that RME incurs outside of its common day-to-day operations. For the periods presented, costs associated with the acquisition and integration of complementary businesses have been classified as non-recurring charges. The assessment of Operating SG&A facilitates the evaluation of discretionary expenses from ongoing operations.

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

## RECONCILIATION OF NON-IFRS MEASURES TO IFRS

### ADJUSTED DILUTED EARNINGS PER SHARE

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| $ thousands, except per share amounts | **2019** | 2018 | 2017 | **2019** | 2018 | 2017 |
| Earnings (loss) used in the calculation of diluted earnings (loss) per share | **1,322** | 6,751 | 8,268 | **(1,088)** | 17,840 | 22,909 |
| Loss (gain) on derivative financial instruments | **459** | 821 | (3,131) | **1,697** | 3,587 | (4,578) |
| (Gain) loss on DSUs | **(62)** | (125) | 162 | **(264)** | (354) | 245 |
| SAR (recovery) expense | **—** | (841) | 2,231 | **—** | (2,443) | 2,995 |
| Acquisition and integration costs | **—** | 6 | — | **129** | 541 | — |
| Non-deductible loss on vacant land | **—** | — | — | **—** | — | 641 |
| Loss on sale of disposal group | **—** | — | — | **789** | — | — |
| Tax effect of adjustments 26.5% (2018 & 2017 - 27%) | **(105)** | 38 | 199 | **(623)** | (359) | 361 |
| Earnings used in the calculation of Adjusted Diluted Earnings per Share | **1,614** | 6,650 | 7,729 | **640** | 18,812 | 22,573 |
| Weighted average diluted shares used in the calculation of diluted (loss) earnings per share (in thousands) | **19,257** | 19,793 | 19,515 | **19,313** | 19,862 | 19,413 |
| Adjusted Diluted Earnings per Share | **0.08** | 0.34 | 0.40 | **0.03** | 0.95 | 1.16 |

### ADJUSTED EBITDA

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| $ thousands | **2019** | 2018 | 2017 | **2019** | 2018 | 2017 |
| Net earnings (loss) | **1,322** | 6,751 | 8,268 | **(1,088)** | 17,840 | 22,909 |
| Finance costs associated with long-term debt and lease obligations | **633** | 654 | 406 | **2,623** | 2,530 | 1,770 |
| Depreciation and amortization expense | **3,784** | 3,761 | 1,816 | **14,877** | 14,595 | 7,417 |
| Income taxes | **510** | 2,602 | 3,134 | **(314)** | 6,756 | 8,777 |
| EBITDA | **6,249** | 13,768 | 13,624 | **16,098** | 41,721 | 40,873 |
| Loss (gain) on derivative financial instruments | **459** | 821 | (3,131) | **1,697** | 3,587 | (4,578) |
| (Gain) loss on DSUs | **(62)** | (125) | 162 | **(264)** | (354) | 245 |
| SAR (recovery) expense | **—** | (841) | 2,231 | **—** | (2,443) | 2,995 |
| Acquisition and integration costs | **—** | 6 | — | **129** | 541 | — |
| Loss on vacant land | **—** | — | — | **—** | — | 641 |
| Loss on sale of disposal group | **—** | — | — | **789** | — | — |
| Adjusted EBITDA | **6,646** | 13,629 | 12,886 | **18,449** | 43,052 | 40,176 |

### OPERATING SG&A

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| $ thousands | **2019** | 2018 | 2017 | **2019** | 2018 | 2017 |
| SG&A | **20,496** | 26,186 | 27,251 | **90,880** | 99,262 | 99,754 |
| Depreciation and amortization expense | **(3,784)** | (3,761) | (1,816) | **(14,877)** | (14,595) | (7,417) |
| Gain (loss) on DSUs | **62** | 125 | (162) | **264** | 354 | (245) |
| SAR recovery (expense) | **—** | 841 | (2,231) | **—** | 2,443 | (2,995) |
| Acquisition and integration costs | **—** | (6) | — | **(129)** | (541) | — |
| Operating SG&A | **16,774** | 23,385 | 23,042 | **76,138** | 86,923 | 89,097 |
| *Operating SG&A as a % of sales* | ***7.7*** | *7.9* | *8.4* | ***9.8*** | *8.3* | *9.3* |

### OPERATING CASH FLOW BEFORE CHANGES IN FLOOR PLAN

| $ thousands | Three months ended December 31, 2019 | 2018 | 2017 | Year ended December 31, 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|
| Cash flow from operating activities | **5,469** | 13,266 | 3,424 | **33,724** | 33,220 | 6,955 |
| Net increase in floor plan payable | **(14,729)** | (46,061) | (39,791) | **(13,234)** | (97,838) | (7,675) |
| Change in floor plan arising from changes in foreign exchange rates | **(163)** | 353 | — | **(480)** | 353 | — |
| Floor plan assumed pursuant to business combinations | **—** | (25) | — | **—** | 21,742 | — |
| Operating Cash Flow before Changes in Floor Plan | **(9,423)** | (32,467) | (36,367) | **20,010** | (42,523) | (720) |

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

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have, as at December 31, 2019, designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to RME is made known to them by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by RME in its annual filings, interim filings, or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

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

As at December 31, 2019, the CEO and CFO have evaluated the design and operation of RME's DC&P and ICFR and concluded that they were effective. During the quarter ended December 31, 2019, there were no changes in RME's ICFR that have materially affected, or are reasonably likely to materially affect RME's ICFR.

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

## CAUTION REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

In particular, FLS in this MD&A include but are not limited to, the following: (i) statements regarding the uncertainty created by international trade disputes; (ii) statements regarding negative farmer sentiment and the resulting expect impact on demand; (iii) disclosure under the heading "Market Fundamentals and Outlook"; (iv) statements implying our ability to maintain our position as an exclusive supplier of our equipment brands within our sales territories; (v) statements interpreting the impact of the ratification of the CUSMA on commodity trading; (vi) statements regarding uncertainty created by disruptions in rail traffic and protestor activity; (vii) statements regarding the potential impacts of COVID-19 on our OEMs and on our supply chain; the cyclical nature of agriculture equipment demand and any revenue or inventory statements or forecasts attributed thereto; (viii) statements pertaining to the anticipated crop outlook in Western Canada, including the anticipated area seeded to field crops, crop yield and quality and the weather conditions associated with crop yields; (ix) discussions on the fundamentals of RME's business, including discussions regarding farmers' crop receipts and profitability, field crop outlook and the future demand for agriculture equipment and commodities; (x) statements regarding customer buying patterns; (xi) any statements or discussions regarding RME's inventory management and any expected increases or decreases in RME's inventory levels, and the timing and delivery thereof; (xii) RME's ability to pay-down and redraw on its floor plan facilities to generate or make use of available cash; (xiii) statements regarding the sufficiency and appropriateness of RME's existing credit facilities; (xiv) statements that we believe cash flow from operations, along with existing credit facilities, will provide for our capital needs; (xv) discussion around Operating SG&A expenses; (xvi) discussion that the first quarter is generally the weakest financial quarter and that the fourth quarter is generally the strongest quarter financially; (xvii) statements that weather conditions may impact sales activity for any given period; (xviii) statements concerning RME's ongoing compliance with, or potential breaches of, its covenants under its credit facilities, including the Syndicated Facility; (xix) statements concerning expected undiscounted cash flows associated with RME's various financial obligations; (xx) statements implying or discussing future growth or acquisition opportunities in Canada, the U.S. or elsewhere; (xxi) statements regarding RME's intention to maintain a hedged position matching its DSUs and SARs and any anticipated losses recognized as a result of the unwinding of RME's equity hedge position; (xxii) statements regarding RME's ability to attract, develop and retain highly qualified employees and the impact of this on future performance; (xxiii) statements that the third quarter is typically our best opportunity to sell-down our inventory levels; (xxiv) statements regarding RME's future ability to make distributions to shareholders; (xxv) statements regarding future changes to RME's fixed charge coverage ratio under the Syndicated Facility; (xxvi) statements regarding the remedies and restrictions that may be placed on RME should it fail to meet its covenants under the credit facilities; and (xxvii) statements regarding contractual obligations discharged within the next 12 months.

With respect to the FLS listed above and contained in this MD&A, RME has made assumptions regarding, among other things: (i) expectations that commodity prices will continue to support profitable farming operations; (ii) increasing food demand, as well as increasing crop land dedicated to bio-fuel production, will cause producers to improve their productivity, and as a result invest in new equipment; (iii) expectations that increases in farmer liquidity would generally correlate to farmers making capital re-investments in their business, so as to increase their productivity and lower their input costs, which investments may include RME's products and services; (iv) inventory levels will fluctuate during a year, both positively and negatively, based on timing of equipment deliveries, and volume of whole-good sales involving a unit taken in on trade; (v) the general GDP growth and/or relative economic stability in the markets we operate in; (vi) the trend towards larger farms in the agriculture sector will continue to benefit further farm equipment sales as larger farm operations tend to replace their equipment more frequently; (vii) RME's cash flow will remain sufficient to, in connection with its credit facilities, adequately finance its capital needs; (viii) as stores are consolidated, certain functions can be centralized thereby reducing SG&A costs as a result; (ix) the anticipated improvement in ongoing revenue and cash-flow, including parts and service revenue, as our installed base increases; (x) expectations that no material change will happen to our OEM relationships; (xi) expectations that customers who purchase their equipment from RME will, generally, return to RME for their product support needs; (xii) our investment in inventory is consistent with current market demand; and (xiii) RME will remain in compliance with all of its externally imposed debt covenants and will be able to renew its Syndicated Facility prior to maturity on September 24, 2021.

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

# ROCKY MOUNTAIN DEALERSHIPS INC.

## CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

For the Years Ended December 31, 2019 & 2018

# *Independent auditor's report*

To the Shareholders of Rocky Mountain Dealerships Inc.

## *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Rocky Mountain Dealerships Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

**What we have audited**
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of net (loss) earnings for the years then ended;
- the consolidated statements of comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## *Basis for opinion*

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

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

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

## *Other information*

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 10, 2020

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| $ thousands | Note | December 31, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|---|
| **Assets** | | | Note 25 | Note 25 |
| Current | | | | |
| Cash | | **6,554** | 12,046 | 20,097 |
| Trade receivables and other | **6** | **23,591** | 38,594 | 32,685 |
| Contract assets | **15.2** | **1,779** | 2,409 | 2,199 |
| Inventory | **7** | **563,174** | 560,518 | 469,540 |
| Income taxes receivable | | **2,270** | — | — |
| Prepaid expenses and other | | **3,428** | 6,472 | 6,210 |
| Current portion of derivative financial assets | **22.6** | **244** | 586 | 2,921 |
| Total current assets | | **601,040** | 620,625 | 533,652 |
| Non-current | | | | |
| Property and equipment | **9** | **79,892** | 75,976 | 71,451 |
| Deferred tax asset | **18.2** | **1,759** | 890 | — |
| Derivative financial assets | **22.6** | **357** | 983 | 4,109 |
| Intangible assets | **8** | **—** | 178 | 343 |
| Goodwill | **10** | **20,807** | 21,856 | 18,776 |
| Total non-current assets | | **102,815** | 99,883 | 94,679 |
| Total assets | | **703,855** | 720,508 | 628,331 |
| **Liabilities** | | | | |
| Current | | | | |
| Bank indebtedness | | **10,000** | — | — |
| Trade payables, accruals and other | **11** | **14,532** | 22,587 | 27,193 |
| Floor plan payable | **12.2** | **416,414** | 403,180 | 305,342 |
| Income tax payable | | **—** | 523 | 1,079 |
| Contract liabilities | **15.2** | **10,863** | 21,430 | 25,719 |
| Current portion of long-term debt | **12.1** | **6,902** | 6,871 | 6,104 |
| Current portion of lease obligations | **13** | **7,628** | 8,125 | 7,906 |
| Current portion of derivative financial liabilities | **22.6** | **784** | 453 | 533 |
| Total current liabilities | | **467,123** | 463,169 | 373,876 |
| Non-current | | | | |
| Long-term debt | **12.1** | **24,359** | 31,282 | 30,919 |
| Lease obligations | **13** | **20,060** | 21,848 | 24,337 |
| Deferred tax liability | **18.2** | **—** | — | 106 |
| Derivative financial liabilities | **22.6** | **3,453** | 1,672 | 464 |
| Total non-current liabilities | | **47,872** | 54,802 | 55,826 |
| Total liabilities | | **514,995** | 517,971 | 429,702 |
| **Shareholders' Equity** | | | | |
| Common shares | | **92,588** | 93,700 | 95,477 |
| Contributed surplus | | **4,380** | 4,380 | 4,400 |
| Accumulated other comprehensive (loss) income | | **(1,544)** | (476) | 481 |
| Retained earnings | | **93,436** | 104,933 | 98,271 |
| Total shareholders' equity | | **188,860** | 202,537 | 198,629 |
| Total liabilities and shareholders' equity | | **703,855** | 720,508 | 628,331 |

**APPROVED BY THE BOARD**

*"Signed" Robert Herdman* — Robert Herdman, Director

*"Signed" Matthew Campbell* — Matthew Campbell, Director

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

## CONSOLIDATED STATEMENTS OF NET (LOSS) EARNINGS

| **For the years ended**<br>$ thousands, except per share amounts | **Note** | **December 31, 2019** | December 31, 2018 |
|---|---|---|---|
| | | | Note 25 |
| Sales | **15.1** | **775,070** | 1,051,088 |
| Cost of sales | **7** | **664,533** | 909,626 |
| Gross profit | | **110,537** | 141,462 |
| Selling, general and administrative | **16** | **90,880** | 99,262 |
| Loss on derivative financial instruments | **22.6** | **1,697** | 3,587 |
| Loss on sale of disposal group | **4** | **789** | — |
| Earnings before finance costs and income taxes | | **17,171** | 38,613 |
| Finance costs | **17** | **18,573** | 14,017 |
| (Loss) earnings before income taxes | | **(1,402)** | 24,596 |
| Income taxes (recovery) expense | **18.1** | **(314)** | 6,756 |
| Net (loss) earnings | | **(1,088)** | 17,840 |
| (Loss) earnings per share | | | |
| Basic | **19** | **(0.06)** | 0.90 |
| Diluted | **19** | **(0.06)** | 0.90 |

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

| **For the years ended**<br>$ thousands | **Note** | **December 31, 2019** | December 31, 2018 |
|---|---|---|---|
| | | | Note 25 |
| Net (loss) earnings | | **(1,088)** | 17,840 |
| Other comprehensive loss | | | |
| Items which will subsequently be reclassified to net (loss) earnings: | | | |
| Foreign currency translation adjustments | | **1** | 5 |
| Unrealized loss on derivative financial instruments, net of tax | **22.6** | **(1,069)** | (962) |
| Total other comprehensive loss, net of tax | | **(1,068)** | (957) |
| Comprehensive (loss) income | | **(2,156)** | 16,883 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| $ thousands and thousands of shares | Note | Common shares: Number of shares | Common shares: Amount | Contributed surplus | Accumulated other comprehensive (loss) income | Retained earnings | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| | | | | | | Note 25 | |
| **Balance, December 31, 2018** | | 19,488 | 93,700 | 4,380 | (476) | 104,933 | 202,537 |
| Shares repurchased and cancelled | **14.5** | (231) | (1,112) | — | — | (945) | (2,057) |
| Net loss | | — | — | — | — | (1,088) | (1,088) |
| Other comprehensive loss | | — | — | — | (1,068) | — | (1,068) |
| Dividends paid | **14.2** | — | — | — | — | (9,464) | (9,464) |
| **Balance, December 31, 2019** | | **19,257** | **92,588** | **4,380** | **(1,544)** | **93,436** | **188,860** |

| $ thousands and thousands of shares | Note | Common shares: Number of shares | Common shares: Amount | Contributed surplus | Accumulated other comprehensive (loss) income | Retained earnings | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| | | | | | | Note 25 | |
| **Balance, January 1, 2018** | | 19,877 | 95,477 | 4,400 | 481 | 98,271 | 198,629 |
| Shares issued upon exercise of stock options | 14.3 | 11 | 146 | (20) | — | — | 126 |
| Shares repurchased and cancelled | 14.5 | (400) | (1,923) | — | — | (1,772) | (3,695) |
| Net earnings | | — | — | — | — | 17,840 | 17,840 |
| Other comprehensive loss | | — | — | — | (957) | — | (957) |
| Dividends paid | 14.2 | — | — | — | — | (9,406) | (9,406) |
| **Balance, December 31, 2018** | | 19,488 | 93,700 | 4,380 | (476) | 104,933 | 202,537 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the years ended<br>$ thousands | Note | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **Operating activities** | | | Note 25 |
| Net (loss) earnings | | **(1,088)** | 17,840 |
| Adjustments for: | | | |
| Depreciation and amortization expense | **8,9,16** | **14,877** | 14,595 |
| Deferred tax recovery | **18.1** | **(208)** | (749) |
| Loss on sale of disposal group | **4** | **789** | — |
| Gain on disposal of property and equipment | **9** | **(491)** | (79) |
| Loss on derivative financial instruments | **22.6** | **1,697** | 3,587 |
| Cash received on settlement of total return swaps | **22.6** | **—** | 1,683 |
| Amortization of deferred debt issuance costs | | **132** | 148 |
| Changes in non-cash working capital | **20.1** | **18,016** | (3,805) |
| Total cash generated from operating activities | | **33,724** | 33,220 |
| **Financing activities** | | | |
| Repayment of long-term debt | | **(7,024)** | (6,276) |
| Proceeds from long-term debt | | **—** | 7,401 |
| Repayment of lease obligations | **13** | **(8,493)** | (8,166) |
| Dividends paid | **14.2** | **(9,464)** | (9,406) |
| Proceeds from issuance of common shares | | **—** | 126 |
| Purchase of common shares for cancellation | **14.5** | **(2,057)** | (3,695) |
| Debt issuance costs | | **—** | (189) |
| Total cash used from financing activities | | **(27,038)** | (20,205) |
| **Investing activities** | | | |
| Purchase of property and equipment | **9** | **(13,049)** | (8,751) |
| Proceeds from sale of disposal group | **4** | **56** | — |
| Proceeds from disposal of property and equipment | **9** | **788** | 1,055 |
| Purchase of equipment dealerships, net of cash acquired | **5** | **72** | (13,423) |
| Total cash used from investing activities | | **(12,133)** | (21,119) |
| Net decrease in cash | | **(5,447)** | (8,104) |
| Effect of foreign exchange on cash | | **(45)** | 53 |
| Cash, beginning of year | | **12,046** | 20,097 |
| Cash, end of year | | **6,554** | 12,046 |
| Supplementary disclosure of operating cash flows | | | |
| Taxes paid | | **2,687** | 8,639 |
| Interest paid | | **18,141** | 12,580 |

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

## 1. GENERAL INFORMATION

Rocky Mountain Dealerships Inc. ("RME") is incorporated under the *Business Corporations Act* of Alberta. Through its wholly-owned subsidiaries, RME sells, leases and provides product and warranty support for a wide variety of agriculture equipment in Western Canada and Kansas, United States ("U.S."). RME's operating subsidiaries are incorporated in Alberta, Canada and Delaware, U.S.

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

## 2. BASIS OF PREPARATION

### 2.1. STATEMENT OF COMPLIANCE

RME prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2020.

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

Effective January 1, 2019, RME retrospectively adopted IFRS 16 'Leases'. IFRS 16 'Leases' replaces IAS 17 'Leases' and requires most leases to be recognized as assets and liabilities on the statement of financial position. Contracts assessed as falling within the scope of this standard are limited to RME's operating lease obligations. At initial recognition the lease asset and liability are recorded at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance costs associated with long-term debt (Note 17). Finance costs are recognized immediately in net (loss) earnings. See Note 25 for the details on the impacts of the adoption of this new accounting standard.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1. BASIS OF MEASUREMENT

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

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

### 3.2. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of RME and its wholly-owned subsidiaries all of which are controlled by RME. Subsidiaries are included in the consolidated financial statements of RME from the date control of the subsidiary commences until the date that control ceases. Intercompany transactions and balances are eliminated upon consolidation.

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

### 3.3. BUSINESS COMBINATIONS

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

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

$ thousands, except per share amounts or unless otherwise stated

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

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

### 3.4. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as RME's President and Chief Executive Officer. RME has one reportable operating segment.

### 3.5. PROPERTY AND EQUIPMENT

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

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

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

| | |
|---|---|
| Land | Not depreciated |
| Buildings | Straight-line over 20 years |
| Leased assets | Straight-line over the estimated lease term |
| Furniture, fixtures and equipment | Straight-line over 3 – 10 years |
| Leasehold improvements | Straight-line over the lesser of the estimated lease term and useful life |
| Vehicles | Straight-line over 3 – 5 years |

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in net (loss) earnings. Items of property and equipment are tested for impairment as discussed in Note 3.9.

### 3.6. KEY ESTIMATES AND JUDGEMENTS

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

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

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

### 3.7. IDENTIFIABLE INTANGIBLE ASSETS

Identifiable intangible assets are initially recorded at cost. Finite lived intangible assets are amortized on a straight-line basis over their estimated useful lives. RME's identifiable intangible assets consisted of intellectual properties associated with our geomatics technology. During 2019, RME sold its geomatics operations and, therefore, has no identifiable intangible assets as at December 31, 2019.

### 3.8. GOODWILL AND IMPAIRMENT OF GOODWILL

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

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

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

### 3.9. IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

At the end of each reporting period, RME reviews the carrying amounts of its identifiable assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, RME compares the estimated recoverable amount of the CGU to which the asset belongs to its carrying value to determine whether, and the extent to which, the asset is impaired as described in Note 3.8.

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

### 3.10. EARNINGS PER SHARE

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

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

### 3.11. LEASES

Leased assets are initially recorded at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability is included in the consolidated statements of financial position as a lease obligation.

Lease payments are apportioned between finance costs and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized immediately in net (loss) earnings.

### 3.12. INVENTORY

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

### 3.13. REVENUE RECOGNITION

#### 3.13.1. Sale of goods

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

i. RME has transferred to the customer the control of ownership of the goods;

ii. the goods have been delivered;

iii. RME has a present right to payment;

iv. the customer has legal title; and

v. the customer has accepted the asset.

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

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

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

i. the equipment is ready for physical transfer to the customer;

ii. the customer has made the decision to put the equipment in a bill and hold arrangement;

iii. RME does not have the ability to use the equipment or to direct it to another customer; and

iv. the equipment is identified separately as belonging to the customer.

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

#### 3.13.3. Rendering of services

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

i. the amount of revenue can be measured reliably;

ii. it is probable that the economic benefits associated with the transaction will flow to RME; and

iii. the stage of completion of the transaction at the end of the reporting period can be measured reliably.

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

#### 3.13.4. Financing component

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

### 3.14. MANUFACTURERS INCENTIVES

#### 3.14.1. Annual performance incentives

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

#### 3.14.2. Transactional incentives

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

### 3.15. SHARE BASED TRANSACTIONS

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

Cash-settled share-based payments are recorded as liabilities and are measured initially at their fair values. At the end of each reporting period and at the date of settlement, these liabilities are remeasured at fair value, with any changes recognized in net (loss) earnings for the period. Details regarding the determination of the fair value of cash-settled share-based payments are set out in Note 11.

### 3.16. EMPLOYEE SHARE OWNERSHIP PLAN

RME has an Employee Share Ownership Plan ("ESOP"). Under the ESOP, RME matches eligible employee contributions, subject to certain limitations based on employee tenure. RME's Compensation and Human Resources Committee may approve modifications to these limitations as part of executive compensation plans. RME's contributions vest immediately to the employee and are expensed as incurred.

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

### 3.17. INCOME TAXES

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

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

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

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

### 3.18. FOREIGN CURRENCY TRANSACTIONS

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

### 3.19. FINANCIAL INSTRUMENTS

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

#### 3.19.1. Financial instruments - Initial recognition

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

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

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

*Financial Assets*

A financial asset is subsequently measured at:

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

*Financial Liabilities*

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

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

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

*Financial Liabilities - Held for Trading*

A financial liability is classified as held for trading if:

i. it has been acquired principally for the purpose of repurchasing it in the near term; or

ii. on initial recognition it is part of a portfolio of identified financial instruments that is managed together, for which a recent actual pattern of short-term profit taking exists; or

iii. it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

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

*Financial Liabilities - designated as FVLP*

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

i. such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;

ii. the financial liability forms part of a group of financial instruments, which is managed and its performance is evaluated on a fair value basis, in accordance with RME's risk management strategy, and information about the grouping is provided internally on that basis; or

iii. it forms part of a contract containing one or more embedded derivatives, and IFRS permits the entire combined contract to be designated as at FVPL.

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

### 3.19.3. Measurement of amortized cost - The effective interest method

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

### 3.19.4. Impairment of financial assets

Financial assets which are measured subsequent to initial recognition at amortized cost are assessed for indicators of impairment at the end of each reporting period. The amount of the impairment loss, if any, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. RME's financial assets carried at amortized cost consist only of cash and trade receivables and other.

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

A loss allowance provision, which reflects RME's estimate of credit losses, is applied to reduce the carrying amount of trade receivables and other. Subsequent recoveries of amounts previously provided for are credited against the allowance. Changes in the carrying amount of the allowance are recognized in selling, general and administrative expenses.

### 3.19.5. Derecognition of financial instruments

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

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

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

### 3.19.6. Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

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

## 4. LOSS ON SALE OF DISPOSAL GROUP

On May 31, 2019, RME sold its geomatics operations. The loss on the sale of the disposal group consists of:

| $ thousands | December 31, 2019 |
|---|---|
| Cash consideration received | 56 |
| Carrying value of assets | |
| Prepaid expenses and other | 47 |
| Intangible assets | 137 |
| Property and equipment | 312 |
| Goodwill | 220 |
| Carrying value of liabilities | |
| Lease obligation | (118) |
| Other costs associated with contract termination | 247 |
| Total carrying value of disposal group | 845 |
| Total loss on sale of disposal group | 789 |

## 5. ACQUISITIONS

There were no business acquisitions during the year ended December 31, 2019.

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

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

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

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

| $ thousands | JBFE | Olds | Total |
|---|---|---|---|
| Cash consideration | | | |
| Paid 2018 | 10,930 | 2,493 | 13,423 |
| Received 2019 | (72) | — | (72) |
| Payable | 200 | — | 200 |
| Earn out estimate | 154 | — | 154 |
| Total purchase consideration | 11,212 | 2,493 | 13,705 |

The allocation of purchase consideration is as follows:

| $ thousands | JBFE | Olds | Total |
|---|---|---|---|
| Net working capital | | | |
| Trade receivables and other | 2,109 | 600 | **2,709** |
| Inventory | 23,482 | 6,252 | **29,734** |
| Prepaid expenses and other | 48 | 37 | **85** |
| Bank indebtedness | (2,799) | — | **(2,799)** |
| Trade payables, accruals and other | (1,574) | (1,218) | **(2,792)** |
| Income tax payable | (418) | — | **(418)** |
| Floor plan payable | (18,413) | (3,329) | **(21,742)** |
| | 2,435 | 2,342 | **4,777** |
| Property and equipment | 6,367 | 118 | **6,485** |
| Long-term debt | (46) | — | **(46)** |
| Deferred tax liability | 238 | — | **238** |
| Goodwill | 2,218 | 33 | **2,251** |
| Net assets | 11,212 | 2,493 | **13,705** |

As at December 31, 2019, purchase consideration payable for the JBFE acquisition of $200 pertains to an environmental holdback, releasable upon satisfactory third-party confirmation that no remediation is required. During 2019, RME recovered $72 of previously paid purchase consideration.

The purchase consideration for the JBFE acquisition included an earn-out provision of up to $500 based on the performance of the acquired stores for a period of 24 months following the purchase date. Based on historical results, RME estimated at the time of purchase that the payable amount would be $154. Subsequent to the measurement period of the purchase allocation, RME has determined that the criteria for this earn-out provision are unlikely to be met and derecognized this obligation in 2019.

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

During the year ended December 31, 2019, RME incurred $129 of acquisition related costs (2018 - $541). These costs are recognized as administrative expenses within selling, general and administrative expenses in the period in which they were incurred.

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

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

## 6. TRADE RECEIVABLES AND OTHER

### TRADE RECEIVABLES

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

### OTHER RECEIVABLES

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

| | **December 31, 2019** | | December 31, 2018 | |
|---|---|---|---|---|
| $ thousands, unless otherwise noted | **Expected loss rate** | **Amount** | Expected loss rate | Amount |
| **Trade receivables** | | | | |
| Current | **0.5%** | **5,168** | 0.4% | 12,498 |
| Aged between 31 – 60 days | **2.0%** | **1,770** | 1.2% | 2,171 |
| Aged between 61 – 90 days | **5.0%** | **743** | 3.9% | 1,020 |
| Aged between 91 – 120 days | **9.0%** | **397** | 6.1% | 518 |
| Aged greater than 120 days | **67.2%** | **861** | 56.1% | 1,571 |
| Total gross trade receivables | | **8,939** | | 17,778 |
| **Other receivables** | | | | |
| Contracts in transit and other | | | | |
| Counterparties with external credit ratings (Moody's) | | | | |
| A3-Aaa | | **1,618** | | 134 |
| B3-Baa | | **11,681** | | 20,725 |
| Counterparties without external credit ratings | | **1,434** | | 195 |
| Total gross contracts in transit | | **14,733** | | 21,054 |
| Warranty receivables | | | | |
| Counterparties with external credit ratings (Moody's) | | | | |
| B3-Baa | | **784** | | 539 |
| Counterparties without external credit ratings | | **94** | | 353 |
| Total gross warranty receivables | | **878** | | 892 |
| Gross trade receivables and other | | **24,550** | | 39,724 |
| Loss allowance provision | | | | |
| Trade receivables | | **(713)** | | (1,033) |
| Contracts in transit and other | | **(244)** | | (95) |
| Warranty receivable | | **(2)** | | (2) |
| Total loss allowance provision | | **(959)** | | (1,130) |
| Trade receivables and other | | **23,591** | | 38,594 |

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

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Opening balance | **1,130** | 1,094 |
| Net provision | **196** | 167 |
| Written-off during the year | **(367)** | (131) |
| Ending balance | **959** | 1,130 |

## 7. INVENTORY

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| New equipment | **126,689** | 130,475 |
| Used equipment | **397,289** | 388,488 |
| Parts | **39,196** | 41,555 |
| Inventory | **563,174** | 560,518 |

For the year ended December 31, 2019, inventory recognized as an expense amounted to $651,764 (2018 – $897,408), which is included in cost of sales in the consolidated statements of net (loss) earnings.

For the year ended December 31, 2019, there were write downs of inventory to net realizable value of $5,905 (2018 – $8,228), in cost of sales in the consolidated statements of net (loss) earnings. Circumstances that give rise to the write down of primarily used inventory include fluctuations in market price, profile and age in inventory. For the years ended December 31, 2019 and 2018, there were no reversals of previous write downs of inventory. RME's inventory has been pledged as security for its bank indebtedness, floor plan payable and long-term debt.

## 8. INTANGIBLE ASSETS

Intangible assets were comprised of intellectual properties associated with our geomatics technology. These assets were impaired in the first quarter of 2019, and subsequently sold in the second quarter. See Note 4 for further information.

| $ thousands | **Cost** | **Accumulated amortization** | **Net book value** |
|---|---|---|---|
| December 31, 2017 | 822 | (479) | 343 |
| Amortization expense | — | (165) | (165) |
| December 31, 2018 | 822 | (644) | 178 |
| Amortization expense | — | (41) | (41) |
| Sale of disposal group | (822) | 685 | (137) |
| **December 31, 2019** | **—** | **—** | **—** |

## 9. PROPERTY AND EQUIPMENT

| $ thousands | Land | Buildings | Leased assets | Furniture, fixtures and equipment | Leasehold improve-ments | Vehicles | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2018 | 10,743 | 17,165 | 50,665 | 25,071 | 6,631 | 20,063 | 130,338 |
| Additions | 1,869 | 498 | — | 2,122 | 884 | 3,378 | 8,751 |
| Net leased assets recognized | — | — | 913 | — | — | — | 913 |
| Business combinations | 1,225 | 4,271 | — | 414 | — | 575 | 6,485 |
| Disposals | (96) | (327) | — | (2,063) | (60) | (2,700) | (5,246) |
| December 31, 2018 | 13,741 | 21,607 | 51,578 | 25,544 | 7,455 | 21,316 | 141,241 |
| Additions | 84 | 7,584 | — | 2,791 | 1,063 | 1,527 | 13,049 |
| Net leased assets recognized | — | — | (179) | — | — | — | (179) |
| Business combinations | — | — | — | — | — | — | — |
| Sale of disposal group | — | — | (129) | (1,188) | (33) | (39) | (1,389) |
| Disposals | — | — | — | (2,626) | (202) | (2,427) | (5,255) |
| **December 31, 2019** | **13,825** | **29,191** | **51,270** | **24,521** | **8,283** | **20,377** | **147,467** |
| **Accumulated depreciation** | | | | | | | |
| January 1, 2018 | — | 2,108 | 20,665 | 19,149 | 3,234 | 13,731 | 58,887 |
| Depreciation expense | — | 930 | 7,735 | 2,397 | 676 | 2,692 | 14,430 |
| Leased assets derecognized | — | — | (3,782) | — | — | — | (3,782) |
| Disposals | — | (62) | — | (1,844) | (55) | (2,309) | (4,270) |
| December 31, 2018 | — | 2,976 | 24,618 | 19,702 | 3,855 | 14,114 | 65,265 |
| Depreciation expense | — | 1,147 | 8,088 | 2,287 | 664 | 2,650 | 14,836 |
| Leased assets derecognized | — | — | (6,491) | — | — | — | (6,491) |
| Sale of disposal group | — | — | (8) | (1,001) | (33) | (35) | (1,077) |
| Disposals | — | — | — | (2,609) | (199) | (2,150) | (4,958) |
| **December 31, 2019** | **—** | **4,123** | **26,207** | **18,379** | **4,287** | **14,579** | **67,575** |
| **Net book value** | | | | | | | |
| January 1, 2018 | 10,743 | 15,057 | 30,000 | 5,922 | 3,397 | 6,332 | 71,451 |
| December 31, 2018 | 13,741 | 18,631 | 26,960 | 5,842 | 3,600 | 7,202 | 75,976 |
| **December 31, 2019** | **13,825** | **25,068** | **25,063** | **6,142** | **3,996** | **5,798** | **79,892** |

Included in selling, general and administrative expenses for the year ended December 31, 2019 are depreciation expense of $14,836 (2018 – $14,430), and a gain on the disposal of property and equipment of $491 (2018 – gain of $79).

As at December 31, 2019, the leased assets' net book value consists of $24,134 (2018 – $25,926) of buildings and $929 (2018 – $1,034) of furniture, fixtures and equipment.

## 10. GOODWILL

| $ thousands | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Opening balance | **21,856** | 18,776 |
| Recognized on business acquisitions | — | 3,080 |
| Measurement period adjustment | **(829)** | — |
| Disposal group impairment | **(220)** | — |
| Ending balance | **20,807** | 21,856 |

During the year ended December 31, 2019, RME recognized $829 in measurement period adjustments related to tax and other working capital adjustments from acquisitions completed during 2018.

During the first quarter of 2019, RME recognized a $220 impairment charge related to the goodwill associated with the geomatics disposal group. Refer to Note 4 for additional information.

As at December 31, 2019 and 2018, RME has identified one CGU, to which all goodwill has been allocated.

RME's CGU was assessed for impairment on December 31, 2019 and 2018. The recoverable amount of the CGU was determined from value in use calculations. The key assumptions made for the value in use calculations are those regarding the discount and growth rates. These key assumptions are based on past experience which has been adjusted for expected changes in future conditions.

As at December 31, 2019 and 2018, RME prepared cash flow forecasts derived from the most recent financial plans prepared by management, and approved by the Board of Directors, and extrapolated these cash flows into perpetuity using growth assumptions relevant to the business sector. For the years ended December 31, 2019 and 2018, the growth rate used for the purposes of these analysis was 2.0%.

As at December 31, 2019 , the rate used to discount the forecasted cash flows was 11.3% (2018 – 12.8%), and represents RME's estimate of the pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to RME's CGU. The recoverable amount of the CGU exceeded its carrying value at the impairment test dates.

RME has conducted a sensitivity analysis based on possible changes in the key assumptions used for the impairment tests. Had the estimated cost of capital used in determining the pre-tax discount rates been 3.5% (2018 – 4.5%) higher than management's estimates or the estimated growth rate used in extrapolating forecasted results been 6.0% (2018 – 10.0%) lower, the recoverable amount of the CGU would equal its carrying amount for the respective periods. Any additional negative change in the assumptions would cause goodwill to be impaired.

## 11. TRADE PAYABLES, ACCRUALS AND OTHER

| $ thousands | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Trade payables and accruals | **13,575** | 21,703 |
| Directors' share units | **775** | 760 |
| Restricted share units | **182** | 111 |
| Preferred share units | **—** | 13 |
| Trade payables, accruals and other | **14,532** | 22,587 |

### 11.1. DIRECTORS' SHARE UNIT AND EXECUTIVE DEFERRED SHARE UNIT PLANS

RME maintains a directors' share unit ("DSU") plan. Under this plan, the Board of Directors may grant DSUs to the independent directors of RME for services rendered. The DSUs are notional grants of shares and are to be settled in cash subsequent to the director's termination date at the director's option. RME also maintains an executive deferred share unit ("EDSU") plan. Under this plan, an executive may elect to receive a portion of their short-term incentive compensation in the form of EDSUs rather than cash. Additional DSUs/EDSUs are credited to the directors' accounts when cash dividends are paid to the common shareholders of RME. Such amount of additional DSUs/EDSUs is determined by dividing the dividends which would have been paid on the DSUs/EDSUs had they been common shares of RME by the volume weighted average trading price of RME's shares over the 20-day trading period immediately preceding the date the dividends are paid.

Upon redemption, and at each reporting date, the DSUs/EDSUs are valued on a per unit basis at an amount equal to the volume weighted average trading price of RME's common shares over the immediately preceding 20-day trading period. At December 31, 2019, $775 was included in trade payables, accruals and other with respect to the DSUs/EDSUs (2018 – $760).

DSUs/EDSUs granted and the unrealized gains recognized on the DSUs/EDSUs during the years ended December 31 are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| $ and units in thousands | **Units** | **$** | Units | $ |
| January 1, | **85** | **760** | 60 | 823 |
| Granted(1) | **35** | **279** | 25 | 291 |
| Gain on revaluation(1) | **—** | **(264)** | — | (354) |
| December 31, | **120** | **775** | 85 | 760 |

(1) Included in selling general and administrative expenses.

As at December 31, 2019 and 2018, RME has several total return swaps as an economic hedge for RME's DSUs (Note 22.6).

### 11.2. SHARE APPRECIATION RIGHTS PLAN

RME maintains a share appreciation rights ("SAR") plan as a component of overall compensation for certain directors, officers and employees. These SARs vest after a three-year period, are exercisable for two years thereafter and are able to be settled in cash. The SARs expired on the fifth anniversary of their grant date. During the vesting period, the SARs were revalued at each reporting period using the Black-Scholes option pricing model. Once vested, the SARs are revalued at each reporting period using the five-day volume weighted average price of RME's common shares. RME recognizes a liability to the extent that the fair value of the SARs had been earned by the holder, with the resulting expense recognized within selling, general and administrative expense.

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

| | **2019** | | 2018 | |
|---|---|---|---|---|
| $ and rights in thousands | **Rights** | **$** | Rights | $ |
| January 1, | **565** | **—** | 599 | 2,525 |
| Exercised | **—** | **—** | (26) | (82) |
| Forfeited | **(9)** | **—** | (8) | (32) |
| Gain on revaluation(1) | **—** | **—** | — | (2,411) |
| December 31, | **556** | **—** | 565 | — |

(1) Included in selling general and administrative expenses.

As of December 31, 2018, all outstanding SARs had fully vested and were therefore fair valued using market pricing. All SARs will expire on March 12, 2020.

As at December 31, 2019 and 2018, RME has several total return swaps as an economic hedge for RME's SARs (Note 22.6).

### 11.3. RESTRICTED AND PERFORMANCE SHARE UNIT PLAN

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

Additional RSUs and PSUs are credited to the holder when cash dividends are paid to the common shareholders of RME. Such amount of additional units are determined by dividing the dividends which would have been paid on the units had they been common shares of RME by the volume weighted average trading price of RME's shares over the 20-day trading period immediately preceding the date the dividends are paid.

Upon vesting, and at each reporting date, both the RSUs and PSUs are valued on a per unit basis at an amount equal to the volume weighted average trading price of RME's shares over the immediately preceding 20-day trading period. The PSU value also contains a Company performance multiplier, ranging from zero to two. One third of the RSUs vest annually beginning on January 1 of the year following the grant. The PSUs vest on January 1 of the third year following the grant.

RSUs granted and the unrealized losses recognized during the years ended December 31 are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| $ and rights in thousands | **Units** | **$** | Units | $ |
| January 1, | **24** | **111** | — | — |
| Granted | **37** | **—** | 24 | — |
| Forfeited | **(9)** | **(31)** | — | — |
| Settled | **(7)** | **(57)** | — | — |
| Loss on revaluation(1) | **—** | **159** | — | 111 |
| December 31, | **45** | **182** | 24 | 111 |

(1) Included in selling general and administrative expenses.

PSUs granted and the unrealized (gains) losses recognized during the years ended December 31 are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| $ and rights in thousands | **Units** | **$** | Units | $ |
| January 1, | **36** | **13** | — | — |
| Granted | **54** | **—** | 36 | — |
| Forfeited | **(14)** | **(2)** | — | — |
| (Gain) loss on revaluation(1) | **—** | **(11)** | — | 13 |
| December 31, | **76** | **—** | 36 | 13 |

(1) Included in selling general and administrative expenses.

## 12. BORROWINGS

Pursuant to agreements with lenders, RME is required to monitor and report certain non-IFRS measures (Note 23).

### 12.1 THE SYNDICATED FACILITY

RME has a credit facility with a syndicate of lenders (the "Syndicated Facility"). The Syndicated Facility is a revolving facility which matures on September 24, 2021. During 2019, at the request of RME, the Syndicated Facility was amended to, among other things, reduce excess facility limits and amend the definition and calculation of certain covenants as discussed below. As part of these amendments, the pricing was temporarily increased through June 30, 2020. Subsequent to the amendments, advances under the Syndicated Facility may be made based on our lenders' prime rate or the U.S. base rate plus 1.5% – 2.3% or based on the banker's acceptance ("BA") rate plus 2.5% – 3.3%. Subsequent to June 30, 2020 the pricing is set to revert to original levels of our lenders' prime rate or the U.S. base rate plus 1.0% – 1.8% or based on the BA rate plus 2.0% – 2.8%. RME pays standby fees of between 0.4% – 0.6% per annum on any undrawn portion of the Syndicated Facility. The standby fees and premiums on base interest rates within the respective ranges are determined based on RME's ratio of debt to tangible net worth.

The Syndicated Facility consists of:

- The "Operating Facility" - which may be utilized to advance up to the lesser of the established borrowing base and $40,000 (2018 - $50,000). The borrowing base is supported by otherwise unencumbered assets including certain accounts receivable, inventory and items of property and equipment, less priority payables. This facility may be used to finance general corporate operating requirements. As at December 31, 2019, RME had drawn $10,000 on the Operating Facility (2018 - $Nil). Draws on the Operating Facility are presented on the statement of financial position as bank indebtedness.
- The "Flooring Facility" - which may be utilized to finance up to 75% of the value of eligible equipment inventory to a maximum of $125,000 (2018 - $125,000). Draws against the Flooring Facility are repayable over a term of 28

months, however, they become due in full upon the sale of the associated equipment. As at December 31, 2019, RME had drawn $111,883 on it's the Flooring Facility (2018 - $75,448). Draws on the Flooring Facility, along with draws on our other floor plan financing facilities discussed below, are presented on the statement of financial position within floor plan payable.

- The "Term Facility" - which may be utilized to finance up to 60% of the cost of acquisitions and 75% of the cost of real estate assets to a maximum of $35,000 (2018 - $85,000). Draws are repayable in quarterly installments with acquisition and real estate related draws amortized over periods of 7 and 15 years, respectively. As at December 31, 2019, RME had drawn $31,311 on the Term Facility (2018 - $38,266). Draws on the Term Facility are presented on the statement of financial position within long-term debt.

During the year ended December 31, 2019, the covenant threshold for RME's fixed charge coverage ratio under the Syndicated Facility was amended to 1.05:1.00 beginning in the second quarter of 2019 and continues at this rate up to and including June 30, 2020, after which it will revert back to 1.20:1.00. During the year ended December 31, 2019, the calculation of the fixed charge coverage ratio under the Syndicated Facility was amended to exclude from the trailing-12 month results, the principal repayments under the Term Facility. This amendment is effective for the purposes of calculating the fixed charge coverage ratio for fiscal quarters up to and including June 30, 2020. During 2019, the calculation of the fixed charge coverage ratio under the Syndicated Facility was also amended to exclude from the trailing-12 month results up to $6,500 of impairment charges taken against inventory.

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Term Facility | **31,311** | 38,266 |
| Various other facilities | **88** | 158 |
| Total principal outstanding | **31,399** | 38,424 |
| Less: current portion | **(6,902)** | (6,871) |
| Less: deferred debt issuance costs | **(138)** | (271) |
| Long-term portion | **24,359** | 31,282 |

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Within one year | **6,993** | 7,003 |
| Within years two and three | **13,958** | 14,007 |
| Within years four and five | **3,921** | 9,639 |
| Thereafter | **6,527** | 7,775 |
| Total principal outstanding | **31,399** | 38,424 |

### 12.2 OTHER FLOOR PLAN FINANCING FACILITIES

In addition to the Flooring Facility, RME maintains floor plan financing arrangements with certain key suppliers and various other creditors to finance equipment inventory on hand. The terms of these arrangements may include up to a twelve-month interest-free period. Interest rates on our floor plan facilities range from 0.0% to the bank's prime rate plus 1.5% at December 31, 2019 (2018 - range from 0.0% to the bank's prime rate plus 3.3%).

RME's flooring facility limits and amounts drawn as at December 31 are as follows:

| | **December 31, 2019** | | December 31, 2018 | |
|---|---|---|---|---|
| $ thousands | **Facility limit** | **Amount drawn** | Facility limit | Amount drawn |
| Flooring Facility | **125,000** | **111,883** | 125,000 | 75,448 |
| OEM floor plan facilities | **270,000** | **189,436** | 240,000 | 155,897 |
| Other floor plan facilities | **249,500** | **115,391** | 228,580 | 172,431 |
| Deferred finance costs | | **(296)** | | (596) |
| Total | **644,500** | **416,414** | 593,580 | 403,180 |

The amounts due are secured by specific new and used equipment inventories and the payments are due when the equipment is sold or transferred, up to a maximum term of 48 months. At December 31, 2019, RME's U.S. denominated floor plan payable translated into Canadian currency was $10,232 (2018 - $12,518). The entire amount of floor plan payable has been classified as current, as the corresponding inventory to which it relates has also been classified as current.

Pursuant to agreements with lenders, RME is required to monitor and report certain non-IFRS measures (Note 23).

## 13. LEASE OBLIGATIONS

Lease obligations relate to buildings, computer equipment and shop tools with lease terms ranging from one to eleven years.

The incremental borrowing rates underlying all the leases are fixed at the respective contract dates. The weighted-average effective interest rate for the lease obligations at December 31, 2019 was 3.4% (2018 - 3.3%).

The fair values of the lease obligations approximate their carrying amounts.

Future minimum lease payments along with the balance of the lease obligations are as follows:

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Due within one year | **8,461** | 8,548 |
| Due later than one year and not later than five years | **19,224** | 20,135 |
| Due later than five years | **2,133** | 3,762 |
| Total future minimum lease payments | **29,818** | 32,445 |
| Less: future finance charges | **(2,130)** | (2,472) |
| Carrying value of lease obligations | **27,688** | 29,973 |
| Less: current portion of lease obligations | **(7,628)** | (8,125) |
| Long-term portion of lease obligations | **20,060** | 21,848 |

For the year ended December 31, 2019, RME incurred long-term interest expense due to lease obligations of $980 which is included in finance costs (2018 - $948). For the year ended December 31, 2019, RME paid $9,473 in lease payments (2018 - $9,114), of which $8,493 (2018 - $8,166) was applied as principal against the lease obligations. For the year ended December 31, 2019, RME made cash payments for short-term or low-value leased assets of $487 (2018 - $574) which are recorded in selling, general and administrative expense.

## 14. SHARE CAPITAL

### 14.1. COMMON SHARES

RME is authorized to issue an unlimited amount of common shares with no par value. As at December 31, 2019, 19,257 thousand shares were issued and outstanding (2018 – 19,488 thousand). All issued and outstanding shares were fully paid as at December 31, 2019 and 2018.

### 14.2. DIVIDENDS PAID

Dividends declared and paid during the year ended December 31, 2019 were $9,464 or $0.490 per share (2018 – $9,406 or $0.475 per share).

On March 3, 2020, the Board of Directors declared a dividend of $0.1225 per common share on RME's outstanding common shares. The dividend is payable on March 31, 2020, to shareholders of record at the close of business on March 13, 2020.

### 14.3. STOCK OPTIONS

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

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

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

| | **2019** | | 2018 | |
|---|---|---|---|---|
| Thousands of options and $ per share | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| January 1, | **139** | **11.52** | 173 | 11.71 |
| Exercised | **—** | **—** | (11) | 11.52 |
| Expired | **(139)** | **11.52** | (23) | 12.89 |
| December 31, | **—** | **—** | 139 | 11.52 |

No new options were granted during the years ended December 31, 2019 and December 31, 2018 and no options are outstanding at December 31, 2019. During 2019, RME elected to allow its stock option plan to expire. As a result, RME no longer has a stock option plan as at December 31, 2019.

### 14.4. EMPLOYEE SHARE OWNERSHIP PLAN

During the year ended December 31, 2019, RME recognized $1,413 in selling, general and administrative expenses with respect to ESOP contributions matched by RME (2018 – $1,398).

### 14.5. NORMAL COURSE ISSUER BID

On November 19, 2018, RME announced a normal course issuer bid ("NCIB") to repurchase existing common shares. Under the NCIB program RME has the ability to repurchase up to 1,561 thousand common shares. The NCIB commenced on November 21, 2018 and expired on November 20, 2019.

During the year ended December 31, 2019, RME repurchased and cancelled 231 thousand shares under the NCIB for consideration of $2,057 (2018 - 400 thousand shares for consideration of $3,695) . Of the consideration paid, $1,112 was charged to share capital and $945 was charged to retained earnings (2018 $1,923 was charged to share capital and $1,772 was charged to retained earnings).

## 15. REVENUE

### 15.1 DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| New equipment sales | **322,723** | 514,110 |
| Used equipment sales | **300,812** | 393,311 |
| Parts sales | **116,557** | 111,015 |
| Sale of goods | **740,092** | 1,018,436 |
| Service sales | **34,978** | 32,652 |
| Total sales | **775,070** | 1,051,088 |

### 15.2. CONTRACT ASSETS AND LIABILITIES

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Contract assets | | |
| Estimated parts refunds | **189** | 185 |
| Asset recognized for costs incurred to fulfill service contracts | **1,590** | 2,224 |
| Total contract assets | **1,779** | 2,409 |
| Contract liabilities | | |
| Estimated parts refunds | **307** | 285 |
| Customer deposits - equipment | **8,490** | 18,713 |
| Customer deposits - cash | **2,066** | 2,432 |
| Total contract liabilities | **10,863** | 21,430 |

The costs to fulfill a service contract have no impairment losses and are expensed when the contract is fulfilled.

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Estimated parts refunds | **285** | 256 |
| Customer deposits - equipment | **18,713** | 18,739 |
| Customer deposits - cash | **2,412** | 6,697 |

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

## 16. SELLING, GENERAL AND ADMINISTRATIVE

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Compensation and related expenses | **57,286** | 61,662 |
| Administrative expenses | **18,277** | 22,985 |
| Other facility expenses | **5,386** | 5,834 |
| Depreciation and amortization expense | **14,877** | 14,595 |
| Total SG&A before overhead | **95,826** | 105,076 |
| Product support overhead | **(4,946)** | (5,814) |
| Total SG&A | **90,880** | 99,262 |

Included in compensation and related expenses for the year ended December 31, 2019 are variable sales commissions of $9,013 (2018 – $13,617).

Depreciation and amortization expense for the year ended December 31, 2019 is comprised of depreciation of property and equipment of $14,836 (2018 - $14,430), and amortization of intangible assets of $41, respectively (2018 - $165).

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

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

## 17. FINANCE COSTS

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Finance costs associated with short-term debt | **15,950** | 11,487 |
| Finance costs associated with long-term debt and lease obligations | **2,623** | 2,530 |
| Finance costs | **18,573** | 14,017 |

## 18. INCOME TAXES

### 18.1 INCOME TAX RECOGNIZED IN NET (LOSS) EARNINGS

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Current | **(106)** | 7,505 |
| Deferred | **(208)** | (749) |
| Income tax (recovery) expense | **(314)** | 6,756 |

Effective June 12, 2019, the Alberta government passed a bill that will see the corporate tax rate go from 12% at January 1, 2019 to 8% at January 1, 2022. RME has incorporated these rate changes into both current and deferred income taxes.

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| (Loss) earnings before income taxes | **(1,402)** | 24,596 |
| Computed tax at statutory tax rate of 27.1% (2018 - 27.0%) | **(377)** | 6,641 |
| Non-deductible expenses and losses | **111** | 136 |
| Change in tax rates | **194** | — |
| Income tax credits | **(90)** | (84) |
| Adjustment from prior year income tax expenses | **(151)** | 60 |
| Other | **(1)** | 3 |
| Total tax (recovery) expense | **(314)** | 6,756 |

### 18.2. DEFERRED TAX ASSET (LIABILITY)

| $ thousands | **Share issue costs** | **Property and equipment** | **Intangible asset** | **Share based payments** | **Derivatives** | **Tax credits** | **Provision** | **Total** |
|---|---|---|---|---|---|---|---|---|
| January 1, 2018 | 48 | 610 | (92) | 904 | (1,629) | (38) | 91 | (106) |
| Added in acquisition | — | (109) | — | — | — | — | — | (109) |
| Recognized in net earnings | 3 | 29 | 43 | (665) | 1,423 | 7 | (91) | 749 |
| Recognized in equity | — | — | — | — | 356 | — | — | 356 |
| December 31, 2018 | 51 | 530 | (49) | 239 | 150 | (31) | — | 890 |
| Measurement period adjustment | — | 347 | — | — | — | — | — | 347 |
| Recognized in net loss | (15) | (233) | 49 | (9) | 409 | 7 | — | 208 |
| Recognized in equity | — | — | — | — | 314 | — | — | 314 |
| **December 31, 2019** | **36** | **644** | **—** | **230** | **873** | **(24)** | **—** | **1,759** |

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

RME also has non-capital losses of $3,592 which expire between 2033 and 2038 for which no deferred tax asset has been recognized as these non-capital losses are available within an entity that has no reasonable expectation of future taxable profit.

## 19. (LOSS) EARNINGS PER SHARE

During the year ended December 31, 2019, there were no dilutive and no anti-dilutive stock options outstanding (2018 – no dilutive and 139 anti-dilutive stock options outstanding). Net (loss) earnings and the weighted average number of ordinary shares used in the calculations of basic and diluted (loss) earnings per share ("EPS") for the respective years were as follows:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Net (loss) earnings used in the calculation of basic and diluted EPS ($ thousands) | **(1,088)** | 17,840 |
| Weighted average number of ordinary shares used in the calculation of basic and diluted EPS (thousands) | **19,313** | 19,862 |
| Basic and diluted EPS ($ per common share) | **(0.06)** | 0.90 |

# 20. SUPPLEMENTAL CASH FLOW INFORMATION

## 20.1. CHANGES IN NON-CASH WORKING CAPITAL

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Trade receivables and other | **15,484** | (3,522) |
| Contract assets | **630** | (210) |
| Inventory | **(3,339)** | (60,771) |
| Income taxes receivable | **(2,270)** | — |
| Prepaid expenses and other | **2,994** | (175) |
| Bank indebtedness | **10,000** | (2,799) |
| Trade payables, accruals and other | **(8,109)** | (6,641) |
| Floor plan payable | **13,714** | 75,743 |
| Income taxes payable | **(521)** | (1,141) |
| Contract liabilities | **(10,567)** | (4,289) |
| Changes in non-cash working capital | **18,016** | (3,805) |

## 20.2 NET DEBT COMPOSITION AND RECONCILIATION

Net debt is comprised of bank indebtedness, long-term debt and lease obligations less cash as outlined below:

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Bank indebtedness | **10,000** | — |
| Current portion of long-term debt | **6,902** | 6,871 |
| Current portion of lease obligations | **7,628** | 8,125 |
| Borrowings - repayable within one year | **24,530** | 14,996 |
| Long-term debt | **24,359** | 31,282 |
| Lease obligations | **20,060** | 21,848 |
| Borrowings - repayable after one year | **44,419** | 53,130 |
| Less: Cash | **(6,554)** | (12,046) |
| Net debt | **62,395** | 56,080 |

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

| $ thousands | Liabilities from financing activities | | | | |
|---|---|---|---|---|---|
| | Long-term debt | Lease obligations | Bank Indebtedness | Cash | Total |
| January 1, 2018 | 37,023 | 32,243 | — | (20,097) | 49,169 |
| Cash flows | 1,125 | (8,166) | (2,799) | 8,104 | (1,736) |
| Acquisitions | 46 | — | 2,799 | — | 2,845 |
| Additions | — | 5,896 | — | — | 5,896 |
| Foreign exchange | — | — | — | (53) | (53) |
| Amortization of deferred debt issuance costs | 148 | — | — | — | 148 |
| Deferred debt issuance costs paid | (189) | — | — | — | (189) |
| December 31, 2018 | 38,153 | 29,973 | — | (12,046) | 56,080 |
| Cash flows | (7,024) | (8,493) | 10,000 | 5,447 | (70) |
| Additions | — | 6,310 | — | — | 6,310 |
| Sale of disposal group | — | (118) | — | — | (118) |
| Foreign exchange | — | 16 | — | 45 | 61 |
| Amortization of deferred debt issuance costs | 132 | — | — | — | 132 |
| **December 31, 2019** | **31,261** | **27,688** | **10,000** | **(6,554)** | **62,395** |

## 21. RELATED PARTY TRANSACTIONS

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

| $ thousands | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Equipment and product support sales | **2,555** | 4,398 |
| Expenditures | | |
| Rental payments on RME facilities | **5,890** | 5,833 |
| Equipment purchases | **362** | 3,158 |
| Vehicle purchases | **449** | 1,376 |
| Flight costs | **60** | 101 |
| Other expenses | **18** | 39 |

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

The remuneration of the directors and officers identified as RME's key management for the respective years ended December 31 is as follows:

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Salary and short-term benefits | **1,825** | 1,881 |
| Post-retirement benefits | **16** | 32 |
| Share-based compensation | **136** | (2,070) |
| Total remuneration | **1,977** | (157) |

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Due from related parties | **75** | 4 |
| Due to related parties | **—** | (106) |

The amounts due from related parties are not secured and are to be settled in cash. As at December 31, 2019 and December 31, 2018 , the amounts due from related parties are considered collectible and therefore have not been provided for in the loss allowance provision. During the year ended December 31, 2019, $Nil has been recognized in loss allowance expenses with respect to related party transactions (2018 – $Nil).

RME has contractual obligations to related parties in the form of facility leases. The following table summarizes RME's expected undiscounted cash flows for lease obligations to related parties existing at December 31, 2019.

| $ thousands | **Total** | 2020 | 2021-2022 | 2023-2024 | Thereafter |
|---|---|---|---|---|---|
| Lease obligations | **23,341** | 5,938 | 10,676 | 4,335 | 2,392 |

## 22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

RME, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, market risk (consisting of foreign currency exchange risk, interest rate risk and equity price risk), and liquidity risk. The following analysis provides a measurement of these risks as at December 31, 2019 and 2018.

### 22.1. CREDIT RISK

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

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

The aging of RME’s trade receivables is disclosed in Note 6. Contracts in transit and warranty receivables are due from counterparties who maintain strong credit ratings and RME has a history of collecting on these accounts. Trade receivables consist of amounts due from a large number of customers, spread across geographic areas.

### 22.2. MARKET RISK

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

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

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

The following table details RME's exposure to currency risk at December 31, 2019 and 2018 and a sensitivity analysis to changes in currency. A 5.0% change in currency was used for obligations that would be retired in 30 days or less and a 10.0% change in currency for obligations that would be retired within one year. The sensitivity analysis includes USD denominated monetary items and adjusts their translation at year end for appreciation in the USD relative to the Canadian dollar ("CAD"). For respective weakening in the USD, there would be an equal and opposite effect on net (loss) earnings. The effect on net (loss) earnings is presented net of tax.

| | | **December 31, 2019** | | December 31, 2018 | |
|---|---|---|---|---|---|
| $ thousands, unless otherwise noted | Change in currency rates % | **Expressed in CAD** | **Effect on net loss year ended** | Expressed in CAD | Effect on net earnings year ended |
| Cash | 5.0 | **614** | **22** | 10,187 | 372 |
| Trade receivables and other | 5.0 | **216** | **8** | — | — |
| Trade payables, accruals and other | 5.0 | **(170)** | **(6)** | (1,421) | (52) |
| Floor plan payable | 10.0 | **(10,232)** | **(752)** | (12,518) | (914) |
| Total | | **(9,572)** | **(728)** | (3,752) | (594) |

Included in selling, general and administrative expense are net losses recognized due to foreign currency translation for transactions and balances aggregating $82 for the year ended December 31, 2019 (2018 – gains of $556).

### 22.2.2. Interest rate risk and sensitivity analysis

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

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

The following table details RME's exposure to interest rate risk as at December 31, 2019 and 2018 and a sensitivity analysis to an increase in interest rates of 0.5% on net (loss) earnings. The sensitivity includes floating rate financial liabilities and adjusts their effect at period end for a 0.5% increase in interest rates. A decrease of 0.5% would result in an equal and opposite effect on net (loss) earnings. The effect on net earnings is presented net of tax. This analysis excludes floating rate financial liabilities for which RME has hedged its exposure to interest rate fluctuations through the use of floating-to-fixed interest rate swaps, as well as the interest rate swaps themselves.

| | | **December 31, 2019** | | December 31, 2018 | |
|---|---|---|---|---|---|
| $ thousands, unless otherwise noted | Change in interest rates % | **Floating rate financial liabilities** | **Effect on net loss year ended** | Floating rate financial liabilities | Effect on net earnings year ended |
| Floor plan payable | 0.5 | **193,743** | **712** | 155,211 | 567 |
| Term Facility | 0.5 | **11,024** | **41** | 12,787 | 47 |
| Total | | **204,767** | **753** | 167,998 | 614 |

### 22.2.3. Equity price risk and sensitivity analysis

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

The following table details RME's exposure to equity price risk as at December 31, 2019 and 2018, including a sensitivity analysis measuring the impact on net (loss) earnings of a 5.0% decrease in RME's share price. An increase of 5.0% would result in an equal and opposite effect on net (loss) earnings. The effect on net earnings is presented net of tax.

| $ thousands, unless otherwise noted | Change in stock price % | December 31, 2019 Total return swap financial liability | December 31, 2019 Effect on net loss year ended | December 31, 2018 Total return swap financial asset | December 31, 2018 Effect on net earnings year ended |
|---|---|---|---|---|---|
| Total return swaps | 5.0 | **(1,669)** | **(156)** | (18) | (212) |

## 22.3. LIQUIDITY RISK

RME's objective is to have sufficient liquidity to meet its liabilities when due. RME monitors its cash balance and cash flows generated from operations as well as available credit facilities to meet its requirements. Refer to Note 12 for a description of RME's various credit facilities.

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

| **As at December 31, 2019 $ thousands** | **Interest and principal outstanding** | **2020** | **2021-2022** | **2023-2024** | **Thereafter** |
|---|---|---|---|---|---|
| **Bank indebtedness** | **10,423** | **10,423** | **—** | **—** | **—** |
| **Trade payables, accruals and other(1)** | **13,575** | **13,575** | **—** | **—** | **—** |
| **Floor plan payable** | **431,601** | **431,601** | **—** | **—** | **—** |
| **Long-term debt** | **35,926** | **8,230** | **15,493** | **4,618** | **7,585** |
| **Lease obligations** | **29,818** | **8,462** | **13,505** | **5,719** | **2,132** |
| **Derivative financial liabilities** | **4,358** | **784** | **2,425** | **882** | **267** |
| **Total** | **525,701** | **473,075** | **31,423** | **11,219** | **9,984** |

| As at December 31, 2018 $ thousands | Interest and principal outstanding | 2019 | 2020-2021 | 2022-2023 | Thereafter |
|---|---|---|---|---|---|
| Trade payables, accruals and other(1) | 21,703 | 21,703 | — | — | — |
| Floor plan payable | 416,414 | 416,414 | — | — | — |
| Long-term debt | 44,150 | 8,466 | 16,044 | 10,571 | 9,069 |
| Lease obligations | 32,445 | 8,548 | 12,634 | 7,502 | 3,761 |
| Derivative financial liabilities | 2,556 | 461 | 1,005 | 693 | 397 |
| Total | 517,268 | 455,592 | 29,683 | 18,766 | 13,227 |

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

The Term Facility included in long-term debt is governed by a syndicated credit agreement which, if not renewed, will mature on September 24, 2021. The tables presented above assumes the agreement is renewed prior to maturity. In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for the long-term debt outstanding as at December 31, 2019 would be $25,130 in 2021-2022, $Nil in 2023-2024 and thereafter (2018 – $33,257 for 2020-2021, $11 in 2022-2023 and $Nil thereafter).

## 22.4. FINANCIAL INTRUMENTS CARRIED AT AMORTIZED COST

The carrying amounts of cash, trade receivables and other, trade payables, accruals and other (excluding DSUs/EDSUs, SARs, RSUs and PSUs) approximate their fair values because of the short-term maturities of these items. The carrying amounts of floor plan payable, long-term debt and lease obligations approximate their fair values.

## 22.5. FINANCIAL INTRUMENTS MEASURED AT FAIR VALUE

RME's financial instruments which are measured subsequent to initial recognition at fair value in the consolidated statements of financial position and are categorized as follows:

- Level 1 financial instruments are those whose fair value can be derived from quoted market prices (unadjusted) in active markets for similar financial assets or liabilities. RME does not have any Level 1 financial instruments.
- Level 2 financial instruments are those whose fair value can be derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). RME's Level 2 financial instruments consist of interest rate swaps and total return swaps. As at December 31, 2019, RME had a net derivative financial liability of $3,636 associated with these derivatives (2018 – net derivative financial liability of $556).
- Level 3 financial instruments are those whose fair value is derived from valuation techniques that include inputs for the financial asset or liability which are not based on observable market data (unobservable inputs). RME has no Level 3 financial instruments.

There were no transfers between Level 1 and 2 during 2019 or 2018.

### 22.6. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

RME has long and short-term debt raised at floating interest rates based on the prevailing Bankers' Acceptance rate and hedges a portion of this risk by using floating-to-fixed interest rate swaps. Under the interest rate swaps, RME hedges interest rate risk by exchanging, at monthly intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. The interest rate swaps hedge RME's exposure to interest rate fluctuations on portions of the Term Facility and various floor plan facilities. The accumulated amounts recognized within accumulated other comprehensive (loss) income will be reversed into net (loss) earnings over the remainder of the term of the derivatives. Future changes in fair value will be recognized as described in Note 3.19.6. For the year ended, December 31, 2019, RME recognized a loss of $46 (2018 – gain of $91) associated with its interest rate swaps in the statement of net (loss) earnings and an unrealized loss of $1,069 (2018 – loss of $962), net of tax in other comprehensive (loss) income.

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

| $ thousands, unless otherwise noted | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Notional amount | **130,287** | 135,479 |
| Effective fixed interest rate | **4.8%** | 4.5% |
| Effective floating interest rate | **4.6%** | 4.6% |
| Maturity dates | **Sept. 2020 - Aug. 2025** | Sept. 2020 - Aug. 2025 |

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

As at December 31, 2019, RME's total return swaps cover 660 thousand of RME's underlying common shares (2018 – 660 thousand). For the year ended, December 31, 2019, RME recognized losses of $1,651 (2018 – losses of $3,678) associated with its total return swaps.

Derivative financial assets consist of:

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Total return swaps | **—** | 151 |
| Interest rate swaps | **601** | 1,418 |
| Total derivative financial assets | **601** | 1,569 |
| Less: current portion | **(244)** | (586) |
| Long-term portion | **357** | 983 |

Derivative financial liabilities consist of:

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Total return swaps | **1,669** | 169 |
| Interest rate swaps | **2,568** | 1,956 |
| Total derivative financial liabilities | **4,237** | 2,125 |
| Less: current portion | **(784)** | (453) |
| Long-term portion | **3,453** | 1,672 |

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

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Opening net derivative financial liability (asset) | **556** | (6,033) |
| Loss recognized in net (loss) earnings | **1,697** | 3,587 |
| Loss recognized in other comprehensive loss – net of tax | **1,069** | 962 |
| Tax on loss recognized in other comprehensive loss | **314** | 357 |
| Cash received on settlement of total return swaps | **—** | 1,683 |
| Ending net derivative financial liability | **3,636** | 556 |

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

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

## 23. MANAGEMENT OF CAPITAL

RME's objectives when managing capital are:

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

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

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

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

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

The debt to equity ratio target excluding floor plan payable has been updated to between 0.3 and 0.5 to 1.0 in light of the changes in RME's debt structure due to the adoption of IFRS 16 (pre-IFRS 16 range - between 0.2 and 0.4 to 1.0). As at December 31, 2019 and 2018 RME was within its target range for this ratio. The debt to equity ratio target for RME including floor plan payable is debt between 2.0 and 3.0 to 1.0. As at December 31, 2019 and 2018 RME was within its target range for this ratio.

The components of debt to equity ratios are as follows:

| $ thousands | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Current portion of long-term debt | **6,902** | 6,871 |
| Current portion of lease obligations | **7,628** | 8,125 |
| Long-term debt | **24,359** | 31,282 |
| Lease obligations | **20,060** | 21,848 |
| Total debt excluding floor plan payable | **58,949** | 68,126 |
| Floor plan payable | **416,414** | 403,180 |
| Total debt including floor plan payable | **475,363** | 471,306 |
| Shareholders' equity | **188,860** | 202,537 |
| Debt equity ratios | | |
| Excluding floor plan payable | **0.31** | 0.34 |
| Including floor plan payable | **2.52** | 2.33 |

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

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Fixed charge coverage of at least | **1.05-1.15:1** | 1.15-1.20:1 |
| Debt to tangible net worth less than | **4.00:1** | 4.00:1 |
| Current ratio of at least | **1.20:1** | 1.20:1 |

Each lender has its own definition of which account balances are to be included in these computations. As at December 31, 2019 and 2018, RME was in compliance with all externally imposed capital requirements.

## 24. ECONOMIC DEPENDENCE

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

## 25. IMPACTS OF NEW ACCOUNTING STANDARDS

RME has elected to retrospectively apply IFRS 16 '*Leases*', with an adoption date of January 1, 2018. As a result of this retrospective application at the period ending December 31, 2019, comparative consolidated statements of financial position have been adjusted for the periods of January, 1 2018 and December 31, 2018, as well as consolidated statements of net (loss) earnings for the periods of December 31, 2018.

### 25.1 IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the transition provisions in IFRS 16 '*Leases*', the new standard has been adopted retrospectively and summarized comparatives for the 2018 financial periods have been restated as follows:

| **Statement of Financial Position**<br>$ thousands | **December 31, 2018 As Originally Presented** | **IFRS 16 Adjustments** | **December 31, 2018 Restated** |
|---|---|---|---|
| **Assets** | | | |
| Non-current | | | |
| Property and equipment | 49,975 | 26,001 | **75,976** |
| Deferred tax asset | 420 | 470 | **890** |
| Total non-current assets | 73,412 | 26,471 | **99,883** |
| Total assets | 694,037 | 26,471 | **720,508** |
| **Liabilities** | | | |
| Current | | | |
| Trade payables, accruals and other | 24,283 | (1,696) | **22,587** |
| Current portion of lease obligations | 280 | 7,845 | **8,125** |
| Total current liabilities | 457,020 | 6,149 | **463,169** |
| Non-current | | | |
| Lease obligations | 254 | 21,594 | **21,848** |
| Total non-current liabilities | 33,208 | 21,594 | **54,802** |
| Total liabilities | 490,228 | 27,743 | **517,971** |
| **Shareholders' Equity** | | | |
| Retained earnings | 106,205 | (1,272) | **104,933** |
| Total shareholders' equity | 203,809 | (1,272) | **202,537** |
| Total liabilities and shareholders' equity | 694,037 | 26,471 | **720,508** |

| **Statement of Financial Position**<br>$ thousands | **December 31, 2017 As Originally Presented** | **IFRS 16 Adjustments** | **January 1, 2018 Restated** |
|---|---|---|---|
| **Assets** | | | |
| Non-current | | | |
| Property and equipment | 42,229 | 29,222 | **71,451** |
| Total non-current assets | 65,457 | 29,222 | **94,679** |
| Total assets | 599,109 | 29,222 | **628,331** |
| **Liabilities** | | | |
| Current | | | |
| Trade payables, accruals and other | 28,009 | (816) | **27,193** |
| Current portion of lease obligations | 445 | 7,461 | **7,906** |
| Total current liabilities | 367,231 | 6,645 | **373,876** |
| Non-current | | | |
| Lease obligations | 75 | 24,262 | **24,337** |
| Deferred tax liability | 561 | (455) | **106** |
| Total non-current liabilities | 32,019 | 23,807 | **55,826** |
| Total liabilities | 399,250 | 30,452 | **429,702** |
| **Shareholders' Equity** | | | |
| Retained earnings | 99,501 | (1,230) | **98,271** |
| Total shareholders' equity | 199,859 | (1,230) | **198,629** |
| Total liabilities and shareholders' equity | 599,109 | 29,222 | **628,331** |

| **Statement of Net Earnings**<br>For the year ended December 31, 2018<br>$ thousands | **As Originally Presented** | **IFRS 16 Adjustments** | **Restated** |
|---|---|---|---|
| Selling, general and administrative | 100,129 | (867) | **99,262** |
| Earnings before finance costs and income taxes | 37,746 | 867 | **38,613** |
| Finance costs | 13,093 | 924 | **14,017** |
| Earnings before income taxes | 24,653 | (57) | **24,596** |
| Income taxes | 6,771 | (15) | **6,756** |
| Net earnings | 17,882 | (42) | **17,840** |
| Earnings per share | | | |
| Basic | 0.90 | — | **0.90** |
| Diluted | 0.90 | — | **0.90** |

## 25.2. DISCUSSION OF IMPACTS FROM ADOPTION OF IFRS 16 '*LEASES*'

The IFRS 16 '*Leases*' adjustments shown in Note 25.1 are the result of the following:

RME leases buildings, furniture, fixtures and equipment. These lease obligations are based on rental contracts that are typically for a fixed period of time and for a fixed minimum cost. Lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions. These lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

At the commencement of a lease it is recognized as a right-of-use leased asset with a corresponding lease obligation. The commencement date is the date at which the leased asset becomes available for use by RME. Each lease payment is allocated between the lease obligation and long-term interest within finance cost. The finance cost is charged to net earnings over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each lease. The leased asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payments that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Payments under a lease obligation are discounted using the interest rate implicit in the lease, if such rate can be determined, or RME's incremental borrowing rate in effect at lease inception.

Leased assets are disclosed within property and equipment on the consolidated statements of financial position and measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis within selling, general and administrative expense. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are immaterial property and equipment.

All leased assets are measured on a retrospective basis as if the new rules had always been applied.

All adoption impacts to income taxes are related to deferred income taxes.