



BRP INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE AND SIX-MONTH PERIODS ENDED JULY 31, 2017

The following management's discussion and analysis ("MD&A") provides information concerning financial condition and results of operations of BRP Inc. (the "Company" or "BRP") for the second quarter of the fiscal year ending January 31, 2018. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six-month periods ended July 31, 2017 and the audited consolidated financial statements and MD&A for the year ended January 31, 2017. Some of the information contained in this discussion and analysis contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from underlying forward-looking statements as a result of various factors, including those described in the "Forward-Looking Statements" section of this MD&A. This MD&A reflects information available to the Company as at August 31, 2017.

Basis of Presentation

The unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with IAS 34 "Interim Financial Reporting". All amounts presented are in Canadian dollars unless otherwise indicated. The Company's fiscal year is the twelve-month period ending January 31. All references in this MD&A to "Fiscal 2018" are to the Company's fiscal year ending January 31, 2018, to "Fiscal 2017" are to the Company's fiscal year ended January 31, 2017 and to "Fiscal 2016" are to the Company's fiscal year ended January 31, 2016.

This MD&A, approved by the Board of Directors on August 31, 2017, is based on the Company's unaudited condensed consolidated interim financial statements and accompanying notes thereto for the three and six-month periods ended July 31, 2017 and 2016.

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

Forward-Looking Statements

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

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



Many factors could cause the Company's actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail under the heading "Risk Factors" of its Annual Information Form: impact of adverse economic conditions on consumer spending; decline in social acceptability of the Company's products; fluctuations in foreign currency exchange rates; high levels of indebtedness; unavailability of additional capital; unfavourable weather conditions; seasonal sales fluctuations; inability to comply with product safety, health, environmental and noise pollution laws; large fixed cost base; inability of dealers and distributors to secure adequate access to capital; supply problems, termination or interruption of supply arrangements or increases in the cost of materials; competition in product lines; inability to successfully execute growth strategy; international sales and operations; failure of information technology systems or security breach; loss of members of management team or employees who possess specialized market knowledge and technical skills; inability to maintain and enhance reputation and brands; significant product liability claim; significant product repair and/or replacement due to product warranty claims or product recalls; reliance on a network of independent dealers and distributors; inability to successfully manage inventory levels; intellectual property infringement and litigation; inability to successfully execute manufacturing strategy; covenants in financing and other material agreements; changes in tax laws and unanticipated tax liabilities; deterioration in relationships with employees; pension plan liabilities; natural disasters; failure to carry proper insurance coverage; volatile market price for BRP's subordinate voting shares; conduct of business through subsidiaries; significant influence by Beaudier Inc. and 4338618 Canada Inc. (together the "Beaudier Group") and Bain Capital Luxembourg Investments S. à r. l. ("Bain Capital"); and future sales of BRP's shares by Beaudier Group, Bain Capital, directors, officers or senior management of the Company. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully.

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

Non-IFRS Measures

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

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



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

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

Overview

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

The Company employs approximately 8,700 people mainly in manufacturing and distribution sites in Mexico, Canada, Austria, the United States and Finland. The Company sells its products in over 100 countries. The products are sold directly through a network of approximately 3,250 dealers in 21 countries as well as through approximately 180 distributors serving approximately 1,040 additional dealers.

Highlights of the three-month period ended July 31, 2017

For the three-month period ended July 31, 2017, the Company's financial performance was the following when compared to the three-month period ended July 31, 2016:

- Revenues of \$1,027.0 million, an increase of \$170.9 million or 20.0%;
- Gross profit of \$213.7 million representing 20.8% of revenues, an increase of \$41.7 million;
- Normalized EBITDA ^[1] of \$81.5 million representing 7.9% of revenues, an increase of \$37.1 million;
- Net income of \$100.1 million, an increase of \$168.9 million, which resulted in a diluted earnings per share of \$0.89, an increase of \$1.50 per share;
- Normalized net income ^[1] of \$20.6 million, an increase of \$19.6 million, which resulted in a normalized diluted earnings per share ^[1] of \$0.18, an increase of \$0.17 per share.

^[1] See "Non-IFRS Measures" section.



In addition, during the three-month period ended July 31, 2017:

- The Company completed its substantial issuer bid offer (“SIB”) launched in June 2017 with the repurchase of 8,599,508 subordinate voting shares for a total consideration of \$350.0 million.
- The Company introduced the most powerful factory-built SSV on the market, the 172hp *Can-Am Maverick X3 Turbo R*.

Factors Affecting the Company’s Results of Operations

Revenues and Sales Program Costs

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

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

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

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

Commodity Costs

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

Warranty Costs

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



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

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

Foreign Exchange

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

The Company has an outstanding U.S. \$693.0 million under its U.S. \$700.0 million term facility agreement (the "Term Facility" or the "Term Credit Agreement"), which results in a gain or loss in net income when the U.S. dollar/Canadian dollar exchange rate at the end of the period is different from the opening period rate. Additionally, the Company's interest expense on the Term Facility is exposed to U.S. dollar/Canadian dollar exchange rate fluctuations. The Company does not currently hedge the U.S. dollar/Canadian dollar exchange rate fluctuation exposures related to its Term Facility, and therefore, an increase in the value of the U.S. dollar against the Canadian dollar could negatively impact the Company's net income.

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

Net Financing Costs (Financing Costs less Financing Income)

Net financing costs are incurred principally on long-term debt, defined benefit pension plan liabilities and revolving credit facilities. As at July 31, 2017, the Company's long-term debt of \$882.0 million was mainly comprised of the Term Facility, which bears interest at LIBOR plus 3.00% with a LIBOR floor rate of 0.75%. The Company does not hedge its exposure to interest rates fluctuation. Therefore, an increase in interest rates could negatively impact the Company's operating results.

Income Taxes

The Company is subject to federal, state and provincial income taxes in jurisdictions in which it conducts business. The Canadian income tax statutory rate was 26.8% for the three and six-month periods ended July 31, 2017. However, the Company's effective consolidated tax rate is influenced by various factors, including the mix of accounting profits or losses before income tax among tax jurisdictions it operates in and the foreign exchange gain or loss on the Term Facility. The Company expects to pay cash taxes in all tax jurisdictions for the fiscal year ending January 31, 2018, except in the United States where the Company plans to utilize its tax attributes to offset taxable income or income taxes payable.



Seasonality

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

Selected Consolidated Financial Information

The selected consolidated financial information set out below for the three and six-month periods ended July 31, 2017 and 2016, has been derived from the unaudited condensed consolidated interim financial statements and related notes approved on August 31, 2017.

Net Income data

	Three-month periods ended		Six-month periods ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
(in millions of Canadian dollars)				
Revenues by category				
Year-Round Products	\$ 439.4	\$ 326.3	\$ 829.8	\$ 726.5
Seasonal Products	318.6	280.5	625.1	567.3
Propulsion Systems	105.4	99.9	211.0	211.0
PAC	163.6	149.4	317.3	281.2
Total Revenues	1,027.0	856.1	1,983.2	1,786.0
Cost of sales	813.3	684.1	1,562.3	1,419.9
Gross profit	213.7	172.0	420.9	366.1
As a percentage of revenues	20.8%	20.1%	21.2%	20.5%
Operating expenses				
Selling and marketing	72.0	73.8	142.5	151.2
Research and development	48.5	44.9	98.6	93.4
General and administrative	44.1	39.4	87.6	80.1
Other operating expenses	4.2	44.5	6.8	65.5
Total operating expenses	168.8	202.6	335.5	390.2
Operating income (loss)	44.9	(30.6)	85.4	(24.1)
Net financing costs	14.2	16.4	27.3	31.5
Foreign exchange (gain) loss on long-term debt	(79.5)	38.0	(36.6)	(81.2)
Income (loss) before income taxes	110.2	(85.0)	94.7	25.6
Income taxes expense (recovery)	10.1	(16.2)	13.1	(16.3)
Net income (loss)	\$ 100.1	\$ (68.8)	\$ 81.6	\$ 41.9
Attributable to shareholders	\$ 100.0	\$ (68.9)	\$ 81.3	\$ 41.9
Attributable to non-controlling interest	\$ 0.1	\$ 0.1	\$ 0.3	\$ —
Normalized EBITDA ^[1]	\$ 81.5	\$ 44.4	\$ 162.2	\$ 101.5
Normalized net income ^[1]	\$ 20.6	\$ 1.0	\$ 48.9	\$ 5.8

^[1] See "Non-IFRS Measures" section.



Financial Position data

As at (in millions of Canadian dollars)	July 31, 2017	January 31, 2017
Cash	\$ 29.1	\$ 298.6
Working capital	(42.8)	279.0
Property, plant and equipment	695.3	673.2
Total assets	2,252.0	2,516.2
Revolving credit facilities and bank overdraft	113.3	—
Total non-current financial liabilities	888.9	929.7
Total liabilities	2,345.4	2,350.7
Shareholders equity (deficit)	(93.4)	165.5

Other Financial data

	Three-month periods ended		Six-month periods ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
(in millions of Canadian dollars, except per share data)				
Revenues by geography				
United States	\$ 515.1	\$ 406.3	\$ 1,032.8	\$ 904.2
Canada	184.8	178.2	315.1	313.1
International ^[1]	327.1	271.6	635.3	568.7
	\$ 1,027.0	\$ 856.1	\$ 1,983.2	\$ 1,786.0
Weighted average number of shares – basic	110,934,242	113,463,800	111,336,241	114,145,715
Weighted average number of shares – diluted	111,774,375	113,724,943	111,999,081	114,417,682
Earnings (loss) per share - basic	\$ 0.90	\$ (0.61)	\$ 0.73	\$ 0.37
Earnings (loss) per share - diluted	0.89	(0.61)	0.73	0.37
Normalized earnings per share – basic ^[2]	0.18	0.01	0.44	0.05
Normalized earnings per share – diluted ^[2]	0.18	0.01	0.43	0.05

^[1] International is defined as all jurisdictions except the United States and Canada.

^[2] See “Non-IFRS Measures” section.



Reconciliation Tables

The following table presents the reconciliation of Net income to Normalized net income ^[1] and Normalized EBITDA ^[1].

	Three-month periods ended		Six-month periods ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
(in millions of Canadian dollars)				
Net income (loss)	\$ 100.1	\$ (68.8)	\$ 81.6	\$ 41.9
Normalized elements				
Foreign exchange (gain) loss on long-term debt	(79.5)	38.0	(36.6)	(81.2)
Restructuring costs (reversal) ^[2]	—	0.1	—	(0.4)
Loss on litigation ^[3]	0.9	43.1	5.7	62.6
Other elements	—	1.6	—	1.6
Income taxes adjustment	(0.9)	(13.0)	(1.8)	(18.7)
Normalized net income ^[1]	20.6	1.0	48.9	5.8
Normalized income taxes expense (recovery) ^[1]	11.0	(3.2)	14.9	2.4
Financing costs adjusted	14.9	15.6	28.7	31.4
Financing income adjusted	(0.7)	(0.8)	(1.4)	(1.5)
Depreciation expense	35.7	31.8	71.1	63.4
Normalized EBITDA ^[1]	\$ 81.5	\$ 44.4	\$ 162.2	\$ 101.5

^[1] See "Non-IFRS Measures" section.

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

^[3] The Company is involved in patent infringement litigation cases with one of its competitors (see "Operating expenses" section in the "Analysis of Results for the first half of Fiscal 2018" section).



Results of operations

Analysis of Results for the second quarter of Fiscal 2018

The following section provides an overview of the financial performance of the Company for the three-month period ended July 31, 2017 compared to the same period ended July 31, 2016.

Revenues

Revenues increased by \$170.9 million, or 20.0%, to \$1,027.0 million for the three-month period ended July 31, 2017, compared with \$856.1 million for the corresponding period ended July 31, 2016. The revenue increase was mainly due to higher wholesale in Year-Round Products and Seasonal Products. The increase includes a favourable foreign exchange rate variation of \$8 million.

The Company's North American retail sales for the three-month period ended July 31, 2017 increased by 14% compared with the three-month period ended July 31, 2016.

As at July 31, 2017, North American dealer inventories for powersports vehicles and outboard engines increased by 9% compared to July 31, 2016, driven mainly by Seasonal Products.

Significant trends by category were as follows:

Year-Round Products

Revenues from Year-Round Products increased by \$113.1 million, or 34.7%, to \$439.4 million for the three-month period ended July 31, 2017, compared with \$326.3 million for the corresponding period ended July 31, 2016. The increase resulted from a higher volume and a favourable product mix of SSV sold due mainly to the introduction of the *Can-Am Maverick X3*.

North American Year-Round Products retail sales increased on a percentage basis in the mid-twenties range compared with the three-month period ended July 31, 2016.

Seasonal Products

Revenues from Seasonal Products increased by \$38.1 million, or 13.6%, to \$318.6 million for the three-month period ended July 31, 2017, compared with \$280.5 million for the corresponding period ended July 31, 2016. The increase resulted primarily from a higher volume of PWC sold.

North American Seasonal Products retail sales increased on a percentage basis by mid-single digit compared with the three-month period ended July 31, 2016.

Propulsion Systems

Revenues from Propulsion Systems increased by \$5.5 million, or 5.5%, to \$105.4 million for the three-month period ended July 31, 2017, compared with \$99.9 million for the corresponding period ended July 31, 2016. The increase in revenues was mainly attributable to a higher volume and a favourable product mix of outboard engines sold, partially offset by a lower volume of motorcycle engines sold.

North American outboard engines retail sales increased on a percentage basis in the low-teens range compared with the three-month period ended July 31, 2016.

PAC

Revenues from PAC increased by \$14.2 million, or 9.5%, to \$163.6 million for the three-month period ended July 31, 2017, compared with \$149.4 million for the corresponding period ended July 31, 2016. The increase was mainly attributable to a higher volume of SSV accessories sold.



Significant geographical trends were as follows:

United States

Revenues from the United States increased by \$108.8 million, or 26.8%, to \$515.1 million for the three-month period ended July 31, 2017, compared with \$406.3 million for the corresponding period ended July 31, 2016. The increase is primarily due to a higher volume and a favourable product mix of SSV sold, to a higher wholesale in PWC and ATV and to a favourable foreign exchange impact of \$5 million. The United States represented 50.1% and 47.5% of revenues during the three-month periods ended July 31, 2017 and 2016, respectively.

Canada

Revenues from Canada increased by \$6.6 million, or 3.7%, to \$184.8 million for the three-month period ended July 31, 2017, compared with \$178.2 million for the corresponding period ended July 31, 2016. The increase was driven by a higher volume of PWC sold, partially offset by a lower volume of snowmobiles and Spyder vehicles sold. Canada represented 18.0% and 20.8% of revenues during the three-month periods ended July 31, 2017 and 2016, respectively.

International

Revenues from International increased by \$55.5 million, or 20.4%, to \$327.1 million for the three-month period ended July 31, 2017, compared with \$271.6 million for the corresponding period ended July 31, 2016. The increase primarily resulted from a higher volume and a favourable product mix of SSV sold and from a higher volume of PWC sold. The increase includes a favourable foreign exchange impact of \$3 million. International represented 31.9% and 31.7% of revenues during the three-month periods ended July 31, 2017 and 2016, respectively.

Gross Profit

Gross profit increased by \$41.7 million, or 24.2%, to \$213.7 million for the three-month period ended July 31, 2017, compared with \$172.0 million for the corresponding period ended July 31, 2016. The gross profit increase includes an unfavourable foreign exchange rate variation of \$4 million. Gross profit margin percentage increased by 70 basis points to 20.8% from 20.1% for the three-month period ended July 31, 2016. The increase in gross profit margin percentage was primarily due to a favourable product mix in SSV and a higher volume of SSV and PWC sold, partially offset by higher sales program costs driven by the increase in retail sales and higher production costs.

Operating Expenses

Operating expenses decreased by \$33.8 million, or 16.7%, to \$168.8 million for the three-month period ended July 31, 2017, compared with \$202.6 million for the three-month period ended July 31, 2016. This decrease was mainly attributable to the specific expense recorded last year following the unfavourable litigation decision described below, partially offset by an unfavourable foreign exchange impact of \$4 million.

The Company is involved in multiple lawsuits with one of its competitors whereby each party is claiming damages for the alleged infringement of some of its patents. On June 1, 2016, a verdict was rendered in one of those lawsuits against the Company for an amount of U.S. \$15.5 million (\$19.5 million) in compensatory damages, which was recorded during the three-month period ended April 30, 2016. On June 13, 2016, the trial judge formalized the verdict rendered on June 1, 2016 and awarded additional damages in favour of the plaintiff. Subsequently, the trial judge also established a royalty payable upon the sale of any future contravening vehicles. For the three-month periods ended July 31, 2017 and 2016, the Company recorded expenses of respectively \$0.9 million and \$43.1 million. Management believes that the verdict and subsequent decisions are unfounded and unsupported by either law or evidence and filed an appeal on August 23, 2016.



Normalized EBITDA ^[1]

Normalized EBITDA ^[1] increased by \$37.1 million, or 83.6%, to \$81.5 million for the three-month period ended July 31, 2017, compared with \$44.4 million for the three-month period ended July 31, 2016. The increase was primarily due to higher gross profit.

Net Financing Costs

Net financing costs decreased by \$2.2 million, or 13.4%, to \$14.2 million for the three-month period ended July 31, 2017, compared with \$16.4 million for the three-month period ended July 31, 2016. The decrease primarily resulted from the \$1.7 million accelerated amortization of transaction costs on long-term debt recorded last year as a result of the repayment of U.S. \$92.0 million in the outstanding nominal amount of the Term Facility.

Foreign Exchange

The key average exchange rates used to translate foreign-denominated revenues and expenses, excluding any effect of the Company's hedging program, were as follows for the three-month periods ended July 31, 2017 and 2016:

	July 31, 2017		July 31, 2016	
U.S. dollars	1.3205	\$CA/\$US	1.2954	\$CA/\$US
Euro	1.4868	\$CA/Euro	1.4523	\$CA/Euro

When comparing the operating income and the income before income tax for the three-month period ended July 31, 2017 to the corresponding period ended July 31, 2016, the foreign exchange fluctuations impact was the following:

	Foreign exchange (gain) loss
(in millions of Canadian dollars)	Three-month period
Revenues	\$ (7.8)
Cost of sales	11.7
Impact of foreign exchange fluctuations on gross profit	3.9
Operating expenses	4.2
Impact of foreign exchange fluctuations on operating income	8.1
Long-term debt	(117.5)
Net financing costs	0.2
Impact of foreign exchange fluctuations on income before income taxes	\$ (109.2)

Income Taxes

Income taxes expense increased by \$26.3 million to an income taxes expense of \$10.1 million for the three-month period ended July 31, 2017, compared with an income taxes recovery of \$16.2 million for the three-month period ended July 31, 2016. The increase was primarily due to a higher operating income. The income taxes expense as a percentage of income before income taxes amounted to 9.2% for the three-month period ended July 31, 2017 compared with an income taxes recovery as a percentage of loss before income taxes of 19.1% for the three-month period ended July 31, 2016. The decrease resulted primarily from the tax and accounting treatment of the foreign exchange (gain) loss on the Term Facility.

Net Income (Loss)

Net income increased by \$168.9 million to a net income of \$100.1 million for the three-month period ended July 31, 2017, compared with a net loss of \$68.8 million for the three-month period ended July 31, 2016. The increase was primarily due to a higher operating income and a favourable foreign exchange rate variation impact on the U.S. denominated long-term debt, partially offset by a higher income taxes expense.

^[1] See "Non-IFRS Measures" section.



Analysis of Results for the first half of Fiscal 2018

The following section provides an overview of the financial performance of the Company for the six-month period ended July 31, 2017 compared to the same period ended July 31, 2016.

Revenues

Revenues increased by \$197.2 million, or 11.0%, to \$1,983.2 million for the six-month period ended July 31, 2017, compared with \$1,786.0 million for the corresponding period ended July 31, 2016. The revenue increase was primarily attributable to higher wholesale of Year-Round Products and Seasonal Products. The increase includes a favourable foreign exchange rate variation of \$7 million.

The Company's North American retail sales for the six-month period ended July 31, 2017 increased by 10% compared with the six-month period ended July 31, 2016.

Significant trends by category were as follows:

Year-Round Products

Revenues from Year-Round Products increased by \$103.3 million, or 14.2%, to \$829.8 million for the six-month period ended July 31, 2017, compared with \$726.5 million for the corresponding period ended July 31, 2016. The increase was primarily attributable to a higher volume and a favourable product mix of SSV sold due mainly to the introduction of the *Can-Am Maverick X3*, partially offset by a lower volume of Spyder vehicles sold.

North American Year-Round Products retail sales increased on a percentage basis in the mid-teens range compared with the six-month period ended July 31, 2016.

Seasonal Products

Revenues from Seasonal Products increased by \$57.8 million, or 10.2%, to \$625.1 million for the six-month period ended July 31, 2017, compared with \$567.3 million for the corresponding period ended July 31, 2016. The increase resulted primarily from a higher volume of PWC sold.

North American Seasonal Products retail sales increased on a percentage basis by mid-single digit compared with the six-month period ended July 31, 2016.

Propulsion Systems

Revenues from Propulsion Systems remained stable at \$211.0 million for the six-month periods ended July 31, 2017 and 2016. A higher volume and a favourable product mix of outboard engines sold were offset by a lower volume of aircraft and motorcycle engines sold.

North American outboard engine retail sales increased on a percentage basis in the low-teens range compared with the six-month period ended July 31, 2016.

PAC

Revenues from PAC increased by \$36.1 million, or 12.8%, to \$317.3 million for the six-month period ended July 31, 2017, compared with \$281.2 million for the corresponding period ended July 31, 2016. The increase was mainly attributable to a higher volume of SSV accessories sold and to a higher volume of snowmobile parts sold.



Significant geographical trends were as follows:

United States

Revenues from the United States increased by \$128.6 million, or 14.2%, to \$1,032.8 million for the six-month period ended July 31, 2017, compared with \$904.2 million for the corresponding period ended July 31, 2016. The increase is mainly due to a higher volume and a favourable product mix of SSV sold, a higher wholesale in PWC and a favourable foreign exchange impact of \$8 million. The increase was partially offset by lower wholesale in Spyder vehicles. The United States represented 52.1% and 50.7% of revenues during the six-month periods ended July 31, 2017 and 2016, respectively.

Canada

Revenues from Canada increased by \$2.0 million, or 0.6%, to \$315.1 million for the six-month period ended July 31, 2017, compared with \$313.1 million for the corresponding period ended July 31, 2016. The increase was mainly due to a higher volume of PWC sold, partially offset by lower wholesale in Spyder vehicles. Canada represented 15.9% and 17.5% of revenues during the six-month periods ended July 31, 2017 and 2016, respectively.

International

Revenues from International increased by \$66.6 million, or 11.7%, to \$635.3 million for the six-month period ended July 31, 2017, compared with \$568.7 million for the corresponding period ended July 31, 2016. The increase primarily resulted from a higher volume and a favourable product mix of SSV sold and a higher wholesale in PWC. The increase was partially offset by a lower wholesale in Spyder vehicles and an unfavourable foreign exchange impact of \$1 million. International represented 32.0% and 31.8% of revenues during the six-month periods ended July 31, 2017 and 2016, respectively.

Gross Profit

Gross profit increased by \$54.8 million, or 15.0%, to \$420.9 million for the six-month period ended July 31, 2017, compared with \$366.1 million for the corresponding period ended July 31, 2016. The gross profit increase includes a favourable foreign exchange rate variation of \$5 million. Gross profit margin percentage increased by 70 basis points to 21.2% from 20.5% for the six-month period ended July 31, 2016. The increase in gross profit margin percentage was primarily due to a favourable product mix in SSV, partially offset by higher production costs and higher sales program costs driven by the increase in retail sales.

Operating Expenses

Operating expenses decreased by \$54.7 million, or 14.0%, to \$335.5 million for the six-month period ended July 31, 2017, compared with \$390.2 million for the six-month period ended July 31, 2016. This decrease was mainly attributable to the specific expense recorded last year following the unfavourable litigation decision described below.

The Company is involved in multiple lawsuits with one of its competitors whereby each party is claiming damages for the alleged infringement of some of its patents. On June 1, 2016, a verdict was rendered in one of those lawsuits against the Company for an amount of U.S. \$15.5 million (\$19.5 million) in compensatory damages, which was recorded during the three-month period ended April 30, 2016. On June 13, 2016, the trial judge formalized the verdict rendered on June 1, 2016 and awarded additional damages in favour of the plaintiff. Subsequently, the trial judge also established a royalty payable upon the sale of any future contravening vehicles. For the six-month periods ended July 31, 2017 and 2016, the Company recorded expenses of respectively \$5.7 million and \$62.6 million. Management believes that the verdict and subsequent decisions are unfounded and unsupported by either law or evidence and filed an appeal on August 23, 2016.

Normalized EBITDA ^[1]

Normalized EBITDA ^[1] increased by \$60.7 million, or 59.8%, to \$162.2 million for the six-month period ended July 31, 2017, compared with \$101.5 million for the six-month period ended July 31, 2016. The increase was primarily due to higher gross profit.

^[1] See "Non-IFRS Measures" section.



Net Financing Costs

Net financing costs decreased by \$4.2 million, or 13.3%, to \$27.3 million for the six-month period ended July 31, 2017, compared with \$31.5 million for the six-month period ended July 31, 2016. The decrease resulted mainly from the \$1.7 million accelerated amortization of transaction costs on long-term debt recorded last year as a result of the repayment of U.S. \$92.0 million in the outstanding nominal amount of the Term Facility and from a lower interest expense on the Term Facility due to the lower outstanding nominal amount.

Foreign Exchange

The key average exchange rates used to translate foreign-denominated revenues and expenses, excluding any effect of the Company's hedging program, were as follows for the six-month periods ended July 31, 2017 and 2016:

	July 31, 2017		July 31, 2016	
U.S. dollars	1.3255	\$CA/\$US	1.3134	\$CA/\$US
Euro	1.4543	\$CA/Euro	1.4699	\$CA/Euro

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

	July 31, 2017		January 31, 2017	
U.S. dollars	1.2490	\$CA/\$US	1.3030	\$CA/\$US
Euro	1.4768	\$CA/Euro	1.4063	\$CA/Euro

When comparing the operating income and the income before income tax for the six-month period ended July 31, 2017 to the corresponding period ended July 31, 2016, the foreign exchange fluctuations impact was the following:

	Foreign exchange (gain) loss
(in millions of Canadian dollars)	Six-month period
Revenues	\$ (7.1)
Cost of sales	2.3
Impact of foreign exchange fluctuations on gross profit	(4.8)
Operating expenses	(0.9)
Impact of foreign exchange fluctuations on operating income	(5.7)
Long-term debt	44.6
Net financing costs	0.2
Impact of foreign exchange fluctuations on income before income taxes	\$ 39.1

Income Taxes

Income taxes expense increased by \$29.4 million to an income taxes expense of \$13.1 million for the six-month period ended July 31, 2017, compared with an income taxes recovery of \$16.3 million for the six-month period ended July 31, 2016. The increase was primarily due to a higher operating income. The income taxes expense as a percentage of income before income taxes amounted to 13.8% for the six-month period ended July 31, 2017 compared with an income taxes recovery as a percentage of income before income taxes of 63.7% for the six-month period ended July 31, 2016. The increase resulted primarily from the tax and accounting treatment of the foreign exchange gain on the Term Facility.

Net Income

Net income increased by \$39.7 million to \$81.6 million for the six-month period ended July 31, 2017, compared with \$41.9 million for the six-month period ended July 31, 2016. The increase was primarily due to a higher operating income, partially offset by an unfavourable foreign exchange rate variation impact on the U.S. denominated long-term debt and by a higher income taxes expense.



Summary of Consolidated Quarterly Results

	Three-month periods ended							
	July 31, 2017	April 30, 2017	January 31, 2017	October 31, 2016	July 31, 2016	April 30, 2016	January 31, 2016	October 31, 2015
(millions of Canadian dollars, except per share data)	Fiscal 2018	Fiscal 2018	Fiscal 2017	Fiscal 2017	Fiscal 2017	Fiscal 2017	Fiscal 2016	Fiscal 2016
Revenues by category								
Year-Round Products	\$ 439.4	\$ 390.4	\$ 527.3	\$ 383.9	\$ 326.3	\$ 400.2	\$ 482.6	\$ 260.1
Seasonal Products	318.6	306.5	489.5	417.1	280.5	286.8	356.7	476.0
Propulsion Systems	105.4	105.6	111.5	94.2	99.9	111.1	99.0	98.5
PAC	163.6	153.7	177.0	185.0	149.4	131.8	170.5	175.6
Total Revenues	1,027.0	956.2	1,305.3	1,080.2	856.1	929.9	1,108.8	1,010.2
Gross profit	213.7	207.2	335.6	307.2	172.0	194.1	285.9	246.0
<i>As a percentage of revenues</i>	20.8%	21.7%	25.7%	28.4%	20.1%	20.9%	25.8%	24.4%
Net income (loss)	100.1	(18.5)	136.4	78.7	(68.8)	110.7	(28.7)	65.5
Normalized EBITDA ^[1]	81.5	80.7	204.3	196.9	44.4	57.1	173.9	141.5
Normalized net income ^[1]	20.6	28.3	111.8	104.4	1.0	4.8	86.8	72.8
Basic earnings (loss) per share	0.90	(0.17)	1.22	0.70	(0.61)	0.96	(0.25)	0.56
Diluted earnings (loss) per share	0.89	(0.17)	1.22	0.70	(0.61)	0.96	(0.25)	0.56
Normalized basic earnings per share ^[1]	0.18	0.25	1.00	0.93	0.01	0.04	0.75	0.62
Normalized diluted earnings per share ^[1]	\$ 0.18	\$ 0.25	\$ 1.00	\$ 0.93	\$ 0.01	\$ 0.04	\$ 0.75	\$ 0.62

^[1] See "Non-IFRS Measures" section.



Reconciliation Table for Consolidated Quarterly Results

	Three-month periods ended							
	July	April	January	October	July	April	January	October
	31, 2017	30, 2017	31, 2017	31, 2016	31, 2016	30, 2016	31, 2016	31, 2015
(millions of Canadian dollars)	Fiscal 2018	Fiscal 2018	Fiscal 2017	Fiscal 2017	Fiscal 2017	Fiscal 2017	Fiscal 2016	Fiscal 2016
Net income (loss)	\$ 100.1	\$ (18.5)	\$ 136.4	\$ 78.7	\$ (68.8)	\$ 110.7	\$ (28.7)	\$ 65.5
Normalized elements								
Foreign exchange (gain) loss on long-term debt	(79.5)	42.9	(25.3)	24.5	38.0	(119.2)	77.4	2.8
Restructuring and related costs (reversal) ^[1]	—	—	(0.3)	(0.4)	0.1	(0.5)	(2.0)	5.6
Impairment charge ^[2]	—	—	—	—	—	—	70.3	—
Loss on litigation ^[3]	0.9	4.8	7.8	0.3	43.1	19.5	—	—
Gain on disposal of property, plant and equipment	—	—	—	—	—	—	(6.4)	—
Pension plan past service gains	—	—	(6.3)	—	—	—	—	—
Other elements	—	—	—	1.1	1.6	—	(1.1)	—
Income taxes adjustment	(0.9)	(0.9)	(0.5)	0.2	(13.0)	(5.7)	(22.7)	(1.1)
Normalized net income ^[4]	20.6	28.3	111.8	104.4	1.0	4.8	86.8	72.8
Normalized income taxes expense (recovery) ^[4]	11.0	3.9	43.0	43.7	(3.2)	5.6	33.2	22.5
Financing costs adjusted	14.9	13.8	13.8	14.8	15.6	15.8	16.9	15.3
Financing income adjusted	(0.7)	(0.7)	—	—	(0.8)	(0.7)	0.3	(1.1)
Depreciation expense	35.7	35.4	35.7	34.0	31.8	31.6	36.7	32.0
Normalized EBITDA ^[4]	\$ 81.5	\$ 80.7	\$ 204.3	\$ 196.9	\$ 44.4	\$ 57.1	\$ 173.9	\$ 141.5

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

^[2] In Fiscal 2016, the Company recorded an impairment charge of \$70.3 million related to its outboard engines cash generating unit ("CGU").

^[3] In Fiscal 2018 and Fiscal 2017, the Company recorded expenses of respectively \$5.7 million and \$70.7 million related to patent infringement litigation cases with one of its competitors (see "Operating expenses" in the "Analysis of Results for the first half of Fiscal 2018" section).

^[4] See "Non-IFRS Measures" section.



Liquidity and Capital Resources

Liquidity

The Company's primary sources of cash consist of existing cash balances, operating activities and available borrowings under the Revolving Credit Facilities and Term Facility.

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

A summary of net cash flows by activities is presented below for the six-month periods ended July 31, 2017 and 2016:

	Six-month periods ended	
	July 31, 2017	July 31, 2016
(millions of Canadian dollars)		
Net cash flows generated from operating activities	\$ 88.9	\$ 17.9
Net cash flows used in investing activities	(82.1)	(79.4)
Net cash flows used in financing activities	(274.3)	(157.4)
Effect of exchange rate changes on cash	(2.0)	6.1
Net decrease in cash	(269.5)	(212.8)
Cash at beginning of period	298.6	235.0
Cash at end of period	\$ 29.1	\$ 22.2

Net Cash Flows Generated from Operating Activities

Net cash flows generated from operating activities totalled \$88.9 million for the six-month period ended July 31, 2017 compared with \$17.9 million for the six-month period ended July 31, 2016. The \$71.0 million increase in net cash flows generated was mainly due to higher operating income, partially offset by unfavourable changes in working capital of \$45.3 million. The unfavourable changes in working capital were primarily driven by Provisions.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities totalled \$82.1 million for the six-month period ended July 31, 2017, a similar level of investments compared to \$79.4 million for the six-month period ended July 31, 2016.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities totalled \$274.3 million for the six-month period ended July 31, 2017 compared with \$157.4 million for the six-month period ended July 31, 2016. The \$116.9 million increase in net cash flows used was mainly attributable to the SIB, partially offset by the partial repayment of the term facility last year and a higher Revolving Credit Facilities usage.



Contractual Obligations

The following table summarizes the Company's significant contractual obligations as at July 31, 2017, including commitments related to leasing contracts:

(millions of Canadian dollars)	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total amount
Commitments					
Operating lease agreements	\$ 30.4	\$ 49.6	\$ 42.5	\$ 67.1	\$ 189.6
Financial obligations					
Trade payables and accruals	652.2	—	—	—	652.2
Long-term debt (including interest)	59.1	105.2	95.2	869.0	1,128.5
Derivative financial instruments	9.4	—	—	2.2	11.6
Other financial liabilities (including interest)	80.1	2.2	0.1	23.3	105.7
	800.8	107.4	95.3	894.5	1,898.0
Total obligations	\$ 831.2	\$ 157.0	\$ 137.8	\$ 961.6	\$ 2,087.6

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

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

Capital Resources

Revolving Credit Facilities

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

As at July 31, 2017, the Company had \$105.0 million of outstanding indebtedness under the Revolving Credit Facilities and \$8.3 million under bank overdraft.

The applicable cost of borrowing under the Revolving Credit Facilities for the quarter ended July 31, 2017 was the following based on:

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

As at July 31, 2017, the commitment fees on the undrawn amount of the Revolving Credit Facilities were 0.30% per annum.



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

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

As at July 31, 2017, the Company had issued letters of credit for an amount of \$2.1 million under the Revolving Credit Facilities (\$2.2 million as at January 31, 2017). In addition, \$4.2 million of letters of credit were outstanding under other agreements as at July 31, 2017, (\$4.1 million as at January 31, 2017).

Term Facility

As at July 31, 2017, the outstanding amount of the Company's Term Facility was U.S. \$693.0 million under a U.S. \$700.0 million agreement with the option to increase the amount of borrowing by U.S. \$250.0 million under certain conditions.

As at July 31, 2017, the cost of borrowing under the Term Facility was as follows:

- (i) LIBOR plus 3.00% per annum, with a LIBOR floor of 0.75%; or
- (ii) U.S. Base Rate plus 2.00%; or
- (iii) U.S. Prime Rate plus 2.00%

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

The Company is required to repay a minimum of 1% of the original nominal amount each year in two equal payments in July and January. Consequently, the Company repaid an amount of U.S. \$3.5 million during the three-month period ended July 31, 2017. Also, the Company may be required to repay a portion of the Term Facility in the event that Bombardier Recreational Products Inc. has an excess cash position at the end of the fiscal year and its Leverage ratio is above a certain threshold level. The Term Facility agreement contains customary representations and warranties but includes no financial covenants.

Austrian Term Loans

During the six-month period ended July 31, 2017, the Company entered into term loan agreements at favourable interest rates under Austrian government programs. These programs support research and development projects based on the Company's incurred expenses in Austria. The term loans have a total nominal amount of euro 1.1 million (\$1.5 million), interest rates at Euribor three-months plus 1.00% and maturities between December 2021 and March 2022.

As at July 31, 2017, the Company had euro 21.8 million outstanding under its Austrian term loans bearing interest at a range between 0.75% and 2.19% and maturing between December 2017 and December 2028.

Finance Lease Liabilities

As at July 31, 2017, the contractual obligations in relation to assets acquired under finance lease agreements amounted to \$15.3 million to be settled over a period ending in December 2030.



SIB

On May 31, 2017, the Company announced a SIB to repurchase its subordinate voting shares for cancellation for a maximum amount of \$350.0 million. During the three-month period ended July 31, 2017, the Company repurchased 8,599,508 subordinate voting shares following the completion of the SIB for a total consideration of \$350.0 million. Prior to the completion of the SIB, 6,070,872 multiple voting shares were converted into an equivalent number of subordinate voting shares. These converted shares were repurchased in the SIB. The Company incurred \$1.0 million of fees and expenses related to the SIB which were recorded in capital stock.

Normal Course Issuer Bid Program ("NCIB")

In March 2017, the Company announced the renewal of its NCIB to purchase for cancellation up to 3,078,999 of its outstanding subordinate voting shares. During the six-month period ended July 31, 2017, the Company had not repurchased any subordinate voting shares.

Consolidated Financial Position

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

(millions of Canadian dollars)	July 31, 2017	January 31, 2017	Variance	Exchange Rate Impact	Net Variance	Explanation of Net Variance
Trade and other receivables	\$ 235.2	\$ 326.7	\$ (91.5)	\$ (5.6)	\$ (97.1)	Mostly explained by collection of snowmobiles' trade receivables in Scandinavia
Inventories	764.2	689.8	74.4	(8.8)	65.6	Mostly explained by higher inventory of snowmobiles for upcoming product deliveries, partially offset by lower PWC inventory
Property, plant and equipment	695.3	673.2	22.1	(4.9)	17.2	No significant variances
Trade payables and accruals	652.2	718.5	(66.3)	4.0	(62.3)	Mostly explained by different payment terms
Long-term debt, including current portion	882.0	923.7	(41.7)	34.8	(6.9)	No significant variances
Employee future benefit liabilities	197.5	194.1	3.4	(4.8)	(1.4)	No significant variances



Off-Balance Sheet Arrangements

Dealer and Distributor Financing Arrangements

The Company, most of its independent dealers and some of its independent distributors are parties to agreements with third-party financing service providers. These agreements provide financing to facilitate the purchase of the Company's products and improve the Company's working capital by allowing an earlier collection of accounts receivable from dealers and distributors. Approximately three-quarters of the Company's sales are made under such agreements. The parties listed above have agreements with TCF Inventory Finance Inc. and TCF Commercial Finance Canada Inc. (collectively, "TCF"), to provide financing facilities in North America and Latin America, and with Wells Fargo Commercial Distribution Finance, Wells Fargo Bank International, Wells Fargo International Finance LLC and Wells Fargo International Finance (New Zealand) Limited (collectively "Wells Fargo") for financing facilities in North America, Europe, Australia and New Zealand. The agreement between the Company and TCF will expire on January 31, 2020. For the contracts with Wells Fargo, the maximum commitment period is up to August 31, 2018.

The total amount of financing provided to the Company's independent dealers and distributors totalled \$759.2 million and \$1,419.6 million for the three and six-month periods ended July 31, 2017, compared to \$626.1 million and \$1,291.1 million for the three and six-month periods ended July 31, 2016. The outstanding financing between the Company's independent dealers and distributors and third-party finance companies amounted to \$1,366.4 million and \$1,605.0 million as at July 31, 2017, and January 31, 2017, respectively.

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

(in millions)	Currency	July 31, 2017	January 31, 2017
Total outstanding	CAD	\$ 1,366	\$ 1,605
United States	USD	739	867
Canada	CAD	356	378
Europe	Euro	30	37
Australia and New Zealand	AUD	42	45
Latin America	USD	1	1

The costs incurred by the Company under the dealers' and distributors' financing agreements totalled \$10.1 million and \$19.5 million for the three and six-month periods ended July 31, 2017 compared with \$7.8 million and \$15.0 million for the three and six-month periods ended July 31, 2016.

Under the dealer and distributor financing agreements, in the event of default, the Company may be required to purchase, from the finance companies, repossessed new and unused products at the total unpaid principal balance of the dealer or distributor to the finance companies. In North America, the obligation is limited to the greater of U.S. \$25.0 million (\$31.2 million) or 10% of the last twelve-month average amount of financing outstanding under the financing agreements, whereas in Europe, the obligation is limited to the greater of U.S. \$10.0 million (\$12.5 million) or 10% of the last twelve-month average amount of financing outstanding under the financing agreements. In Australia and New Zealand, the obligation to purchase repossessed new and unused products is limited to the greater of AU \$5.0 million (\$5.0 million) or 10% of the last twelve-month average amount of financing outstanding under the financing agreements.

The maximum amount subject to the Company's obligation to purchase repossessed new and unused products from the finance companies was \$162 million as at July 31, 2017 (\$144 million in North America, \$13 million in Europe and \$5 million in Australia and New Zealand) and \$152 million as at January 31, 2017 (\$134 million in North America, \$13 million in Europe and \$5 million in Australia and New Zealand).

The Company did not incur significant losses related to new and unused products repossessed by the finance companies for the three and six-month periods ended July 31, 2017 and 2016.



Consumer Financing Arrangements

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

Transactions Between Related Parties

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

Pursuant to the purchase agreement entered into in 2003 in connection with the acquisition of the recreational product business of Bombardier Inc., the Company is committed to reimburse to Bombardier Inc. income taxes amounting to \$22.1 million as at July 31, 2017 and \$22.2 million as at January 31, 2017, respectively. The payments will begin when Bombardier Inc. starts making income tax payments in Canada and/or in the United States. The Company does not expect to make any payments to Bombardier Inc. in relation with that obligation for the year ending January 31, 2018.

Financial Instruments

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

Foreign Exchange Risk

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

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

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



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

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

Liquidity Risk

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

Credit Risk

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

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

Interest Rate Risk

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

^[1] See "Non-IFRS Measures" section.



Critical Accounting Estimates

Significant Estimates and Judgments

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

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

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

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

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

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

Estimating the Net Realizable Value of Inventory

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

Estimating the Useful Life of Tooling

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

Estimating Impairment on Property, Plant and Equipment and Intangible Assets

Management assesses the value in use of property, plant and equipment and intangible assets mainly at groups of CGU level using a discounted cash flow approach by product line determined during the annual budget and strategic plan process. When the Company acquired the recreational products business from Bombardier Inc. in 2003, trademarks and goodwill were recorded as part of the business acquisition. As at July 31, 2017, the entire carrying amount of trademarks of \$136.0 million and \$114.7 million of the \$115.9 million carrying amount of goodwill were related to this transaction.



(i) Trademarks Impairment Test

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

Recoverable Amount

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

(ii) Goodwill Impairment Test

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

Recoverable Amount

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

Estimating Recoverability of Deferred Tax Assets

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

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

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

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

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

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



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

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

Significant Judgments in Applying the Company's Accounting Policies

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

Impairment of Property, Plant and Equipment and Intangible Assets

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

Functional Currency

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

Future Accounting Changes

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

In July 2014, the IASB published the final version of *IFRS 9 "Financial Instruments"* that introduced new classification requirements, new measurement requirements and a new hedge accounting model. The final version of the Standard replaces earlier versions of IFRS 9 and completes the IASB project to replace IAS 39 *"Financial Instruments: Recognition and Measurement"*. The effective date of IFRS 9 for the Company is February 1st, 2018. The Company's preliminary analysis has not identified a significant impact on its consolidated financial statements in respect of classification, measurement and hedge accounting.



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

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

Controls and Procedures

Management's report on internal controls over financial reporting

There were no changes in the Company's internal controls over financial reporting during the three-month period ended July 31, 2017, that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Dividend

On May 31, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.08 per share for holders of its multiple voting shares and subordinate voting shares. The dividend was paid on July 13, 2017 to shareholders of record at the close of business on June 30, 2017.

On August 31, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.08 per share for holders of its multiple voting shares and subordinate voting shares. The dividend will be paid on October 13, 2017 to shareholders of record at the close of business on September 29, 2017.

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

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

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk factors" section of the Company's MD&A for the fourth quarter and the fiscal year ended January 31, 2017. The company is not aware of any significant changes to the Company's risk factors from those disclosed at that time.



Disclosure of Outstanding Shares

As at August 30, 2017, the Company had the following issued and outstanding shares and stock options:

- 72,952,472 multiple voting shares with no par value.
- 30,392,142 subordinate voting shares with no par value.
- 3,597,519 stock options to acquire subordinate voting shares.

Additional Information

Additional information relating to BRP Inc. is available on SEDAR at www.sedar.com.

