



BRP INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE AND SIX-MONTH PERIODS ENDED JULY 31, 2016

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, 2017. 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, 2016 and the audited consolidated financial statements and MD&A for the year ended January 31, 2016. 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 "Forward-Looking Statements" section of this MD&A. This MD&A reflects information available to the Company as at September 8, 2016.

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 2017" are to the Company's fiscal year ending January 31, 2017, to "Fiscal 2016" are to the Company's fiscal year ended January 31, 2016 and to "Fiscal 2015" are to the Company's fiscal year ended January 31, 2015.

This MD&A, approved by the Board of Directors on September 8, 2016, 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, 2016 and 2015.

The Company's Year-Round Products consist of all-terrain vehicles (referred to as "ATVs"), side-by-side vehicles (referred to as "SSVs") and roadsters; 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: 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; the Company's ability to comply with product safety, health, environmental and noise pollution laws; dependence on dealers, distributors, suppliers, financing sources and other strategic partners who may be sensitive to economic conditions; large fixed cost base; inability of Company's dealers and distributors to secure adequate access to capital; supply problems, termination or interruption of supply arrangements or increases in the cost of materials; covenants in the Company's financing and other material agreements; competition in product lines; loss of the service of members of management team or employees who possess specialized market knowledge and technical skills; inability to maintain and enhance reputation and brands; adverse determination in any significant product liability claim against the Company; significant product repair and/or replacement due to product warranty claims or product recalls; reliance on a network of independent dealers and distributors to manage the retail distribution of its products; dependence on customer relationships for the sale of original equipment manufacturer products; unsuccessful management of inventory levels; risks associated with international operations; inability to enhance existing products and develop and market new products; inability to protect its intellectual property; failure of information technology systems; declining prices for used versions of products and oversupply by competitors; unsuccessful execution of manufacturing strategy; changes in tax laws and unanticipated tax liabilities; higher fuel costs; deterioration in relationships with employees; pension plan liabilities; natural disasters; failure to carry proper insurance coverage. 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 roadsters, *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 7,900 people mainly in manufacturing and distribution sites in Canada, Mexico, 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 3,300 dealers in 21 countries as well as through approximately 185 distributors serving approximately 920 additional dealers.

Highlights of the three-month period ended July 31, 2016

For the three-month period ended July 31, 2016, the Company's financial performance was the following when compared to the three-month period ended July 31, 2015:

- Revenues of \$856.1 million, an increase of \$44.0 million;
- Gross profit of \$172.0 million representing 20.1% of revenues, an increase of \$2.6 million;
- Normalized EBITDA ^[1] of \$44.4 million representing 5.2% of revenues, a decrease of \$8.7 million;
- Net loss of \$68.8 million, a decrease of \$0.5 million, which resulted in a diluted loss per share of \$0.61, a decrease of \$0.03 per share;
- Normalized net income ^[1] of \$1.0 million, a decrease of \$3.0 million, which resulted in a normalized diluted earnings per share ^[1] of \$0.01, a decrease of \$0.02 per share.

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



In addition, during the three-month period ended July 31, 2016:

- The Company expanded its *E-TEC G2* outboard engine line-up with the introduction of models with horsepower ranging from 150 to 200.
- The company successfully refinanced its U.S. \$792 million term facility due in January 2019 with an amended and restated U.S. \$700 million term facility maturing in June 2023. It also refinanced its \$350 million revolving credit facility maturing in May 2018 with an amended and restated \$425 million revolving credit facility maturing in June 2021.
- As part of a series of patent infringement lawsuits involving the Company and one of its competitors, a decision was rendered by the trial judge to award additional damages in one of these lawsuits against the Company. The Company recorded an additional \$43.1 million expense during the quarter for a total of \$62.6 million in damages and related costs (see “Operating Expenses” section).

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 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 70% 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 prices fluctuation. 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 a 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, 2016, the Company's long-term debt of \$925.0 million was mainly comprised of the Term Facility which bears interest at LIBOR plus 3.00% with a LIBOR floor rate of 0.75%. Due to the current low interest volatility environment, the Company does not believe to be significantly exposed to increased interest rates in the short-term.



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 26.9% for the three and six-month periods ended July 31, 2016. 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, 2017, 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, 2016 and 2015, has been derived from the unaudited condensed consolidated interim financial statements and related notes approved on September 8, 2016.

Net Income data

(in millions of Canadian dollars)	Three-month periods ended		Six-month periods ended	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Revenues by category				
Year-Round Products	\$ 326.3	\$ 298.4	\$ 726.5	\$ 696.5
Seasonal Products	280.5	263.4	567.3	534.6
Propulsion Systems	99.9	95.4	211.0	197.9
PAC	149.4	154.9	281.2	281.2
Total Revenues	856.1	812.1	1,786.0	1,710.2
Cost of sales	684.1	642.7	1,419.9	1,327.9
Gross profit	172.0	169.4	366.1	382.3
<i>As a percentage of revenues</i>	<i>20.1%</i>	<i>20.9%</i>	<i>20.5%</i>	<i>22.4%</i>
Operating expenses				
Selling and marketing	73.8	63.6	151.2	138.4
Research and development	44.9	38.8	93.4	78.5
General and administrative	39.4	37.2	80.1	68.0
Other operating expenses	44.5	7.5	65.5	11.3
Total operating expenses	202.6	147.1	390.2	296.2
Operating income (loss)	(30.6)	22.3	(24.1)	86.1
Net financing costs	16.4	15.0	31.5	28.8
Foreign exchange (gain) loss on long-term debt	38.0	71.6	(81.2)	25.6
Income (loss) before income taxes	(85.0)	(64.3)	25.6	31.7
Income taxes expense (recovery)	(16.2)	4.0	(16.3)	16.9
Net income (loss)	\$ (68.8)	\$ (68.3)	\$ 41.9	\$ 14.8
Attributable to shareholders	\$ (68.9)	\$ (68.3)	\$ 41.9	\$ 14.8
Attributable to non-controlling interest	0.1	—	—	—
Normalized EBITDA ^[1]	\$ 44.4	\$ 53.1	\$ 101.5	\$ 144.6
Normalized net income ^[1]	1.0	4.0	5.8	41.2

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

Financial Position data

As at (in millions of Canadian dollars)	July 31, 2016	January 31, 2016
Cash	\$ 22.2	\$ 235.0
Working capital	63.7	363.3
Property, plant and equipment	643.2	636.6
Total assets	2,204.8	2,445.2
Revolving credit facilities and bank overdraft	65.4	—
Total non-current financial liabilities	930.7	1,163.6
Total liabilities	2,278.7	2,459.3
Shareholders deficit	(73.9)	(14.1)



Other Financial data

(in millions of Canadian dollars, except per share data)	Three-month periods ended		Six-month periods ended	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Revenues by geography				
United States	\$ 406.3	\$ 401.3	\$ 904.2	\$ 895.9
Canada	178.2	162.7	313.1	311.4
International ^[1]	271.6	248.1	568.7	502.9
	\$ 856.1	\$ 812.1	\$ 1,786.0	\$ 1,710.2
Weighted average number of shares – basic	113,463,800	117,980,179	114,145,715	118,177,152
Weighted average number of shares – diluted	113,724,943	118,539,790	114,417,682	118,680,886
Earnings (loss) per share - basic	\$ (0.61)	\$ (0.58)	\$ 0.37	\$ 0.13
Earnings (loss) per share - diluted	(0.61)	(0.58)	0.37	0.12
Normalized earnings per share – basic ^[2]	0.01	0.03	0.05	0.35
Normalized earnings per share – diluted ^[2]	0.01	0.03	0.05	0.35

^[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].

(in millions of Canadian dollars)	Three-month periods ended		Six-month periods ended	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Net income (loss)	\$ (68.8)	\$ (68.3)	\$ 41.9	\$ 14.8
Normalized elements				
Foreign exchange (gain) loss on long-term debt	38.0	71.6	(81.2)	25.6
Restructuring and related costs (reversal) ^[2]	0.1	0.4	(0.4)	1.0
Loss on litigation ^[3]	43.1	—	62.6	—
Other elements	1.6	—	1.6	—
Income taxes adjustment	(13.0)	0.3	(18.7)	(0.2)
Normalized net income ^[1]	1.0	4.0	5.8	41.2
Normalized income taxes expense (recovery) ^[1]	(3.2)	3.7	2.4	17.1
Financing costs adjusted	15.6	15.8	31.4	30.4
Financing income adjusted	(0.8)	(0.8)	(1.5)	(1.6)
Depreciation expense	31.8	30.4	63.4	57.5
Normalized EBITDA ^[1]	\$ 44.4	\$ 53.1	\$ 101.5	\$ 144.6

^[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] For the three and six-month periods ended July 31, 2016, the Company recorded losses of respectively \$43.1 million and \$62.6 million related to patent infringement litigation with one of its competitors (see “Operating expenses” section).



Results of operations

Analysis of Results for the second quarter of Fiscal 2017

The following section provides an overview of the financial performance of the Company for the three-month period ended July 31, 2016 compared to the same period ended July 31, 2015.

Revenues

Revenues increased by \$44.0 million, or 5.4%, to \$856.1 million for the three-month period ended July 31, 2016, compared with \$812.1 million for the corresponding period ended July 31, 2015. The revenue increase was mainly due to higher wholesale in Year-Round Products and to a favourable foreign exchange rate variation of \$20 million related largely to the strengthening of the U.S. dollar and the Euro against the Canadian dollar.

The Company's North American retail sales for the three-month period ended July 31, 2016 increased by 1% compared with the three-month period ended July 31, 2015.

As at July 31, 2016, North American dealer inventories for powersports vehicles and outboard engines increased by 1% compared to July 31, 2015.

Significant trends by category were as follows:

Year-Round Products

Revenues from Year-Round Products increased by \$27.9 million, or 9.3%, to \$326.3 million for the three-month period ended July 31, 2016, compared with \$298.4 million for the corresponding period ended July 31, 2015. The increase resulted from a higher volume of SSV sold following the introduction of the *Defender*, a higher wholesale in ATV and a favourable foreign exchange rate variation of \$7 million. The increase was partially offset by lower wholesale in roadsters.

North American Year-Round Products retail sales decreased on a percentage basis by low-single digit compared with the three-month period ended July 31, 2015.

Seasonal Products

Revenues from Seasonal Products increased by \$17.1 million, or 6.5%, to \$280.5 million for the three-month period ended July 31, 2016, compared with \$263.4 million for the corresponding period ended July 31, 2015. The increase resulted primarily from a higher volume and a favourable mix of PWC sold and from a favourable foreign exchange rate variation of \$6 million. The increase was partially offset by a lower volume mainly attributable to earlier shipments last year and an unfavourable mix of snowmobiles sold.

North American Seasonal Products retail sales increased on a percentage basis in the low-teens range compared with the three-month period ended July 31, 2015.

Propulsion Systems

Revenues from Propulsion Systems increased by \$4.5 million, or 4.7%, to \$99.9 million for the three-month period ended July 31, 2016, compared with \$95.4 million for the corresponding period ended July 31, 2015. The increase in revenues was mainly attributable to a favourable foreign exchange rate variation of \$3 million.

North American outboard engines retail sales decreased on a percentage basis in the mid-teens range compared with the three-month period ended July 31, 2015.



PAC

Revenues from PAC decreased by \$5.5 million, or 3.6%, to \$149.4 million for the three-month period ended July 31, 2016, compared with \$154.9 million for the corresponding period ended July 31, 2015. The decrease was mainly attributable to a lower volume of snowmobile PAC sold resulting from poor snow conditions in North America last winter and to a lower volume of roadster PAC. The decrease was partially offset by a favourable foreign exchange rate variation of \$4 million.

Significant geographical trends were as follows:

United States

Revenues from the United States increased by \$5.0 million, or 1.2%, to \$406.3 million for the three-month period ended July 31, 2016, compared with \$401.3 million for the corresponding period ended July 31, 2015. The increase is primarily due to a higher volume and a favourable mix of PWC sold and a favourable foreign exchange impact of \$14 million. The increase was partially offset by a lower volume mainly attributable to earlier shipments last year and an unfavourable mix of snowmobiles sold, and by lower wholesale of roadsters. The United States represented 47.5% and 49.4% of revenues during the three-month periods ended July 31, 2016 and 2015, respectively.

Canada

Revenues from Canada increased by \$15.5 million, or 9.5%, to \$178.2 million for the three-month period ended July 31, 2016, compared with \$162.7 million for the corresponding period ended July 31, 2015. The increase was driven by higher wholesale in Year-Round Products, partially offset by a lower volume mainly attributable to earlier shipments last year and an unfavourable mix of snowmobiles sold. Canada represented 20.8% and 20.0% of revenues during the three-month periods ended July 31, 2016 and 2015, respectively.

International

Revenues from International increased by \$23.5 million, or 9.5%, to \$271.6 million for the three-month period ended July 31, 2016, compared with \$248.1 million for the corresponding period ended July 31, 2015. This increase mainly resulted from higher PWC and ATV wholesale in Western Europe, higher PWC and SSV wholesale in Asia Pacific and higher ATV wholesale in Scandinavia and Eastern Europe. The increase also included a favourable foreign exchange impact of \$6 million. International represented 31.7% and 30.6% of revenues during the three-month periods ended July 31, 2016 and 2015, respectively.

Gross Profit

Gross profit increased by \$2.6 million, or 1.5%, to \$172.0 million for the three-month period ended July 31, 2016, compared with \$169.4 million for the corresponding period ended July 31, 2015. The gross profit increase includes an unfavourable foreign exchange rate variation of \$3 million. Gross profit margin percentage decreased by 80 basis points to 20.1% from 20.9% for the three-month period ended July 31, 2015. The decrease in gross profit margin percentage was primarily due to higher production costs and an unfavourable foreign exchange variation, partially offset by a favourable product mix in Year-Round Products and lower sales programs costs.

Operating Expenses

Operating expenses increased by \$55.5 million, or 37.7%, to \$202.6 million for the three-month period ended July 31, 2016, compared with \$147.1 million for the three-month period ended July 31, 2015. This increase was mainly due to an expense recorded this quarter following an unfavourable litigation decision rendered and, to a lesser extent, higher selling and marketing costs. The increase was partially offset by a favourable foreign exchange impact of \$3 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. For the three-month period ended July 31, 2016, the Company recorded as an expense total damages and related costs of \$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] decreased by \$8.7 million, or 16.4%, to \$44.4 million for the three-month period ended July 31, 2016, compared with \$53.1 million for the three-month period ended July 31, 2015. The decrease was primarily due to higher operating expenses.

Net Financing Costs

Net financing costs increased by \$1.4 million, or 9.3%, to \$16.4 million for the three-month period ended July 31, 2016, compared with \$15.0 million for the three-month period ended July 31, 2015. The increase primarily resulted from a \$1.7 million accelerated amortization of transaction costs on long-term debt 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, 2016 and 2015:

	July 31, 2016	July 31, 2015
U.S. dollars	1.2954 \$CA/\$US	1.2458 \$CA/\$US
Euro	1.4523 \$CA/Euro	1.3862 \$CA/Euro

When comparing the operating income and the income before income tax for the three-month period ended July 31, 2016 to the corresponding period ended July 31, 2015, the foreign exchange fluctuations impact was the following:

<i>(in millions of Canadian dollars)</i>	Foreign exchange (gain) loss Three-month period
Revenues	\$ (20.0)
Cost of sales	22.9
Impact of foreign exchange fluctuations on gross profit	2.9
Operating expenses	(2.7)
Impact of foreign exchange fluctuations on operating income	0.2
Long-term debt	(33.6)
Net financing costs	0.4
Impact of foreign exchange fluctuations on income before income taxes	\$ (33.0)

Income Taxes

Income taxes expense decreased by \$20.2 million to an income taxes recovery of \$16.2 million for the three-month period ended July 31, 2016, compared with an income taxes expense of \$4.0 million for the three-month period ended July 31, 2015. The decrease was primarily due to a lower operating income and a favourable mix of accounting profits and losses between tax jurisdictions. The income taxes recovery as a percentage of loss before income taxes amounted to 19.1% for the three-month period ended July 31, 2016 compared with an income taxes expense as a percentage of loss before income taxes of 6.2% for the three-month period ended July 31, 2015. The increase resulted primarily from the tax and accounting treatment of the foreign exchange loss on the Term Facility.

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



Net Loss

The Company recorded a net loss of \$68.8 million for the three-month period ended July 31, 2016 compared with a net loss of \$68.3 million for the three-month period ended July 31, 2015. The increase in net loss was primarily due to a lower operating income mainly due to the loss on litigation explained above, partially offset by a favourable exchange rate variation impact on the U.S. denominated long-term debt.

Analysis of Results for the first half of Fiscal 2017

The following section provides an overview of the financial performance of the Company for the six-month period ended July 31, 2016 compared to the same period ended July 31, 2015.

Revenues

Revenues increased by \$75.8 million, or 4.4%, to \$1,786.0 million for the six-month period ended July 31, 2016, compared with \$1,710.2 million for the corresponding period ended July 31, 2015. The revenue increase was primarily attributable to a favourable foreign exchange rate variation of \$60 million mainly due to the strengthening of the U.S. dollar and the Euro against the Canadian dollar and to higher wholesale of Seasonal Products.

The Company's North American retail sales for the six-month period ended July 31, 2016 increased by 6% compared with the six-month period ended July 31, 2015.

Significant trends by category were as follows:

Year-Round Products

Revenues from Year-Round Products increased by \$30.0 million, or 4.3%, to \$726.5 million for the six-month period ended July 31, 2016, compared with \$696.5 million for the corresponding period ended July 31, 2015. The increase was primarily attributable to a higher wholesale in ATV and SSV, a favourable product mix in roadsters and a favourable foreign exchange rate variation of \$23 million. The increase was partially offset by lower wholesale in roadsters.

North American Year-Round Products retail sales increased on a percentage basis by mid-single digit compared with the six-month period ended July 31, 2015.

Seasonal Products

Revenues from Seasonal Products increased by \$32.7 million, or 6.1%, to \$567.3 million for the six-month period ended July 31, 2016, compared with \$534.6 million for the corresponding period ended July 31, 2015. The increase resulted primarily from a higher volume and a favourable mix of PWC sold and from a favourable foreign exchange rate variation of \$18 million. The increase was partially offset by a lower volume mainly attributable to earlier shipments last year and an unfavourable mix of snowmobiles sold.

North American Seasonal Products retail sales increased on a percentage basis in the low-teens range compared with the six-month period ended July 31, 2015.

Propulsion Systems

Revenues from Propulsion Systems increased by \$13.1 million, or 6.6%, to \$211.0 million for the six-month period ended July 31, 2016, compared with \$197.9 million for the corresponding period ended July 31, 2015. The increase in revenues was primarily attributable to a favourable foreign exchange rate variation of \$9 million and a higher volume of aircraft engines sold.

North American outboard engines retail sales decreased on a percentage basis by high-single digit compared with the six-month period ended July 31, 2015.



PAC

Revenues from PAC remained stable at \$281.2 million for the six-month periods ended July 31, 2016 and 2015. A favourable foreign exchange rate variation of \$10 million was offset by a lower volume of snowmobile PAC sold resulting from poor snow conditions in North America last winter.

Significant geographical trends were as follows:

United States

Revenues from the United States increased by \$8.3 million, or 0.9%, to \$904.2 million for the six-month period ended July 31, 2016, compared with \$895.9 million for the corresponding period ended July 31, 2015. The increase is mainly due to a favourable foreign exchange impact of \$43 million and a higher volume and a favourable mix of PWC sold. The increase was partially offset by a lower volume mainly attributable to earlier shipments last year and an unfavourable mix of snowmobiles sold, and by lower wholesale of roadsters. The United States represented 50.7% and 52.4% of revenues during the six-month periods ended July 31, 2016 and 2015, respectively.

Canada

Revenues from Canada increased by \$1.7 million, or 0.5%, to \$313.1 million for the six-month period ended July 31, 2016, compared with \$311.4 million for the corresponding period ended July 31, 2015. The increase was mainly due to higher wholesale in ATV and SSV, partially offset by a lower volume mainly attributable to earlier shipments last year and an unfavourable mix of snowmobiles sold, and by lower wholesale of roadsters. Canada represented 17.5% and 18.2% of revenues during the six-month periods ended July 31, 2016 and 2015, respectively.

International

Revenues from International increased by \$65.8 million, or 13.1%, to \$568.7 million for the six-month period ended July 31, 2016, compared with \$502.9 million for the corresponding period ended July 31, 2015. This increase primarily resulted from higher wholesale of PWC and ATV, mainly in Scandinavia, Western Europe and Asia Pacific. The increase also includes a favourable foreign exchange impact of \$17 million. International represented 31.8% and 29.4% of revenues during the six-month periods ended July 31, 2016 and 2015, respectively.

Gross Profit

Gross profit decreased by \$16.2 million, or 4.2%, to \$366.1 million for the six-month period ended July 31, 2016, compared with \$382.3 million for the corresponding period ended July 31, 2015. The gross profit decrease includes an unfavourable foreign exchange rate variation of \$13 million. Gross profit margin percentage decreased by 190 basis points to 20.5% from 22.4% for the six-month period ended July 31, 2015. The decrease in gross profit margin percentage was primarily due to an unfavourable foreign exchange variation and higher sales programs costs, partially offset by a favourable product mix in Year-Round Products and PWC as well as general price increases.

Operating Expenses

Operating expenses increased by \$94.0 million, or 31.7%, to \$390.2 million for the six-month period ended July 31, 2016, compared with \$296.2 million for the six-month period ended July 31, 2015. This increase was mainly attributable to an expense recorded during the period following an unfavourable litigation decision rendered and, to a lesser extent, higher selling and marketing, research and development and general and administrative expenses for continued product investments. The increase includes an unfavourable foreign exchange rate variation of \$2 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. For the six-month period ended July 31, 2016, the Company recorded as an expense total damages and related costs of \$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] decreased by \$43.1 million, or 29.8%, to \$101.5 million for the six-month period ended July 31, 2016, compared with \$144.6 million for the six-month period ended July 31, 2015. The decrease was primarily due to higher operating expenses and lower gross profit.

Net Financing Costs

Net financing costs increased by \$2.7 million, or 9.4%, to \$31.5 million for the six-month period ended July 31, 2016, compared with \$28.8 million for the six-month period ended July 31, 2015. The increase resulted mainly from a \$1.7 million accelerated amortization of transaction costs on long-term debt as a result of the repayment of U.S. \$92.0 million in the outstanding nominal amount of the term facility and from an unfavourable foreign exchange impact of \$1 million.

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, 2016 and 2015:

	July 31, 2016		July 31, 2015	
U.S. dollars	1.3134	\$CA/\$US	1.2475	\$CA/\$US
Euro	1.4699	\$CA/Euro	1.3797	\$CA/Euro

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

	July 31, 2016		January 31, 2016	
U.S. dollars	1.3041	\$CA/\$US	1.4080	\$CA/\$US
Euro	1.4566	\$CA/Euro	1.5251	\$CA/Euro

When comparing the operating income and the income before income tax for the six-month period ended July 31, 2016 to the corresponding period ended July 31, 2015, the foreign exchange fluctuations impact was the following:

	Foreign exchange (gain) loss	
(in millions of Canadian dollars)	Six-month period	
Revenues		\$ (60.3)
Cost of sales		73.7
Impact of foreign exchange fluctuations on gross profit		13.4
Operating expenses		2.3
Impact of foreign exchange fluctuations on operating income		15.7
Long-term debt		(106.8)
Net financing costs		1.0
Impact of foreign exchange fluctuations on income before income taxes		\$ (90.1)

Income Taxes

Income taxes expense decreased by \$33.2 million to an income taxes recovery of \$16.3 million for the six-month period ended July 31, 2016, compared with an income taxes expense of \$16.9 million for the six-month period ended July 31, 2015. The decrease was primarily due to a lower operating income combined with a favourable mix of accounting profits and losses between tax jurisdictions. The income taxes recovery as a percentage of income before income taxes amounted to 63.7% for the six-month period ended July 31, 2016 compared with an income taxes expense as a percentage of income before income taxes of 53.3% for the six-month period ended July 31, 2015. The decrease resulted primarily from the tax and accounting treatment of the foreign exchange (gain) loss on the Term Facility and from a favourable mix of accounting profits and losses between tax jurisdictions.

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



Net Income

Net income increased by \$27.1 million to \$41.9 million for the six-month period ended July 31, 2016, compared with \$14.8 million for the six-month period ended July 31, 2015. The increase was primarily due to a favourable exchange rate variation impact on the U.S. denominated long-term debt, partially offset by a lower operating income.

Summary of Consolidated Quarterly Results

	Three-month periods ended							
	July 31, 2016	April 30, 2016	January 31, 2016	October 31, 2015	July 31, 2015	April 30, 2015	January 31, 2015	October 31, 2014
(millions of Canadian dollars, except per share data)	Fiscal 2017	Fiscal 2017	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2015	Fiscal 2015
Revenues by category								
Year-Round Products	\$ 326.3	\$ 400.2	\$ 482.6	\$ 260.1	\$ 298.4	\$ 398.1	\$ 416.0	\$ 227.5
Seasonal Products	280.5	286.8	356.7	476.0	263.4	271.2	391.6	452.9
Propulsion Systems	99.9	111.1	99.0	98.5	95.4	102.5	108.7	83.3
PAC	149.4	131.8	170.5	175.6	154.9	126.3	151.8	154.3
Total Revenues	856.1	929.9	1,108.8	1,010.2	812.1	898.1	1,068.1	918.0
Gross profit	172.0	194.1	285.9	246.0	169.4	212.9	289.7	239.6
<i>As a percentage of revenues</i>	20.1%	20.9%	25.8%	24.4%	20.9%	23.7%	27.1%	26.1%
Net income (loss)	(68.8)	110.7	(28.7)	65.5	(68.3)	83.1	8.5	37.2
Normalized EBITDA ^[1]	44.4	57.1	173.9	141.5	53.1	91.5	199.3	134.1
Normalized net income ^[1]	1.0	4.8	86.8	72.8	4.0	37.2	116.5	71.9
Basic earnings (loss) per share	(0.61)	0.96	(0.25)	0.56	(0.58)	0.70	0.07	0.31
Diluted earnings (loss) per share	(0.61)	0.96	(0.25)	0.56	(0.58)	0.70	0.07	0.31
Normalized basic earnings per share ^[1]	0.01	0.04	0.75	0.62	0.03	0.31	0.98	0.61
Normalized diluted earnings per share ^[1]	\$ 0.01	\$ 0.04	\$ 0.75	\$ 0.62	\$ 0.03	\$ 0.31	\$ 0.98	\$ 0.60

^[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, 2016	30, 2016	31, 2016	31, 2015	31, 2015	30, 2015	31, 2015	31, 2014
(millions of Canadian dollars)	Fiscal 2017	Fiscal 2017	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2015	Fiscal 2015
Net income (loss)	\$ (68.8)	\$ 110.7	\$ (28.7)	\$ 65.5	\$ (68.3)	\$ 83.1	\$ 8.5	\$ 37.2
Normalized elements								
Foreign exchange (gain) loss on long-term debt	38.0	(119.2)	77.4	2.8	71.6	(46.0)	111.5	29.8
Restructuring and related costs (reversal) ^[1]	0.1	(0.5)	(2.0)	5.6	0.4	0.6	1.0	6.9
Impairment charge ^[2]	—	—	70.3	—	—	—	—	—
Loss on litigation ^[3]	43.1	19.5	—	—	—	—	—	—
Gain on disposal of property, plant and equipment	—	—	(6.4)	—	—	—	(1.4)	—
Gain on termination of a defined benefit plan coverage	—	—	—	—	—	—	(5.2)	—
Other elements	1.6	—	(1.1)	—	—	—	—	—
Income taxes adjustment	(13.0)	(5.7)	(22.7)	(1.1)	0.3	(0.5)	2.1	(2.0)
Normalized net income ^[4]	1.0	4.8	86.8	72.8	4.0	37.2	116.5	71.9
Normalized income taxes expense (recovery) ^[4]	(3.2)	5.6	33.2	22.5	3.7	13.4	37.9	19.3
Financing costs adjusted	15.6	15.8	16.9	15.3	15.8	14.6	15.1	15.2
Financing income adjusted	(0.8)	(0.7)	0.3	(1.1)	(0.8)	(0.8)	(0.8)	(0.8)
Depreciation expense	31.8	31.6	36.7	32.0	30.4	27.1	30.6	28.5
Normalized EBITDA ^[4]	\$ 44.4	\$ 57.1	\$ 173.9	\$ 141.5	\$ 53.1	\$ 91.5	\$ 199.3	\$ 134.1

^[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 CGU.

^[3] In Fiscal 2017, the Company recorded a loss of \$62.6 million related to patent infringement litigation with one of its competitors (see "Operating expenses" 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, 2016 and 2015:

(millions of Canadian dollars)	Six-month periods ended	
	July 31, 2016	July 31, 2015
Net cash flows generated from operating activities	\$ 17.9	\$ 63.2
Net cash flows used in investing activities	(79.4)	(89.0)
Net cash flows used in financing activities	(157.4)	(50.9)
Effect of exchange rate changes on cash	6.1	1.8
Net decrease in cash	(212.8)	(74.9)
Cash at beginning of period	235.0	232.0
Cash at end of period	\$ 22.2	\$ 157.1

Net Cash Flows Generated from Operating Activities

Net cash flows generated from operating activities totalled \$17.9 million for the six-month period ended July 31, 2016 compared with \$63.2 million for the six-month period ended July 31, 2015. The \$45.3 million decrease in net cash flows generated was mainly due to lower operating income, partially offset by favourable changes in working capital of \$86.2 million. The favourable changes in working capital were primarily driven by Trade payables and accruals and Provisions.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities totalled \$79.4 million for the six-month period ended July 31, 2016 compared to \$89.0 million for the six-month period ended July 31, 2015. The decrease of \$9.6 million was mainly attributable to a higher level of investments last year in the new manufacturing facility located in Juárez, Mexico.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities totalled \$157.4 million for the six-month period ended July 31, 2016 compared with \$50.9 million for the six-month period ended July 31, 2015. The increase of \$106.5 million was mainly attributable to the partial repayment of the term facility of \$119.7 million and the related amendment fees and the higher number of subordinate voting shares repurchased under the normal course issuer bid program ("NCIB"). The increase was partially offset by a higher Revolving Credit Facilities usage.



Contractual Obligations

The following table summarizes the Company's significant contractual obligations as at July 31, 2016, 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	\$ 30.5	\$ 50.1	\$ 41.0	\$ 84.9	\$ 206.5
Financial obligations					
Trade payables and accruals	574.2	—	—	—	574.2
Long-term debt (including interest)	56.0	108.0	91.7	936.7	1,192.4
Derivative financial instruments	2.5	—	—	2.4	4.9
Other financial liabilities (including interest)	92.9	3.5	0.1	22.8	119.3
	725.6	111.5	91.8	961.9	1,890.8
Total obligations	\$ 756.1	\$ 161.6	\$ 132.8	\$ 1,046.8	\$ 2,097.3

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 June 30, 2016, the Company amended and restated its \$350.0 million Revolving Credit Facilities to increase the availability by \$75.0 million for a total availability of \$425.0 million, to extend the maturity from May 2018 to June 2021 and to reduce the cost of borrowing by 0.25%. The Company incurred transaction fees of \$2.6 million. The Revolving Credit Facilities are available to finance working capital requirements and capital expenditures, or for other general corporate purposes.

As at July 31, 2016, the Company had \$52.6 million of outstanding indebtedness under the Revolving Credit Facilities and \$12.8 million under bank overdraft.

The applicable interest rates vary depending on a leverage ratio. The leverage ratio is defined in the revolving credit facilities agreement by the ratio of net debt to consolidated cash flows of the Company's subsidiary, Bombardier Recreational Products Inc. (the "Leverage ratio"). Following the amendment, the applicable interest rates are as follows:

- (i) U.S. dollars at either
 - (a) LIBOR plus 1.75% to 3.50% per annum; or
 - (b) U.S. Base Rate plus 0.75% to 2.50% per annum; or
 - (c) U.S. Prime Rate plus 0.75% to 2.50% per annum;
- (ii) Canadian dollars at either
 - (a) Bankers' Acceptances plus 1.75% to 3.50% per annum; or
 - (b) Canadian Prime Rate plus 0.75% to 2.50% per annum
- (iii) Euros at Euro LIBOR plus 1.75% to 3.50% per annum.

In addition, the Company incurs commitment fees of 0.30% to 0.45% per annum on the undrawn amount of the revolving credit facilities.



As at July 31, 2016, the cost of borrowing under the revolving credit facilities was as follows:

- (i) U.S. dollars at either
 - (a) LIBOR plus 2.25% per annum; or
 - (b) U.S. Base Rate plus 1.25% per annum; or
 - (c) U.S. Prime Rate plus 1.25% per annum;
- (ii) Canadian dollars at either
 - (a) Bankers' Acceptances plus 2.25% per annum; or
 - (b) Canadian Prime Rate plus 1.25% per annum
- (iii) Euros at Euro LIBOR plus 2.25% per annum.

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

As at July 31, 2016, the Company had issued letters of credit for an amount of \$2.7 million under the Revolving Credit Facilities (\$3.3 million as at January 31, 2016). In addition, \$4.2 million of letters of credit were outstanding under other agreements as at July 31, 2016, (\$4.2 million as at January 31, 2016).

Term Facility

On June 30, 2016, the Company amended and restated its Term Facility. This amendment and restatement provides an extended Term Facility of U.S. \$700.0 million maturing in June 2023 with the option for the Company to increase the amount of borrowing by U.S. \$250.0 million under certain conditions. The Company incurred transaction costs of \$18.4 million.

As at July 31, 2016, 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. 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, 2016, the Company received \$0.1 million in relation with a term loan issued during the year ended January 31, 2016.

As at July 31, 2016, 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 September 2016 and March 2022.

Finance Lease Liabilities

As at July 31, 2016, the contractual obligations in relation to assets acquired under finance lease agreements amounted to \$17.7 million to be settled over a period ending in December 2030.



NCIB

In March 2016, the Company announced the renewal of its NCIB to purchase for cancellation up to 3,396,074 of its outstanding subordinate voting shares. During the six-month period ended July 31, 2016, the Company repurchased a total of 2,490,420 subordinate voting shares for a total cost of \$50.9 million.

As at July 31, 2016, a \$15.3 million liability, with a corresponding amount in equity, was recorded in the condensed consolidated interim statements of financial position in relation with the NCIB. This liability represented the value of subordinate voting shares expected to be repurchased by a designated broker under an automatic share purchase plan from August 1st to September 12, 2016. This automatic share purchase plan allows for the purchase of subordinate voting shares under pre-set conditions at times when the Company would ordinarily not be permitted due to regulatory restrictions or self-imposed blackout periods.

Consolidated Financial Position

The following table shows the main variances that have occurred in the unaudited condensed consolidated interim statements of financial position of the Company between July 31, 2016 and January 31, 2016, 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, 2016	January 31, 2016	Variance	Exchange Rate Impact	Net Variance	Explanation of Net Variance
Trade and other receivables	\$ 207.5	\$ 308.4	\$(100.9)	\$ 6.9	\$(94.0)	Mostly explained by collection of snowmobiles' trade receivables in Scandinavia
Inventories	738.7	685.9	52.8	35.2	88.0	Mostly explained by higher finished Year-Round Products inventory
Property, plant and equipment	643.2	636.6	6.6	13.3	19.9	No significant variances
Trade payables and accruals	574.2	650.3	(76.1)	28.0	(48.1)	Mostly explained by different payment terms
Long-term debt, including current portion	925.0	1,146.6	(221.6)	83.0	(138.6)	Mostly explained by the U.S. \$92.0 million repayment of the term facility
Employee future benefit liabilities	255.0	224.1	30.9	5.3	36.2	Mostly explained by the decrease of the discount rate by approximately 50 basis points on Canadian defined benefit obligations and 120 basis points on Austrian defined benefit obligations, partially offset by an increased fair value of Canadian plan assets



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 two-thirds 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 GE Capital Bank Limited, GE Commercial Corporation (Australia) Pty Ltd and GE Finance and Insurance (GE Capital) (collectively "GE Group") for financing facilities in Europe, Australia and New Zealand. The agreement between the Company and TCF will expire on January 31, 2020. For the contracts with GE Group, the maximum commitment period is up to January 31, 2017.

The total amount of financing provided to the Company's independent dealers and distributors totalled \$626.1 million and \$1,291.1 million for the three and six-month periods ended July 31, 2016, compared to \$589.0 million and \$1,254.1 million for the three and six-month periods ended July 31, 2015. The outstanding financing between the Company's independent dealers and distributors and third-party finance companies amounted to \$1,253.6 million and \$1,480.9 million as at July 31, 2016, and January 31, 2016, 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, 2016	January 31, 2016
Total outstanding	CAD	\$ 1,254	\$ 1,481
United States	USD	636	744
Canada	CAD	335	329
Europe	Euro	30	37
Australia and New Zealand	AUD	44	46
Latin America	USD	1	1

The costs incurred by the Company under the dealers' and distributors' financing agreements totalled \$7.8 million and \$15.0 million for the three and six-month periods ended July 31, 2016 compared with \$7.8 million and \$15.2 million for the three and six-month periods ended July 31, 2015.

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 (\$32.6 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 (\$13.0 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 AUD \$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 \$145 million as at July 31, 2016 (\$127 million in North America, \$13 million in Europe and \$5 million in Australia and New Zealand) and \$143 million as at January 31, 2016 (\$124 million in North America, \$14 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, 2016 and 2015.



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 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, National Bank of Canada and the Fédération des caisses Desjardins du Québec for such purposes. In the United States, the Company has agreements with Sheffield Financial and Capital One. 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 \$22.3 million as at July 31, 2016 and \$22.6 million as at January 31, 2016, 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, 2017.

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.



The Company does not hedge its revenue exposure to the Brazilian Real.

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 GE Group.

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 GE Group 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 independent dealer's and distributor credit.

Interest Rate Risk

The Company is exposed to the variation of interest rates mainly resulting from the LIBOR on its Term Facility. Due to the current low interest volatility environment, the Company does not believe to be significantly exposed to increased interest rates in the short-term.

^[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 is approved by senior management and the Board of Directors whereas the strategic plan is approved by senior management and presented to 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 process 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, 2016, 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. The Company is currently assessing the impact on its consolidated financial statements of this new pronouncement.

In July 2014, the IASB published the final version of *IFRS 9 "Financial Instruments"* which 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 is currently assessing the impact on its consolidated financial statements of this new pronouncement.

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. The Company is currently assessing the impact on its consolidated financial statements of this new pronouncement.



In January 2016, the IASB issued amendments to IAS 7 “Statement of cash flows” which require companies to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The effective date of the amendments for the Company is February 1st, 2017. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

The IASB issued other standards or amendments to existing standards which are not expected to have a significant impact on the Company's 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, 2016, that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Dividend Policy

The Company does not currently intend to declare any dividend on the shares. Any future determination to pay dividends on the shares of the Company would be at the discretion of the board of directors of the Company (the “Board of Directors”) and would depend on, among other things, 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 other factors that the Board of Directors may deem relevant.

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, 2016. 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 September 7, 2016, the Company had the following issued and outstanding shares and stock options:

- 79,023,344 multiple voting shares with no par value.
- 32,925,484 subordinate voting shares with no par value.
- 3,014,929 stock options to acquire subordinate voting shares.

Additional Information

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

