Condensed Consolidated Interim Financial Statements

BRP Inc.

For the three-month period ended April 30, 2014

BRP Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME

[Unaudited]
[in millions of Canadian dollars, except per share data]

	Notes	Three-month periods ended April 30, 2014	Three-month periods ended April 30, 2013
Revenues		**$ 758.6**	$ 804.3
Cost of sales		**585.2**	586.3
Gross profit		**173.4**	218.0
Operating expenses			
Selling and marketing		**67.3**	65.3
Research and development		**41.6**	37.3
General and administrative		**36.8**	35.0
Other operating income	11	**(0.7)**	(5.7)
Total operating expenses		**145.0**	131.9
Operating income		**28.4**	86.1
Financing costs	12	**14.1**	18.1
Financing income	12	**(0.5)**	(1.2)
Foreign exchange (gain) loss on long-term debt		**(12.3)**	8.3
Increase in fair value of common shares	9	**—**	19.6
Income before income taxes		**27.1**	41.3
Income taxes expense (recovery)	13	**(0.9)**	15.6
Net income		**$ 28.0**	$ 25.7
Attributable to shareholders		**$ 28.0**	$ 25.7
Attributable to non-controlling interest		**—**	—
Basic earnings per share	10	**0.24**	0.25
Diluted earnings per share	10	**0.24**	0.25

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

BRP Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited]
[in millions of Canadian dollars]

	Three-month periods ended	
	April 30, 2014	**April 30, 2013**
Net income	**$ 28.0**	$ 25.7
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net income		
Net changes in fair value of derivatives designated as cash flow hedges	**(2.3)**	(0.4)
Net changes in unrealized gain (loss) on translation of foreign operations	**2.3**	(3.4)
Income taxes recovery	**0.6**	0.1
	0.6	(3.7)
Items that will not be reclassified subsequently to net income		
Actuarial losses on defined benefits pension plan	**(8.5)**	(18.0)
Income taxes recovery	**2.2**	4.8
	(6.3)	(13.2)
Total other comprehensive loss	**(5.7)**	(16.9)
Total comprehensive income	**$ 22.3**	$ 8.8
Attributable to shareholders	**$ 22.3**	$ 8.9
Attributable to non-controlling interest	**—**	(0.1)

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

BRP Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

[Unaudited]
[in millions of Canadian dollars]
As at

	Notes	April 30, 2014	January 31, 2014
Cash		**$ 76.9**	$ 75.4
Trade and other receivables		**230.5**	266.6
Income taxes and investment tax credits receivable		**25.4**	27.3
Other financial assets	4	**4.1**	11.1
Inventories	5	**631.1**	532.7
Other current assets		**12.6**	13.0
Total current assets		**980.6**	926.1
Investment tax credits receivable		**56.1**	53.9
Other financial assets	4	**21.8**	21.4
Property, plant and equipment		**518.2**	515.3
Intangible assets		**335.9**	335.9
Deferred income taxes		**104.5**	95.7
Other non-current assets		**2.6**	2.9
Total non-current assets		**1,039.1**	1,025.1
Total assets		**$ 2,019.7**	$ 1,951.2
Revolving credit facilities		**$ —**	$ 10.5
Trade payables and accruals		**588.5**	547.0
Provisions	6	**121.1**	113.7
Other financial liabilities	7	**68.6**	72.3
Income taxes payable		**14.5**	13.7
Current portion of long-term debt	8	**7.1**	6.4
Other current liabilities		**8.1**	6.9
Total current liabilities		**807.9**	770.5
Long-term debt	8	**888.0**	883.5
Provisions	6	**64.9**	66.4
Other financial liabilities	7	**29.9**	32.2
Employee future benefit liabilities		**211.4**	203.0
Deferred income taxes		**14.0**	14.0
Other non-current liabilities		**20.6**	22.4
Total non-current liabilities		**1,228.8**	1,221.5
Total liabilities		**2,036.7**	1,992.0
Deficit		**(17.0)**	(40.8)
Total liabilities and deficit		**$ 2,019.7**	$ 1,951.2

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

BRP Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

[Unaudited]
[in millions of Canadian dollars]

For the three-month period ended April 30, 2014

	Attributed to shareholders							
	Capital Stock	Contributed surplus	Retained losses	Translation of foreign operations	Cash-flow hedges	Total	Non-controlling interests	Total deficit
Balance as at January 31, 2014	**$ 360.4**	**$ 11.3**	**$ (428.7)**	**$ 14.4**	**$ (0.5)**	**$ (43.1)**	**$ 2.3**	**$ (40.8)**
Net income	**—**	**—**	**28.0**	**—**	**—**	**28.0**	**—**	**28.0**
Other comprehensive income (loss)	**—**	**—**	**(6.3)**	**2.3**	**(1.7)**	**(5.7)**	**—**	**(5.7)**
Total comprehensive income (loss)	**—**	**—**	**21.7**	**2.3**	**(1.7)**	**22.3**	**—**	**22.3**
Issuance of subordinate shares	**0.3**	**(0.3)**	**—**	**—**	**—**	**—**	**—**	**—**
Stock-based compensation	**—**	**1.5**	**—**	**—**	**—**	**1.5**	**—**	**1.5**
Balance as at April 30, 2014	**$ 360.7**	**$ 12.5**	**$ (407.0)**	**$ 16.7**	**$ (2.2)**	**$ (19.3)**	**$ 2.3**	**$ (17.0)**

For the three-month period ended April 30, 2013

	Attributed to shareholders							
	Capital Stock	Contributed surplus	Retained losses	Translation of foreign operations	Cash-flow hedges	Total	Non-controlling interests	Total equity (deficit)
Balance as at January 31, 2013	$ 52.2	$ 19.0	$ (28.0)	$ (24.0)	$ (0.9)	$ 18.3	$ 2.3	$ 20.6
Net income	—	—	25.7	—	—	25.7	—	25.7
Other comprehensive loss	—	—	(13.2)	(3.3)	(0.3)	(16.8)	(0.1)	(16.9)
Total comprehensive income (loss)	—	—	12.5	(3.3)	(0.3)	8.9	(0.1)	8.8
Dividends	—	—	(483.0)	—	—	(483.0)	—	(483.0)
Reduction of stated capital	(44.9)	—	—	—	—	(44.9)	—	(44.9)
Isssuance of common shares	15.1	(14.9)	—	—	—	0.2	—	0.2
Repurchase of common shares	(0.1)	—	(1.1)	—	—	(1.2)	—	(1.2)
Stock-based compensation	—	2.9	—	—	—	2.9	—	2.9
Balance as at April 30, 2013	$ 22.3	$ 7.0	$ (499.6)	$ (27.3)	$ (1.2)	$ (498.8)	$ 2.2	$ (496.6)

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

BRP Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

[Unaudited]
[in millions of Canadian dollars]

		Three-month periods ended	
CASH FLOWS FROM:	Notes	**April 30, 2014**	**April 30, 2013**
OPERATING ACTIVITIES			
Net income		**$ 28.0**	$ 25.7
Non-cash and non-operating items:			
Depreciation expense		**26.6**	21.1
Income taxes expense (recovery)	13	**(0.9)**	15.6
Foreign exchange (gain) loss on long-term debt		**(12.3)**	8.3
Change in fair value of common shares	9	**—**	19.6
Interest expense		**11.7**	14.9
Other		**7.7**	4.5
Cash flows generated from operations before changes in working capital		**60.8**	109.7
Changes in working capital:			
Decrease in trade and other receivables		**39.4**	36.9
Increase in inventories		**(94.4)**	(43.3)
(Increase) decrease in other assets		**1.3**	(8.3)
Increase in trade payables and accruals		**39.8**	35.0
Decrease in other financial liabilities		**(9.0)**	(5.0)
Increase in provisions		**5.6**	8.1
Decrease in other liabilities		**(2.3)**	(3.6)
Cash flows generated from operations		**41.2**	129.5
Income taxes paid (net of refunds)		**(5.2)**	(17.1)
Net cash flows generated from operating activities		**36.0**	112.4
INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(20.1)**	(21.9)
Additions to intangible assets		**(2.8)**	(3.2)
Proceeds on disposal of property, plant and equipment		**0.1**	0.2
Net cash flows used in investing activities		**(22.8)**	(24.9)
FINANCING ACTIVITIES			
Decrease in revolving credit facilities		**(10.5)**	—
Issuance of long-term debt	8	**11.4**	10.0
Repayment of long-term debt		**(0.4)**	—
Interest paid		**(9.7)**	(14.1)
Issuance of subordinate and common shares		**—**	0.2
Repurchase of common shares		**—**	(1.7)
Dividends paid		**—**	(483.0)
Reduction of stated capital		**—**	(46.1)
Other		**(0.1)**	(0.2)
Net cash flows used in financing activities		**(9.3)**	(534.9)
Effect of exchange rate changes on cash		**(2.4)**	(3.3)
Net increase (decrease) in cash		**1.5**	(450.7)
Cash at beginning of year		**75.4**	542.4
Cash at the end of period		**$ 76.9**	$ 91.7

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

For the three-month periods ended April 30, 2014 and 2013
[Unaudited]
[Tabular figures in millions of Canadian dollars, unless otherwise indicated]

1. NATURE OF OPERATIONS

BRP Inc. ("BRP" or the "Company") is incorporated under the laws of Canada. BRP's multiple voting shares are owned by Beaudier Inc. and 4338618 Canada Inc. (collectively, "Beaudier group"), Bain Capital Luxembourg Investments S.à r.l. ("Bain Capital") and La Caisse de dépôt et placement du Québec ("CDPQ"), (collectively, the "Principal Shareholders") whereas BRP's subordinate voting shares are listed on the Toronto Stock Exchange under the symbol DOO.

BRP and its subsidiaries design, develop, manufacture and sell snowmobiles, personal watercraft, all-terrain vehicles, side-by-side vehicles, roadsters and propulsion systems for outboard and jet boats, karts, motorcycles and recreational aircraft. The Company's products are sold mainly through a network of independent dealers, independent distributors and to original equipment manufacturers. The Company distributes its products worldwide and manufactures them in Canada, Mexico, Austria, the United States and Finland.

The Company's headquarters is located at 726 Saint-Joseph Street, Valcourt, Québec, J0E 2L0.

2. BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements as at April 30, 2014 have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with *IAS 34 "Interim Financial Reporting"*. These interim financial statements have been prepared on a condensed form in accordance with IAS 34. The condensed consolidated interim financial statements as at April 30, 2014 follow the same accounting policies than the consolidated financial statements as at January 31, 2014, except for the adoption of new standards and amendments as described below.

These condensed consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements as at January 31, 2014.

These condensed consolidated interim financial statements include the financial statements of BRP and its subsidiaries. BRP controls all of its subsidiaries by wholly owned voting equity interests (except for the Regionales Innovations Centrum in Austria for which a non-controlling interest of 25% is recorded upon consolidation). All inter-company transactions and balances have been eliminated upon consolidation.

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.

On June 11, 2014, the Board of Directors of the Company approved these condensed consolidated interim financial statements for the three-month period ended April 30, 2014.

2. BASIS OF PRESENTATION [CONTINUED]

New standards and amendments adopted

IAS 36 Impairment of Assets

On February 1st, 2014, the Company adopted the amendment to *IAS 36 "Impairment of Assets"* which provides guidance on recoverable amount disclosures for non-financial assets. The adoption of this amendment had no impact on the Company's condensed consolidated interim financial statements.

IAS 32 Financial Instruments: Presentation

On February 1st, 2014, the Company adopted the amendment to *IAS 32 "Financial Instruments: Presentation"* which clarifies the requirements for offsetting financial assets and financial liabilities. The adoption of this amendment had no impact on the Company's condensed consolidated interim financial statements.

IFRIC 21 Levies

On February 1st, 2014, the Company adopted *IFRIC 21 "Levies"* which identifies the obligation event for the recognition of a liability for a levy imposed by a government and provides guidance on when to recognize the liability. The adoption of this amendment had no impact on the Company's condensed consolidated interim financial statements.

3. FUTURE ACCOUNTING CHANGES

In November 2009 and October 2010, the IASB issued *IFRS 9 "Financial Instruments"* representing the first phase of the IASB's three phase project to replace *IAS 39 "Financial Instruments: Recognition and Measurement"*. The first phase defines the accounting of financial instruments that mainly requires the measurement at either the amortized cost or the fair value. The effective date of IFRS 9 for the Company is February 1st, 2018.

On May 28, 2014, the IASB issued *IFRS 15 "Revenue from Contracts with Customers"*. The objective of this standard is to remove inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition. The effective date of IFRS 15 for the Company is February 1st, 2017.

The IASB issued other standards which are not expected to have a significant impact on the Company's financial statements.

[Tabular figures in millions of Canadian dollars, unless otherwise indicated]

4. OTHER FINANCIAL ASSETS

The Company's other financial assets were as follows, as at:

	April 30, 2014	January 31, 2014
Restricted investments [a]	**$ 18.4**	$ 17.9
Derivative financial instruments	**0.9**	6.7
Other	**6.6**	7.9
Total other financial assets	**$ 25.9**	$ 32.5
Current	**4.1**	11.1
Non-current	**21.8**	21.4
Total other financial assets	**$ 25.9**	$ 32.5

[a] The restricted investments are publicly traded bonds that can only be used for severance payments and pension costs associated with pension plans of BRP-Powertrain GmbH & Co. KG, and are not available for general corporate use.

The non-current portion is mainly attributable to the restricted investments.

5. INVENTORIES

The Company's inventories were as follows, as at:

	April 30, 2014	January 31, 2014
Materials and work in process	**$ 254.2**	$ 254.3
Finished products	**252.6**	159.3
Parts and accessories	**124.3**	119.1
Total inventories	**$ 631.1**	$ 532.7

The Company recognized in the condensed consolidated interim statements of net income during the three-month period ended April 30, 2014, a write-down on inventories of $2.4 million ($1.3 million for the three-month period ended April 30, 2013).

6. PROVISIONS

The Company's provisions were as follows, as at:

	April 30, 2014	January 31, 2014
Product-related	**$ 157.1**	$ 150.7
Restructuring	**9.4**	10.1
Other	**19.5**	19.3
Total provisions	**$ 186.0**	$ 180.1
Current	**121.1**	113.7
Non-current	**64.9**	66.4
Total provisions	**$ 186.0**	$ 180.1

Product-related provisions include provisions for regular and extended warranty coverage on products sold, product liability provisions and provisions related to sales programs offered by the Company to its independent dealers, distributors or customers in order to support the retail activity.

[Tabular figures in millions of Canadian dollars, unless otherwise indicated]

6. PROVISIONS [CONTINUED]

The non-current portion of provisions is mainly attributable to product-related provisions.

The changes in provisions were as follows:

	Product-related	Restructuring	Other	Total
Balance as at January 31, 2014	**$ 150.7**	**$ 10.1**	**$ 19.3**	**$ 180.1**
Expensed during the period	**68.8**	**—**	**2.6**	**71.4**
Paid during the period	**(57.2)**	**(0.3)**	**(1.6)**	**(59.1)**
Reversed during the period	**(4.5)**	**(0.4)**	**(0.7)**	**(5.6)**
Effect of foreign currency exchange rate changes	**(0.4)**	**—**	**(0.1)**	**(0.5)**
Unwinding of discount and effect of changes in discounting estimates	**(0.3)**	**—**	**—**	**(0.3)**
Balance as at April 30, 2014	**$ 157.1**	**$ 9.4**	**$ 19.5**	**$ 186.0**

7. OTHER FINANCIAL LIABILITIES

The Company's other financial liabilities were as follows, as at:

	April 30, 2014	January 31, 2014
Dealer holdback programs and customers deposits	**$ 60.0**	$ 65.9
Due to Bombardier Inc.	**21.6**	21.6
Derivative financial instruments	**5.5**	2.4
Due to a pension management company	**7.8**	9.9
Other	**3.6**	4.7
Total other financial liabilities	**$ 98.5**	$ 104.5
Current	**68.6**	72.3
Non-current	**29.9**	32.2
Total other financial liabilities	**$ 98.5**	$ 104.5

The non-current portion is mainly comprised of the amounts due to a pension management company and to Bombardier Inc. in connection with indemnification related to income taxes.

For the three-month periods ended April 30, 2014 and 2013
[Unaudited]
[Tabular figures in millions of Canadian dollars, unless otherwise indicated]

8. LONG-TERM DEBT

As at April 30, 2014 and January 31, 2014, the maturity dates, interest rates, outstanding nominal amounts and carrying amounts of long-term debt were as follows:

					April 30, 2014
	Maturity date	**Contractual interest rate**	**Effective interest rate**	**Outstanding nominal amount**	**Carrying amount**
Term Facility	Jan. 2019	4.00%	4.86%	U.S. $792.0	**$ 841.9** [a]
Term Loans	Dec. 2014 to Dec. 2019	1.13% to 2.09%	1.34% to 8.60%	Euro 35.0	**47.7**
Finance lease liabilities	Jan. 2018 to Jan. 2024	8.50%	8.50%	$8.3	**5.5**
Total long-term debt					**$ 895.1**
Current					**7.1**
Non-current					**888.0**
Total long-term debt					**$ 895.1**

[a] Net of unamortized transaction costs of $25.9 million.

					January 31, 2014
	Maturity date	**Contractual interest rate**	**Effective interest rate**	**Outstanding nominal amount**	**Carrying amount**
Term Facility	Jan. 2019	4.00%	4.86%	U.S. $792.0	**$ 852.7** [a]
Term Loans	Dec. 2014 to Dec. 2018	1.13% to 2.05%	1.30% to 8.60%	Euro 27.7	**37.2**
Total long-term debt					**$ 889.9**
Current					**6.4**
Non-current					**883.5**
Total long-term debt					**$ 889.9**

[a] Net of unamortized transaction costs of $27.9 million.

During the three-month period ended April 30, 2014, the Company entered into finance lease agreements in relation with the outsourcing of the parts, accessories and clothing distribution activity. As at April 30, 2014, the contractual obligations in relation to those assets amounted approximately to $8.3 million and will be settled over the next ten years.

During the three-month period ended April 30, 2014, the Company entered into a term loan agreement at favourable interest rates under an Austrian government program. This program supports research and development projects based on the Company's incurred expenses in Austria. The term loan has a nominal amount of Euro 7.5 million ($11.4 million) with an interest rate of 1.25% until June 30, 2017 and 1.75% from July 1, 2017 to its maturity date on December 31, 2019. The Company recognized a grant of Euro 0.9 million ($1.4 million) as a reduction of research and development expenses representing the difference between the fair value of the term loan at inception and the cash received.

During the three-month period ended April 30, 2013, the Company entered into a term loan agreement at favourable interest rates under an Austrian government program. This program supports research and development projects based on the Company's incurred expenses in Austria. The term loan has a nominal amount of Euro 7.5 million ($10.0 million) with an interest rate of 1.19% until June 30, 2016 and 2.19% from July 1, 2016 to its maturity date on December 31, 2018. The Company recognized a grant of Euro 1.2 million ($1.6 million) as a reduction of research and development expenses representing the difference between the fair value of the term loan at inception and the cash received.

[Tabular figures in millions of Canadian dollars, unless otherwise indicated]

9. CAPITAL STOCK

Until their exchange for subordinate voting shares in the context of the initial public offering of the Company's subordinate voting shares that occurred on May 29, 2013, the Company's redeemable common shares were recorded at fair value in net income.

10. EARNINGS PER SHARE

a) Basic earnings per share

Details of basic earnings per share were as follows:

	Three-month periods ended	
	April 30, 2014	**April 30, 2013**
Net income attributable to shareholders	**$ 28.0**	$ 25.7
Issued common shares, beginning of year	**118,159,067**	101,824,770
Effect of issuance of shares and exercise of stock options	**20,420**	1,202,809
Effect of repurchase and cancellation of shares	**—**	(66,879)
Weighted average number of common or voting shares [a]	**118,179,487**	102,960,700
Earnings per share - basic	**$ 0.24**	$ 0.25

[a] As per IFRS requirements, the weighted average number of common or voting shares outstanding for the three-month period ended April 30, 2013 has been calculated taking into account the consolidation of the outstanding shares on 3.765 to one basis that occurred on May 29, 2013.

b) Diluted earnings per share

Details of diluted earnings per share were as follows:

	Three-month periods ended	
	April 30, 2014	**April 30, 2013**
Net income attributable to shareholders	**$ 28.0**	$ 25.7
Weighted average number of common or voting shares	**118,179,487**	102,960,700
Dilutive effect of stock options	**760,427**	1,091,700
Weighted average number of diluted common or voting shares [a]	**118,939,914**	104,052,400
Earnings per share - diluted	**$ 0.24**	$ 0.25

[a] As per IFRS requirements, the weighted average number of diluted common or voting shares for the three-month period ended April 30, 2013 has been calculated taking into account the consolidation of the outstanding shares on 3.765 to one basis that occurred on May 29, 2013.

For the three-month periods ended April 30, 2014 and 2013
[Unaudited]
[Tabular figures in millions of Canadian dollars, unless otherwise indicated]

11. OTHER OPERATING INCOME

Details of other operating income were as follows:

	Three-month periods ended	
	April 30, 2014	**April 30, 2013**
Restructuring costs reversal	**$ (0.4)**	$ —
Reversal of gain from insurance recovery	**1.4**	—
Foreign exchange gain on working capital elements	**(6.0)**	(7.1)
Loss on forward exchange contracts	**4.3**	1.5
Other	**—**	(0.1)
Total	**$ (0.7)**	$ (5.7)

During the three-month period ended April 30, 2014, as a result of obtaining additional information, the Company revised its estimates related to the estimated insurance recovery in relation with the property, plant and equipment damaged by the explosion that occurred at the Company's research & development centre in Valcourt, Canada during the year ended January 31, 2013 and reversed in net income $1.4 million of the gain that was previously recorded during the twelve-month period ended January 31, 2013.

12. FINANCING COSTS AND INCOME

Details of financing costs and financing income were as follows:

	Three-month periods ended	
	April 30, 2014	**April 30, 2013**
Interest and amortization of transactions costs on long-term debt	**$ 10.7**	$ 14.5
Interest and commitment fees on revolving credit facilities	**1.0**	0.4
Net interest on employee future benefit liabilities	**2.0**	2.3
Financial guarantee recoveries	**(0.2)**	(0.2)
Unwinding of discount of provisions	**0.2**	0.3
Other	**0.4**	0.8
Financing costs	**14.1**	18.1
Financing income	**(0.5)**	(1.2)
Total	**$ 13.6**	$ 16.9

For the three-month periods ended April 30, 2014 and 2013
[Unaudited]
[Tabular figures in millions of Canadian dollars, unless otherwise indicated]

13. INCOME TAXES

Details of income taxes expense (recovery) were as follows:

	Three-month periods ended	
	April 30, 2014	**April 30, 2013**
Current income taxes expense		
Related to current year	**$ 5.4**	$ 5.8
Related to prior years	**0.5**	(0.3)
	5.9	5.5
Deferred income taxes expense (recovery)		
Temporary differences	**(5.3)**	9.5
Effect of income tax rate changes on deferred income taxes	**0.2**	0.2
Increase (decrease) in valuation allowance	**(1.7)**	0.4
	(6.8)	10.1
Income taxes expense (recovery)	**$ (0.9)**	$ 15.6

The reconciliation of income taxes computed at the Canadian statutory rates to income taxes expense (recovery) recorded was as follows:

	Three-month periods ended			
	April 30, 2014		**April 30, 2013**	
Income taxes calculated at statutory rates	**$ 7.3**	**26.9%**	$ 11.1	26.9%
Increase (decrease) resulting from:				
Income tax rate differential of foreign subsidiaries	**(2.0)**		(1.8)	
Effect of income tax rate changes on deferred income taxes	**0.2**		0.2	
Increase (decrease) in valuation allowance	**(1.7)**		0.4	
Recognition of income taxes on foreign currency translation	**0.4**		(0.4)	
Permanent differences [a]	**(2.9)**		6.9	
Other	**(2.2)**		(0.8)	
Income taxes expense (recovery)	**$ (0.9)**		$ 15.6	

[a] The permanent differences result mainly from the foreign exchange (gain) loss on the long-term debt denominated in U.S. dollars and, additionally, for the three-month period ended April 30, 2013, from the valuation at fair value of the redeemable common shares.

[Tabular figures in millions of Canadian dollars, unless otherwise indicated]

14. FINANCIAL INSTRUMENTS

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the Company's financial instruments take into account the credit risk embedded in the instrument. For financial assets, the credit risk of the counterparty is considered whereas for financial liabilities, the Company's credit risk is considered.

In order to determine the fair value of its financial instruments, the Company uses, when active markets exist, quoted prices from these markets ("Level 1" fair value). When public quotations are not available in the market, fair values are determined using valuation methodologies. When inputs used in the valuation methodologies are only inputs directly and indirectly observable in the marketplace, fair value is presented as "Level 2" fair value. If fair value is assessed using inputs that require considerable judgment from the Company in interpreting market data and developing estimates, fair value is presented as "Level 3" fair value. For Level 3 fair value, the use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The fair value, fair value level and carrying amount of restricted investments, derivative financial instruments and long-term debt were as follows:

			As at April 30, 2014
	Fair value level	Carrying amount	Fair value
Restricted investments (Note 4)	Level 2	**$ 18.4**	**$ 18.4**
Derivative financial instruments			
Forward exchange contracts			
Favourable (Note 4)		**$ 0.9**	**$ 0.9**
(Unfavourable) (Note 7)		**(3.4)**	**(3.4)**
Inflation rate swap (Note 7)		**(2.1)**	**(2.1)**
	Level 2	**$ (4.6)**	**$ (4.6)**
Long-term debt (including current portion)			
Term Facility (Note 8)	Level 1	**$ (841.9)**	**$ (870.0)**
Term Loans (Note 8)	Level 2	**(47.7)**	**(51.1)**
Finance lease liabilities (Note 8)	Level 3	**(5.5)**	**(5.5)**
		$ (895.1)	**$ (926.6)**

For cash, trade and other receivables, revolving credit facilities, trade payables and accruals, dealer holdback programs and customer deposits, the carrying amounts reported on the condensed consolidated interim statements of financial position or in the notes approximate the fair values of these items due to their short-term nature.