Condensed Consolidated Interim Financial Statements and Notes

Three and Nine Month Periods Ended September 30, 2011 (unaudited)

Consolidated Balance Sheet
Expressed in thousands of Canadian dollars (Unaudited)

	Note	**September 30, 2011 $**	December 31, 2010 $	January 1, 2010 $
			(Note 25)	(Note 25)
Assets				
Current				
Cash	**5**	**30,956**	17,139	8,912
Trade receivables and other	**6**	**33,986**	27,509	24,186
Inventory	**7**	**321,224**	327,739	247,627
Prepaid expenses		**1,383**	1,611	509
		387,549	373,998	281,234
Non-current				
Property, plant and equipment	**8**	**22,205**	20,600	19,343
Goodwill	**9**	**9,961**	8,482	4,316
		32,166	29,082	23,659
		419,715	403,080	304,893
Liabilities				
Current				
Bank indebtedness	**5**	**-**	-	1,947
Trade payables, accruals and other	**10**	**36,967**	29,480	30,825
Floor plan payable	**11**	**202,833**	210,425	158,793
Deferred revenue		**3,142**	337	3,154
Current portion of long-term debt	**12**	**5,609**	6,574	8,545
Current portion of obligations under finance leases	**13**	**1,000**	825	619
		249,551	247,641	203,883
Non-current				
Long-term debt	**12**	**13,063**	13,058	12,968
Obligations under finance leases	**13**	**1,770**	1,387	896
Convertible debentures	**14**	**28,670**	28,411	-
Deferred tax liability		**5,792**	6,707	1,051
Derivative financial instruments	**22**	**972**	-	-
		50,267	49,563	14,915
		299,818	297,204	218,798
Shareholders' Equity				
Common shares	**16**	**79,668**	76,144	70,601
Convertible debentures	**14**	**990**	990	-
Contributed surplus	**16.5**	**3,992**	4,837	3,213
Accumulated other comprehensive income (loss)		**(337)**	-	-
Retained earnings		**35,584**	23,905	12,281
		119,897	105,876	86,095
		419,715	403,080	304,893

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

Consolidated Statement of Changes in Equity
Expressed in thousands of Canadian dollars (Unaudited)

ROCKY MOUNTAIN DEALERSHIPS

	Note	Common shares: Number of shares	Common shares: Amount $	Convertible debentures $	Contributed surplus $	Accumulated other comprehensive income (loss)	Retained earnings $	Total equity $
Balances, January 1, 2010	**25**	17,807	70,601	-	3,213	-	12,281	86,095
Shares issued:								
As consideration for business combinations	**4**	517	4,731					4,731
Upon exercise of stock options	**16.3**	9	58		(19)			39
Share-based payment expense	**16.5**				1,257			1,257
Net earnings							8,555	8,555
Other comprehensive income (loss)								-
Dividends paid	**16.2**						(2,438)	(2,438)
Issuance of convertible debentures	**14**			990				990
Transaction costs			(7)					(7)
Balances, September 30, 2010	**25**	18,333	75,383	990	4,451	-	18,398	99,222
Shares issued:								
As consideration for business combinations	**4**	96	769					769
Repurchased pursuant to normal course issuer bid		(2)	(8)				(7)	(15)
Share-based payment expense					386			386
Net earnings							6,344	6,344
Other comprehensive income (loss)								-
Dividends paid							(830)	(830)
Balances, December 31, 2010	**25**	18,427	76,144	990	4,837	-	23,905	105,876
Shares issued:								
As consideration for business combinations	**4**	139	1,353					1,353
Upon exercise of stock options	**16.3**	212	2,214		(1,620)			594
Repurchased pursuant to normal course issuer bid	**16.1**	(10)	(43)				(50)	(93)
Share-based payment expense	**16.5**				775			775
Net earnings							14,248	14,248
Other comprehensive income (loss)						(337)		(337)
Dividends paid	**16.2**						(2,519)	(2,519)
Balances, September 30, 2011		18,768	79,668	990	3,992	(337)	35,584	119,897

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

Consolidated Statement of Net Earnings
Three and Nine Month Periods Ended
Expressed in thousands of Canadian dollars except per share amounts (Unaudited)

	Note	**September 30, 2011 $**	September 30, 2010 $	**September 30, 2011 $**	September 30, 2010 $
			(Note 25)		(Note 25)
Sales					
New equipment		**90,523**	68,298	**291,221**	212,301
Used equipment		**78,468**	68,694	**187,491**	143,762
Parts		**30,003**	21,164	**69,761**	47,665
Service		**13,807**	11,184	**37,382**	30,498
Other		**1,073**	1,138	**3,517**	2,896
	17	**213,874**	170,478	**589,372**	437,122
Cost of sales		**178,546**	144,434	**495,122**	368,889
Gross profit		**35,328**	26,044	**94,250**	68,233
Expenses					
Selling, general and administrative		**22,944**	18,210	**66,064**	50,199
Interest on short-term debt	**17**	**2,099**	1,725	**6,284**	4,594
Interest on long-term debt		**870**	662	**2,670**	1,121
		25,913	20,597	**75,018**	55,914
Earnings before income taxes		**9,415**	5,447	**19,232**	12,319
Provision for (recovery of) income taxes					
Current		**14**	1,408	**5,880**	1,384
Deferred		**2,280**	337	**(896)**	2,380
		2,294	1,745	**4,984**	3,764
Net earnings		**7,121**	3,702	**14,248**	8,555
Earnings per share					
Basic	**18**	**0.38**	0.20	**0.76**	0.47
Diluted	**18**	**0.34**	0.20	**0.70**	0.47

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

Consolidated Statement of Comprehensive Income (Loss)
Three and Nine Month Periods Ended
Expressed in thousands of Canadian dollars (Unaudited)

	Note	**September 30, 2011** $	September 30, 2010 $	**September 30, 2011** $	September 30, 2010 $
Net earnings		**7,121**	3,702	**14,248**	8,555
Other comprehensive income (loss):					
Gain (loss) on cash flow hedges	**22**	**(337)**	-	**(337)**	-
Total other comprehensive income (loss) for the period, net of tax		**(337)**	-	**(337)**	-
Net earnings and comprehensive income (loss)		**6,784**	3,702	**13,911**	8,555

Items in other comprehensive income are disclosed net of tax.

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

Consolidated Statement of Cash Flows
Three and Nine Month Periods Ended
Expressed in thousands of Canadian dollars (Unaudited)

	Note	**September 30, 2011 $**	September 30, 2010 $	**September 30, 2011 $**	September 30, 2010 $
			(Note 25)		(Note 25)
Operating activities					
Net earnings		**7,121**	3,702	**14,248**	8,555
Adjustments for:					
Depreciation expense	**8**	**1,711**	1,468	**4,736**	3,763
Accretion expense	**14**	**88**	36	**259**	36
Deferred tax expense (recovery)		**2,280**	337	**(896)**	2,380
Share-based payment expense	**16.5**	**264**	402	**775**	1,257
Non-cash impact –credit promissory note		**6**	-	**(26)**	-
Loss (gain) on disposal of property, plant and equipment	**8**	**-**	(76)	**6**	(271)
Loss on derivative financial instruments	**22**	**523**	-	**523**	-
		11,993	5,869	**19,625**	15,720
Changes in non-cash working capital, net of the effect of acquisitions		**2,635**	2	**10,151**	(19,497)
		14,628	5,871	**29,776**	(3,777)
Financing activities					
Repayment of long-term debt		**(1,542)**	(1,793)	**(4,236)**	(6,986)
Proceeds from long-term debt		**-**	-	**3,302**	4,962
Net change in obligations under finance leases		**(116)**	(231)	**558**	587
Dividends paid	**16.2**	**(845)**	(821)	**(2,519)**	(2,438)
Proceeds from issuance of common shares		**-**	-	**594**	39
Proceeds from issuance of convertible debentures, net of transaction costs		**-**	31,500	**-**	31,500
Debt issuance costs			(1,864)		(1,864)
Purchase of shares for cancellation	**16.1**	**(44)**	-	**(93)**	-
		(2,547)	26,791	**(2,394)**	25,800
Investing activities					
Purchase of property, plant and equipment	**8**	**(2,129)**	(689)	**(4,796)**	(3,520)
Disposal of property, plant and equipment	**8**	**349**	722	**522**	2,507
Purchase of equipment dealerships	**4**	**(1,071)**	(3,811)	**(9,291)**	(6,399)
		(2,851)	(3,778)	**(13,565)**	(7,412)
Net increase in cash and cash equivalents		**9,230**	28,884	**13,817**	14,611
Cash and cash equivalents, beginning of period	**5**	**21,726**	(7,308)	**17,139**	6,965
Cash and cash equivalents, end of period	**5**	**30,956**	21,576	**30,956**	21,576
Cash taxes paid (received)		**145**	267	**3,020**	4,041
Cash interest received		**-**	22	**52**	52
Cash interest paid		**3,520**	2,387	**9,505**	3,328

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

1. General information

Rocky Mountain Dealerships Inc. (the "Company") was incorporated under the Business Corporations Act (Alberta). Through its wholly-owned subsidiaries Hammer Equipment Ltd. ("Hammer"), Hi-Way Service Ltd. ("Hi-Way") and Miller Equipment Ltd. ("Miller"), the Company sells, leases and provides support for a wide variety of agriculture and construction equipment in Western Canada. All of the Company's subsidiaries are incorporated in Canada.

During 2010, Hi-Way and Miller established Rocky Mountain Dealer Group Partnership (the "Partnership"), a general partnership into which all assets and liabilities of the two companies were transferred and under which both entities have since operated. The Partnership has a fiscal year end of January 1.

During the nine months ended September 30, 2011 and the year ended December 31, 2010, the Company completed the acquisitions of several equipment dealerships as discussed further in Note 4.

The head office, principal address and registered and records office of the Company are located at Suite 301, 3345 8th Street S.E., Calgary, Alberta, T2G 3A4.

These financial statements were approved by the Company's Board of Directors and authorized for issue on November 9, 2011.

2. Basis of preparation

2.1 Statement of compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company is reporting on this basis in these interim consolidated financial statements. In the financial statements, the term "GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These condensed consolidated interim financial statements are in compliance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 25, the Company has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 25 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The Company has chosen to exceed the minimum disclosure requirements under IAS 34 in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with GAAP.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of November 9, 2011, the date the Board of Directors approved these statements.

2. Basis of preparation (continued)

2.2 Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on January 1, 2011. For the purpose of preparing and presenting the consolidated financial statements for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee (IFRIC) have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- IFRS 7 (Revised) 'Financial Instruments: Disclosures' – Amendments enhancing disclosures about transfers of financial assets [(i)]
- IFRS 9 'Financial Instruments: Classification and Measurement'[(ii)]
- IFRS 10 'Consolidated Financial Statements'[(ii)]
- IFRS 13 'Fair Value Measurement'[(ii)]
- IAS 12 (Revised) 'Income Taxes' – Recovery of underlying assets[(iii)]

(i) Effective for annual periods beginning on or after July 1, 2011
(ii) Effective for annual periods beginning on or after January 1, 2013.
(iii) Effective for annual periods beginning on or after January 1, 2012.

The Company has not early adopted these standards, amendments or interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

2.3 Seasonality of operations

The Company's customers operate in industries that are affected by seasonality. The seasonal nature of customers' businesses affects their demand for the Company's equipment and services. The Company generally experiences a lower volume of equipment sales during the first quarter of the calendar year due to the crop growing season and winter weather making certain types of agricultural and construction work difficult to perform.

3. Summary of significant accounting policies

3.1 Basis of measurement

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

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

3. Summary of significant accounting policies (continued)

3.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries (see Note 1). Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements of the Company from the date control of the subsidiary commences until the date that control ceases. Intercompany transactions and balances are eliminated on consolidation.

3.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred.

Where applicable, the consideration for the acquisition may include any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in fair values of contingent consideration are adjusted against the cost of the acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Changes in the fair value of contingent consideration classified as equity are not recognized.

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

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year. The first business combination to which the Company applied IFRS 3 Business Combinations is Roydale New Holland Inc. as discussed further in Note 4.

3.4 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, highly liquid investments with original maturities of three months or less and bank indebtedness.

3.5 Property, plant and equipment

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

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

3. Summary of significant accounting policies (continued)

3.5 Property, plant and equipment (continued)

Property, plant and equipment are depreciated commencing on the date they are ready for use using the methods and rates as follows:

Land	Not depreciated
Rental assets	Straight-line over 3 – 5 years or unit of usage
Lease equipment	30% declining balance
Buildings	Straight-line over 20 years
Computer equipment	Straight-line over 3 years
Furniture and fixtures	Straight-line over 5 – 10 years
Leasehold improvements	Straight-line over the lesser of the lease term and useful life
Shop tools and equipment	Straight-line over 5 – 10 years
Vehicles	Straight-line over 3 – 5 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in net earnings. Items of property, plant and equipment are tested for impairment as discussed in Note 3.8.

3.6 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.3) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units ("CGUs") (or groups of CGUs) which are expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized in net earnings. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the net earnings on disposal.

3.7 Key sources of estimation uncertainty

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

3. Summary of significant accounting policies (continued)

3.7 Key sources of estimation uncertainty (continued)

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

Balances in these consolidated financial statements that are subject to estimation include the allowance for doubtful accounts (Note 3.19.6), net realizable value of inventory (Notes 3.8 & 3.11), share-based payment expense (Note 3.15), depreciation periods for property, plant and equipment (Note 3.5), the net recoverable values of property, plant and equipment (Note 3.8) and goodwill (Note 3.6), estimates in deferred taxes (Note 3.17), and the fair value of derivative financial instruments (Note 3.20).

3.8 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in net earnings.

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

3.9 Earnings per share

Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if options to purchase common shares were exercised and debentures converted. The treasury stock method is used to determine the dilutive effect of options, whereby any proceeds received by the Company from their exercise are assumed to be used to purchase common shares at the average market price during the period. The convertible debentures are assumed to have been converted into common shares, and net earnings is adjusted to eliminate the interest expense and accretion expense, net of any tax effects.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options is based on quoted market prices for the periods during which the options are outstanding.

3. Summary of significant accounting policies (continued)

3.10 Leases

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as an obligation under finance lease.

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the pattern in which economic benefits from the leased asset are consumed.

3.11 Inventory

Equipment is valued at the lower of cost and net realizable value, with cost being determined on a specific item, actual cost basis, and net realizable value being determined by the recent sales of the same or similar equipment inventory less the costs to sell that item. Parts inventory is recorded at the lower of cost and net realizable value, with cost being determined using average cost and net realizable value being determined by the recent sales of the same or similar parts inventory less the costs to sell the specific parts inventory. Work-in-progress is valued on a specific item, actual cost basis.

3.12 Revenue recognition

Sales are measured at the fair value of the consideration received or receivable.

3.12.1 Sale of goods

Revenue from the sale of goods including new and used equipment and parts is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. Summary of significant accounting policies (continued)

3.12 Revenue recognition (continued)

3.12.2 Rendering of services

Revenue derived from the rendering of a service is recognized when:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

3.12.3 Other revenue

Other revenue consists of commission revenue from finance and insurance recognized when the finance contract is signed; revenue from rentals is recognized on the first day of each month specified in the rental contract on a straight-line basis over the term of the contract; and lease revenue is recognized on a straight-line basis over the term of the lease independent of the timing of the payments received. Prepayment of any lease is initially set up as a deposit and this deposit is reduced on a monthly basis at a rate reflective of the lease contract.

3.13 Deferred revenue

Deferred revenue comprises: 1) equipment sales in which cash has been received but not all terms and conditions have been fulfilled to meet the requirements of revenue recognition; 2) maintenance plans sold to customers in which all services have not yet been provided and 3) manufacturer incentives received by the Company for certain equipment describe in point 1 above. Once title and all risk and rewards of ownership have transferred and/or the service has been provided, revenue will be recognized in the corresponding period.

3.14 Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and the amount of the obligation is reasonably estimable. Provisions are measured at the present value of the Company's best estimate of the expenditure required to settle the obligation at the balance sheet date.

3.15 Share-based transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The Company follows the fair value based method of accounting, using the Black-Scholes option pricing model, whereby compensation expense is recognized over the vesting period and is based on the Company's estimate of awards that will ultimately vest, with a corresponding increase to contributed surplus. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 16.3.

No share-based payment expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

3. Summary of significant accounting policies (continued)

3.15 Share-based transactions (continued)

The dilutive effect of outstanding options is reflected as additional dilution in the computation of diluted earnings per share.

Cash-settled share-based payments are recorded as liabilities and are measured initially at their fair values. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net earnings for the period. Details regarding the determination of the fair value of cash-settled share-based payments are set out in Note 16.6.

3.16 Employee Share Ownership Plan

The Company has an Employee Share Ownership Plan (“ESOP”). Under the ESOP, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Company matches the employee contribution amount to a maximum of $5 per annum. Senior management, approved consultants and non-employee Directors may contribute an amount agreed to by the Company. The Company’s contributions vest to the employee on December 31 of the contribution year and are expensed as incurred.

ESOP shares are purchased on the open market. The weighted average unvested shares held in the ESOP during the period are excluded from the earnings per share calculations as they are not considered to be outstanding. Dividends paid on the Company’s common shares held for the ESOP are used to purchase additional common shares on the open market.

3.17 Income taxes

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

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

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current tax and deferred tax are recognized in net earnings except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

3. Summary of significant accounting policies (continued)

3.18 Foreign currency translation

The individual financial statements of each subsidiary of the Company that are consolidated into these financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The functional currency of the Company and all of its wholly-owned subsidiaries is the Canadian dollar. For the purposes of the consolidated financial statements, the results and financial position of each entity are expressed in Canadian dollars, which is the presentation currency for the consolidated financial statements.

In preparing the consolidated financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities, if any, that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

3.19 Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument.

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

3.19.1 Classification of financial instruments

Financial instruments are classified in to the following specified categories: financial assets at FVTPL, held-to-maturity investments, available-for-sale ("AFS") financial assets, loans and receivables, financial liabilities at FVTPL and other financial liabilities. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

3.19.2 Effective interest method

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

Income is recognized on an effective interest rate basis for debt instruments other than those financial assets classified as at FVTPL.

3.19.3 Financial instruments at FVTPL

Financial instruments are classified as at FVTPL when the instrument is either held for trading or it is designated as at FVTPL.

3. Summary of significant accounting policies (continued)

3.19 Financial instruments (continued)

3.19.3 Financial instruments at FVTPL (continued)

A financial asset (liability) is classified as held for trading if:
- it has been acquired principally for the purpose of selling (repurchasing) it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial instrument other than a financial instrument held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net earnings. The net gain or loss recognised in net earnings incorporates any dividends or interest earned on the financial asset and is included in selling, general and administrative expense. Fair value is determined in the manner described in Note 21.

3.19.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

The Company has classified its cash and cash equivalents and trade receivables and other as loans and receivables.

3.19.5 Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company has classified its trade payables, accruals and other (with the exception of DSUs), floor plan payable, long-term debt, obligations under finance leases and convertible debentures as other financial liabilities.

3.19.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. For financial assets carried at amortized cost, the amount of the impairment loss, if any, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. As indicated above, the Company's financial assets carried at amortized cost consist only of cash and cash equivalents and trade receivables and other. Any impairment determined on trade receivables and other reduces their carrying amount through the use of an allowance account and is recorded when an account is considered uncollectible. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the carrying amount of the allowance are recognized in selling, general and administrative expenses.

3. Summary of significant accounting policies (continued)

3.19 Financial instruments (continued)

3.19.7 Derecognition of financial instruments

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

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

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

3.19.8 Classification as debt or equity

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

3.19.9 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchases of the Company's own equity instruments are recognized and deducted directly in equity. No gain or loss is recognized in net earnings on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3.19.10 Compound financial instruments

The Company has issued convertible debentures (the "Debentures") that are compound financial instruments. The Debentures can be converted to common shares at the option of the holder. The number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

The deferred tax liability associated with the liability component of the Debentures is charged to the equity component upon initial recognition.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in net earnings. Distributions to shareholders are recognized in equity, net of any tax benefit.

3.20 Derivative financial instruments and hedging activities

Derivatives are initially recognized on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company may designate derivatives of a particular risk associated with a recognized asset or liability or highly probable forecast transaction as cash flow hedges.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The documentation identifies the anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in accomplishing the objective of offsetting changes in anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated, or upon early settlement of the hedged item.

Where hedge accounting can be applied, a hedge relationship is designated and documented at inception to detail the particular risk management objective and the strategy for undertaking the hedge transaction.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recognized in other comprehensive income while the ineffective portion is recognized in long-term interest in the consolidated statement of net earnings. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. Amounts accumulated in accumulated other comprehensive income (loss) are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

Gains or losses on derivatives not designated as hedges are recognized in the consolidated statement of net earnings.

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

The Company predominantly uses interest rate swaps to hedge the variability in cash flows related to variable rate debt. The Company does not have any fair value hedges or net investment hedges.

3.21 Prior year comparative information

The Company has extended its definition of cash and cash equivalents to include bank indebtedness and as such, certain comparative amounts have been reclassified to conform to current period presentation.

4. Acquisitions

During the nine months ended September 30, 2011 and the year ended December 31, 2010, the Company completed several business acquisitions. Over time, these acquisitions offer synergies in the forms of cost reduction, greater access to inventory and expanded territory for sales and product support. Acquisitions completed during these periods are as follows:

J&B Equipment Ltd.

On April 1, 2011, the Company acquired 100% of the outstanding common shares of J&B Equipment Ltd. ("J&B"), a Case IH dealer. The operating results of the business acquired are consolidated from April 1, 2011, the acquisition's closing date.

Agritrac Equipment Ltd.

On January 1, 2011, the Company acquired certain assets of Agritrac Equipment Ltd. ("Agritrac"), a Case IH dealer. The operating results of the business acquired are consolidated from January 1, 2011, the acquisition's closing date.

K&M Equipment Ltd.

On October 15, 2010, the Company acquired 100% of the outstanding common shares of K&M Equipment Ltd. ("K&M"), a New Holland Agriculture dealer. The operating results of the business acquired are consolidated from October 15, 2010, the acquisition's closing date.

Gateway Farm Equipment Ltd.

On September 1, 2010, the Company acquired 100% of the outstanding common shares of Gateway Farm Equipment Ltd. ("Gateway"), a Case IH dealer. The operating results of the business acquired are consolidated from September 1, 2010, the acquisition's closing date.

Allen's Agrocentre Ltd.

On September 1, 2010, the Company acquired 100% of the outstanding common shares of the holding company that owned certain business assets of Allen's Agrocentre Ltd. ("Allen's"), a Case IH dealer. The operating results of the business acquired are consolidated from September 1, 2010, the acquisition's closing date.

Wardale Equipment (1998) Ltd.

On June 1, 2010, the Company acquired certain assets of Wardale Equipment (1998) Ltd. ("Wardale"), a Case IH dealer. The operating results of the business acquired are consolidated from June 1, 2010, the acquisition's closing date.

Roydale New Holland Inc.

On March 1, 2010, the Company acquired 100% of the outstanding common shares of Roydale New Holland Inc. ("Roydale NH"), a New Holland dealer. The operating results of the business acquired are consolidated from March 1, 2010, the acquisition's closing date.

4. Acquisitions (continued)

The business combinations completed during the nine months ended September 30, 2011 as well as during the year ended December 31, 2010 are summarized as follows:

Expressed in thousands of dollars except shares issued

	Acquisitions effected in							
	2011		2010					
	J&B	Agritrac	K&M	Gateway	Allen's	Wardale	Roydale NH	Total
Purchase Price Allocation								
Cash consideration	3,205	4,516	2,947	1,515	2,607	3,053	1,466	19,309
Number of shares issued	84	55	96	55	20	293	149	752
Share price	10.26	8.90	7.97	8.42	8.42	8.90	10.06	9.11
Total share consideration	863	490	769	463	168	2,605	1,495	6,853
Purchase consideration	4,068	5,006	3,716	1,978	2,775	5,658	2,961	26,162
Net working capital								
Cash	771	-	8	80	-	-	26	885
Trade receivables and other								
- Gross contractual amount	100	-	715	373	-	322	32	1,542
- Not expected to be collected	-	-	26	-	-	33	-	59
- Acquisition date fair value	100	-	689	373	-	289	32	1,483
Prepaids	-	36	-	9	-	-	16	61
Inventory	7,781	9,780	9,112	5,854	2,186	11,163	2,183	48,059
Bank indebtedness	-	-	(559)	-	-	-	-	(559)
Trade payables, accruals and other	(590)	-	(790)	(210)	-	(1,460)	(527)	(3,577)
Floor plan payable	(5,836)	(6,093)	(6,054)	(4,791)	(201)	(6,279)	(485)	(29,739)
Deferred revenue	-	-	-	(71)	-	-	(5)	(76)
	2,226	3,723	2,406	1,244	1,985	3,713	1,240	16,537
Net working capital adjustments	17	(287)	(214)	(47)	-	(1,034)	(74)	(1,639)
Property, plant and equipment	600	1,467	721	528	788	1,500	600	6,204
Deferred taxes	(95)	-	(77)	(83)	-	-	(129)	(384)
Goodwill(1)	1,320	103	880	336	2	1,479	1,324	5,444
Net assets acquired	4,068	5,006	3,716	1,978	2,775	5,658	2,961	26,162

(1) – Goodwill arose in these acquisitions due to the future revenue growth and synergies expected to occur. These amounts are not recognized separately as they do not meet the recognition criteria for identifiable intangible assets. Goodwill recognized on initial measurement is not deductible for tax purposes.

4. Acquisitions (continued)

	Acquisitions effected in							
	2011		2010					
	J&B	Agritrac	K&M	Gateway	Allen's	Wardale	Roydale NH	Total
Supplemental Acquisition Information								
Cash consideration paid (net of cash acquired)								
- during the nine months ended September 30, 2011	2,434	4,516	797	359	-	1,185	-	9,291
- during the year ended December 31, 2010	-	-	2,142	1,076	2,607	1,868	1,440	9,133
Acquisition related costs(2):								
- incurred during 2011	13	17	-	-	-	-	-	30
- incurred during 2010	-	67	32	35	111	63	36	344
2011 period ended results:								
- revenue	8,670	38,749	16,804	6,176	7,557	39,783	19,365	137,104
- net earnings	477	602	347	24	212	1,067	518	3,247
2010 period ended results:								
- revenue	-	-	-	850	231	11,865	14,309	27,255
- net earnings	-	-	-	113	8	668	193	982

(2) – Acquisition related costs incurred have been included in selling, general and administrative expenses in the period in which they are incurred.

Had the business combinations occurring during the period been effected at January 1 of the acquisition year, the Company estimates that consolidated revenue and net earnings for the nine months ended September 30, 2011 would have been $613,648 and $15,584 respectively (2010 - $501,725 and $8,732).

In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1 of the acquisition year.

5. Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks, net of outstanding bank indebtedness as follows:

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash	**30,956**	17,139	8,912
Bank indebtedness	**-**	-	(1,947)
Cash and cash equivalents	**30,956**	17,139	6,965

The Company had a revolving operating credit facility to a maximum of $22,000 with HSBC which bore interest ranging from HSBC's prime rate plus 0.5% to 1.5%. This facility was closed during 2011, and therefore had a $Nil balance at September 30, 2011 (December 31, 2010 - $Nil, January 1, 2010 - $Nil). The effective interest rate at December 31, 2010 was 3.5% and at January 1, 2010 was 2.8%. Indebtedness on this facility was secured by a general security agreement in favor of HSBC that was subject to various priority agreements that covered the Company's receivables and the non-CNH parts inventory.

On May 31, 2011 the Company entered into a credit agreement (the "Credit Agreement") with a syndicated group of lenders, which provided, among other financing commitments, a $30,000 facility to fund working capital requirements (the "Operating Facility"). Advances under the Operating Facility may be made based on HSBC's prime rate or the US base rate plus 1.3% - 2.8% or based on the banker's acceptance rate plus 2.5% - 4.0%. As at September 30, 2011, $Nil was drawn on this facility and the effective interest rate was 4.3%.

The Company had an additional working capital line of $7,000 through Vanguard Credit Union Ltd. which bore interest at the credit union's prime rate plus 1.0%. The balance drawn at January 1, 2010 was $1,947 and the effective interest rate was 3.3%. During the year ended December 31, 2010, this facility was closed.

6. Trade receivables and other

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade receivables			
Current	**27,185**	23,624	18,445
Aged between 61 – 120 days	**3,076**	953	2,548
Aged greater than 120 days	**2,372**	2,246	1,747
	32,633	26,823	22,740
Allowance for doubtful accounts	**(1,321)**	(965)	(1,034)
Net trade receivables	**31,312**	25,858	21,706
Warranty receivables	**2,674**	1,651	2,480
	33,986	27,509	24,186

Included in trade receivables and other at September 30, 2011 is current tax receivable of $278 (December 31, 2010 - $Nil, January 1, 2010 - $Nil).

6. Trade receivables and other (continued)

The allowance for doubtful accounts can be reconciled as follows:

	$
As at January 1, 2010	1,034
Provided for during the year	593
Write-offs in the year	(662)
As at December 31, 2010	965
Provided for during the period	633
Write-offs in the period	(277)
As at September 30, 2011	1,321

7. Inventory

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
New equipment	**162,980**	157,393	121,830
Used equipment	**125,771**	142,729	102,684
Parts	**29,855**	26,512	22,469
Work-in-progress	**2,618**	1,105	644
	321,224	327,739	247,627

For the three and nine months ended September 30, 2011, new and used equipment, parts and work-in-progress recognized as an expense amounted to $178,000 and $494,085 (2010 - $144,105 and $368,300), respectively, which is included in cost of sales in the consolidated statement of net earnings. For the three and nine months ended September 30, 2011, there were write downs of $496 and $1,359, respectively, of inventory to net realizable value (2010 - $Nil and $115) and there have been $Nil and $Nil reversals of previously recorded inventory write downs for the three and nine months ended September 30, 2011 (2010 - $Nil and $Nil) in the consolidated statements of net earnings. Most inventory has been pledged as security for liabilities as disclosed in Notes 5, 11 and 12.

8. Property, plant and equipment

	Land $	Rental assets $	Lease equipment $	Buildings $	Computer equipment $	Furniture and fixtures $	Leasehold improve-ments $	Shop tools and equipment $	Vehicles $	Total $
Cost										
As at January 1, 2010	2,252	9,447	3,551	373	1,185	986	917	3,458	6,652	28,821
Additions	-	253	-	-	1,307	119	676	503	1,858	4,716
Acquired through business combinations	-	-	-	-	477	783	31	1,369	1,477	4,137
Disposals	-	(1,726)	(2,625)	-	(4)	(4)	(31)	(83)	(169)	(4,642)
As at December 31, 2010	2,252	7,974	926	373	2,965	1,884	1,593	5,247	9,818	33,032
Additions	-	1,179	-	-	362	185	582	209	2,279	4,796
Acquired through business combinations	-	-	-	-	162	208	60	1,023	614	2,067
Disposals	-	-	(926)	-	(14)	(1)	-	(73)	(515)	(1,529)
As at September 30, 2011	2,252	9,153	-	373	3,475	2,276	2,235	6,406	12,196	38,366
Accumulated depreciation										
As at January 1, 2010	-	2,048	2,432	84	554	338	169	1,018	2,835	9,478
Depreciation charge for the year	-	806	31	49	558	324	152	1,016	2,344	5,280
Eliminated on disposals	-	(503)	(1,701)	-	-	-	(1)	(2)	(119)	(2,326)
As at December 31, 2010	-	2,351	762	133	1,112	662	320	2,032	5,060	12,432
Depreciation charge for the period	-	1,038	-	35	614	314	232	880	1,623	4,736
Eliminated on disposals	-	-	(762)	-	-	-	-	(65)	(180)	(1,007)
As at September 30, 2011	-	3,389	-	168	1,726	976	552	2,847	6,503	16,161
Net book value										
As at January 1, 2010	2,252	7,399	1,119	289	631	648	748	2,440	3,817	19,343
As at December 31, 2010	2,252	5,623	164	240	1,853	1,222	1,273	3,215	4,758	20,600
As at September 30, 2011	2,252	5,764	-	205	1,749	1,300	1,683	3,559	5,693	22,205

Included in selling general and administrative expenses for the three and nine month periods ended September 30, 2011 are depreciation expenses aggregating $1,165 and $3,699 (2010 - $1,139 and $3,174) and a loss on the disposal of property, plant and equipment ("PP&E") of $Nil and $6 (2010 – $76 gain and $271 gain), respectively. Included in cost of sales for the three and nine month periods ended September 30, 2011 are depreciation expense aggregating $546 and $1,037 (2010 - $325 and $559) for rental assets and $Nil and $Nil (2010 - $4 and $30) for leased equipment.

As at September 30, 2011, assets under finance leases included in computer equipment and vehicles, have a cost of $808 (December 31, 2010 - $808, January 1, 2010 - $258) and $3,846 (December 31, 2010 - $2,864, January 1, 2010 - $1,899), and accumulated depreciation of $480 (December 31, 2010 - $278, January 1, 2010 - $50) and $1,211 (December 31, 2010 - $758, January 1, 2010 - $512), respectively. Certain items of PP&E have been pledged as security for liabilities as disclosed in Note 12.

9. Goodwill

	Cost $	Accumulated Impairment Losses $	Carrying Amount $
As at January 1, 2010	4,316	-	4,316
Recognized on business combinations occurring during the year (Note 4)	3,965	-	3,965
Adjustments to goodwill on prior period acquisitions			
Liabilities arising from prior period acquisitions	103	-	103
Fair value adjustment to working capital acquired	98	-	98
As at December 31, 2010	8,482	-	8,482
Recognized on business combinations occurring during the period (Note 4)	1,423	-	1,423
Adjustments to goodwill on prior period acquisitions			
Fair value adjustment to working capital acquired	56	-	56
As at September 30, 2011	9,961	-	9,961

Goodwill acquired in a business combination is allocated, at the time of acquisition, to the Company's cash generating units ("CGUs") that are expected to benefit from that business combination. The CGUs have been defined as the operating businesses to which the goodwill relates.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, gross margin and expected changes to selling prices and direct costs during the period. The key assumptions are based on past experience which has been adjusted for expected changes in future conditions.

As at January 1, and December 31, 2010 the Company prepared cash flow forecasts derived from the most recent financial plans prepared by management for the next five years and extrapolated these cash flows into perpetuity using growth assumptions relevant to the business sector.The growth rate used for the purposes of these analyses was 2.0%.

At January 1 and December 31, 2010, the rates used to discount the forecast cash flows for all CGUs were 14.3% and 12.6%, respectively, and represent the Company's estimate of the pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the CGUs.

The recoverable amount for each CGU exceeded its carrying value at the impairment test dates. The Company has conducted sensitivity analysis based on reasonably possible changes in the key assumptions used for the impairment tests. This has not resulted in any impairment of the carrying value of goodwill as at January 1, or December 31, 2010. As at September 30, 2011, there was no indication that the CGUs to which goodwill has been allocated may be impaired, thus no impairment test was required.

10. Trade payables, accruals and other

	September 30, 2011 **$**	December 31, 2010 $	January 1, 2010 $
Trade payables and accruals	**32,523**	28,198	26,809
Current tax payable	**4,180**	1,102	4,016
Directors' share units (Note 16.6)	**264**	180	-
	36,967	29,480	30,825

11. Floor plan payable

The floor plan payable is due to various creditors who have extended wholesale credit, and is due on various dates, at fixed or variable interest rates ranging from 0.0% to the bank's prime rate plus 4.9%. At September 30, 2011, the Company had approximately $297,000 of floor plan financing available. The amounts due are secured by certain of the Company's new and used equipment inventories and are due when the equipment is sold or transferred, up to a maximum term of 48 months. At September 30, 2011, the Company had $5,775 of floor plan outstanding in US currency (December 31, 2010 - $2,816, January 1, 2010 - $1,510). The entire amount of floor plan payable has been classified as current, as the corresponding inventory to which it relates has also been classified as current.

Pursuant to agreements with lenders, the Company is required to monitor and report certain non-IFRS measures including: current ratio, funded debt to EBITDA, fixed coverage change ratio and debt to tangible net worth (each lender has its own definition of which account balances are to be included in these computations). As at January 1, 2010, December 31, 2010 and September 30, 2011, the Company was in compliance with all externally imposed capital requirements.

12. Long-term debt

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Bankers acceptance rate plus 5.7% to the bank's prime rate plus 4.9% payable on rental assets to various vendors, in monthly principal instalments based on rents earned and secured by related equipment. The interest rates at September 30, 2011 ranged from 6.8% to 7.9% (December 31, 2010 – 6.8% to 7.9%, January 1, 2010 – 6.0% to 8.3%).	**1,119**	1,410	4,254
Mortgage payable with payments due monthly (December 31, 2010 and January 1, 2010 – interest only payments) at the bank's prime rate plus 1.8% and secured by the specific property. The effective interest rate at September 30, 2011 was 4.8% (December 31, 2010 – 4.8%, January 1, 2010 – 4.0%).	**776**	875	875
Non-interest bearing credit promissory note payable in monthly principal instalments, secured by certain items of parts inventory.	**995**	-	1,339
Acquisition loan payable in equal monthly principal instalments over 60 months, plus interest from bankers' acceptance rate plus 2.5% to the US Base rate plus 2.8%, and secured by all real property owned and subsequently acquired. The available limit is $30,000. The effective interest rate at September 30, 2011 was 3.6% (December 31, 2010 – 5.0%, January 1, 2010 – 3.8%).	**15,291**	16,303	12,193
HSBC dealer leasing loans comprised of individual contracts with individual interest rates that are either floating at prime plus 0.4% or fixed based on the bank's daily fixed rate for the particular length of the individual contract. Contracts are secured by all real property owned and subsequently acquired and individual payment terms are up to five years from the time each contract is initiated. The effective interest rate at September 30, 2011 was 6.7% (December 31, 2010 – 6.7%, January 1, 2010 - 5.6%)	**211**	600	2,575
Contracts with various financial institutions repayable in monthly instalments ranging from $1 to $13, plus interest ranging from 0.6% to 3.3%, secured by various motor vehicles and computer equipment, due between November 2012 and February 2013.	**280**	444	277
	18,672	19,632	21,513
Less current portion	**(5,609)**	(6,574)	(8,545)
	13,063	13,058	12,968

12. Long-term debt (continued)

Principal payments due are as follows:

	$
Remainder of 2011	**1,986**
2012	**4,786**
2013	**3,981**
2014	**3,277**
2015	**3,277**
Thereafter	**1,365**
	18,672

13. Obligations under finance leases

13.1 Leasing arrangements

Finance leases relate primarily to vehicles with lease terms ranging from 3 to 5 years. The Company has options to purchase many of these vehicles for a nominal amount at the conclusion of the lease agreements. The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rates underlying all obligations under finance leases are fixed at the respective contract dates ranging from 4.2% to 10.2% (December 31, 2010 – 4.2% - 10.1%, January 1, 2010 – 4.2% - 10.2%).

13.2 Finance lease liabilities

Future minimum payments under finance leases along with the balance of the obligations under finance leases are as follows:

	Minimum Lease Payments			Present Value of Minimum Lease Payments		
	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $	**September 30, 2011 $**	December 31, 2010 $	January 1, 2010 $
Minimum lease payments due:						
Not later than one year	**1,160**	943	695	**1,000**	825	619
Later than one year and not later than five years	**1,887**	1,459	998	**1,770**	1,387	896
Later than five years	**-**	-	-	**-**	-	-
	3,047	2,402	1,693	**2,770**	2,212	1,515
Less future finance charges	**(277)**	(190)	(178)	**-**	-	-
Present value of obligations under finance leases	**2,770**	2,212	1,515	**2,770**	2,212	1,515

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Included in the financial statements as:			
Current portion of obligations under finance leases	**1,000**	825	619
Obligations under finance leases	**1,770**	1,387	896

13.3 Fair value of obligations under finance leases

The fair values of the obligations under finance leases approximate their carrying amounts as interest rates are consistent with market rates for similar debt.

14. Convertible debentures

On July 27, 2010, the Company completed a $31,500 bought deal financing arrangement where a syndicate of underwriters agreed to buy 31.5 thousand convertible unsecured subordinated debentures (the "Debentures") of the Company at a price of $1 thousand per Debenture.

The Debentures are direct, unsecured obligations of the Company, subordinated to other indebtedness of the Company and ranking equally with all other unsecured subordinated indebtedness.

The Debentures will mature on September 30, 2017 and will accrue interest at 7.0% per annum, payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2010. At the holder's option, the Debentures may be converted into common shares of the Company at any time on the earlier of maturity and the business day immediately preceding the date fixed for redemption at a conversion price of $10.65 per share.

The debentures will not be redeemable prior to September 30, 2014. On or after September 30, 2014 and prior to September 30, 2015, the Debentures may be redeemed in whole or in part at the option of the Company on not more than ninety days and not less than thirty days prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the market price of the Company's shares traded on the Toronto Stock Exchange on the date on which the notice of redemption is given is not less than 125.0% of the conversion price. On or after September 30, 2015 and prior to the maturity date, the Debentures may be redeemed in whole or in part at the option of the Company on not more than ninety days and not less than thirty days prior notice at a price equal to their principal amount plus accrued and unpaid interest.

On issuance, the Company allocated $28,293 to the liability component and $990 to the equity component (net of the deferred tax liability of $353). The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the $31,500 face value using the estimated effective interest rate of 9.3%. Accretion relating to the convertible debentures totalled $88 and $259 for the three and nine month periods ended September 30, 2011 (2010 - $36 and $36), respectively, and is included in interest on long-term debt.

	Debt $	Equity $
As at July 27, 2010	28,293	990
Accretion expense – 2010	118	-
As at December 31, 2010	28,411	990
Accretion expense – 2011	259	-
As at September 30, 2011	28,670	990

15. Contingency and guarantee

The Company is subject to various degrees of recourse, arising in the ordinary course of business, by assisting its customers in financing the sale of equipment. The Company is exposed to potential losses arising from the difference between the assessed value of the underlying security and the loan balance, if certain customers default on their loan. Any resulting losses are recorded as soon as the amount of the loss can be reasonably estimated. It is management's opinion that there is an insignificant risk of loss from this guarantee, as the assessed value of the underlying security generally exceeds the loan balance. Accordingly, management believes the fair value of the guarantee is not significant.

16. Share capital

16.1 Common shares

Authorized : Unlimited common shares with no par value

Issued and outstanding (in thousands) : 18,768 (December 31, 2010 – 18,427, January 1, 2010 – 17,807)

All issued and outstanding shares were fully paid at September 30, 2011, December 31, 2010 and January 1, 2010.

Normal Course Issuer Bid

On September 29, 2010, the Company received final acceptance from the Toronto Stock Exchange to implement a normal course issuer bid ("NCIB") to purchase existing common shares.

Under the NCIB program the Company had the ability to repurchase up to a maximum of 1,153 common shares, which represented ten percent of its 11,530 outstanding public float of common shares as of September 29, 2010. The maximum daily purchases under the NCIB could not exceed 9 common shares of the Company. The NCIB began on October 1, 2010 and ended on September 30, 2011. All purchases pursuant to the NCIB were made through the facilities of the Toronto Stock Exchange and all shares purchased under the NCIB were cancelled. During the three and nine months ended September 30, 2011, the Company purchased 5 and 10 (2010 – Nil and Nil) shares under the NCIB, respectively. Of the amounts paid, $21 and $43 was charged to common shares and $23 and $50 was charged to retained earnings for the three and nine months ended September 30, 2011, respectively (2010 – $Nil and $Nil; $Nil and $Nil).

Subsequent to period end, the Company received acceptance from the Toronto Stock Exchange to renew its normal course issuer bid (“Renewed NCIB”). The Renewed NCIB gives the Company the ability to repurchase up to a maximum of 938 outstanding common shares beginning on October 24, 2011 and will expire on the earlier date of when the Company has purchased the maximum allowable number of shares, provides notice of termination, or on October 23, 2012. The maximum daily purchases under the NCIB cannot exceed 8 common shares of the Company.

16.2 Dividends paid

During the three and nine month periods ended September 30, 2011, quarterly dividends of $0.045 per share for a total of $845 and $2,519 were declared and paid by the Company (2010 – $0.045 per share per quarter for a total of $821 and $2,438).

In respect of the current period, the Board of Directors propose that a dividend be paid to shareholders on December 30, 2011. This dividend is subject to approval by the Board of Directors and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on record at close of business on November 30, 2011. The total estimated dividend to be paid is $0.045 per common share. The payment of this dividend will not have any tax consequences for the Company.

16.3 Stock options

The Company has a stock option plan under which the Board of Directors may grant options to directors, officers, and employees of the Company at an exercise price equal to the market price of the Company’s common shares at the time of the grant. The plan is limited to 10% of the issued and outstanding common shares. Options granted carry neither voting rights nor rights to dividends.

16. Share capital (continued)

16.3 Stock options (continued)

The general terms of stock options granted under the plan include a maximum exercise period of 5 years and a vesting period of 3 years with one-third of the grant vesting on the first anniversary of the grant, one-third vesting on the second anniversary of the grant and one-third vesting on the third anniversary of the grant.

During the three and nine month periods ended September 30, 2011, the Company granted 190 and 315 options (2010 – Nil and Nil).

The fair value of the options granted using the Black-Scholes option pricing model and assumptions used in their determination during the three and nine months ended September 30, 2011 and 2010 are as follows:

	Three months ended September 30		**Nine months ended September 30**	
	2011	2010	**2011**	2010
Weighted average risk free interest rate	**1.9%**	-	**2.1%**	-
Weighted average expected option life	**4.5 years**	-	**4.5 years**	-
Weighted average expected volatility (1)	**59.0%**	-	**60.5%**	-
Weighted average expected annual dividend per share	**$0.18**	-	**$0.18**	-
Weighted average exercise price	**$8.71**	-	**$9.38**	-
Weighted average share price on date of grant	**$8.71**	-	**$9.38**	-
Weighted average fair value	**$3.73**	-	**$4.17**	-

(1)Expected volatility has been based on historical volatility of the Company's publicly traded shares

The reconciliation of options outstanding as at September 30 is as follows:

	2011		2010	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Opening balance, January 1	**1,074**	**9.39**	1,153	9.43
Granted	**315**	**9.38**	-	-
Exercised	**(212)**	**2.80**	(9)	4.15
Forfeited	**(252)**	**8.99**	(56)	10.95
Expired	**-**	**-**	-	-
Closing balance, September 30	**925**	**11.00**	1,088	9.40

The weighted average share price at the date of exercise for the options exercised during the nine months ended September 30, 2011 was $10.13 (2010 –$9.80).

16. Share capital (continued)

16.3 Stock options (continued)

The options outstanding at September 30, 2011 are as follows:

Date granted	Number of options outstanding	Number of options exercisable	Weighted average exercise price ($)	Expiry date	Weighted average contractual life
December 20, 2007	56	56	10.00	December 20, 2012	1.2
February 29, 2008	387	387	12.40	February 28, 2013	1.4
March 12, 2009	41	21	4.15	March 12, 2014	2.4
December 29, 2009	176	48	9.22	December 29, 2014	3.2
March 11, 2011	75	-	10.39	March 11, 2016	4.4
August, 11, 2011	190	-	8.71	August, 11, 2016	4.9
	925	512	11.00		2.8

16.4 Restricted share unit plan

In 2007, the Company reserved 158 shares under a restricted share unit plan. Under this plan, certain key employees will receive treasury shares in the Company on December 20, 2012 should they remain with the Company at that time. During the three and nine months ended September 30, 2011, Nil and 8 of these units were forfeited (2010 – 3 and 14). The aggregated fair value of the remaining 122 shares (December 31, 2010 – 129, January 1, 2010 – 145) at September 30, 2011 is $1,215 (December 31, 2010 - $1,290, January 1, 2010 - $1,445). These shares were valued upon issuance, using the Black-Scholes option pricing model, at a fair value of $10, and the compensation expense is allocated over the vesting term of five years.

16.5 Contributed surplus

During the three and nine months ended September 30, 2011, the Company recorded share-based payment expense in the consolidated statement of net earnings under selling, general and administrative expenses.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
	$	$	**$**	$
Contributed surplus, beginning	**3,728**	4,049	**4,837**	3,213
Share-based payment expense	**264**	402	**775**	1,257
Exercise of options	**-**	-	**(1,620)**	(19)
Contributed surplus, ending	**3,992**	4,451	**3,992**	4,451

16.6 Directors' Share Units

During 2010, the Company instituted a Directors' Share Unit plan ("DSU"). Under this plan, the Board of Directors may grant DSUs to non-officer Directors of the Company as they determine to be appropriate for their services rendered to the Company. The DSUs are notional grants of shares and are to be settled in cash within 30 days of a Director's termination date. Additional DSUs are credited to the Directors' accounts when cash dividends are paid to the common shareholders of the Company. Such amount of additional DSUs is determined by dividing the dividends which would have been paid on the DSUs had they been common shares of the Company by the volume weighted average trading price of the Company's shares over the 20 day trading period immediately preceding the date the dividends are paid.

16. Share capital (continued)

16.6 Directors' Share Units (continued)

Upon redemption and at each reporting period, the DSUs will be valued on a per DSU basis at an amount equal to the volume weighted average trading price of the Company's shares over the immediately preceding 20 day trading period. Upon redemption, the DSUs will be settled in cash. At September 30, 2011, $264 was included in trade payables, accruals and other with respect to the DSUs (December 31, 2010 – $180, January 1, 2010 - $Nil). During the three and nine months ended September 30, 2011, Nil and 6 DSU's were redeemed (2010 – Nil and Nil) in cash for proceeds of $Nil and $60 (2010 – $Nil and $Nil).

DSUs granted and redeemed and the unrealized losses (gains) recognized on the DSUs during the nine months ended September 30 are as follows:

	2011		2010	
	DSUs	**$**	DSUs	$
Opening balance, January 1	**20**	**180**	-	-
Granted during the period[1]	**14**	**146**	15	133
Redeemed during the period	**(6)**	**(60)**	-	-
Loss (gain) on mark to market revaluation[1]	**-**	**(2)**	-	(7)
Closing balance, September 30	**28**	**264**	15	126

(1) – Included in selling, general and administrative expenses

16.7 Employee Share Ownership Plan

During the three and nine months ended September 30, 2011, the Company recognized $208 and $644 (2010 - $195 and $470) in selling, general and administrative expenses in respect of employee contributions to the ESOP plan which were matched by the Company.

17. Sales

The following is an analysis of the Company's sales for the three and nine months ended September 30.

	2011 **$**	2010 $	**2011** **$**	2010 $
Sale of goods	**198,994**	158,156	**548,473**	403,728
Rendering of services	**14,880**	12,322	**40,899**	33,394
Total sales	**213,874**	170,478	**589,372**	437,122

During the three and nine months ended September 30, 2011, the Company earned interest income of $Nil and $52, respectively (2010 - $22 and $74). Interest income earned has been included in the consolidated statement of net earnings as a reduction to interest on short-term debt.

18. Earnings per share

For the nine months ended September 30, 2011, 820 options were anti-dilutive (2010 – 915).

The earnings used in the calculations of basic and diluted earnings per share for the three and nine months ended September 30 are as follows.

	Three months ended		Nine months ended	
	2011 **$**	2010 $	**2011** **$**	2010 $
Earnings used in the calculation of basic earnings per share	**7,121**	3,702	**14,248**	8,555
After tax effect of interest on convertible debentures	**496**	308	**1,471**	308
Earnings used in the calculation of diluted earnings per share	**7,617**	4,010	**15,719**	8,863

The weighted average number of ordinary shares used in the calculations of basic and diluted earnings per share for the three and nine months ended September 30, are as follows.

	Three months ended		Nine months ended	
	2011 **$**	2010 $	**2011** **$**	2010 $
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**18,722**	18,283	**18,628**	18,067
Shares assumed issued on the exercise of stock options	**163**	334	**163**	340
Shares assumed repurchased from proceeds on exercise of stock options	**(54)**	(156)	**(58)**	(167)
Share assumed issued on the conversion of convertible debentures	**3,725**	2,089	**3,725**	704
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**22,556**	20,550	**22,458**	18,944

At September 30, 2011, 884 options outstanding (2010 – 885) had an exercise price in excess of the period end closing share price of $8.86 (2010 - $7.85).

19. Operating lease arrangements

19.1 Leasing arrangements

Operating leases relate to the Company's buildings and certain vehicles with lease terms of between 3 and 10 years. All building leases contain 5-year renewal options. During the three and nine months ended September 30, 2011, the Company recognized $1,879 and $5,559 of operating lease payments as expenses (2010 - $1,513 and $4,178).

19. Operating lease arrangements (continued)

19.2 Non-cancellable operating lease commitments

Non-cancellable operating lease commitments are due as follows:

	September 30, 2011 **$**	December 31, 2010 $
Not later than one year	**7,381**	6,388
Later than one year and not later than five years	**15,102**	17,530
Later than five years	**2,810**	921
	25,293	24,839

20. Related party transactions

20.1 Related party transactions

During the three and nine months ended September 30, the Company entered into the following transactions with related parties:

	Three months ended		Nine months ended	
	2011 **$**	2010 $	**2011** **$**	2010 $
Management fees expensed	**92**	88	**270**	263
Performance bonuses expensed	**-**	-	**131**	142
Flight costs expensed	**103**	17	**249**	127
Rental payments on Company facilities expensed	**872**	862	**2,607**	2,586
Equipment sales	**721**	881	**3,313**	1,209
Equipment purchases	**1,229**	256	**2,536**	303

All related parties are either directly or indirectly owned by a member of senior management of the Company and/or a close family member thereof. These transactions were made on terms equivalent to those that prevail in arm's length transactions and are made only if such terms can be substantiated. For the three and nine month periods ended September 30, 2010 and 2011, the Company did not have any related party transactions that were not in the normal course of operations.

20.2 Amounts due from (to) related parties

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

	September 30, 2011 **$**	December 31, 2010 $	January 1, 2010 $
Due from related parties	**7**	90	53
Due to related parties	**(77)**	-	(185)

The amounts due from related parties are not secured and are to be settled in cash. As at January 1, 2010, December 31, 2010 and September 30, 2011, the amounts due from related parties are considered collectible and therefore have not been provided for in the allowance for doubtful accounts. During the three and nine months ended September 30, 2011, $Nil and $Nil, respectively, has been recognized in bad debt expenses with respect to related party transactions (2010 - $Nil and $Nil).

20. Related party transactions (continued)

20.3 Key management personnel

The remuneration of directors and officers of the Company identified as key management for the three and nine months ended September 30 is as follows:

	Three months ended		Nine months ended	
	2011 **$**	2010 $	**2011** **$**	2010 $
Short-term benefits	**409**	298	**2,937**	1,391
Post retirement benefits	**10**	6	**36**	31
Share-based payments	**223**	228	**605**	823
	642	532	**3,578**	2,245

The remuneration of the directors and key management is determined by the Compensation, Governance and Nominating Committee of the Board of Directors based on performance and is consistent with market trends.

21. Financial instruments and financial risk management

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, market risk (consisting of foreign currency exchange risk and interest rate risk), and liquidity risk. The following analysis provides a measurement of risks as at the consolidated balance sheet date of September 30, 2011.

21.1 Credit risk

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

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

21.2 Market risk

Market risk is the risk from changes in market prices, such as changes in foreign currency exchange rates and interest rates which will affect the Company's income or the value of the financial instruments held.

21.2.1 Foreign currency exchange risk and sensitivity analysis

The Company's financial instruments are exposed to currency fluctuations as it purchases a significant portion of its inventory in foreign currencies. A significant weakening of the U.S. dollar ("USD") against the Canadian dollar could result in a write-down of inventory as a large portion of the inventory is purchased in USD. In order to mitigate this risk, the Company uses forward contracts when appropriate. At September 30, 2011, December 31, 2010 and January 1, 2010 there were no contracts outstanding.

Included in selling, general and administrative expenses are gains recognized due to foreign currency translation for transactions and balances aggregating $104 and $174 for the three and nine months ended September 30, 2011, respectively (2010 - $267 and $493).

21. Financial instruments and financial risk management (continued)

21.2 Market risk (continued)

21.2.1 Foreign currency exchange risk and sensitivity analysis (continued)

Certain of the Company's financial instruments are exposed to fluctuations in the USD. The following tables detail the Company's exposure to currency risk at September 30, 2011 and 2010 and a sensitivity analysis to changes in currency (a 5.0% change in currency was used for obligations that would be retired in 30 days or less and a 10.0% change in currency for obligations that would be retired in greater than nine months). The sensitivity analysis includes USD denominated monetary items and adjusts their translation at year end for their respective change in the USD. For the respective weakening of the USD, there would be an equal and opposite impact on the Company's net earnings.

	Denominated USD $	**Change in currency %**	**Effect on net earnings (net of tax) 9 months ended September 30, 2011 $**
Cash and cash equivalents	**1,763**	**5.0**	**65**
Trade payables, accruals and other	**(3,641)**	**5.0**	**(13)**
Floor plan payable (Note 11)	**(5,775)**	**10.0**	**(424)**
	(7,653)		**(372)**

	Denominated USD $	Change in currency %	Effect on net earnings (net of tax) 9 months ended September 30, 2010 $
Cash and cash equivalents	1,347	5.0	49
Trade payables, accruals and other	(1,276)	5.0	(46)
Floor plan payable	(2,390)	10.0	(172)
	(2,319)		(169)

21.2.2 Interest rate risk and sensitivity analysis

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

The Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps when assessed and considered appropriate. Such swaps convert borrowings from floating rates to fixed rates. Generally, the Company will raise floor plan financing and/or long-term debt at floating rates. When the Company enters into a floating-to-fixed interest rate swap, it agrees with a third party to exchange the difference between the fixed and floating contract rates based on agreed notional amounts. Further information on the Company's interest rate swaps is available in Note 22.

The following tables detail the Company's exposure to interest rate risk as at September 30, 2011 and 2010 and a sensitivity analysis to an increase of interest rates by 0.5% on net earnings. The sensitivity includes floating rate financial liabilities and adjusts their effect at period end for a 0.5% increase in interest rates. A decrease of 0.5% would result in an equal and opposite effect on net earnings.

21. Financial instruments and financial risk management (continued)

21.2 Market risk (continued)

21.2.2 Interest rate risk and sensitivity analysis (continued)

	Change in interest rates %	**Floating rate financial liabilities $**	**Effect of earnings (net of tax) 9 months ended September 30, 2011 $**	Floating rate financial liabilities $	Effect of earnings (net of tax) 9 months ended September 30, 2010 $
Floor plan payable	0.5	**141,983**	**522**	116,255	419
Rental loan	0.5	**1,119**	**4**	2,821	10
HSBC dealer leasing loans	0.5	**211**	**1**	901	3
Acquisition loan	0.5	**15,291**	**56**	14,390	52
Mortgage payable	0.5	**776**	**3**	875	3
	0.5	**159,380**	**586**	135,242	487

21.3 Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. The following table summarizes the Company's undiscounted contractual cash flows for its non-derivative financial liabilities as at September 30, 2011. The analysis is based on foreign exchange rates and interest rates in effect at the consolidated balance sheet date, and includes both principal and interest cash flows for floor plan payable, long-term debt, obligations under capital lease, and convertible debentures:

	Interest and principal outstanding $	**Remainder of 2011 $**	**2012-2013 $**	**2014-2015 $**	**Thereafter $**
Trade payables, accruals and other	**36,967**	**36,967**	**-**	**-**	**-**
Floor plan payable	**209,932**	**209,932**	**-**	**-**	**-**
Long-term debt	**20,425**	**2,181**	**9,990**	**6,655**	**1,599**
Obligations under finance leases	**3,047**	**373**	**1,771**	**892**	**11**
Convertible debentures	**44,730**	**-**	**4,410**	**4,410**	**35,910**
Derivative financial instruments	**1,050**	**40**	**152**	**284**	**574**
	316,151	**249,493**	**16,323**	**12,241**	**38,094**

21.4 Fair value of financial instruments carried at amortized cost

The carrying amounts of cash, trade receivables and other, bank indebtedness and trade payables, accruals and other (excluding DSUs) approximate their fair values because of the short-term maturities of these items. The carrying amounts of floor plan payable, long-term debt and obligations under finance lease approximate their fair values as the interest rates are consistent with market rates for similar debt (except for the non-interest bearing debt with Ford Credit Canada, GMAC Financial Services and CNH Capital). Convertible debentures are carried at amortized cost using the effective interest method.

21. Financial instruments and financial risk management (continued)

21.4 Fair value of financial instruments carried at amortized cost (continued)

The fair values and carrying values of the non-interest bearing debt with Ford Credit Canada and GMAC Financial Services, Case and the convertible debentures can be summarized as follows:

	Carrying Value			Fair Value		
	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $	**September 30, 2011 $**	December 31, 2010 $	January 1, 2010 $
Non-interest bearing vehicle loans	**9**	24	86	**9**	22	80
Non-interest bearing promissory note	**995**	-	1,339	**996**	-	1,339
Convertible debentures	**28,670**	28,411	-	**30,162**	29,993	-

The fair values of the debt component of the convertible debentures and the non-interest bearing loans are determined using discounted cash flow analyses whereby the contractual payments are discounted at a discount rate reflective of market rates for instruments held by the Company with similar terms and period to maturity. For the purposes of the analysis presented above, the following discount rates were applied in determining fair value:

	September 30, 2011	December 31, 2010	January 1, 2010
Non-interest bearing vehicle loans	**5.0%**	5.0%	5.0%
Non-interest bearing promissory note	**3.1%**	-	2.8%
Convertible debentures	**7.9%**	8.3%	-

21.5 Fair value measurements recognized in the consolidated balance sheet

The following table provides the basis of analysis for financial instruments of the Company, which are measured subsequent to initial recognition at fair value. This analysis is based on the degree to which the fair value is observable and grouped into categories accordingly:

- Level 1 financial instruments are those which can be derived from quoted market prices (unadjusted) in active markets for similar financial assets or liabilities. The Company does not have any Level 1 financial instruments.

- Level 2 financial instruments are those which can be derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The Company's Level 2 financial instruments consist of derivatives in the form of interest rate swaps, which had a fair value of $972 at September 30, 2011 (December 31, 2010 - $Nil, January 1, 2010 - $Nil).

- Level 3 financial instruments are those derived from valuation techniques that include inputs for the financial asset or liability which are not based on observable market data (unobservable inputs). The Company has no Level 3 financial instruments.

There were no transfers between Level 1 and 2 during the period.

22. Derivative financial instruments and hedges

The Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. The Company has long and short-term debt raised at floating interest rates. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals ranging from monthly to quarterly, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

	September 30, 2011		January 1 and December 31 ,2010	
	Assets	**Liabilities**	Assets	Liabilities
Interest rate swaps – cash flow hedges	**-**	**972**	-	-

The ineffective portion recognized in the consolidated statement of net earnings from cash flow hedges amounts to a loss of $523 and $523 for the three and nine month periods ended September 30, 2011, respectively (2010 – $Nil and $Nil). At period end, the effective fixed interest rate on the underlying debt was 4.5% and the effective floating rate using Bankers' Acceptances was 3.6% (2010 – Nil and Nil).

The notional principal amounts of the interest rate swaps outstanding at September 30, 2011 were $40,291. Gains and (losses) recognized in accumulated other comprehensive income (loss) in equity for the three and nine months ended September 30, 2011 were ($337) and ($337), and will be continuously released to the consolidated statement of net earnings within selling, general and administrative expenses until full repayment of the underlying debt (2010 - $Nil and $Nil).

23. Management of capital

The Company's objectives when managing capital are:

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

In the management of capital, the Company includes shareholders' equity, long-term debt and obligations under finance leases (including current portions thereof), convertible debentures and floor plan payable.

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

The Company monitors debt to equity capitalization. This ratio is a non-IFRS measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Pursuant to agreements with lenders, the Company is required to monitor and report certain other non-IFRS measures including: current ratio, funded debt to EBITDA and debt to net tangible worth (each lender has its own definition of which account balances are to be included in these computations). These measures are calculated quarterly and annually.

As at September 30, 2011, the Company was in compliance with all externally imposed capital requirements.

The Company calculates debt to equity capitalization including and excluding floor plan payable. Debt to equity capitalization (excluding floor plan payable) is calculated as total long-term debt including obligations under finance leases, (both current and long-term portions) and convertible debentures, divided by total equity, (common shares, convertible debentures – equity component, contributed surplus, accumulated other comprehensive income (loss) and retained earnings). Debt to equity capitalization (including floor plan payable) includes the balance of floor plan payable in the determination of the numerator.

The debt to equity ratio target for the Company (excluding floor plan payable) is between 0.3 and 0.5 to 1. The debt to equity ratio target for the Company (including floor plan payable) is debt between 2.5 and 3.0 to 1.0. As at January 1, 2010, December 31, 2010 and September 30, 2011, the ratios were within the target ranges.

23. Management of capital (continued)

The components of debt to equity ratios are as follows:

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Current portion of long-term debt	**5,609**	6,574	8,545
Current portion of obligations under finance leases	**1,000**	825	619
Long-term debt	**13,063**	13,058	12,968
Obligations under finance leases	**1,770**	1,387	896
Convertible debentures	**28,670**	28,411	-
Total debt (excluding floor plan payable)	**50,112**	50,255	23,028
Floor plan payable	**202,833**	210,425	158,793
Total debt (including floor plan payable)	**252,945**	260,680	181,821
Shareholders' equity	**119,897**	105,876	86,095
Debt to equity ratio (excluding floor plan payable)	**0.42**	0.47	0.27
Debt to equity ratio (including floor plan payable)	**2.11**	2.46	2.11

24. Economic dependence

The Company is the holder of authorized dealerships granted by the CNH group of companies whereby it has the right to act as an authorized dealer for Case equipment. The dealership authorizations and floor plan facilities can be cancelled by the CNH group of companies if the Company does not observe certain established guidelines and covenants, which is common for this industry.

25. First time adoption of IFRS

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 *'First-time Adoption of International Financial Reporting Standards'*, the IFRS are applied retrospectively at the transition date with all adjustments to previously reported assets and liabilities under GAAP taken to retained earnings unless certain exemptions are applied. In making this transition, the Company made use of the exemptions offered by transition standard IFRS 1 First-time Adoption of International Financial Reporting Standards with respect to retroactive application of the following standards:

- IFRS 3 Business Combinations – Business combinations prior to January 1, 2010 have been recognized based on their original valuations and allocations made under the previously applied principles. The Company has however recognized all assets and liabilities which would have been recognized had IFRS been in effect for all acquisitions, including those completed prior to January 1, 2010.

- IAS 16 Property, Plant and Equipment – the Company revalued its property, plant and equipment at fair value as at December 19, 2007, the date of its initial public offering. The revaluation resulted in property, plant and equipment being recorded at the fair values assigned as at December 19, 2007 as previously determined under GAAP.

IFRS employs a conceptual framework that is similar to GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the reported financial position and results of operations of the Company as previously reported under GAAP. Presented below are reconciliations prepared by the Company to reconcile the consolidated balance sheet and statements of net earnings and comprehensive income and cash flows of the Company to IFRS.

25. First time adoption of IFRS (continued)

The consolidated balance sheet at January 1, 2010 under GAAP has been reconciled to IFRS as follows:

	Note	GAAP $	Effect of transition $	IFRS $
Assets				
Current				
Cash		8,912	-	8,912
Trade receivables and other		24,186	-	24,186
Inventory		247,627	-	247,627
Prepaid expenses		509	-	509
		281,234	-	281,234
Non-current				
Property, plant and equipment		19,343	-	19,343
Goodwill	(i)	4,086	230	4,316
		23,429	230	23,659
		304,663	230	304,893
Liabilities				
Current				
Bank indebtedness		1,947	-	1,947
Trade payables, accruals and other	(i)	30,595	230	30,825
Floor plan payable		158,793	-	158,793
Deferred revenue		3,154	-	3,154
Current portion of long-term debt		8,545	-	8,545
Current portion of obligations under finance leases		619	-	619
		203,653	230	203,883
Non-current				
Long-term debt		12,968	-	12,968
Obligations under finance leases		896	-	896
Deferred taxes		1,051	-	1,051
		14,915	-	14,915
		218,568	230	218,798
Shareholders' equity				
Common shares		70,601	-	70,601
Contributed surplus	(ii)	2,915	298	3,213
Retained earnings	(ii)	12,579	(298)	12,281
		86,095	-	86,095
		304,663	230	304,893

25. First time adoption of IFRS (continued)

The consolidated statement of net earnings and comprehensive income for the three months ended September 30, 2010 under GAAP has been reconciled to IFRS as follows:

	Note	GAAP $	Effect of transition $	IFRS $
Sales				
New equipment		68,298	-	68,298
Used equipment		68,694	-	68,694
Parts		21,164	-	21,164
Service		11,184	-	11,184
Other		1,138	-	1,138
		170,478	-	170,478
Cost of sales		144,434	-	144,434
Gross profit		26,044	-	26,044
Expenses				
Selling, general and administrative	(iii)	16,962	145	18,210
	(ii)		(36)	
	(vi)		1,139	
Interest on short-term debt		1,725	-	1,725
Interest on long-term debt		662	-	662
Depreciation of property, plant and equipment	(vi)	1,139	(1,139)	-
		20,488	109	20,597
Earnings before income taxes		5,556	(109)	5,447
Provision for income taxes				
Current		1,408	-	1,408
Deferred	(v)	334	3	337
		1,742	3	1,745
Net earnings and comprehensive income		3,814	(112)	3,702
Earnings per share				
Basic		0.21	(0.01)	0.20
Diluted		0.20	-	0.20

25. First time adoption of IFRS (continued)

The consolidated statement of net earnings and comprehensive income for the nine months ended September 30, 2010 under GAAP has been reconciled to IFRS as follows:

	Note	GAAP $	Effect of transition $	IFRS $
Sales				
New equipment		212,301	-	212,301
Used equipment		143,762	-	143,762
Parts		47,665	-	47,665
Service		30,498	-	30,498
Other		2,896	-	2,896
		437,122	-	437,122
Cost of sales		368,889	-	368,889
Gross profit		68,233	-	68,233
Expenses				
Selling, general and administrative	(iii)	46,849	244	50,199
	(ii)		(68)	
	(vi)		3,174	
Interest on short-term debt		4,594	-	4,594
Interest on long-term debt		1,121	-	1,121
Depreciation of property, plant and equipment	(vi)	3,174	(3,174)	-
		55,738	176	55,914
Earnings before income taxes		12,495	(176)	12,319
Provision for income taxes				
Current		1,384	-	1,384
Deferred	(v)	2,377	3	2,380
		3,761	3	3,764
Net earnings and comprehensive income		8,734	(179)	8,555
Earnings per share				
Basic		0.48	(0.01)	0.47
Diluted		0.48	(0.01)	0.47

25. First time adoption of IFRS (continued)

The consolidated statement of net earnings and comprehensive income for the year ended December 31, 2010 under GAAP has been reconciled to IFRS as follows:

	Note	GAAP $	Effect of transition $	IFRS $
Sales				
New equipment		333,603	-	333,603
Used equipment		189,315	-	189,315
Parts		65,047	-	65,047
Service		41,585	-	41,585
Other		3,869	-	3,869
		633,419	-	633,419
Cost of sales		533,861	-	533,861
Gross profit		99,558	-	99,558
Expenses				
Selling, general and administrative	(iii)	65,213	277	69,843
	(ii)		(91)	
	(vi)		4,444	
Interest on short-term debt		6,425	-	6,425
Interest on long-term debt		2,064	-	2,064
Depreciation of property, plant and equipment	(vi)	4,444	(4,444)	-
		78,146	186	78,332
Earnings before income taxes		21,412	(186)	21,226
Provision for income taxes				
Current		1,314	-	1,314
Deferred	(v)	4,641	372	5,013
		5,955	372	6,327
Net earnings and comprehensive income		15,457	(558)	14,899
Earnings per share				
Basic		0.85	(0.03)	0.82
Diluted		0.83	(0.04)	0.79

25. First time adoption of IFRS (continued)

The consolidated balance sheet at September 30, 2010 under GAAP has been reconciled to IFRS as follows:

	Note	GAAP $	Effect of transition $	IFRS $
Assets				
Current				
Cash		21,576	-	21,576
Trade receivables and other		26,501	-	26,501
Inventory		273,781	-	273,781
Prepaid expenses		1,568	-	1,568
		323,426	-	323,426
Non-current				
Property, plant and equipment		20,280	-	20,280
Goodwill	(iii)	7,391	(244)	7,601
	(iv)		224	
	(i)		230	
		27,671	210	27,881
		351,097	210	351,307
Liabilities				
Current				
Bank indebtedness		-	-	-
Trade payables, accruals and other	(i)	30,790	230	31,020
Floor plan payable		166,079	-	166,079
Deferred revenue		1,070	-	1,070
Current portion of long-term debt		6,839	-	6,839
Current portion of obligations under finance leases		794	-	794
		205,572	230	205,802
Non-current				
Long-term debt		12,650	-	12,650
Obligations under finance leases		1,308	-	1,308
Convertible debentures		28,329		28,329
Deferred taxes	(v)	3,640	356	3,996
		45,927	356	46,283
		251,499	586	252,085
Shareholders' equity				
Common shares	(iv)	75,159	224	75,383
Convertible debentures	(v)	1,343	(353)	990
Contributed surplus	(ii)	4,221	230	4,451
Retained earnings	(iii)	18,875	(244)	18,398
	(v)		(3)	
	(ii)		(230)	
		99,598	(376)	99,222
		351,097	210	351,307

25. First time adoption of IFRS (continued)

The consolidated balance sheet at December 31, 2010 under GAAP has been reconciled to IFRS as follows:

	Note	GAAP $	Effect of transition $	IFRS $
Assets				
Current				
Cash		17,139	-	17,139
Trade receivables and other		27,509	-	27,509
Inventory		327,739	-	327,739
Prepaid expenses		1,611	-	1,611
		373,998	-	373,998
Non-current				
Property, plant and equipment		20,600	-	20,600
Deferred taxes	(v)	611	(611)	-
Goodwill	(iii)	8,528	(277)	8,482
	(iv)		231	
		29,739	(657)	29,082
		403,737	(657)	403,080
Liabilities				
Current				
Trade payables, accruals and other		29,480	-	29,480
Floor plan payable		210,425	-	210,425
Deferred revenue		337	-	337
Current portion of long-term debt		6,574	-	6,574
Current portion of obligations under finance leases		825	-	825
		247,641	-	247,641
Non-current				
Long-term debt		13,058	-	13,058
Obligations under finance leases		1,387	-	1,387
Convertible debentures		28,411	-	28,411
Deferred taxes	(v)	6,593	725	6,707
	(v)		(611)	
		49,449	114	49,563
		297,090	114	297,204
Shareholders' equity				
Common shares	(iv)	75,913	231	76,144
Convertible debentures	(v)	1,343	(353)	990
Contributed surplus	(ii)	4,630	207	4,837
Retained earnings	(iii)	24,761	(277)	23,905
	(ii)		(207)	
	(v)		(372)	
		106,647	(771)	105,876
		403,737	(657)	403,080

25. First time adoption of IFRS (continued)

The consolidated statement of cash flows for the three months ended September 30, 2010 under GAAP has been reconciled to IFRS as follows:

	Note	GAAP $	Effect of transition $	IFRS $
Operating activities				
Net earnings		3,814	(112)	3,702
Adjustments for:				
Depreciation expense		1,468	-	1,468
Accretion expense		36	-	36
Deferred tax expense	(v)	334	3	337
Share-based payment expense	(ii)	438	(36)	402
Gain on disposal of property, plant and equipment		(76)	-	(76)
		6,014	(145)	5,869
Changes in non-cash working capital, net of the effect of acquisitions	(iii)	101	(99)	2
		6,115	(244)	5,871
Financing activities				
Repayment of long-term debt		(1,793)	-	(1,793)
Net change in obligations under finance leases		(231)	-	(231)
Dividends paid		(821)	-	(821)
Proceeds from issuance of convertible debentures		31,500	-	31,500
Debt issuance costs		(1,864)	-	(1,864)
		26,791	-	26,791
Investing activities				
Purchase of property, plant and equipment		(689)	-	(689)
Proceeds on disposal of property, plant and equipment		722	-	722
Purchase of equipment dealerships	(iii)	(4,055)	244	(3,811)
		(4,022)	244	(3,778)
Net increase in cash and cash equivalents		28,884	-	28,884
Cash and cash equivalents, beginning of period		(7,308)	-	(7,308)
Cash and cash equivalents, end of period		21,576	-	21,576

ROCKY
MOUNTAIN DEALERSHIPS

25. First time adoption of IFRS (continued)

The consolidated statement of cash flows for the nine months ended September 30, 2010 under GAAP has been reconciled to IFRS as follows:

	Note	GAAP $	Effect of transition $	IFRS $
Operating activities				
Net earnings		8,734	(179)	8,555
Adjustments for:				
Depreciation expense		3,763		3,763
Accretion expense		36		36
Deferred tax expense	(v)	2,377	3	2,380
Share-based payment expense	(ii)	1,325	(68)	1,257
Gain on disposal of property, plant and equipment		(271)	-	(271)
		15,964	(244)	15,720
Changes in non-cash working capital, net of the effect of acquisitions		(19,497)	-	(19,497)
		(3,533)	(244)	(3,777)
Financing activities				
Repayment of long-term debt		(6,986)	-	(6,986)
Proceeds from long-term debt		4,962	-	4,962
Net change in obligations under finance leases		587	-	587
Dividends paid		(2,438)	-	(2,438)
Proceeds from issuance of common shares		39	-	39
Proceeds from issuance of convertible debentures		31,500	-	31,500
Debt issuance costs		(1,864)	-	(1,864)
		25,800	-	25,800
Investing activities				
Purchase of property, plant and equipment		(3,520)	-	(3,520)
Proceeds on disposal of property, plant and equipment		2,507	-	2,507
Purchase of equipment dealerships	(iii)	(6,643)	244	(6,399)
		(7,656)	244	(7,412)
Net increase in cash and cash equivalents		14,611	-	14,611
Cash and cash equivalents, beginning of period		6,965	-	6,965
Cash and cash equivalents, end of period		21,576	-	21,576

25. First time adoption of IFRS (continued)

The consolidated statement of cash flows for the year ended December 31, 2010 under GAAP has been reconciled to IFRS as follows:

	Note	GAAP $	Effect of transition $	IFRS $
Operating activities				
Net earnings		15,457	(558)	14,899
Adjustments for:				
Depreciation expense		5,280	-	5,280
Accretion expense		118	-	118
Deferred tax expense	(v)	4,641	372	5,013
Share-based payment expense	(ii)	1,734	(91)	1,643
Gain on disposal of property, plant and equipment		(229)	-	(229)
		27,001	(277)	26,724
Changes in non-cash working capital, net of the effect of acquisitions		(30,555)	-	(30,555)
		(3,554)	(277)	(3,831)
Financing activities				
Repayment of long-term debt		(9,843)	-	(9,843)
Proceeds from long-term debt		7,962	-	7,962
Net change in obligations under finance leases		697	-	697
Dividends paid		(3,268)	-	(3,268)
Proceeds from issuance of common shares		39	-	39
Proceeds from issuance of convertible debentures		31,500	-	31,500
Debt issuance costs		(1,864)	-	(1,864)
Purchase of common shares for cancellation		(15)	-	(15)
		25,208	-	25,208
Investing activities				
Purchase of property, plant and equipment		(4,716)	-	(4,716)
Proceeds on disposal of property, plant and equipment		2,545	-	2,545
Purchase of equipment dealerships	(iii)	(9,309)	277	(9,032)
		(11,480)	277	(11,203)
Net increase in cash and cash equivalents		10,174	-	10,174
Cash and cash equivalents, beginning of period		6,965	-	6,965
Cash and cash equivalents, end of period		17,139	-	17,139

25. First time adoption of IFRS (continued)

Notes to the IFRS reconciliation above:

(i) Adjustment for contingent consideration

During 2009, the Company acquired certain assets of Mayor Equipment ("Mayor"). The acquisition agreement included a provision for contingent consideration (the "Consideration") of up to $400 based on achieving certain earnings targets during the remainder of 2009 as well as the subsequent three calendar years.

Under GAAP – At the time of acquisition, the amount of the Consideration which would ultimately become payable by the Company was not able to be determined beyond a reasonable doubt and as such, no accrual of such Consideration was made.

Under IFRS – Using information available at the time of acquisition, the Company is required to estimate the consideration which will ultimately become payable to the former owner of Mayor. The Company has accrued $230 as a best estimate of total Consideration to be paid.

(ii) Adjustment for share-based payments

Under GAAP – The fair values of share-based awards with graded vesting were calculated as one grant and the resulting fair value was recognized on a straight-line basis over the vesting period. Forfeitures of awards were recognized as they occurred.

Under IFRS – Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Forfeiture estimates are recognized in the period they are estimated, and are revised and accounted for prospectively in subsequent periods.

(iii) Adjustment for transaction costs

Under GAAP – The transaction costs incurred pursuant to the acquisitions of businesses were considered to be direct costs of the business combinations and were capitalized to goodwill.

Under IFRS – The transaction costs are considered to be acquisition-related costs and are expensed in the period incurred.

(iv) Adjustment for share valuation

Under GAAP – Share consideration issued pursuant to business combinations was valued based on the market price of the shares over a reasonable period before and after the date the terms of the business combination are agreed to and announced.

Under IFRS – Share consideration issued pursuant to business combinations is measured at the acquisition-date fair value.

25. First time adoption of IFRS (continued)

Notes to the IFRS reconciliation above (continued):

(v) Adjustment to deferred tax liability

Under GAAP – The Debentures were able to be settled without incidence of tax to the Company therefore the tax basis of the liability component was considered to be the same as its carrying amount and no deferred tax liability was recognized.

Under IFRS – The tax base of the liability component on initial recognition is equal to the initial carrying amount of the sum of the liability and equity components. The resulting taxable temporary difference arises from the initial recognition of the equity component separately from the liability component. Consequently, the Company recognizes the resulting deferred tax liability. The deferred tax is charged directly to the carrying amount of the equity component. Subsequent changes in the deferred tax liability are recognized in net earnings as deferred tax expense.

As a result of recognizing the deferred tax liability on the Debentures, the net deferred tax asset recognized under GAAP has been offset and the company to which it pertains is in a net deferred tax liability position.

(vi) Reclassification of depreciation expense

Under GAAP – all depreciation expense except the amount recorded as part of cost of sales was presented as a separate line on the consolidated statement of net earnings and comprehensive income.

Under IFRS – The Company has elected to present its consolidated statement of net earnings and comprehensive income under the functional method which requires expenses to be presented according to their function. As such, depreciation expense not included in cost of sales has been aggregated with selling, general and administrative expenses.

ROCKY MOUNTAIN DEALERSHIPS

ROCKY MOUNTAIN DEALERSHIPS INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011

This Management Discussion and Analysis ("**MD&A**") was prepared as of November 9, 2011 and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the three and nine months ended September 30, 2011. It should be read in conjunction with the unaudited Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2011 and the audited Consolidated Financial Statements for the years ended December 31, 2010 and 2009, and the notes contained therein. Unless otherwise indicated, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board and are presented in Canadian dollars.

Unless the context otherwise requires, use in this MD&A of "**RMDI**", "**the Company**", "**we**", "**us**", or "**our**" means Rocky Mountain Dealerships Inc. and its wholly owned subsidiaries including Hammer Equipment Ltd., Hi-Way Service Ltd., Miller Equipment Ltd., and Rocky Mountain Dealer Group Partnership, collectively.

Effective January 1, 2011, RMDI has adopted IFRS as its basis of financial reporting using January 1, 2010 as our transition date. While the adoption of IFRS has not had an impact on the Company's reported net cash flows, there have been material impacts on its consolidated balance sheets and statements of changes in equity, net earnings, and comprehensive income, which are discussed in this MD&A.

The common shares of RMDI trade on the Toronto Stock Exchange under the symbol 'RME'. Additional information relating to RMDI, including the Company's Annual Information Form, dated March 28, 2011, is available on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") web site at www.sedar.com.

This MD&A contains forward-looking statements. Please see the section "Caution Regarding Forward-Looking Information and Statements" for a discussion of the risks, uncertainties and assumptions relating to those statements.

COMPANY OVERVIEW

RMDI is one of Western Canada's largest equipment dealers with a network of 37 full-service agriculture and construction equipment stores across the Canadian prairie provinces. Our network currently includes 25 branches in Alberta, 7 in Manitoba and 5 in Saskatchewan.

We are Canada's largest retail dealer of CNH Global N.V. ("**CNH**") equipment which includes Case IH Agriculture equipment, New Holland Agriculture equipment and Case Construction equipment. We are a major independent dealer of equipment from a number of other manufacturers, including but not limited to, Terex, Dynapac, Doosan, Takeuchi, Leeboy, Kawasaki, Metso, Bourgault, Claas and Kuhn-Knight.

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

Headquartered in Calgary, Alberta, our business is carried on through two business units consisting of three brands; Hammer Equipment, primarily represents New Holland, Terex, Dynapac, Doosan, Metso, and Kawasaki. Rocky Mountain Dealer Group Partnership (the **"Partnership"**) operates as Hi-Way Service Ltd., which mainly represents Case Construction and Case IH Agriculture products in Alberta, and Miller Equipment representing Case IH Agriculture in Manitoba and Saskatchewan.

HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2011

- Increased revenues by 25.5% to $213.9 million as compared to the same period in 2010.
- Increased gross profit as a percentage of sales to 16.5% from 15.3% in 2010.
- Entered into interest rate swaps hedging RMDI's interest rate exposure on approximately $40 million of debt for periods of 5 and 7 years.
- Generated Normalized Diluted Earnings per Share[(1)] of $0.35.
- EBITDA[(1)] increased by 58.3% to $12.0 million.
- Cash flow from Net Earnings[(1)] of $12.0 million, up from $5.9 million in 2010.
- Paid dividends of $0.045 per share.

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

MARKET FUNDAMENTALS AND OUTLOOK

Agriculture Market

Our agriculture equipment sales are made primarily to grain and oilseed crop farmers in Western Canada. Commodity prices, input costs and weather are the key demand drivers for equipment among these customers.

Global food demand is expected to increase 50% over the next 25 years in response to a growing world population and a decrease in arable land per capita. The United Nations' Food and Agriculture Organization (FAO) predicts that rising demand for agriculture commodities and insufficient investment in productive capacity and infrastructure, especially in developing countries, will keep prices above historical levels for years to come, encouraging farmers to continue improving productivity.

Lower input costs have also improved farmer margins and are encouraging farmer efforts to maximize yields through technology and productivity investments.

Within the Canadian agriculture sector, the trend towards larger farms is further benefiting farm equipment sales. According to Statistics Canada, about 5.5% of Canadian farms are managing operations with crop receipts in excess of $1 million. These operators need larger, more productive equipment and they tend to replace their equipment more frequently to capitalize on the latest equipment efficiencies. Overall, the fundamentals underpinning agriculture equipment demand are excellent.

Demand from China and India, crop land dedicated to bio-fuel production, and general GDP growth are all putting pressure on worldwide production. Parts and service demand is also expected to remain healthy due to the increased machine population that RMDI has installed.

Construction Market

Our construction equipment sales are balanced through residential construction, roadwork (including paving and aggregate production), and commercial, industrial, and municipal construction in the Alberta market. Increases in housing starts, oil rig count, vehicle sales, and GDP growth are all factors that influence construction equipment purchases in Alberta, and these indicators all point to growth in the short and mid-terms.

Fueled by a renewed resource industry and agriculture and mining industry investment in the province, Alberta's GDP and population are growing and driving general construction and infrastructure spending. According to the Government of Alberta, the province is expected to see average growth in real GDP of approximately 3.2% from 2012 to 2014 compared to the government of Canada's national forecast of 2.7% for the same period.

In its 2011 forecast for Canadian construction equipment sales, the Association of Equipment Manufacturers predicts that equipment sales into the Canadian market will grow 12.0% in 2011, 14.8% in 2012 and 12.7% in 2013. Given Alberta's faster rate of economic growth, forecasters are calling for construction equipment sales growth of between 20 and 30% for Alberta in 2011. Results thus far in 2011 support these forecasts. In its third quarter 2011 earnings release, CNH reported a 36% increase in demand for construction equipment in the North American market.

In addition, we anticipate strong parts and service demand from the construction market in 2011. Contractors that delayed maintenance during the recession are now investing in parts and service to ensure their equipment is ready to meet increased demand. Accordingly, the outlook for construction related sales is positive into 2012 and beyond.

Overall

We believe that the high levels of activity in our end-markets, combined with the significant acquisition activity we undertook in 2010 and early 2011 will support continued growth in our revenues for the remainder of 2011. These acquisitions should also deliver gradual improvements in gross profit throughout 2011 and 2012. In the period immediately following any significant acquisition activity, our gross profit margin as a percentage of sales is typically lower due to the addition of new dealerships with lower gross profit margin percentages. As we complete the integration process, margins from the acquired dealers typically improve and RMDI's consolidated margins return to more typical levels.

RMDI's long-term objective is to keep selling, general and administrative ("**SG&A**") expenses to a respectable sub-10% of sales. During the remainder of 2011 and into early 2012, our SG&A as a percentage of sales is expected to trend higher than our long-term expectation as we continue to assess and enhance the effectiveness of our organizational structure.

The positive outlooks for both the agriculture and construction end-markets, the growing installed base of equipment, and the valuable acquisitions made in 2010 and early 2011, leave us in a good position for revenue and earnings growth.

SELECTED FINANCIAL INFORMATION (unaudited)

$ In thousands (other than $ per share amounts and percentages)

	For the three months ended September 30,				For the nine months ended September 30,			
	2011 $	2010 $	Change $	Change %	**2011 $**	2010 $	Change $	Change %
Sales								
New equipment	**90,523**	68,298	22,225	32.5	**291,221**	212,301	78,920	37.2
Used equipment	**78,468**	68,694	9,774	14.2	**187,491**	143,762	43,729	30.4
Parts	**30,003**	21,164	8,839	41.8	**69,761**	47,665	22,096	46.4
Service	**13,807**	11,184	2,623	23.5	**37,382**	30,498	6,884	22.6
Other	**1,073**	1,138	(65)	(5.7)	**3,517**	2,896	621	21.4
Total sales	**213,874**	170,478	43,396	25.5	**589,372**	437,122	152,250	34.8
Cost of sales	**178,546**	144,434	34,112	23.6	**495,122**	368,889	126,233	34.2
Gross profit	**35,328**	26,044	9,284	35.6	**94,250**	68,233	26,017	38.1
Gross profit percentage	**16.5%**	15.3%	-	1.2	**16.0%**	15.6%	-	0.4
Expenses								
SG&A	**22,944**	18,210	4,734	26.0	**66,064**	50,199	15,865	31.6
Interest on short-term debt	**2,099**	1,725	374	21.7	**6,284**	4,594	1,690	36.8
Interest on long-term debt	**870**	662	208	31.4	**2,670**	1,121	1,549	138.2
Earnings from operations	**9,415**	5,447	3,968	72.8	**19,232**	12,319	6,913	56.1
Income taxes	**2,294**	1,745	549	31.5	**4,984**	3,764	1,220	32.4
Net earnings	**7,121**	3,702	3,419	92.4	**14,248**	8,555	5,693	66.5
Net earnings per share								
Basic	**0.38**	0.20	0.18	90.0	**0.76**	0.47	0.29	61.7
Diluted	**0.34**	0.20	0.14	70.0	**0.70**	0.47	0.23	48.9
Dividends per share	**0.045**	0.045	-	-	**0.135**	0.135	-	-
EBITDA[2]	**11,996**	7,577	4,419	58.3	**26,638**	17,203	9,435	54.8
Operating SG&A as % of sales [1] [2]	**9.9%**	9.9%	-	-	**10.0%**	10.7%	-	(0.7)

(1) - See further discussion in "Selling, General and Administrative" section below

(2) – See further discussion in "Non-IFRS Measures" and "Reconciliation of Non-IFR measures to IFRS" sections below

Sales

The Company uses the terms "acquired" versus "same store" in assessing its sales results. Each acquired store has an average historical level of sales generated prior to being acquired by RMDI. When the Company discusses "acquired" sales, it is referring to the average historical sales level realized by each acquired store prior to acquisition. This base level of sales continues to be classified as 'acquired' until such time as the acquired store has been included in four complete calendar quarters after which point, all additional sales are classified as same store.

$ In thousands

	For the three months ended September 30,					For the nine months ended September 30,				
			Change					Change		
	2011	2010	Same Store	Acquired	Total	**2011**	2010	Same Store	Acquired	Total
Sales										
New equipment	**90,523**	68,298	10,277	11,948	22,225	**291,221**	212,301	38,529	40,391	78,920
Used equipment	**78,468**	68,694	4,850	4,924	9,774	**187,491**	143,762	26,153	17,576	43,729
Parts	**30,003**	21,164	5,812	3,027	8,839	**69,761**	47,665	12,270	9,826	22,096
Service	**13,807**	11,184	1,167	1,456	2,623	**37,382**	30,498	2,649	4,235	6,884
Other	**1,073**	1,138	(100)	35	(65)	**3,517**	2,896	241	380	621
Total sales	**213,874**	170,478	22,006	21,390	43,396	**589,372**	437,122	79,842	72,408	152,250

For the three months ended September 30, 2011, sales increased by $43.4 million (nine months ended – $152.3 million) as a result of higher same store and acquired sales. Third quarter same store sales increased by $22.0 million year-over-year (nine months ended –

$79.8 million), reflecting increased demand and higher agricultural whole goods revenue in Alberta, as well as strong performance from our integrated stores. The remaining $21.4 million of revenue increase was driven by acquired stores (nine months ended – $72.4 million). The significant growth in total sales was achieved despite lower same store sales from our Manitoba locations as a result of lower than normal total acres planted in the region.

For the three months ended September 30, 2011, new equipment sales increased by $22.2 million (nine months ended – $78.9 million), compared to the same period in 2010. This included an $11.9 million increase in acquired new equipment sales (nine months ended – $40.4 million) and a $10.3 million increase in same store new equipment sales (nine months ended – $38.5 million). Agriculture equipment demand in Alberta year-to-date has been strong and we continue to see improvements in the construction equipment market, both of which contributed to our same store sales growth for the period. Both the weather in Manitoba, as well as the availability of certain products on the construction side of the business, were challenges for us, negatively impacting our new equipment sales and offsetting some of the growth generated by our Alberta branches.

For the three months ended September 30, 2011, our used equipment sales increased by $9.8 million (nine months ended – $43.7 million) compared to the same period last year. Same store sales growth accounted for $4.9 million of this improvement (nine months ended – $26.2 million), while acquired sales accounted for the remaining $4.9 million (nine months ended – $17.6 million). The increase in same store used equipment sales is mostly attributed to the strength in the Alberta agriculture market driven in large part by above average crop yields and strong commodity prices.

Parts sales for the three months ended September 30, 2011 increased by $8.8 million (nine months ended – $22.1 million), driven by acquired sales growth of $3.0 million (nine months ended – $9.8 million) and same store sales growth of $5.8 million (nine months ended – $12.3 million). Third quarter service sales grew by $2.6 million (nine months ended – $6.9 million), with acquired sales contributing $1.5 million (nine months ended – $4.2 million) and same stores accounting for $1.2 million (nine months ended – $2.6 million) of the year-over-year increase. Demand for agricultural parts and service was stronger than normal during the three months ended September 30, 2011 as a result of strong crop yields and commodity prices as well as a later that normal harvest. A late harvest causes farmers to push their equipment harder to get their crop off increasing their need for product support. On the construction side, contractors that deferred maintenance as a result of the recent recession are now investing in parts and service to ensure their equipment is ready to meet increased demand. The increase in parts and service sales was partially offset by weaker results from our Manitoba operations. As a result of the weather conditions noted above, farmers in various parts of Manitoba had difficulty seeding their fields, as evidenced by the reduction in seeded acreage in some areas.

Other sales comprise rental, lease, and finance and insurance revenues. For the three months ended September 30, 2011, other sales remained relatively flat. For the nine months ended September 30, 2011, other sales increased by $0.6 million primarily as a result of acquired other sales.

Gross Profit

Gross profit percentage for the three months ended September 30, 2011 improved to 16.5% (nine months ended – 16.0%) compared to 15.3% (nine months ended – 15.6%) during the same period last year. The improvements in gross margins over the 2010 comparative periods are largely attributable to strong third quarter 2011 product support sales. As product support sales generate higher gross profit percentages than equipment sales, an increase in product support sales drives the total gross profit percentage higher. The change in margin also reflects the increased installed base at our locations. Over the mid-to-longer term, a larger installed base should provide additional higher-margin product support business as these units will require parts and service over the useful life of the equipment.

Our target gross profit percentage range is 15% to 17%, but we typically experience margins at the lower side of this range following a period of intense acquisition activity, such as that experienced in 2010 and early 2011. Our newly acquired stores tend to have lower gross profits as a percentage of sales than our integrated stores, but margins gradually increase as integration is completed and efficiencies are realized.

Selling, General and Administrative

See the definition and reconciliation of Operating SG&A in “Non-IFRS Measures” and “Reconciliation of Non-IFRS Measures to IFRS” sections below.

For the three months ended September 30, 2011, Operating SG&A increased to $21.3 million (nine months ended – $59.1 million) from $16.9 million (nine months ended – $46.8 million) for the same period last year. The increase is primarily attributable to acquisitions effected over the past five quarters. As a percentage of sales, third quarter 2011 operating SG&A was 9.9% flat versus the same period in 2010 (nine months ended – 10.0%, down from 10.7%). The Company continues to target a sub-10% operating SG&A. For the three and nine month periods ended September 30, 2011, operating SG&A was within our target range (2010 – within and outside of our target range for the respective periods). The decrease in operating SG&A relative to sales for the nine months ended

September 30, 2011 is the result of increased sales particularly in areas significantly impacted by inclement weather in the 2010 comparative period.

Depreciation included in SG&A increased to $1.2 million for the three months ended September 30, 2011 (nine months ended – $3.7 million) from $1.1 million (nine months ended – $3.2 million) for the same period in 2010. The year-over-year increases in depreciation arose from the property, plant and equipment acquired pursuant to business combinations effected in 2010 and early 2011.

SG&A expenses also include several non-recurring charges. During the three months ended September 30, 2011, the Company entered into two interest rate swaps as further discussed under the section "Adequacy of Capital Resources". These interest rate swaps were designated as effective hedges and, upon initial recognition, the Company incurred a one-time $0.5 million charge to income pertaining to aggregate of the ineffective portions thereof.

During the nine months ended September 30, 2011, we also incurred $1.1 million in expenses related to closing a new credit agreement with a syndicated group of lenders and $1.6 million in severance arrangements pursuant to the departure of a member of senior management.

Transactions costs incurred to facilitate acquisitions amounted to $3 thousand during the three months ended September 30, 2011 (nine months ended – $30 thousand) compared to $202 thousand in 2010 (nine months ended $238 thousand). Transaction costs incurred have decreased year-over-year as we have temporarily slowed our acquisition activity while we complete the integration of past acquisitions as well as the assessment of our organizational structure.

Interest

Long-term interest expense increased to $0.9 million for the three months ended September 30, 2011 (nine months ended – $2.7 million), from $0.7 million (nine months ended – $1.1 million) during 2010. The additional long-term interest is primarily attributable to the interest from the convertible debentures issued during July 2010.

Net Earnings

For the three months ended September 30, 2011, we achieved net earnings of $7.1 million or $0.34 per fully diluted share (nine months ended – $14.2 million or $0.70 per fully diluted share). This compares favourably to net earnings of $3.7 million or $0.20 per fully diluted share (nine months ended – $8.6 million or $0.47 per fully diluted share) in the comparative period. The increase in earnings is primarily attributable to the overall increase in sales and the improved gross profit percentage as discussed above. Excluding the after-tax effect of the non-recurring charges, the Company's net earnings for the three months ended September 30, 2011 increase to $7.5 million or $0.35 per fully diluted share (nine months ended – $16.7 million or $0.81 per fully diluted share).

The primary cause of the dilution in our earnings per share is the impact of the convertible debentures which diluted our earnings by $0.04 per share for the three months ended September 30, 2011 (nine months ended - $0.06 per share). As the debentures were issued late in the third quarter of 2010, their impact on the comparative periods' diluted earnings per share was negligible.

SUMMARY OF QUARTERLY RESULTS (unaudited)

$ In Thousands (other than $ per share amounts)

	IFRS							**GAAP**
	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Sales	**213,874**	217,919	157,579	196,297	170,478	146,169	120,475	147,673
Net earnings	**7,121**	4,464	2,663	6,344	3,702	3,096	1,756	5,724
EPS – basic	**0.38**	0.24	0.14	0.35	0.20	0.17	0.10	0.35
EPS – diluted	**0.34**	0.23	0.14	0.32	0.20	0.17	0.10	0.35

Fluctuating seasonal revenue cycles are common in both the agriculture and construction industries as a result of weather conditions and the timing of crop receipts. As a result, our financial results vary between quarters. The first calendar quarter is typically the weakest due to winter shutdowns, while the fourth quarter is the strongest due to conversions of equipment on rent with purchase options and the post-harvest buying that is typical in the agriculture sector.

BALANCE SHEET SUMMARY (unaudited)

$ In thousands

	September 30, 2011	December 31, 2010	September 30, 2010
Current assets	**387,549**	373,998	323,426
Property, plant and equipment	**22,205**	20,600	20,280
Goodwill	**9,961**	8,482	7,601
Total assets	**419,715**	403,080	351,307
Current liabilities	**249,551**	247,641	205,802
Long-term debt	**13,063**	13,058	12,650
Obligations under finance leases	**1,770**	1,387	1,308
Convertible debenture	**28,670**	28,411	28,329
Deferred income taxes	**5,792**	6,707	3,996
Derivative financial instruments	**972**	-	-
Total liabilities	**299,818**	297,204	252,085
Shareholders' equity	**119,897**	105,876	99,222
Total liabilities and equity	**419,715**	403,080	351,307

Current assets consisted primarily of new and used equipment inventory of approximately $289 million, $300 million and $245 million, as of September 30, 2011, December 31, 2010, and September 30, 2010, respectively. The increase from September 30, 2010 is primarily related to the completed acquisitions over the past 12 months. The increase in goodwill since September 30, 2010 is primarily attributable to the acquisitions of K&M ($880), Agritrac ($103) and J&B ($1,320).

The current liabilities consisted primarily of floor plan payable for inventory financed of approximately $202 million, $210 million and $166 million, as of September 30, 2011, December 31, 2010, and September 30, 2010, respectively. As floor plan financing is attributable to new and used equipment inventory, fluctuations in floor plan payable are generally correlated.

During 2010, the Company completed a $31.5 million bought deal financing arrangement where a syndicate of underwriters agreed to buy 30,000 (in addition to a full over-allotment exercise of 1,500) convertible unsecured subordinated debentures.

LIQUIDITY AND CAPITAL RESOURCES

We assess liquidity in terms of our ability to generate sufficient Cash Flow from Net Earnings, along with other sources of liquidity, including cash and borrowings, to fund our operations and growth in operations. Net cash flow is affected by the following items:

- Operating activities, including the level of accounts receivable, inventories, accounts payable, and financing provided to customers;
- Financing activities, including bank credit facilities, commercial paper, long-term debt and other capital market activities providing both short and long-term financing; and,
- Investing activities, including capital expenditures, acquisitions of complementary businesses and divestitures of non-core businesses.

Working Capital Requirements

Through credit and financing facilities, the Company is required to maintain minimum working capital requirements. The definitions and calculations for minimum working capital requirements vary between lenders. As at September 30, 2011, the Company was in compliance with all working capital requirements as defined by its various lenders.

Summary of Cash Flows

$ In thousands	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	**2011**	2010
Net earnings	**7,121**	3,702	**14,248**	8,555
Effect of non-cash items in net earnings	**4,872**	2,167	**5,377**	7,165
Cash Flow from Net Earnings(1)	**11,993**	5,869	**19,625**	15,720
Effect of non-cash working capital items	**2,635**	2	**10,151**	(19,497)
Cash flows from operating activities	**14,628**	5,871	**29,776**	(3,777)
Cash flows from financing activities	**(2,547)**	26,791	**(2,394)**	25,800
Cash flows from investing activities	**(2,851)**	(3,778)	**(13,565)**	(7,412)
Net increase in cash and cash equivalents	**9,230**	28,884	**13,817**	14,611
Cash and cash equivalents, beginning of period	**21,726**	(7,308)	**17,139**	6,965
Cash and cash equivalents, end of period	**30,956**	21,576	**30,956**	21,576

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

Cash Flows from Operating Activities

For the three months ended September 30, 2011, we generated Cash Flow from Net Earnings of $12.0 million (nine months ended – $19.6 million), compared to $5.9 million for the three months ended September 30, 2010 (nine months ended – $15.7 million). Non-cash items affecting net earnings increased cash flows from operating activities by $4.9 million and $5.4 million during the three and nine months ended September 30, 2011 (2010 – increased cash flows by $2.2 million and $7.2 million respectively).

Cash generated from working capital amounted to $2.7 million for the three months ended September 30, 2011 compared to cash $2 thousand during the same period in 2010. For the nine months ended September 30, 2011, the Company generated $10.2 million in cash from working capital compared to cash utilized of $19.5 million for the same period in 2010.

Net cash inflows from operations were $14.7 million and $29.8 million for the respective three and nine months ended September 30, 2011 compared to cash generated of $5.9 million and cash utilized of $3.8 million for the same periods in 2010.

Cash Flows from Financing Activities

During the three months ended September 30, 2011, we utilized $2.5 million for financing activities, compared to cash inflows of $26.8 million in the same period last year. For the nine months ended September 30, 2011, we utilized $2.4 million in cash flow from financing activities, compared to inflows of $25.8 million. Cash utilized for financing activities during the three and nine months ended September 30, 2011 pertained primarily to scheduled debt repayments. The year-over-year changes noted in cash flows from financing activities relate primarily to the issuance of convertible debentures in July of 2010 which offset debt repayments and resulted in net cash inflows for the comparative periods.

Cash Flows from Investing Activities

For the three months ended September 30, 2011, we utilized $2.9 million (nine months ended – $13.6) million in cash for investing activities compared to $3.8 million for the three months ended September 30, 2010 (nine months ended – $7.4 million). Cash utilized for investing activities in the current and comparative periods was primarily for the acquisitions of new equipment dealerships.

ADEQUACY OF CAPITAL RESOURCES

We use cash flow from operations to finance the purchase of inventory, service our debt requirements, and fund our operating activities, including working capital, both operating and finance leases and floor plan payable. In recent years, we have rationalized our lease and rental fleets. Leasing is not our core business and we believe it is better suited to third-party providers. Rental fleets primarily serve construction equipment customers and therefore need to be sized to suit the anticipated market. We anticipate we will be able to finance our current fleet needs through our existing credit facilities and cash flow from operations. Our ability to service our debt will depend upon our ability to generate cash, which depends on our future operating performance, general economic conditions, as well as other factors, some of which are beyond our control. Based on our current operational performance, we believe that cash flow from operations, along with existing credit facilities, will provide for our capital needs in the next 12 months.

Finance Facilities

We have secured credit facilities with a syndicate of lenders to help finance the general day-to-day cash requirements of our operations and to make acquisitions. In addition, we have floor plan facilities from various lending institutions for the purpose of financing inventory.

During the second quarter of 2011, we entered into a Credit Agreement (the **"Agreement"**) with a syndicated group of lenders (the **"Syndicate"**). Under the Agreement, the Syndicate has granted us an aggregate $160 million financing commitment consisting of an operating facility (the **"Operating Facility"**), an acquisition facility (the **"Acquisition Facility"**) and a flooring facility (the **"Flooring Facility"**) collectively (the **"Syndicated Facility"**) which provides us greater carrying cost management opportunities and increases our previously available credit limit by $78 million as follows:

$ In Millions

Facility	Previously Available	Increase	Syndicated Facility Availability
Operating Facility	22.0	8.0	30.0
Acquisition Facility	20.0	10.0	30.0
Flooring Facility	40.0	60.0	100.0
	82.0	78.0	160.0

The Syndicated Facility is a revolving facility secured in favour of the Syndicate by a general security agreement. Advances under the Syndicated Facility may be made based on our lender's prime rate or the US base rate plus 1.25% - 2.75% or based on the banker's acceptance ("**BA**") rate plus 2.50% - 4.00%. The Company pays standby fees of between 0.6% and 1.0% per annum on any undrawn portion of the Syndicated Facility.

The Operating Facility may be utilized to advance up to the greater of 50% eligible inventory plus 75% of eligible accounts receivable or $30 million and may be used to finance our general corporate operating requirements. The Acquisition Facility may be used to finance future acquisitions. The Flooring Facility may be used to finance up to 75% of the value of eligible equipment inventory. The interest rate on the Syndicated Facility as at September 30, 2011 is 4.25% based on the prime rate at September 30, 2011 of 3.0%.

In addition to the Syndicated Facility, we have further floor plan facilities of approximately $400 million from various lending institutions for the purpose of financing inventory. The new equipment inventory (and, in some cases, a portion of the used equipment inventory) is financed by way of floor plan financing, which is made available to RMDI by the equipment manufacturers' captive finance companies or divisions (such as CNH Capital), as well as banks and specialty lenders.

In addition to our available cash balance of $31.0 million as at September 30, 2011, we have approximately $341.9 million available on our various credit facilities.

$ In Millions

Facility	Facility Limit	Amount Drawn	Available
Operating Facility	30.0	-	30.0
Acquisition Facility	30.0	15.3	14.7
Various Floor Plan Facilities	500.0	202.8	297.2
	560.0	218.1	341.9

During August 2011, we began to use derivative financial instruments to hedge our exposure to changes in interest rates. We do not use derivatives to speculate, but rather as a risk management tool. We entered into two separate interest rate swaps (the **"Swaps"**) related to our Acquisition Facility and a portion of our Flooring Facility (the **"Hedged Facilities"**).

The interest rate swap related to the Acquisition Facility amortizes with principal payments on the debt until May 27, 2016 and had an original notional amount outstanding of $15.6 million. At September 30, 2011, the notional amount of the swap was $15.3 million. The interest rate swap related to the Flooring Facility matures on August 31, 2018 and had a notional amount outstanding at September 30, 2011 of $25.0 million. The Hedged Facilities each bear interest at a floating rate based on the prevailing one-month BA rate plus

250 – 400 bps. The swaps hedge our exposure to fluctuations in the BA rate fixing our effective rate on the underlying debt at September 30, 2011 at 4.5%. The effective floating rate on the underlying debt at September 30, 2011 was 3.6%. We have designated these instruments as hedges and have accounted for them using hedge accounting in our Condensed Consolidated Interim Financial Statements.

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

On November 9, 2011, the Board of Directors of RMDI declared a quarterly dividend of $0.045 per common share on the Company's outstanding common shares. The common share dividend is payable on December 30, 2011, to shareholders of record at close of business on November 30, 2011. The Company is in compliance with all externally imposed capital requirements on all of its lending facilities.

Management believes there is sufficient liquidity available to meet its needs for the foreseeable future.

SHARE CAPITAL – OUTSTANDING SHARES

Share amounts in table expressed in thousands

	For the nine months ended September 30, 2011	For the year ended December 31, 2010
Opening balance	**18,427**	17,807
Issued pursuant to:		
Roydale NH acquisition	**-**	149
Wardale acquisition	**-**	293
Allen's acquisition	**-**	20
Gateway acquisition	**-**	55
K&M acquisition	**-**	96
Agritrac acquisition	**55**	-
J&B acquisition	**84**	-
Stock option exercises	**212**	9
Repurchased pursuant to normal course issuer bid	**(10)**	(2)
Closing balance	**18,768**	18,427

As at November 9, 2011, there were 18,768,399 shares outstanding.

There were 122 thousand shares under a restricted share unit plan outstanding as at September 30, 2011 (December 31, 2010 – 129 thousand). Under this plan, certain employees will receive treasury shares of the Company on December 20, 2012, should they remain with the Company at that time.

The options outstanding at September 30, 2011 are as follows (expressed in thousands except per share and average life amounts):

Date granted	Number of options outstanding	Number of options exercisable	Weighted average exercise price ($)	Expiry date	Weighted average contractual life
December 20, 2007	56	56	10.00	December 20, 2012	1.2
February 29, 2008	387	387	12.40	February 28, 2013	1.4
March 12, 2009	41	21	4.15	March 12, 2014	2.4
December 29, 2009	176	48	9.22	December 29, 2014	3.2
March 11, 2011	75	-	10.39	March 11, 2016	4.4
August, 11, 2011	190	-	8.71	August, 11, 2016	4.9
	925	512	11.00		2.8

As at November 9, 2011, there were 920,170 options outstanding.

ROCKY MOUNTAIN DEALERSHIPS

GOODWILL AND INTANGIBLE ASSETS

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units ("**CGUs**") (or groups of CGUs) which are expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized in the Consolidated Statements of Net Earnings. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

The Company performed goodwill impairment tests upon conversion to IFRS on January 1, 2010 and again on December 31, 2010. On both dates, the Company determined that the recoverable amounts of all CGUs exceeded their carrying amounts. Consequently, no impairment charges were made against goodwill. As at September 30, 2011, there was no indication that the CGUs to which goodwill has been allocated were impaired, thus no impairment test was required.

CONTRACTUAL OBLIGATIONS

The following table provides an overview of the contractual obligations (including both principal and interest payments) of RMDI as at September 30, 2011.

$ In Thousands

	Total	**Remainder of 2011**	**2012-2013**	**2014-2015**	**Thereafter**
Trade payables and other	36,967	36,967	-	-	-
Floor plan payable	209,932	209,932	-	-	-
Long-term debt	20,425	2,181	9,990	6,655	1,599
Obligations under finance leases	3,047	373	1,771	892	11
Convertible debentures	44,730	-	4,410	4,410	35,910
Operating lease obligations	25,294	1,915	12,119	7,448	3,812
Derivative financial instruments	1,050	40	152	284	574
Total contractual obligations	341,445	251,408	28,442	19,689	41,906

RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, the Company entered into the following transactions with related parties:

$ In Thousands	**Three months ended**		**Nine months ended**	
	2011	2010	**2011**	2010
Management fees expensed	**92**	88	**270**	263
Performance bonuses expensed	**-**	-	**131**	142
Flight costs expensed	**103**	17	**249**	127
Rental payments on Company facilities expensed	**872**	862	**2,607**	2,586
Equipment sales	**721**	881	**3,313**	1,209
Equipment purchases	**1,229**	256	**2,536**	303

All related parties disclosed above are either directly or indirectly owned by a member of senior management of the Company and/or a close family member thereof. These transactions were made on terms equivalent to those that prevail in arm's length transactions and were made only if such terms could be substantiated. For the three and nine month periods ended September 30, 2010 and 2011, the Company did not have any related party transactions that were not in the normal course of operations.

Amounts due from (to) related parties are included in the Consolidated Balance Sheet under trade receivables and other (trade payables, accruals and other) and are as follows:

$ In Thousands	**September 30, 2011**	December 31, 2010
Due from related parties	**7**	90
Due to related parties	**(77)**	-

The amounts due from related parties are not secured and are to be settled in cash. As at December 31, 2010 and September 30, 2011, the amounts due from related parties are considered collectible and therefore have not been provided for in the allowance for doubtful accounts. During the three and nine months ended September 30, 2011, $Nil and $Nil has been recognized in bad debt expenses with respect to related party transactions (2010 - $Nil and $Nil).

The remuneration of directors and other members of key management for the three and nine months ended September 30 is as follows:

$ In Thousands	**Three months ended**		**Nine months ended**	
	2011	2010	**2011**	2010
Short-term benefits	**409**	298	**2,937**	1,391
Post retirement benefits	**10**	6	**36**	31
Share-based payments	**223**	228	**605**	823
	642	532	**3,578**	2,245

The remuneration of the directors and officers of the Company is determined by the Compensation, Governance and Nominating Committee of the Board of Directors based on performance and is consistent with market trends.

OFF-BALANCE SHEET ARRANGEMENTS

We use off-balance sheet financing in connection with numerous operating leases between RMDI and third parties. These leases relate to the Company's buildings and certain vehicles with lease terms of between three and ten years. All building leases contain five-year renewal options. We have paid monthly amounts under these operating leases ranging from $0.1 thousand to $58.3 thousand. The current operating leases have terms of ten years or less expiring between November 30, 2011 and December 31, 2020. We intend to replace or extend these operating leases when their terms expire.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company has identified financial assets and financial liabilities that qualify for recognition under IFRS. For more information on the Company's financial instruments and the related risk factors, see note 20 of the audited Consolidated Financial Statements for the year ended December 31, 2010 as well as Note 21 of the unaudited Condensed Consolidated Interim Financial Statements for the three and nine month periods ended September 30, 2011, available on SEDAR at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts is reviewed by management on a weekly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances.

Net Realizable Value of Inventory

The equipment inventory in the financial statements is recorded at the lower of cost and net realizable value, with cost being determined on a specific-item, actual-cost basis. We record parts inventory at the lower of cost and replacement cost, with cost being determined using average cost. Any work-in-progress is valued at actual cost.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Share-Based Transactions

We use an option pricing model to determine the fair value of certain share-based payments. Inputs to the model are subject to various estimates about future volatility, interest rates, dividend yields, and expected life of the units issued. Fair value inputs are subject to change on a regular basis due to changes in market factors as well as internal estimates. We consider historic trends together with any new information to determine the best estimate of fair value at the date of grant.

We are further required to estimate the expected forfeiture rate of share-based payments (i.e. units not expected to vest) and to revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment is calculated to systematically allocate the cost, less estimated residual value, of assets over their expected useful lives. Estimates of residual values and useful lives are based on data and information from various sources including vendors, industry practice, and company-specific history. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions.

Impairment of Assets

Tangible and intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. As a result, any impairment losses are a result of management's best estimates of expected sales, expenses and cash flows at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Deferred Taxes

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

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Derivative Financial Instruments

The Company utilizes derivative financial instruments to manage its interest rate exposure. These financial instruments are not used for trading or speculative purposes. The fair values of derivative financial instruments are estimated at the end of each reporting period based on expectations of future cash flows associated with the derivative instrument. Estimates of future cash flows are based on forecast interest rates expected to be in effect over the remaining life of the contract. Any subsequent changes in these rates will impact the amounts ultimately recognized in relation to the derivative instruments.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impact of Adoption of IFRS

IFRS are premised on a conceptual framework similar to GAAP, although significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS did not have an impact on our reported net cash flows, it did have a material impact on our Consolidated Balance Sheet and statements of Changes in Equity, Net Earnings, and Comprehensive Income.

IFRS 1 – First-Time Adoption of International Financial Reporting Standards

IFRS 1 provides elective exemptions to full retrospective application of IFRS. The impacts of optional exemptions, which had a significant effect, are discussed below.

Share-based payment transactions

IFRS 1 provides an elective exemption whereby first-time adopters are not required to apply IFRS 2 "Share-based Payment" to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. We did not make this election since the application of IFRS 2 "Share-based Payment" retrospectively to all share-based payment transactions was not considered complex. The application of IFRS 2 retrospectively at transition resulted in an increase to contributed surplus and corresponding decrease in retained earnings of approximately $0.3 million.

Deemed cost

IFRS 1 permits first-time adopters to measure certain items of property, plant and equipment ("**PP&E**") at fair value as at the date of transition or prior to transition where an event occurred requiring PP&E to be revalued at fair value. This provides relief to the Company from having to retrospectively recognize and measure previously recorded items of PP&E according to IAS 16 "Property, Plant and Equipment." We have made this election using the revaluation of PP&E which occurred on December 20, 2007 as part of the purchase price accounting for the acquisitions of Hammer Equipment Sales Limited and Hi-Way Service (Medicine Hat) Ltd. This election did not have a material impact on the balances of PP&E at transition.

Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred before the date of transition to IFRS (January 1, 2010 for the Company). We made this election to apply IFRS 3 only to business combinations which occurred on or after the date of transitions as we feel users will not significantly benefit from the retrospective disclosure. With respect to the Company's transactions that fall under the scope of IFRS 3 on or after January 1, 2010, the first business combination to which IFRS 3 was applied was Roydale NH, where the risks and rewards of ownership were transferred on March 1, 2010.

This exemption does not apply to assets or liabilities recognized or not recognized under GAAP that would have been recognized or not met recognition criteria under IFRS. We have identified a contingent consideration liability with respect a business combination from 2009 which was not recorded under GAAP as the amount was not reliably estimable at the time of the business combination. Under IFRS, we are required to make an estimate for this contingent consideration at the time of the business combination. Using information available at the time of the business combination, we have estimated this contingent consideration to be $0.2 million and recorded the transaction as an increase to goodwill of $0.2 million with a corresponding increase to trade payables, accruals and other.

Impact on Balance Sheet and Earnings

Share-based payment transactions

We issue certain share-based awards in the form of stock options that vest evenly over a three-year period. Under GAAP, we recognized the fair value of the awards, determined at the time of the grant, on a straight-line basis over the three-year vesting period. Under IFRS, the fair value of each installment of each award is considered a separate grant based on the vesting period with the fair value of each installment determined separately and recognized as share-based payment expense (included in selling, general and administrative) over the term of its respective vesting period (graded vesting). Accordingly, this resulted in the amount of each grant being recognized in income at a faster rate than under GAAP.

Under GAAP, we accounted for forfeited stock options in the period in which the forfeiture occurred. Under IFRS, we are required to estimate forfeitures at the grant date with revised estimates reflected in each subsequent reporting period. This resulted in the amounts of each grant being recognized in income at a slower rate than under GAAP, partially offsetting the impact of the graded vesting discussed above. For the year ended December 31, 2010, the above changes resulted in a net decrease in share-based payment expense of $0.1 million and corresponding decrease to contributed surplus. For the three and nine months ended September 30, 2010, the above changes resulted in net decreases in share-based payment expense of $36 thousand and $68 thousand, respectively, with corresponding decreases to contributed surplus.

Income taxes

IAS 12 "Income Taxes" requires the recognition of deferred tax liabilities on compound financial instruments. GAAP does not require recognition of a deferred tax liability if the eventual settlement of the compound financial instrument can be done without the incidence of tax. We have identified our convertible debentures as compound financial instruments for which there is a deferred tax liability under IFRS. As a result, we recognized a deferred tax liability of $0.7 million offset by charges of $0.4 million to deferred income tax expense and $0.3 million to the equity component of the convertible debentures. This temporary difference will be eliminated as interest is accreted to the face value of the debentures and share issuance costs are deducted for tax purposes.

Business combinations

GAAP requires that direct costs incurred to effect a business combination be included as part of the purchase consideration. IFRS does not permit the capitalization of such costs. As discussed above, the Company has elected to make use of the business combinations exemption available under IFRS 1, thereby eliminating the requirement for retrospective restatement of such costs on business combinations occurring prior to our conversion date of January 1, 2010. All transaction costs incurred to effect business combinations subsequent to conversion have been reclassified from goodwill to selling, general and administrative expenses. For the year ended December 31, 2010, the above change resulted in an increase in selling, general and administrative expenses of $277 thousand with corresponding decreases to goodwill. For the three and nine months ended September 30, 2010, the above change resulted in increases in selling, general and administrative expenses of $145 thousand and $244 thousand, respectively, with corresponding decreases to goodwill.

IFRS further requires that share consideration issued to effect a business combination be recorded at the acquisition date fair value, whereas GAAP required that share consideration be valued at the average market price over a reasonable period before and after the date the terms of the business combination are agreed to and announced. As indicated above, the Company elected to make use of the business combinations exemption available under IFRS 1 and as such, is not required to retrospectively restate the value of share consideration issued to effect business combinations prior to the transition date of January 1, 2010. All shares issued as consideration for business combinations occurring during 2010 have however been restated under IFRS. As at December 31, 2010, the above change resulted in an increase in common shares of $231 thousand with a corresponding increase in goodwill.

KEY FINANCIAL STATEMENT COMPONENTS

Equipment Sales

Equipment revenues are derived from the sale of new and used construction and agriculture equipment. Revenue is recognized when the customer has signed the sales agreement, has paid or is credit-approved, and title to and risk of loss for the piece of equipment have transferred. New equipment sales also include rental revenues where customers purchase equipment following a period of "rent-to-own" payments.

Parts Sales

Revenue from parts sales is recognized when title to the product has transferred to the customer and collection is reasonably assured. This is evidenced by the goods being shipped or physically taken by the customer, or in the case of parts drawn to complete service work, when the service work order is completed.

Service Revenue

Revenue from service is recognized by reference to the stage of completion of the contract when the outcome can be estimated reliably.

Other Revenue

Other revenue consists of commission revenue from finance and insurance recognized when the finance contract is signed; revenue from rentals recognized on the first day of each month specified in the rental contract on a straight-line basis over the term of the contract; and lease revenue recognized on a straight-line basis over the term of the lease independent of the timing of the payments received. Prepayment of any lease is initially set up as a deposit and this deposit is reduced on a monthly basis at a rate reflective of the lease contract.

Cost of Sales

Cost of sales is the accumulation of the costs of sales attributable to the sources of revenue set forth in the financial statements. Revenues are matched to cost of sales attributable to specific revenue sources. The cost of equipment sales is determined based on the actual cost of the equipment. The cost of parts sales is determined based on the average actual cost for those parts. The cost of service revenues is determined based on actual costs to complete the service job, which include, without limitation, wages paid to service technicians and the actual cost of externally sourced labour.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include sales and marketing expenses, sales commissions, payroll, and related benefit costs, insurance expenses, professional fees, rent, and other facility costs and administration overhead including depreciation of property, plant and equipment.

Interest Expense

Short-term interest includes the aggregate expense for interest under the current floor plan financing programs associated with financing inventory through numerous creditors, and existing credit facilities. Short-term interest also includes charges related to credit and financing. Long-term interest includes the aggregate expense for interest under long-term indebtedness associated with the equipment rental inventory, long-term indebtedness, interest on the convertible debentures and various finance leases.

RISKS AND UNCERTAINTIES

Risk factors faced by RMDI include industry risks associated with construction and agriculture equipment dealerships and others, including but not limited to: dependence on equipment manufacturers; nature of dealership agreements; consolidations within the equipment manufacturing industry; non-exclusive nature of key geographic markets; inventory management risks; floor plan financing risks; dependence on credit facilities; changing economic conditions; fluctuations in commodity prices; seasonality and cyclicality in our customers' businesses; competition; fluctuations in interest rates; customer credit risks; import product restrictions; foreign trade; foreign exchange exposure; insurance risks; dependence on leasing branch premises and key personnel; labour costs and shortages; labour relations; freight costs; reliance on information systems; government regulation; industry oversupply; future warranty claims; product liability risks; manufacturers' restrictions on dealership acquisitions; growth risks, dividend policy risks; future sales of common shares by existing shareholders; dilution of common shares due to future distributions; conflicts of interest; income tax matters; dependence on subsidiaries; potential unknown liabilities; unpredictability and volatility of common share price.

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

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

INDUSTRY AND ECONOMIC FACTORS AFFECTING PERFORMANCE

Our financial performance is subject to a number of external factors that affect our business, including seasonality and cyclicality, currency fluctuations, inflation, and interest rate fluctuations.

Seasonality and Cyclicality

Our customers operate in industries that are affected by seasonality, which affects the timing of demand for the equipment and services we provide. We generally experience a lower volume of equipment sales during the first quarter of the calendar year, when winter

weather makes certain types of construction and agriculture work difficult to perform. We have mitigated the effects of seasonality to some extent by also carrying lines of equipment for which peak operating periods occur during the winter months. Examples include equipment used for aggregate crushing, mulching and clearing.

Currency Fluctuations and Foreign Exchange

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

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

Inflation

To date, inflation has not had a material effect on our operating results, and we do not expect this to change in the near term. We have experienced cost increases that are similar to the cost escalations being experienced throughout the Alberta, Manitoba and Saskatchewan economies, but we have been able to increase selling prices to offset such increases. Items that are susceptible to localized inflation in the above-mentioned areas, such as labour and rent, are a relatively small component of our overall cost structure as compared to the cost of goods sold, which is affected by numerous factors. There is no assurance, however, that inflation will not affect us in the longer term or that we will be continually able to increase selling prices as a means to offset the effect of increases on our cost structure (including, without limitation, cost of goods sold) while remaining competitive.

Interest Rate Fluctuations

We finance our purchases of new and, to a lesser extent, used equipment inventory through floor plan borrowing arrangements, under which we are charged interest at floating rates. As a result, rising interest rates have the effect of increasing our costs, particularly with respect to interest on debt financing, including floor plan financing. To the extent that we cannot pass on such increased costs to our customers, our net earnings or cash flow may decrease. In addition, some of our customers finance the equipment they purchase through us. A customer's decision to purchase may be affected by interest rates available to finance the purchase.

NON-IFRS MEASURES

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

- "**EBITDA**" is other commonly used metric in the dealership industry. EBITDA is calculated by adding long-term interest, income taxes, depreciation and amortization to net earnings. Adding back non-operating expenses allows management to consistently compare periods by removing changes in tax rates, long-term assets and financing costs.
- "**Cash Flow from Net Earnings**" is calculated by adding back non-cash items such as depreciation of property, plant and equipment, non-cash finance charges on the convertible debentures and long-term debt, deferred income taxes, share-based payment expense, losses (gains) on the disposal of property, plant and equipment, and losses on derivative financial instruments to net earnings. Adding back these non-cash items allows management to isolate and analyze the operating cash flows generated through earnings, prior to any consideration of changes in working capital balances and the impact of acquisitions.
- "**Operating SG&A**" is calculated by adding back depreciation of property, plant and equipment and any non-recurring charges incurred during the period to SG&A. Management deems non-recurring charges to be unusual and/or infrequent charges that the Company incurs outside of its common day-to-day operations. For the three and nine months ended September 30, 2011, the loss on the ineffective portion of hedged financial instruments, one-time charges related to the Syndicated Facility, severance charges paid to the departure of a member of senior management in 2011, and transaction costs related to acquisitions are considered by management to be non-recurring charges in SG&A as they are infrequent in nature and are not anticipated to be incurred in common day-to-day operations. Adding back these items allows management to assess the discretionary expenses from ongoing

operations. We target a sub-10% Operating SG&A as a percentage of total sales on an annual basis.

- "**Normalized Diluted Earnings per Share**" is calculated by adding back the after-tax impact of non-recurring charges to net earnings when calculating diluted earnings per share. Adding back these non-recurring charges to net earnings allows management to assess the fully diluted earnings per share from ongoing operations.

RECONCILIATION OF NON-IFRS MEASURES TO IFRS

Reconciliation of Net Earnings to EBITDA

$ In thousands	IFRS							GAAP
	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Net earnings	**7,121**	4,464	2,663	6,344	3,702	3,096	1,756	5,724
Interest on long-term debt	**870**	933	867	943	662	231	228	240
Depreciation	**1,711**	1,663	1,362	1,517	1,468	1,234	1,061	1,107
Income taxes	**2,294**	1,750	940	2,563	1,745	1,196	822	2,217
EBITDA	**11,996**	8,810	5,832	11,367	7,577	5,757	3,867	9,288

Reconciliation of Net Earnings to EBITDA $ In thousands	**For the three months ended September 30,**		**For the nine months ended September 30,**	
	2011	2010	**2011**	2010
Net Earnings	**7,121**	3,702	**14,248**	8,555
Interest on long-term debt	**870**	662	**2,670**	1,121
Depreciation	**1,711**	1,468	**4,736**	3,763
Income Taxes	**2,294**	1,745	**4,984**	3,764
EBITDA	**11,996**	7,577	**26,638**	17,203

Reconciliation of Cash Flow from Net Earnings $ In thousands	**For the three months ended September 30,**		**For the nine months ended September 30,**	
	2011	2010	**2011**	2010
Net earnings	**7,121**	3,702	**14,248**	8,555
Depreciation expense	**1,711**	1,468	**4,736**	3,763
Accretion expense	**88**	36	**259**	36
Deferred tax expense (recovery)	**2,280**	337	**(896)**	2,380
Share-based payment expense	**264**	402	**775**	1,257
Non-cash impact – credit promissory note	**6**	-	**(26)**	-
Loss (gain) on disposal of property, plant and equipment	**-**	(76)	**6**	(271)
Loss on derivative financial instruments	**523**	-	**523**	-
Cash Flow from Net Earnings	**11,993**	5,869	**19,625**	15,720

Reconciliation of Operating SG&A to selling, general and administrative expenses

$ in thousands	**For the three months ended September 30,**				**For the nine months ended September 30,**			
	2011		2010		**2011**		2010	
	$	**%(1)**	$	%(1)	**$**	**%(1)**	$	%(1)
Operating SG&A	**21,253**	**9.9**	16,869	9.9	**59,095**	**10.0**	46,787	10.7
Depreciation	**1,165**	**0.5**	1,139	0.7	**3,699**	**0.6**	3,174	0.7
Non-recurring charges								
Ineffective portion of derivative financial instrument	**523**	**0.3**	-	-	**523**	**0.1**	-	-
Syndication charges	**-**	**-**	-	-	**1,083**	**0.2**	-	-
Severance charges	**-**	**-**	-	-	**1,634**	**0.3**	-	-
Acquisition transaction charges	**3**	**0.0**	202	0.1	**30**	**0.0**	238	0.1
SG&A	**22,944**	**10.7**	18,210	10.7	**66,064**	**11.2**	50,199	11.5

Reconciliation of Normalized Diluted Earnings per Share

In thousands of $ and shares, where applicable, except $ per share amounts

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	**2011**	2010
Earnings used in the calculation of diluted earnings per share	**7,617**	4,010	**15,719**	8,863
After tax impact of non-recurring charges on earnings (2)	**390**	148	**2,407**	175
Earnings used in the calculation of Normalized Diluted Earnings per Share	**8,007**	4,158	**18,126**	9,038
Weighted average diluted shares used in the calculation of diluted earnings per share	**22,556**	20,551	**22,458**	18,945
Normalized Diluted Earnings per Share	**0.35**	0.20	**0.81**	0.48

(1) – As a percentage of total sales for the applicable period.

(2) – Non-recurring charges after applying statutory rate of 26.4% (2010 – 26.5%).

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer (“**CEO**”) and the Chief Financial Officer (“**CFO**”) are responsible for establishing and maintaining the Company’s disclosure controls and procedures, (“**DC&P**”), to provide reasonable assurance that material information related to the Company is made known. In addition, internal controls over financial reporting have been designed by or have been caused to be designed under the supervision of the CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP.

The CEO and CFO have evaluated the effectiveness of our DC&P and assessed the design of our internal control over financial reporting, (“**ICFR**”), as of September 30, 2011, pursuant to the requirements of National Instrument 52-109, and have concluded that:

(i) The DC&P are effective to provide reasonable assurance that all material or potentially material information about activities of the Company are made known to them; and

(ii) Information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management has concluded that, as of September 30, 2011, the Company has sufficiently documented and tested the effectiveness of the internal controls over financial reporting for the Company and can conclude that these controls are working effectively. It should be noted that while the Company’s management believe that the Company’s IFCR and DC&P provide a reasonable level of assurance that they are effective, they do not expect these controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

CAUTION REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

In particular, FLS in this MD&A include, but are not limited to: (i) disclosure under the heading "Market Fundamentals and Outlook", (ii) demand for RMDI's products and services, (iii) growth of RMDI's business and operations, (iv) business strategies and implementation plans, (v) demand for parts and service due to the increased machine population that RMDI has installed over the past three and a half years, (vi) realization of accretive benefits from significant acquisition activity undertaken in 2010 & early 2011 and that such benefits will continue to support growth in RMDI's revenues in 2011 and deliver gradual improvements in gross profit throughout 2011 and 2012, (vii) expected high levels of activity in RMDI's end-markets and (viii) disclosure under “Adequacy of Capital Resources.”

With respect to the FLS listed above and contained in this MD&A, RMDI has made assumptions regarding, among other things: (i) grain and oilseed prices and management's characterization of the growing supply and demand imbalance therein, (ii) increasing global

food demand over the next 25 years in response to a growing world population and a decrease in arable land per capita, (iii) rising demand for agriculture commodities and insufficient investment in productive capacity and infrastructure, especially in developing countries, (iv) increasing food demand will cause producers to seek improved production techniques, (v) increasing demand from China and India for grain and oilseed products, (vi) increasing crop land dedicated to bio-fuel production, (vii) general GDP growth in the markets we operate in and (viii) the Company will continue to benefit from both improvements in the local construction market and favorable conditions in the agriculture sector, and (ix) the Company's cash flow will remain sufficient to, in connection with its credit facilities, adequately finance its fleet needs.

RMDI's actual results could differ materially from those anticipated in the FLS in this MD&A as a result of the risk factors set forth herein under the heading "Risks and Uncertainties" and the risk factors set forth in RMDI's annual information form dated March 28, 2011 ("**AIF**"). Although the forward-looking statements contained in this MD&A are based upon what management of Rocky believes are reasonable assumptions, Rocky cannot assure investors that actual performance or results will be consistent with these forward-looking statements. These statements reflect current expectations regarding future events and operating performance and are based on information currently available to Rocky's management. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. All forward-looking statements in this MD&A are qualified in their entirety by the cautionary statements herein and those set forth in Rocky's AIF available on SEDAR at www.sedar.com. These forward-looking statements and outlook are made as of the date of this document and, except as required by applicable law, Rocky assumes no obligation to update or revise them to reflect new events or circumstances.