# ROCKY MOUNTAIN DEALERSHIPS INC.
## MANAGEMENT'S DISCUSSION & ANALYSIS
## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

This Management Discussion and Analysis ("**MD&A**") was prepared as of November 5, 2012 and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the three and nine months ended September 30, 2012. It should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2012 and the audited consolidated financial statements for the years ended December 31, 2011 and 2010 together with the notes thereto and the auditor's report thereon. 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 "**Rocky**", "**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 operating as Rocky Mountain Equipment.

Rocky's common shares trade on the Toronto Stock Exchange under the symbol 'RME' and on the OTCQX under the symbol 'RCKXF'. Additional information relating to Rocky, including the Company's Annual Information Form, dated March 19, 2012 ("**AIF**"), 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 ("FLS"). 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

Rocky is one of Western Canada's largest equipment dealers with a network of 39 full-service agriculture and/or construction equipment stores across the Canadian Prairie Provinces. Our network currently includes 27 branches in Alberta, 7 in Manitoba and 5 in Saskatchewan, all operating under the name Rocky Mountain Equipment.

We are Canada's largest retail dealer of CNH Global N.V. ("**CNH**") equipment which includes our two main product lines, Case IH Agriculture and Case Construction equipment. We are also a major independent dealer of equipment from a number of other manufacturers, including but not limited to, New Holland Agriculture, Terex, Dynapac, Leeboy, Metso, Bourgault, and Seedhawk.

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 Rocky Mountain Dealer Group Partnership doing business as Rocky Mountain Equipment.

## HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2012

- Increased revenues by 20.8% to $247.5 million (15.2% on a same store basis).
- Gross profit increased by 19.2% to $39.7 million (16.0% of sales).
- Normalized Diluted Earnings per Share[(1)] of $0.45, up from $0.35 in 2011.
- Generated Cash Flow from Net Earnings[(1)] of $10.3 million.
- EBITDA[(1)] increased by 12.6% to $13.5 million.
- Paid dividends of $0.0675 per share
- Completed the acquisition of Camrose Farm Equipment Ltd.

(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. The short-term outlook for commodity prices is strong and has been influenced by drought conditions in certain regions of the United States as well as Eastern Canada. These same conditions may result in excess supply of agriculture equipment in those regions and temporarily exert downward pressure on agriculture equipment prices affecting North America. This may also reduce lead times and increase the availability of new agriculture equipment throughout the latter part of 2012. We continue to monitor this risk however; to date there has been no perceived impact on pricing.

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 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.

As part of the need to improve productivity, farmers are investing in new equipment to drive better results on both the input cost and output efficiency sides of their business. New equipment technology enables lower input costs by reducing the number of field passes a vehicle needs to make, reducing per hour fuel consumption and reducing overlapping seed and spray patterns. New equipment technology on the harvest side of the business also reduces fuel consumption, increases the speed per acre harvested and reduces process waste on the field. The emergence of GPS enabled precision farming techniques acts as a multiplier for all of these advantages, as well as a driver of demand and total spend. Within the Canadian agriculture sector, the trend towards larger farms is further benefiting farm equipment sales. According to its most recent census data, Statistics Canada reported a 31.2% increase in the number of Canadian farms managing operations with crop receipts in excess of $1.0 million. These operators require larger, more productive equipment and they tend to replace their equipment more frequently to capitalize on the latest technological advances and equipment efficiencies.

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 strong due to the increased number of units that we have installed within the regions that we operate. Overall, the fundamentals underpinning agriculture equipment demand are strong.

### 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. Housing starts, oil rig count, vehicle sales, and GDP growth are all factors that influence construction equipment purchases in Alberta, and these indicators are expected to stabilize or experience a modest decline in the short- and mid-terms. We continue to closely monitor our inventory profile in anticipation of these market conditions.

Despite a potential softening of the construction market in the short- to mid-terms, Alberta remains one of the strongest construction markets in North America. Fueled by a renewed resource, 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 Statistics Canada, the province is expected to see average growth in real GDP of approximately 3.7% in 2012 and 2013 compared to the government of Canada's national forecast of 2.3% for the same period.

Lead times for delivery of some construction equipment products remain stretched and could be a constraining factor on the availability of construction equipment. We have responded by increasing the number of construction equipment units ordered and placing those orders earlier in 2011. We are confident that our current inventory levels will match our customers' equipment demands.

In addition, we anticipate strong parts and service demand from the construction market to continue throughout the remainder of 2012. 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 demand remains strong in 2012 and beyond.

**Overall**

The outlook for the agriculture and construction end-markets, strong commodity prices, the impact of previously acquired dealerships and trade areas along with our strong original equipment manufacturer ("**OEM**") relationships, position us well to pursue our revenue and earnings growth initiatives.

Rocky's success and growth, while predicated on the larger economic conditions and factors discussed above, is also affected by our ability to be a partner of choice for equipment purchasers. Recently, Rocky underwent a rebranding campaign in an effort to improve our market and brand position, as well as our operating efficiency and the relationship we have with our customers. This investment in a single name and strong, consistent brand positioning across all our stores will yield results for many years to come, while the related expenses should be contained to 2012. In conjunction with the rebranding efforts, foundational investment in training and processes, combined with organizational development costs have had a short term impact on our selling, general and administrative ("**SG&A**") expenses, but will ultimately provide benefit to the organization and our customers. With the majority of this spend behind us, we anticipate that Operating SG&A will return to more typical levels and be aligned with our long-term objective of less than 10% of sales.

**SELECTED FINANCIAL INFORMATION**
For the three and nine months ended September 30,
$ thousands, except per share amounts

| | For the three months ended September 30, | | | | For the nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | **2012** | | 2011 | | **2012** | | 2011 | |
| **Sales** | | | | | | | | |
| New equipment | **109,636** | **44.3%** | 90,523 | 44.2% | **353,223** | **53.1%** | 291,221 | 51.8% |
| Used equipment | **96,653** | **39.0%** | 78,468 | 38.3% | **217,767** | **32.7%** | 187,491 | 33.4% |
| Parts | **31,377** | **12.7%** | 26,757 | 13.1% | **68,284** | **10.3%** | 59,376 | 10.6% |
| Service | **8,465** | **3.4%** | 8,034 | 3.9% | **22,526** | **3.4%** | 20,569 | 3.7% |
| Other | **1,403** | **0.6%** | 1,073 | 0.5% | **3,526** | **0.5%** | 3,517 | 0.5% |
| | **247,534** | **100.0%** | 204,855 | 100.0% | **665,326** | **100.0%** | 562,174 | 100.0% |
| Cost of sales | **207,836** | **84.0%** | 171,556 | 83.7% | **563,682** | **84.7%** | 473,951 | 84.3% |
| Gross profit | **39,698** | **16.0%** | 33,299 | 16.3% | **101,644** | **15.3%** | 88,223 | 15.7% |
| Selling, general and administrative | **25,181** | **10.2%** | 20,915 | 10.2% | **71,651** | **10.8%** | 60,037 | 10.7% |
| Loss on repurchase of convertible debentures | **-** | **0.0%** | - | 0.0% | **4,232** | **0.6%** | - | 0.0% |
| Interest on short-term debt | **2,448** | **1.0%** | 2,099 | 1.0% | **6,449** | **1.0%** | 6,284 | 1.1% |
| Interest on long-term debt | **599** | **0.2%** | 870 | 0.5% | **2,271** | **0.3%** | 2,670 | 0.5% |
| **Earnings from operations** | **11,470** | **4.6%** | 9,415 | 4.6% | **17,041** | **2.6%** | 19,232 | 3.4% |
| Provisions for income taxes | **3,019** | **1.2%** | 2,294 | 1.1% | **4,836** | **0.8%** | 4,984 | 0.9% |
| **Net earnings** | **8,451** | **3.4%** | 7,121 | 3.5% | **12,205** | **1.8%** | 14,248 | 2.5% |
| Earnings per share | | | | | | | | |
| Basic | **0.45** | | 0.38 | | **0.65** | | 0.76 | |
| Diluted | **0.45** | | 0.34 | | **0.65** | | 0.70 | |
| Dividends per share | **0.0675** | | 0.045 | | **0.18** | | 0.135 | |
| **Non-IFRS Measures**(1) | | | | | | | | |
| EBITDA | **13,504** | **5.5%** | 11,996 | 5.9% | **23,451** | **3.5%** | 26,638 | 4.7% |
| Operating SG&A | **23,900** | **9.7%** | 19,224 | 9.4% | **67,720** | **10.2%** | 53,068 | 9.4% |
| Cash Flow from Net Earnings | **10,318** | **4.2%** | 11,993 | 5.9% | **17,403** | **2.6%** | 19,625 | 3.5% |
| Normalized Diluted Earnings per Share | **0.45** | | 0.35 | | **0.83** | | 0.81 | |

(1) – See further discussion in "Non-IFRS Measures" and "Reconciliation of Non-IFRS 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 Rocky. 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 our dealership for four complete calendar quarters after which point, all sales are classified as same store.

| $ thousands | For the three months ended September 30, | | | | | For the nine months ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Change | | | | | Change | | |
| | **2012** | 2011 | Same Store | Acquired | Total | **2012** | 2011 | Same Store | Acquired | Total |
| New equipment | | | | | | | | | | |
| Agriculture | **84,220** | 70,294 | 8,079 | 5,847 | 13,926 | **286,854** | 241,207 | 38,049 | 7,598 | 45,647 |
| Construction | **25,416** | 20,229 | 5,187 | - | 5,187 | **66,369** | 50,014 | 16,355 | - | 16,355 |
| Used equipment | | | | | | | | | | |
| Agriculture | **95,194** | 76,966 | 14,062 | 4,166 | 18,228 | **212,193** | 181,913 | 25,231 | 5,049 | 30,280 |
| Construction | **1,459** | 1,502 | (43) | - | (43) | **5,574** | 5,578 | (4) | - | (4) |
| Parts | **31,377** | 26,757 | 3,544 | 1,076 | 4,620 | **68,284** | 59,376 | 7,160 | 1,748 | 8,908 |
| Service | **8,465** | 8,034 | (61) | 492 | 431 | **22,526** | 20,569 | 1,258 | 699 | 1,957 |
| Other | **1,403** | 1,073 | 328 | 2 | 330 | **3,526** | 3,517 | 7 | 2 | 9 |
| Total sales | **247,534** | 204,855 | 31,096 | 11,583 | 42,679 | **665,326** | 562,174 | 88,056 | 15,096 | 103,152 |

Three Months Ended September 30, 2012

Favourable weather conditions, continued strength in commodity prices and a general economic recovery translated into same store sales growth for the third quarter of 2012 of $31.1 million up 15.2% over the same period last year. Across the Prairie Provinces, farmers are benefiting from strong balance sheets and an excellent growing season while the construction industry continued to rebound driving increased demand. The remaining $11.6 million of revenue increase was driven by acquired stores.

New equipment sales increased by $19.1 million, or 21.1%, compared to the same period in 2011. This increase is attributable to a $13.9 million increase in new agriculture equipment sales and a $5.2 million increase in new construction equipment sales. Early seeding and favourable weather conditions throughout the early part of the summer translated into farmer optimism for the current year crop which contributed the majority of the $8.1 million increase in same store agriculture equipment sales. During 2012, we have also invested in our sales team by increasing head count. This investment has resulted in improved market penetration, particularly in recently acquired stores, and also helped to drive same store sales growth during the quarter. Acquired sales growth of $5.8 million accounted for the remainder of the increase in new agriculture equipment sales.

As discussed in previous quarters, 2011 saw longer than normal lead times from manufacturers which resulted in limited product availability in the comparative period. In anticipation of increased demand and similar delivery delays in 2012, we increased the units ordered through our OEMs and placed those orders earlier in 2011. As a result, we were better positioned to meet our customers' demands during 2012. Our improved equipment availability has contributed to same store sales growth particularly on the construction side which accounted for $5.2 million of the increase in the quarter, a 25.6% improvement over the same period last year.

Used equipment sales increased by $18.2 million compared to the same period in 2011 with $14.1 million of the increase being attributable to same store used agriculture equipment sales growth and $4.2 million being attributable to acquired used agriculture equipment sales growth. Investment in our sales force coupled with the Company's initiatives to improve used equipment inventory turns and reduce the related carrying costs of inventory drove this growth. Drought conditions across much of the United States resulted in crop loss in those regions and the possibility of excess agriculture equipment supply which may in turn create downward pressure on used equipment margins in the short-term. As a result, the Company continued to pursue it initiatives surrounding used equipment turns to ensure that our inventory profile left us well positioned to compete in such a market. To date, the Company has not noted significant amounts of equipment from the US crossing the border nor material pressure on used equipment pricing however, we remain cognizant of this risk and continue to manage our inventory profile accordingly.

Parts sales for the second quarter increased by $4.6 million with $3.5 million being attributable to same store parts sales and $1.1 million being attributable to acquired sales growth. As our installed equipment base grows, the demand for product support increases. Service sales grew by $0.4 million with acquired sales contributing to $0.5 million of the growth which was offset by a $0.1 million decline in same store sales. A shortage of skilled service technicians continues to constrain our growth potential in product support sales. We recently received a Labour Market Opinion ("**LMO**"), and have begun recruiting service technicians internationally. During the quarter, our first foreign sourced service technicians have commenced employment with the Company. Full execution of this initiative will, however, span several quarters and as such, we do not anticipate that it will yield significant increases in service sales in the short-term.

Other sales comprise rental, lease, and finance and insurance revenues. For the three months ended September 30, 2012, other sales increased by $0.3 million.

Nine Months Ended September 30, 2012

For the nine months ended September 30, 2012, sales increased by $103.2 million or 18.3% over the same period in 2011 primarily as a result of higher same store sales. Lower snow packs across the prairies along with an earlier spring thaw provided more favorable weather conditions for both our agriculture and construction customers. Early optimism combined with an excellent growing season translated into healthy same store sales growth accounting for $88.1 million of the total sales increase, the majority of which came from the agriculture side of the business. Acquired sales growth for the period amounted to $15.1 million.

New equipment sales increased by $62.0 million, or 21.3%, compared to the same period in 2011. This includes a $38.0 million increase in same store new agriculture equipment sales. As previously discussed, agriculture equipment sales in the first two quarters of 2011 were skewed towards more economically conservative used equipment purchases due to flooding in Southeastern Saskatchewan and Southwestern Manitoba. The improved agricultural outlook in 2012 has encouraged farmers who elected to forgo new equipment purchases in 2011, to resume a more typical buying pattern and reinvest in new equipment.

Improved equipment availability and a rebounding construction equipment market in Alberta resulted in increased same store new construction equipment sales which contributed $16.4 million of the new equipment sales growth for the period.

Investment in our sales force during the period also helped contribute to increased market share particularly in our newly acquired stores which translated into increased new and used equipment sales for the period.

For the nine months ended September 30, 2012, our used equipment sales increased by $30.3 million or 16.1% compared to the same period in 2011 largely due to Company initiatives aimed at increasing used equipment turns and improving our inventory profile.

Crops across the prairies matured relatively well and, as a result, farmers operating in areas hit hard by two consecutive years of flooding experienced higher yields for 2012. Many of these farmers opted to forego the purchase of new equipment in 2011 in favour of used equipment purchases. Improved confidence in 2012 has resulted in a shift back towards new equipment sales tempering used agriculture equipment sales growth and as a result, used agriculture equipment sales did not grow at the same rate as new.

Parts and service sales for the nine months ended September 30, 2012 increased by $8.9 million or 15.0% and $2.0 million or 9.5%, respectively driven primarily by combined same store sales growth of $8.4 million. Acquired parts and service sales growth contributed the remaining $2.5 million of growth for the period. As Rocky has evolved, the importance of large-scale, complex-wide marketing programs has become much clearer. In the first quarter, our winter service programs experienced solid uptake as more of our customers were approached with, and accepted, a service offering. Growth in equipment sales also drove the demand for parts and service. As previously stated, our search for qualified service technicians has been expanded pursuant to our LMO and our first foreign sourced service technicians commenced employment with the Company during the third quarter. Full execution of this initiative will, however, span several quarters and as such, we do not anticipate that it will yield significant increases in service sales in the short-term.

For the nine months ended September 30, 2012, other sales remained flat.

**Gross Profit**

Gross profit for the three and nine months ended September 30, 2012 increased by $6.4 million or 19.2% and $13.4 million or 15.2%, respectively over the same periods in 2011 primarily as a result of the increase in equipment and parts sales during the periods. The increase in gross profit did not, however, keep pace with the increase in sales as a result of lower margins associated with initiatives geared towards increasing inventory turns and improving the inventory profile.

As previously discussed, there continues to be a shortage of skilled service technicians in Western Canada which also negatively impacted gross margins. The Company has undertaken several key initiatives to attract and relocate technicians and the success of these initiatives will be key to Rocky achieving its long-term margin targets.

As a percentage of sales, gross margin for the three and nine months ended September 30, 2012 decreased to 16.0%, down 0.3% and decreased to 15.3% down 0.4%, respectively, over the same periods in 2011.

**Selling, General and Administrative**

SG&A expenses include sales and marketing expenses, sales commissions, payroll, and related benefit costs, insurance expenses, professional fees, rent, other facility costs and administration overhead including depreciation of property and equipment. The majority of these costs are fixed. As we acquire new stores, these costs will increase as we incur additional expenditures related to the direct selling, general and administrative functions. Over time, as these acquisitions are amalgamated into the business, the costs will generally decrease as we incorporate their finance and administrative functions into our corporate resources. Similarly, costs will increase as we add direct customer related resources such as equipment specialists, but will normalize as those positions drive sales and

increase the customer base.

Fixed costs are subject to annual price increases primarily driven by both real estate and labour demand in Western Canada.

Variable costs included within SG&A expenses consist primarily of sales commissions and enhancements to the organizational structure.

The Company assesses its Operating SG&A relative to total sales in analyzing its results. See the definition and reconciliation of Operating SG&A in the "Non-IFRS Measures" and "Reconciliation of Non-IFRS Measures to IFRS" sections below.

For the three and nine months ended September 30, 2012, Operating SG&A was $23.9 million and $67.7 million, respectively (2011 – $19.2 million and $53.1 million, respectively). The increases in Operating SG&A for the three and nine months ended September 30, 2012 pertain in part to additional commissions and salaries driven by incremental sales activity. We have also complemented our existing management team to achieve our strategic objectives. This investment in our team positions us well for our next stage of growth.

For the three and nine months ended September 30, 2012, Operating SG&A as a percentage of sales was 9.7% and 10.2%, respectively (2011 – 9.4% and 9.4%, respectively). Our long-term objective is to keep Operating SG&A to less than 10% of sales. Over the past 18 months, Rocky has undergone a rebranding campaign in an effort to improve our market and brand position and has made foundational investments in training and processes. The costs associated with these organizational developments have had a short term SG&A impact, but will ultimately provide benefit to the organization and our customers. With the majority of this spend behind us, we anticipate that Operating SG&A will return to more typical levels and be aligned with our long-term objective of less than 10% of sales.

Depreciation included in SG&A amounted to $1.3 million and $3.7 million for the three and nine month periods ended September 30, 2012 (2011 – $1.2 million and $3.7 million) and were relatively consistent with the comparative periods.

**Loss on Repurchase of Convertible Debentures**

For the nine months ended September 30, 2012, the Company repurchased all of its convertible debentures (the "**Debentures**"). Upon derecognition, the Company allocated $4.2 million of the loss to net earnings and $4.3 million (net of income taxes of $0.3 million) to retained earnings. The repurchase of the Debentures results in interest savings for Rocky and is expected to increase shareholder value by eliminating the dilutive impact of the Debentures.

**Interest**

The majority of the Company's short-term interest expense is attributable to the floor plan financing associated with our new and used equipment inventory. Short-term interest expenses increased by $0.3 million and $0.2 million for the three and nine month periods ended September 30, 2012, respectively. Increases in short-term interest expense are the result of the increase in the balance of floor plan outstanding which arose in response to increased inventory levels. Long-term interest expense decreased by $0.3 million and $0.4 million for the respective three and nine month periods ended September 30, 2012. These decreases are primarily attributable to interest savings as a result of repurchasing the Debentures and replacing that debt with a lower interest bearing facility.

**Net Earnings**

For the three months ended September 30, 2012, we generated net earnings of $8.5 million or Normalized Diluted Earnings per Share of $0.45 compared to net earnings of $7.1 million or Normalized Diluted Earnings per Share of $0.35 in the comparative period. The increase in net earnings relates primarily to increased sales activity. Excluding the after-tax effect of the non-recurring costs, the Company's net earnings for the quarter ended September 30, 2012 are $8.4 million, up from $7.5 million in the comparative period.

For the nine months ended September 30, 2012, we generated net earnings of $12.2 million or Normalized Diluted Earnings per Share of $0.83 compared to net earnings of $14.2 million, or Normalized Diluted Earnings per Share of $0.81 in the comparative period. The decrease in earnings is largely attributable to the loss on the repurchase of the Debentures as well as increased SG&A expenses as discussed above. Normalized for the after-tax impact of non-recurring charges, net earnings for the nine months ended September 30, 2012 amount to $15.6 million, down from $16.7 million in the same period last year.

**SUMMARY OF QUARTERLY RESULTS**
$ thousands, except per share amounts

| | **Q3 2012** | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 | Q1 2011 | Q4 2010 | Q3 2010 |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | | | |
| New equipment | **109,636** | 131,155 | 112,432 | 132,712 | 90,523 | 115,974 | 84,724 | 121,302 | 68,298 |
| Used equipment | **96,653** | 63,110 | 58,004 | 82,318 | 78,468 | 62,481 | 46,542 | 45,553 | 68,694 |
| Parts | **31,377** | 23,067 | 13,840 | 16,155 | 26,757 | 20,714 | 11,905 | 14,871 | 18,453 |
| Service | **8,465** | 7,421 | 6,640 | 7,459 | 8,034 | 6,885 | 5,650 | 6,304 | 6,004 |
| Other | **1,403** | 988 | 1,135 | 1,945 | 1,073 | 1,438 | 1,006 | 973 | 1,138 |
| | **247,534** | 225,741 | 192,051 | 240,589 | 204,855 | 207,492 | 149,827 | 189,003 | 162,587 |
| Cost of sales | **207,836** | 191,515 | 164,331 | 203,620 | 171,556 | 176,405 | 125,990 | 159,238 | 138,245 |
| Gross profit | **39,698** | 34,226 | 27,720 | 36,969 | 33,299 | 31,087 | 23,837 | 29,765 | 24,342 |
| SG&A | **25,181** | 24,386 | 22,084 | 21,964 | 20,915 | 21,299 | 17,823 | 18,082 | 16,508 |
| Loss on repurchase of convertible debentures | **-** | 4,232 | - | - | - | - | - | - | - |
| Expenses | **6,066** | 4,013 | 3,477 | 6,044 | 5,263 | 5,324 | 3,351 | 5,338 | 4,132 |
| Net earnings | **8,451** | 1,595 | 2,159 | 8,961 | 7,121 | 4,464 | 2,663 | 6,345 | 3,702 |
| EPS – basic | **0.45** | 0.09 | 0.12 | 0.48 | 0.38 | 0.24 | 0.14 | 0.34 | 0.20 |
| EPS – diluted | **0.45** | 0.08 | 0.11 | 0.42 | 0.34 | 0.23 | 0.14 | 0.31 | 0.20 |

Fluctuating seasonal revenue cycles are common in both the agriculture and construction industries as a result of weather conditions, the timing of crop receipts and farming cycles and the timing of infrastructure expenditures. 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 purchases that are typical in the agriculture sector.

**BALANCE SHEET SUMMARY**

$ thousands

| | **September 30, 2012** | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current assets | **508,524** | 434,479 |
| Property and equipment | **19,701** | 21,369 |
| Goodwill | **12,720** | 9,961 |
| **Total assets** | **540,945** | 465,809 |
| | | |
| **Liabilities and equity** | | |
| Current liabilities | **362,327** | 286,175 |
| Long-term debt | **39,588** | 11,701 |
| Obligations under finance leases | **1,102** | 1,589 |
| Convertible debenture | **-** | 28,761 |
| Deferred income taxes | **3,464** | 8,283 |
| Derivative financial instruments | **1,691** | 1,139 |
| | **408,172** | 337,648 |
| Shareholders' equity | **132,773** | 128,161 |
| **Total liabilities and equity** | **540,945** | 465,809 |

Current assets at September 30, 2012 consist primarily of new and used equipment inventory of approximately $262.6 million and $147.8 million, respectively (December 31, 2011 – $171.3 million and $153.2 million, respectively). The Company's new and used equipment inventory is comprised predominantly of agriculture equipment. Typically, our agriculture customers trade-in their used equipment when purchasing new equipment. The Company has a diverse customer base for its agriculture equipment and carries an appropriate mix of both new and used equipment to best serve our customers. Construction equipment by contrast is generally utilized from sale to the end of its useful life by one owner. Trades of used construction equipment are less common and as such, the Company carries a more modest inventory of used construction equipment relative to new.

The increase in inventory over December 31, 2011 is primarily attributable to purchasing new agriculture equipment in order to meet the demand we are expecting in the fourth quarter of 2012 and the acquisition of Camrose Farm Equipment Ltd ("**CFE**"). Of the $91.2 million increase in new equipment inventory over December 31, 2011, $78.6 million pertains to new agriculture equipment inventory.

During 2011, the economic recovery put strain on our OEMs' supply of new units which constrained our growth. In late 2011, we responded by ordering significant amounts of new construction equipment to compensate for long lead times and ensure that we had the equipment to meet our construction customers' growing demands which also contributed to our increased inventory levels.

Our initiatives aimed at increasing used equipment inventory turns and improving our overall equipment inventory profile have resulted in a decreased proportion of used equipment as a percentage of total over the same time last year.

Current liabilities consist predominantly of floor plan payable for inventory financed of approximately $301.2 million as at September 30, 2012 (December 31, 2011 – $226.9 million). The increase in floor plan payable from December 31, 2011 to September 30, 2012 is the result of additional new equipment inventory carried by the Company. As a percentage of equipment inventory, floor plan payable increased from 70.0% at December 31, 2011 to 73.4% at September 30, 2012. This increase in floor plan payable as a percentage of equipment inventory is the result of an increase in the proportion of new equipment inventory. Generally, floor plan providers will extend financing on a greater proportion of the cost of new equipment than they will on used.

## 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 Cash Flow from Net Earnings, the level of accounts receivable, inventory, accounts payable, floor plan payable, and financing provided to customers;
- Financing activities, including bank credit facilities, 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, 2012, the Company was in compliance with all working capital requirements as defined by its various lenders.

| **Summary of cash flows** | **For the three months ended September 30,** | | **For the nine months ended September 30,** | |
|---|---|---|---|---|
| $ thousands | **2012** | 2011 | **2012** | 2011 |
| Net earnings | **8,451** | 7,121 | **12,205** | 14,248 |
| Effect of non-cash items in net earnings | **1,867** | 4,872 | **5,198** | 5,377 |
| Cash Flow from Net Earnings(1) | **10,318** | 11,993 | **17,403** | 19,625 |
| Effect of non-cash working capital items | **(8,841)** | 2,635 | **(14,887)** | 10,151 |
| Cash flows from operating activities | **1,477** | 14,628 | **2,516** | 29,776 |
| Cash flows from financing activities | **(3,691)** | (2,547) | **(12,468)** | (2,394) |
| Cash flows from investing activities | **(6,525)** | (2,851) | **(6,103)** | (13,565) |
| Net increase (decrease) in cash and cash equivalents | **(8,739)** | 9,230 | **(16,055)** | 13,817 |
| Cash and cash equivalents, beginning of period | **23,716** | 21,726 | **31,032** | 17,139 |
| Cash and cash equivalents, end of period | **14,977** | 30,956 | **14,977** | 30,956 |

(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 and nine months ended September 30, 2012, we generated Cash Flow from Net Earnings of $10.3 million and $17.4 million, respectively (2011 - $12.0 million and $19.6 million, respectively). The decrease in Cash Flow from Net Earnings is largely attributable to non-cash changes in deferred income taxes as a result of the repurchase of the convertible debentures and changes in income tax legislation with respect to partnership income deferrals.

For the three and nine months ended September 30, 2012, the Company generated $1.5 million and $2.5 million in cash flow from operating activities, respectively (2011 – generated $14.6 million and $29.8 million, respectively).

**Cash Flows from Financing Activities**

For the three and nine months ended September 30, 2012, we utilized $3.7 million and $12.5 million for financing activities, compared to utilizing $2.5 million and $2.4 million in the three and nine months ended September 30, 2011. Cash utilized for financing activities for the three month period ended September 30, 2012 pertained primarily to scheduled debt repayments and dividend payments. For the nine month period, it related to scheduled debt repayments, dividend payments, and the repurchasing of the Debentures offset by proceeds from a new credit facility.

**Cash Flows from Investing Activities**

For the three and nine months ended September 30, 2012, we utilized $6.5 million and $6.1 million in cash flow from investing activities compared to utilizing $2.9 million and $13.6 million for the same periods in 2011. Cash utilized for investing activities in the three and nine months ended September 30, 2012 and 2011 was the result of equipment dealership acquisitions and our normal capital expenditures. During the nine months ended September 30, 2012, the Company disposed of a portion of its rental fleet of rock trucks which partially offset cash utilized during that period.

**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. 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.

**Finance Facilities**

The Company has credit facilities with a syndicate of lenders to help finance the general day-to-day cash requirements of our operations (the **"Operating Facility"**), to make acquisitions (the **"Acquisition Facility"**) and to finance our inventory the (**"Flooring Facility"**) (collectively the **"Syndicated Facility"**).

During the nine months ended September 30, 2012, the Company amended the Syndicated Facility to add a $35 million facility in conjunction with the repurchase of the Debentures (the **"Debenture Repayment Facility"**) and a $10 million facility to finance the Company's fleet of vehicles (the **"Fleet Facility"**). The Debenture Repayment Facility calls for equal quarterly principal payments of $0.9 million for a period of 19 fiscal quarters commencing on September 27, 2012, after which point, a balloon payment of $18.4 million is due. Draws on the Fleet Facility are repayable in equal monthly installments over a period of five years.

The Syndicated Facility is a revolving facility secured in favour of the syndicate by a general security agreement. Advances under the amended Syndicated Facility may be made based on our lender's prime rate or the US base rate plus 100 bps – 250 bps or based on the banker's acceptance ("BA") rate plus 200 bps – 375 bps. The Company pays standby fees of between 45 bps and 84 bps per annum on any undrawn portion of the Syndicated Facility.

The Operating Facility may be utilized to advance up to the lesser of 50% of eligible inventory plus 75% of eligible accounts receivable or $30.0 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.

During the nine months ended September 30, 2012, the Company increased its floor plan limit by $50 million. In addition to the Syndicated Facility, we now have further floor plan facilities of approximately $450.0 million (inclusive of seasonal increases) from various lending institutions for the purpose of financing inventory. Our equipment inventory is financed by way of floor plan financing, which is made available to Rocky 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 $15.0 million as at September 30, 2012, we have approximately $304.9 million available on our various credit facilities.

$ millions

| | Facility limit | Amount drawn | Available |
|---|---|---|---|
| Operating Facility | 30.0 | 1.9 | 28.1 |
| Acquisition Facility | 30.0 | 12.0 | 18.0 |
| Fleet Facility | 10.0 | - | 10.0 |
| Debenture Repayment Facility | 34.1 | 34.1 | - |
| Various Floor Plan Facilities | 550.0 | 301.2 | 248.8 |
| | 654.1 | 349.2 | 304.9 |

The Company utilizes derivative financial instruments to hedge its exposure to changes in interest rates. We do not use derivatives to speculate, but rather as a risk management tool. The Company has three separate interest rate swaps (the **"Swaps"**) related to its Acquisition Facility, Flooring Facility and the Debenture Repayment Facility (collectively 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, 2012, the notional amount of the swap was $12.0 million. The interest rate swap related to the Flooring Facility is non-amortizing and matures on August 31, 2018. The notional amount outstanding at September 30, 2012 was $25.0 million. The interest rate swap on the Debenture Repayment Facility amortizes with principal repayments on the debt until April 27, 2017. At September 30, 2012, the notional amount of the swap was $34.1 million.

The Hedged Facilities each bear interest at a floating rate based on the prevailing one-month BA rate plus 200 – 375 bps. The Swaps hedge our exposure to fluctuations in the BA rate. At September 30, 2012 the effective rates on the Acquisition, Flooring and Debenture Repayment Facilities were 3.7%, 4.5% and 4.3%, respectively (December 31, 2011 – 4.0%, 4.7% and Nil, respectively). 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 the Swaps are included in the consolidated statement of other comprehensive income to the extent the hedge continues to be effective. The related other comprehensive amounts are allocated to net earnings in the same period in which the hedged item affects net earnings. 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 5, 2012, Rocky's Board of Directors declared a quarterly dividend of $0.0675 per common share on the Company's outstanding common shares. The common share dividend is payable on December 31, 2012, to shareholders of record at close of business on November 30, 2012. 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**

Thousands

| | **For the nine months ended September 30, 2012** | For the nine months ended September 30, 2011 |
|---|---|---|
| Opening balance | **18,768** | 18,427 |
| Issued pursuant to: | | |
| Agritrac acquisition | **-** | 55 |
| J&B acquisition | **-** | 84 |
| Stock option exercises | **18** | 212 |
| Repurchased pursuant to normal course issuer bid | **-** | (10) |
| Closing balance | **18,786** | 18,768 |

As at November 5, 2012, there were 18,786,401 shares outstanding.

There were 122 thousand shares under a restricted share unit plan outstanding as at September 30, 2012 (December 31, 2011 – 122 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, 2012 are as follows (expressed in thousands except per option 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 | 0.2 |
| February 29, 2008 | 365 | 365 | 12.40 | February 28, 2013 | 0.4 |
| March 12, 2009 | 25 | 25 | 4.15 | March 12, 2014 | 1.4 |
| December 29, 2009 | 175 | 111 | 9.22 | December 29, 2014 | 2.2 |
| March 11, 2011 | 63 | 20 | 10.39 | March 11, 2016 | 3.4 |
| August 11, 2011 | 190 | 64 | 8.71 | August 11, 2016 | 3.9 |
| March 28, 2012 | 352 | - | 11.96 | March 28, 2017 | 4.5 |
| | 1,226 | 641 | 10.87 | | 2.5 |

As at November 5, 2012, there were 1,201,334 options outstanding.

## GOODWILL

During the nine months ended September 30, 2012, goodwill increased by $2.8 million as a result of the acquisition of CFE.

For the purposes of impairment testing, goodwill is allocated to the Company's cash-generating units ("**CGUs**") (or groups of CGUs) which are expected to benefit from the synergies of the combination. As at September 30, 2012, the Company has identified one CGU and as such, all goodwill has been allocated to that CGU.

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. Such impairment losses are not reversed in subsequent periods.

The Company performed a goodwill impairment test on December 31, 2011 and determined that the recoverable amount of the CGU exceeded its carrying amount. Consequently, no impairment charge was made against goodwill. As at September 30, 2012, there was no indication that the Company's CGU was impaired, thus no impairment test was required.

## CONTRACTUAL OBLIGATIONS

The Company's contractual obligations consist primarily of its floor plan payable used to finance the purchase of new, and to a lesser extent, used equipment. The Company has classified its floor plan payable as current as the corresponding inventory to which it relates has also been classified as current. Floor plan payable as well as trade payables, accruals and other form the majority of the Company's contractual obligations which will be discharged within the next 12 months.

Other significant contractual obligations outstanding as at September 30, 2012 include long-term debt consisting predominantly of the Debenture Repayment Facility and operating lease commitments which relate primarily to the Company's facilities and vehicles. Lease terms are between 3 and 10 years and all building leases contain 5-year renewal options.

The following table provides an overview of the contractual obligations (including both principal and interest payments) of the Company as at September 30, 2012.

$ thousands

| | **Total** | **Remainder of 2012** | **2013-2014** | **2015-2016** | **Thereafter** |
|---|---|---|---|---|---|
| Trade payables, accruals and other | 46,382 | 46,382 | - | - | - |
| Floor plan payable | 311,791 | 77,948 | 233,843 | - | - |
| Long-term debt | 52,703 | 3,546 | 16,381 | 13,328 | 19,448 |
| Obligations under finance leases | 1,986 | 197 | 1,482 | 307 | - |
| Operating lease obligations | 36,634 | 1,983 | 12,529 | 8,334 | 13,788 |
| Derivative financial instruments | 1,821 | 153 | 1,068 | 524 | 76 |
| Total contractual obligations | 451,317 | 130,209 | 265,303 | 22,493 | 33,312 |

**RELATED PARTY TRANSACTIONS**

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

| $ thousands | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **2012** **$** | 2011 $ | **2012** **$** | 2011 $ |
| Management fees | **-** | 92 | **31** | 270 |
| Performance bonuses | **-** | - | **-** | 131 |
| Flight costs | **22** | 103 | **330** | 249 |
| Other expenses | **-** | - | **68** | - |
| Rental payments on Company facilities | **671** | 872 | **2,870** | 2,607 |
| Equipment sales | **1,718** | 721 | **4,299** | 3,313 |
| Equipment purchases | **948** | 1,229 | **1,944** | 2,536 |

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.

As at September 30, 2012 and December 31, 2011, 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:

| $ thousands | **September 30, 2012** | December 31, 2011 |
|---|---|---|
| Due from related parties | **374** | 307 |
| Due to related parties | **(20)** | (77) |

The amounts due from related parties are not secured and are to be settled in cash. As at September 30, 2012 and December 31, 2011, the amounts due from related parties are considered collectible. During the three and nine months ended September 30, 2012, $Nil and $Nil, respectively, has been recognized in bad debt expenses with respect to related party transactions (2011 - $Nil and $Nil).

**OFF-BALANCE SHEET ARRANGEMENTS**

We use off-balance sheet financing in connection with numerous operating leases. 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 expire between February 2013 and December 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 24 of the audited consolidated financial statements for the year ended December 31, 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 monthly 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**

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 or market values as established by industry publications less the costs to sell. Parts inventory is recorded at the lower of cost and net realizable value, with cost being determined on an average cost basis and net realizable value being determined by recent sales of the same or similar parts inventory less the costs to sell. Work-in-progress is valued on a specific item, actual cost basis.

**Net Recoverable Amount of Goodwill**

For the purposes of impairment testing, goodwill is allocated to the Company's CGU. The recoverable amount of the CGU is determined from a value in use calculation. The key assumptions for the value in use calculation are those regarding the discount and growth rates. The key assumptions are based on past experience which has been adjusted for expected changes in future conditions.

**Derivative Financial Instruments**

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

**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 certain rental revenues.

**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 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 plus the applicable overheads.

**Selling, General and Administrative Expenses**

SG&A 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 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 Debentures and various finance leases.

## RISKS AND UNCERTAINTIES

Risk factors faced by Rocky 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; weather conditions; 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 fully 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 a commonly used metric in the dealership industry. EBITDA is calculated by adding long-term interest, income taxes and depreciation 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 and equipment, non-cash finance charges on the Debentures and long-term debt, deferred income taxes, share-based payment expense, losses (gains) on the disposal of property and equipment, losses (gains) on derivative financial instruments and the loss on the repurchase of the Debentures 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 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, 2012 and 2011, the ineffective portion of hedged financial instruments and acquisition transaction costs are considered by management to be non-recurring charges in SG&A. 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. In addition to the non-recurring charges in SG&A, the loss on the repurchase of the Debentures is considered to be a non-recurring charge. 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 Quarterly Net Earnings to EBITDA

$ thousands

| | **Q3 2012** | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 | Q1 2011 | Q4 2010 | Q3 2010 |
|---|---|---|---|---|---|---|---|---|---|
| Net earnings | **8,451** | 1,595 | 2,159 | 8,961 | 7,121 | 4,464 | 2,663 | 6,345 | 3,702 |
| Interest on long-term debt | **599** | 802 | 870 | 917 | 870 | 933 | 867 | 943 | 662 |
| Depreciation | **1,435** | 1,271 | 1,433 | 1,604 | 1,711 | 1,663 | 1,362 | 1,517 | 1,468 |
| Income taxes | **3,019** | 937 | 880 | 3,105 | 2,294 | 1,750 | 940 | 2,564 | 1,745 |
| EBITDA | **13,504** | 4,605 | 5,342 | 14,587 | 11,996 | 8,810 | 5,832 | 11,369 | 7,577 |

### Reconciliation of Year to Date Net Earnings to EBITDA

| $ thousands | **For the nine months ended September 30,** | |
|---|---|---|
| | **2012** | 2011 |
| Net earnings | **12,205** | 14,248 |
| Interest on long-term debt | **2,271** | 2,670 |
| Depreciation | **4,139** | 4,736 |
| Income taxes | **4,836** | 4,984 |
| EBITDA | **23,451** | 26,638 |

### Reconciliation of Cash Flow from Net Earnings

| $ thousands | **For the three months ended September 30,** | | **For the nine months ended September 30,** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Net earnings | **8,451** | 7,121 | **12,205** | 14,248 |
| Depreciation expense | **1,435** | 1,711 | **4,139** | 4,736 |
| Accretion expense | **-** | 88 | **123** | 259 |
| Deferred tax expense (recovery) | **66** | 2,280 | **(4,605)** | (896) |
| Share-based payment expense | **437** | 264 | **1,193** | 775 |
| Non-cash impact – credit promissory note | **4** | 6 | **16** | (26) |
| Loss (gain) on disposal of property and equipment | **(37)** | - | **(118)** | 6 |
| Loss (gain) on derivative financial instruments | **(38)** | 523 | **218** | 523 |
| Loss on repurchase of convertible debentures | **-** | - | **4,232** | - |
| Cash Flow from Net Earnings | **10,318** | 11,993 | **17,403** | 19,625 |

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

| $ thousands | **For the three months ended September 30,** | | **For the nine months ended September 30,** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Operating SG&A | **23,900** | 19,224 | **67,720** | 53,068 |
| Depreciation | **1,289** | 1,165 | **3,683** | 3,699 |
| Non-recurring charges | | | | |
| Ineffective portion of derivative financial instruments | **(38)** | 523 | **218** | 523 |
| Syndication charges | **-** | - | **-** | 1,083 |
| Severance charges | **-** | - | **-** | 1,634 |
| Acquisition transaction charges | **30** | 3 | **30** | 30 |
| SG&A | **25,181** | 20,915 | **71,651** | 60,037 |

**Reconciliation of Normalized Diluted Earnings per Share**

| $ thousands, except per share amounts | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Earnings used in the calculation of diluted earnings per share | **8,451** | 7,617 | **12,205** | 15,719 |
| After tax impact of non-recurring charges in SG&A and loss on repurchase of Debentures[(1)] | **(6)** | 390 | **3,382** | 2,407 |
| Earnings used in the calculation of Normalized Diluted Earnings per Share | **8,445** | 8,007 | **15,587** | 18,126 |
| Weighted average diluted shares used in the calculation of diluted earnings per share | **18,895** | 22,556 | **18,888** | 22,458 |
| Normalized Diluted Earnings per Share | **0.45** | 0.35 | **0.83** | 0.81 |

(1) – After applying statutory rate of 25% (2011 – 26.5%)

## SUBSEQUENT EVENTS

On November 1, 2012, the Company purchased the Case IH Agriculture dealership assets of Houlder Automotive Ltd. ("**Houlder**"). Houlder operates dealership locations in Grimshaw and Falher, Alberta. The Company is in the process of determining the purchase price allocation. The purchase price is estimate to be approximately $5.5 million and is expected to be funded with cash or available credit facilities.

## 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 ("**ICFR**") 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 IFRS.

The CEO and CFO have evaluated the effectiveness of our DC&P and assessed the design of our ICFR, as of September 30, 2012, 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, 2012, 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 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 Rocky's products and services, (iii) growth of Rocky's business and operations, (iv) business strategies and implementation plans, (v) demand for parts and service due to the increased machine population that Rocky has installed over the past three and a half years, (vi) realization of accretive benefits from significant acquisition activity undertaken in 2011 and 2012 and that

such benefits will continue to support growth in Rocky's revenues in 2012 and deliver gradual improvements in gross profit going forward, (vii) expected high levels of activity in Rocky's end-markets and any benefits expected to be realized by Rocky as a result, (viii) disclosure under “Adequacy of Capital Resources”, (ix) the expectation that shareholder value will increase by eliminating the dilutive impact of the Debentures, (x) the expectation that construction market growth will stabilize or decline, and (xi) any anticipated gains or benefits as a result of the Company’s international recruitment of more equipment technicians, (xii) the anticipation that Operating SG&A will decrease and align with Rocky’s long-term objective of being less than 10% of sales, and (xiii) any improved sales or market penetration as a result of Rocky’s re-branding initiative, its investment in its sales force, processes, and training.

With respect to the FLS listed above and contained in this MD&A, Rocky 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, (ix) the Company’s cash flow will remain sufficient to, in connection with its credit facilities, adequately finance its fleet needs, and (x) the Company’s past experience with farmers’ equipment buying patterns (xi) the anticipated effects of the drought that affected the United States in 2012.

Rocky’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 Rocky's 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.

*Condensed Consolidated Interim Financial Statements and Notes*

*Three and Nine Month Periods Ended September 30, 2012 and 2011*
*(Unaudited)*

**Consolidated Balance Sheets**
Expressed in thousands of Canadian dollars (unaudited)

| | Note | **September 30, 2012 $** | December 31, 2011 $ |
|---|---|---|---|
| **Assets** | | | |
| Current | | | |
| Cash | | **14,977** | 31,032 |
| Trade receivables and other | | **41,669** | 45,453 |
| Inventory | **8** | **449,108** | 354,631 |
| Prepaid expenses | | **2,770** | 3,363 |
| | | **508,524** | 434,479 |
| Non-current | | | |
| Property and equipment | | **19,701** | 21,369 |
| Goodwill | | **12,720** | 9,961 |
| | | **32,421** | 31,330 |
| | | **540,945** | 465,809 |
| **Liabilities** | | | |
| Current | | | |
| Trade payables, accruals and other | | **46,382** | 48,670 |
| Floor plan payable | | **301,247** | 226,863 |
| Deferred revenue and advances | | **5,467** | 3,808 |
| Current portion of long-term debt | | **8,515** | 5,927 |
| Current portion of obligations under finance leases | | **716** | 907 |
| | | **362,327** | 286,175 |
| Non-current | | | |
| Long-term debt | | **39,588** | 11,701 |
| Obligations under finance leases | | **1,102** | 1,589 |
| Convertible debentures | **9** | **-** | 28,761 |
| Deferred tax liability | **13.2** | **3,464** | 8,283 |
| Derivative financial instruments | **15** | **1,691** | 1,139 |
| | | **45,845** | 51,473 |
| | | **408,172** | 337,648 |
| **Shareholders' Equity** | | | |
| Common shares | | **79,794** | 79,668 |
| Convertible debentures | **9** | **-** | 990 |
| Contributed surplus | | **5,456** | 4,304 |
| Accumulated other comprehensive loss | **15** | **(753)** | (502) |
| Retained earnings | | **48,276** | 43,701 |
| | | **132,773** | 128,161 |
| | | **540,945** | 465,809 |

**APPROVED BY THE BOARD**

*"Signed" Dennis Hoffman*
Dennis Hoffman, Director

*"Signed" M.C. (Matt) Campbell*
M.C. (Matt) Campbell, Director

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

**Consolidated Statements of Net Earnings**
For the three and nine month periods ended
Expressed in thousands of Canadian dollars except per share amounts (unaudited)

| | Note | **Three Months Ended September 30, 2012 $** | Three Months Ended September 30, 2011 $ | **Nine Months Ended September 30, 2012 $** | Nine Months Ended September 30, 2011 $ |
|---|---|---|---|---|---|
| **Sales** | | | | | |
| New equipment | | **109,636** | 90,523 | **353,223** | 291,221 |
| Used equipment | | **96,653** | 78,468 | **217,767** | 187,491 |
| Parts | | **31,377** | 26,757 | **68,284** | 59,376 |
| Service | | **8,465** | 8,034 | **22,526** | 20,569 |
| Other | | **1,403** | 1,073 | **3,526** | 3,517 |
| | **11** | **247,534** | 204,855 | **665,326** | 562,174 |
| Cost of sales | | **207,836** | 171,556 | **563,682** | 473,951 |
| Gross profit | | **39,698** | 33,299 | **101,644** | 88,223 |
| Selling, general and administrative | **12** | **25,181** | 20,915 | **71,651** | 60,037 |
| Loss on repurchase of convertible debentures | **9** | **-** | - | **4,232** | - |
| Interest on short-term debt | | **2,448** | 2,099 | **6,449** | 6,284 |
| Interest on long-term debt | | **599** | 870 | **2,271** | 2,670 |
| Earnings before income taxes | | **11,470** | 9,415 | **17,041** | 19,232 |
| Provision for (recovery of) income taxes | | | | | |
| Current | | **2,953** | 14 | **9,441** | 5,880 |
| Deferred | | **66** | 2,280 | **(4,605)** | (896) |
| | **13.1** | **3,019** | 2,294 | **4,836** | 4,984 |
| **Net earnings** | | **8,451** | 7,121 | **12,205** | 14,248 |
| Earnings per share | | | | | |
| Basic | | **0.45** | 0.38 | **0.65** | 0.76 |
| Diluted | | **0.45** | 0.34 | **0.65** | 0.70 |

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

**Consolidated Statements of Comprehensive Income**
For the three and nine month periods ended
Expressed in thousands of Canadian dollars (unaudited)

| | Note | **Three Months Ended September 30, 2012 $** | Three Months Ended September 30, 2011 $ | **Nine Months Ended September 30, 2012 $** | Nine Months Ended September 30, 2011 $ |
|---|---|---|---|---|---|
| **Net earnings** | | **8,451** | 7,121 | **12,205** | 14,248 |
| **Other comprehensive income (loss):** | | | | | |
| Unrealized gain (loss) on derivative financial instruments (net of tax) | **15** | **155** | (337) | **(251)** | (337) |
| **Total other comprehensive income (loss) for the period, net of tax** | | **155** | (337) | **(251)** | (337) |
| **Net earnings and comprehensive income** | | **8,606** | 6,784 | **11,954** | 13,911 |

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

**Consolidated Statements of Changes in Equity**
Expressed in thousands of Canadian dollars and thousands of common shares (unaudited)

| | | Common shares | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Number of shares | Amount $ | Convertible debentures $ | Contributed surplus $ | Accumulated other comprehensive loss $ | Retained earnings $ | Total equity $ |
| **Balance, December 31, 2011** | | 18,768 | 79,668 | 990 | 4,304 | (502) | 43,701 | 128,161 |
| Shares issued upon exercise of stock options | **10** | 18 | 126 | - | (41) | - | - | 85 |
| Share-based payment expense | **12** | - | - | - | 1,193 | - | - | 1,193 |
| Net earnings | | - | - | - | - | - | 12,205 | 12,205 |
| Other comprehensive loss | **15** | - | - | - | - | (251) | - | (251) |
| Dividends paid | | - | - | - | - | - | (3,380) | (3,380) |
| Repurchase of convertible debentures | **9** | - | - | (990) | - | - | (4,250) | (5,240) |
| **Balance, September 30, 2012** | | 18,786 | 79,794 | - | 5,456 | (753) | 48,276 | 132,773 |

| | | Common shares | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Number of shares | Amount $ | Convertible debentures $ | Contributed surplus $ | Accumulated other comprehensive loss $ | Retained earnings $ | Total equity $ |
| **Balance, December 31, 2010** | | 18,427 | 76,144 | 990 | 4,837 | - | 23,905 | 105,876 |
| Shares issued: | | | | | | | | |
| As consideration for business combinations | | 139 | 1,353 | - | - | - | - | 1,353 |
| Upon exercise of stock options | **10** | 212 | 2,214 | - | (1,620) | - | - | 594 |
| Repurchased pursuant to normal course issuer bid | | (10) | (43) | - | - | - | (50) | (93) |
| Share-based payment expense | **12** | - | - | - | 775 | - | - | 775 |
| Net earnings | | - | - | - | - | - | 14,248 | 14,248 |
| Other comprehensive loss | **15** | - | - | - | - | (337) | - | (337) |
| Dividends paid | | - | - | - | - | - | (2,519) | (2,519) |
| **Balance, 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 Statements of Cash Flows**
For the three and nine month periods ended
Expressed in thousands of Canadian dollars (unaudited)

| | Note | **Three Months Ended September 30, 2012 $** | Three Months Ended September 30, 2011 $ | **Nine Months Ended September 30, 2012 $** | Nine Months Ended September 30, 2011 $ |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net earnings | | **8,451** | 7,121 | **12,205** | 14,248 |
| Adjustments for: | | | | | |
| Depreciation expense | | **1,435** | 1,711 | **4,139** | 4,736 |
| Accretion expense | | **-** | 88 | **123** | 259 |
| Deferred tax expense (recovery) | | **66** | 2,280 | **(4,605)** | (896) |
| Share-based payment expense | **12** | **437** | 264 | **1,193** | 775 |
| Non-cash impact of credit promissory note | | **4** | 6 | **16** | (26) |
| Loss (gain) on disposal of property and equipment | | **(37)** | - | **(118)** | 6 |
| Loss (gain) on derivative financial instruments | **15** | **(38)** | 523 | **218** | 523 |
| Loss on repurchase of convertible debentures | **9** | **-** | - | **4,232** | - |
| | | **10,318** | 11,993 | **17,403** | 19,625 |
| Changes in non-cash working capital | | **(8,841)** | 2,635 | **(14,887)** | 10,151 |
| | | **1,477** | 14,628 | **2,516** | 29,776 |
| **Financing activities** | | | | | |
| Repayment of long-term debt | | **(2,302)** | (1,542) | **(4,855)** | (4,236) |
| Repurchase of convertible debentures | **9** | **-** | - | **(37,800)** | - |
| Transaction costs incurred on repurchase of convertible debentures | **9** | **-** | - | **(840)** | - |
| Proceeds from long-term debt | **9** | **-** | - | **35,000** | 3,302 |
| Net change in obligations under finance leases | | **(130)** | (116) | **(678)** | 558 |
| Dividends paid | | **(1,267)** | (845) | **(3,380)** | (2,519) |
| Proceeds from issuance of common shares | **10** | **8** | - | **85** | 594 |
| Purchase of shares for cancellation | | **-** | (44) | **-** | (93) |
| | | **(3,691)** | (2,547) | **(12,468)** | (2,394) |
| **Investing activities** | | | | | |
| Purchase of property and equipment | | **(1,631)** | (2,129) | **(4,846)** | (4,796) |
| Disposal of property and equipment | | **85** | 349 | **3,722** | 522 |
| Purchase of equipment dealerships, net of cash acquired | **7** | **(4,979)** | (1,071) | **(4,979)** | (9,291) |
| | | **(6,525)** | (2,851) | **(6,103)** | (13,565) |
| **Net increase (decrease) in cash and cash equivalents** | | **(8,739)** | 9,230 | **(16,055)** | 13,817 |
| **Cash and cash equivalents, beginning of period** | | **23,716** | 21,726 | **31,032** | 17,139 |
| **Cash and cash equivalents, end of period** | | **14,977** | 30,956 | **14,977** | 30,956 |
| Cash taxes paid | | **202** | 145 | **9,924** | 3,020 |
| Cash interest received | | **-** | - | **8** | 52 |
| Cash interest paid | | **3,404** | 3,520 | **9,132** | 9,505 |

*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, 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.

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.

## 2. Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, 'Interim financial reporting' and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS. These condensed consolidated interim financial statements were approved by the Board of Directors of the Company on November 5, 2012.

## 3. Summary of significant accounting policies

The accounting policies adopted are consistent with those described in the consolidated financial statements for the year ended December 31, 2011 except for taxes on income in the interim periods which are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

## 4. Key estimates and judgements

The preparation of interim financial statements requires the use of estimates and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the key estimates and judgements made by management in applying the Company's accounting policies were the same as those applied to the annual consolidated financial statements for the year ended December 31, 2011.

## 5. Prior year comparative disclosures

Certain prior period comparative information disclosed in the notes to these condensed consolidated interim financial statements has been revised to conform to current period presentation.

## 6. Seasonality

The Company's customers operate in industries that are affected by seasonality. The seasonal nature of our 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, when winter weather makes certain types of construction and agriculture work difficult to perform.

**7. Acquisitions**

On July 3, 2012, the Company acquired 100% of the outstanding common shares of Camrose Farm Equipment Ltd. ("**CFE**"), a Case IH and New Holland Agriculture dealer with stores in Camrose and Killam, Alberta. The preliminary purchase price allocation for CFE is as follows:

| | $ |
|---|---|
| Purchase Price Allocation | |
| Cash consideration | |
| Paid | 5,130 |
| Payable | 1,954 |
| Purchase consideration | 7,084 |
| | |
| Net working capital | |
| Cash | 151 |
| Trade receivables and other | 2,086 |
| Inventory | 20,086 |
| Prepaid expenses | 15 |
| Trade payables, accruals and other | (2,282) |
| Floor plan payable | (16,493) |
| | 3,563 |
| Property and equipment | 1,229 |
| Deferred taxes | (153) |
| Long-term debt | (314) |
| Goodwill | 2,759 |
| Net assets | 7,084 |

During the three and nine months ended September 30, 2012, the Company incurred $30 of acquisition related costs. These costs are recognized as administrative expenses within selling, general and administrative expenses in the period in which they are incurred.

Revenue and net income generated by CFE and included in the consolidated statement of net earnings for the three and nine month periods ended September 30, 2012 amounted to $8,852 and $404 respectively. Had this acquisition been affected at January 1, 2012, the Company estimates that consolidated revenue and net income for the nine month period ended September 30, 2012 would have been $681,260 and $12,931 respectively. The pro forma revenues and income are not necessarily indicative of the results that actually would have occurred if the acquisition had taken place on January 1, or of the results which may be obtained in the future.

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.

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

## 8. Inventory

| | **September 30, 2012** **$** | December 31, 2011 $ |
|---|---|---|
| New equipment | **262,589** | 171,344 |
| Used equipment | **147,811** | 153,187 |
| Parts | **35,337** | 28,422 |
| Work-in-progress | **3,371** | 1,678 |
| | **449,108** | 354,631 |

For the three and nine months ended September 30, 2012, inventory recognized as an expense amounted to $203,059 and $551,927 (2011 – $166,785 and $461,994), respectively, which is included in cost of sales in the consolidated statement of net earnings. There were $427 and $427 in write downs of inventory to net realizable value for the three and nine months ended September 30, 2012 (2011 - $496 and $1,359) and there have been $Nil and $Nil of reversals of previously recorded inventory write downs (2011 - $Nil and $Nil) in the consolidated statement of net earnings. The Company's inventory has been pledged as security for its bank indebtedness, floor plan payable and long-term debt.

## 9. Convertible debentures

On February 22, 2012, the Company announced its offer to acquire all of its outstanding 7% convertible unsecured subordinated debentures (the **"Debentures"**) at a price of $1.1 for each $1.0 principal amount of Debentures. On March 22, 2012, the Company announced its intention to enhance its offer (the **"Offer"**) from $1.1 to $1.2 (the **"Offer Price"**) for each $1.0 principal amount of Debentures.

On April 23, 2012, a special meeting of the holders of the Debentures (the **"Debentureholders"**) took place where the Debentureholders approved an amendment to the debenture indenture. This amendment allowed the Company to redeem all of its Debentures which were not tendered pursuant to the Offer, at the Offer Price. On April 30, 2012, the Company repurchased all Debentures which were tendered pursuant to the Offer and redeemed the remainder pursuant to the amendment. The face value of the Debentures repurchased was $31,500.

On derecognition, the Company allocated $4,232 of the loss to net earnings and $4,250 (net of income taxes of $284) to retained earnings.

In conjunction with the redemption and repurchase of the Debentures, the Company secured an additional $35,000 credit facility (the **"Debenture Repayment Facility"**) effective April 27, 2012. The Debenture Repayment Facility calls for equal quarterly principal payments of $875 for a period of 19 fiscal quarters commencing on September 27, 2012, after which point, a balloon payment of $18,375 is due. The Debenture Repayment Facility bears interest at the Bankers' Acceptance rate plus 2.5% - 4.0%.

On April 27, 2012, the Company also entered into a floating-to-fixed interest rate swap, hedging its exposure to fluctuations in the Bankers' Acceptance rate on the $35,000 Debenture Repayment Facility. This interest rate swap carries a notional amount which amortizes with the hedged debt.

## 10. 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.

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 each anniversary of the grant.

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

| | **2012** | 2011 |
|---|---|---|
| Weighted average risk free interest rate | **1.3%** | 2.1% |
| Weighted average expected option life | **4.5 years** | 4.5 years |
| Weighted average expected volatility (1) | **55.3%** | 60.5% |
| Weighted average expected annual dividend per share | **$0.18** | $0.18 |
| Weighted average exercise price | **$11.96** | $9.38 |
| Weighted average share price on date of grant | **$11.96** | $9.38 |
| Weighted average fair value | **$4.92** | $4.17 |

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

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

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Number of options (thousands)** | **Weighted average exercise price $** | Number of options (thousands) | Weighted average exercise price $ |
| Balance, January 1 | **908** | **10.33** | 1,074 | 9.39 |
| Granted | **356** | **11.96** | 315 | 9.38 |
| Exercised | **(18)** | **4.73** | (212) | 2.80 |
| Forfeited | **(20)** | **11.78** | (252) | 8.99 |
| Expired | **-** | **-** | - | - |
| Balance, September 30 | **1,226** | **10.87** | 925 | 11.00 |

The weighted average share price at the date of exercise during for the three and nine months ended September 30, 2012 was $11.00 and $11.40, respectively (2011 – $Nil and $10.13).

**10. Stock options, continued**

The options outstanding at September 30, 2012 are as follows:

| Date granted | Number of options outstanding (thousands) | Number of options exercisable (thousands) | Weighted average exercise price $ | Expiry date | Weighted average contractual life (years) |
|---|---|---|---|---|---|
| December 20, 2007 | 56 | 56 | 10.00 | December 20, 2012 | 0.2 |
| February 29, 2008 | 365 | 365 | 12.40 | February 28, 2013 | 0.4 |
| March 12, 2009 | 25 | 25 | 4.15 | March 12, 2014 | 1.4 |
| December 29, 2009 | 175 | 111 | 9.22 | December 29, 2014 | 2.2 |
| March 11, 2011 | 63 | 20 | 10.39 | March 11, 2016 | 3.4 |
| August 11, 2011 | 190 | 64 | 8.71 | August 11, 2016 | 3.9 |
| March 28, 2012 | 352 | - | 11.96 | March 28, 2017 | 4.5 |
| | 1,226 | 641 | 10.87 | | 2.5 |

**11. Sales**

The Company's sales for the three and nine months ended September 30 are comprised of:

| | **Three Months Ended September 30, 2012 $** | Three Months Ended September 30, 2011 $ | **Nine Months Ended September 30, 2012 $** | Nine Months Ended September 30, 2011 $ |
|---|---|---|---|---|
| Agriculture equipment sales | **179,414** | 147,260 | **499,047** | 423,120 |
| Construction equipment sales | **26,875** | 21,731 | **71,943** | 55,592 |
| Parts sales | **31,377** | 26,757 | **68,284** | 59,376 |
| Sale of goods | **237,666** | 195,748 | **639,274** | 538,088 |
| Rendering of services | **9,868** | 9,107 | **26,052** | 24,086 |
| Total sales | **247,534** | 204,855 | **665,326** | 562,174 |

## 12. Selling, general and administrative

Selling, general and administrative expenses for the three and nine months ended September 30 are comprised of:

| | **Three Months Ended September 30, 2012 $** | Three Months Ended September 30, 2011 $ | **Nine Months Ended September 30, 2012 $** | Nine Months Ended September 30, 2011 $ |
|---|---|---|---|---|
| Compensation and related expenses | **15,878** | 13,584 | **44,625** | 38,952 |
| Administrative expenses | **4,403** | 2,830 | **12,339** | 7,247 |
| Rent and other facility expenses | **3,174** | 3,072 | **9,811** | 9,364 |
| Depreciation expense | **1,289** | 1,165 | **3,683** | 3,699 |
| Share-based payment expense | **437** | 264 | **1,193** | 775 |
| Total selling, general and administrative expenses | **25,181** | 20,915 | **71,651** | 60,037 |

Included in compensation and related expenses for the three and nine months ended September 30 are variable sales commissions of $3,879 and $9,302 respectively (2011 - $2,408 and $6,615). Included in administrative expenses are marketing, training, insurance, travel, professional fees and other miscellaneous expenses.

## 13. Income taxes

### 13.1 Income tax recognized in net earnings

For the three and nine months ended September 30, total taxes recognized in net earnings were different than the amount computed by applying the combined statutory Canadian and Provincial tax rates to income before taxes. The difference resulted from the following:

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2012 $** | 2011 $ | **2012 $** | 2011 $ |
| Earnings before income taxes | **11,470** | 9,415 | **17,041** | 19,232 |
| Computed tax at statutory tax rate of 25.0% (2011 – 26.5%) | **2,867** | 2,494 | **4,260** | 5,096 |
| Non-deductible expenses | **136** | 6 | **387** | 247 |
| Income tax credits | **(100)** | - | **(100)** | - |
| Debenture repurchase | **-** | - | **22** | - |
| Change in enacted tax rates | **-** | 41 | **-** | (85) |
| Adjustment from prior year income tax expenses | **28** | (368) | **90** | (386) |
| Other | **88** | 121 | **177** | 112 |
| | **3,019** | 2,294 | **4,836** | 4,984 |

**13. Income taxes, continued**

**13.2 Deferred taxes**

The Company's deferred tax liabilities (assets) consist of the following:

| | **September 30, 2012 $** | December 31, 2011 $ |
|---|---|---|
| Share issue and refinancing costs | **(1,065)** | (184) |
| Cumulative eligible capital | **(92)** | (92) |
| Property and equipment | **497** | 971 |
| Partnership deferral | **4,674** | 7,588 |
| Convertible debentures | **-** | 361 |
| Directors' share units | **(121)** | (71) |
| Interest-rate swaps | **(429)** | (290) |
| Net deferred tax liability | **3,464** | 8,283 |

**14. Related party transactions**

**14.1 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** | |
|---|---|---|---|---|
| | **2012 $** | 2011 $ | **2012 $** | 2011 $ |
| Management fees | **-** | 92 | **31** | 270 |
| Performance bonuses | **-** | - | **-** | 131 |
| Flight costs | **22** | 103 | **330** | 249 |
| Other expenses | **-** | - | **68** | - |
| Rental payments on Company facilities | **671** | 872 | **2,870** | 2,607 |
| Equipment sales | **1,718** | 721 | **4,299** | 3,313 |
| Equipment purchases | **948** | 1,229 | **1,944** | 2,536 |

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.

## 14. Related party transactions, continued

### 14.2 Amounts due from (to) related parties

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

| | **September 30, 2012** **$** | December 31, 2011 $ |
|---|---|---|
| Due from related parties | **374** | 307 |
| Due to related parties | **(20)** | (77) |

The amounts due from related parties are not secured and are to be settled in cash. As at September 30, 2012 and December 31, 2011, the amounts due from related parties are considered collectible. During the three and nine months ended September 30, 2012, $Nil and $Nil, respectively, has been recognized in bad debt expenses with respect to related party transactions (2011 - $Nil and $Nil).

## 15. Derivative financial instruments and hedges

The Company hedges its 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 hedges its interest rate risk by exchanging, 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, 2012** **$** | | December 31, 2011 $ | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| Interest rate swaps – cash flow hedges | **-** | **1,691** | - | 1,139 |

The ineffective portion amounted to a gain of $38 and a loss of $218 for the three and nine months ended September 30, 2012, respectively (2011 – losses of $523 and $523), and is recognized in administrative expense within selling, general and administrative expenses. At September 30, 2012, the effective fixed interest rate on the underlying debt was 4.3% (December 31, 2011 – 4.5%) and the effective floating rate using the Bankers' Acceptance rate was 3.4% (December 31, 2011 – 3.7%).

The aggregate of the notional principal amounts of the interest rate swaps outstanding at September 30, 2012 was $71,139 (December 31, 2011 – $39,472). The net loss in accumulated other comprehensive income (loss) within equity as at September 30, 2012 was $753 (December 31, 2011 – $502), and will be continuously released to the consolidated statement of net earnings until full repayment of the underlying debt.

## 16. Subsequent event

On November 1, 2012, the Company purchased the Case IH Agrculture dealership assets of Houlder Automotive Ltd. ("**HAL**"). HAL operates dealership locations in Grimshaw and Falher, Alberta. The Company is in the process of determining the purchase price allocation. The purchase price is estimate to be approximately $5,500 and is expected to be funded with cash or available credit facilities.