ROCKY MOUNTAIN DEALERSHIPS INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

This Management Discussion and Analysis ("MD&A") was prepared as of August 12, 2013 and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the three and six months ended June 30, 2013. It should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2013 and the audited consolidated financial statements for the years ended December 31, 2012 and 2011 together with the notes thereto and the auditor's report thereon. The results reported herein have been derived from consolidated financial statements 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 11, 2013 ("AIF"), is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website 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 25 branches in Alberta, 9 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. We are also a major independent dealer of equipment from a number of other manufacturers, including, but not limited to, Bourgault, Seedhawk, Terex, Dynapac, Leeboy and Metso.

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 JUNE 30, 2013

- Increased revenues by 5.5% to $238.1 million.
- Gross profit increased by 5.0% to $35.9 million (15.1% of sales).
- Normalized Diluted Earnings per Share(1) of $0.22.
- Generated Cash Flow from Net Earnings(1) of $5.6 million.
- EBITDA(1) of $8.6 million.
- Increased quarterly dividend by 48.1% to $0.10 per share.

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

MARKET FUNDAMENTALS AND OUTLOOK

Agriculture Market

Our agriculture equipment sales are made primarily to grain and oilseed crop farmers in Western Canada. Commodity prices, input costs and weather are the key demand drivers for equipment among these customers. Despite recent decreases, commodity prices remain above historical levels and the outlook continues to be healthy. Commodity prices have been influenced by continued drought conditions in certain regions of the United States. We continue to monitor the influence that these weather conditions may have had on agriculture equipment prices and purchase lead times but to date we have not seen any significant impact.

Despite a delayed start to the growing season due to a late spring thaw which postponed much of the seeding activity, crops across the Canadian Prairies are generally maturing well. This delay will push back harvesting in certain areas; however, an otherwise strong growing season is helping to advance the crops and mitigate the risks related to a late harvest.

For the most part, the flooding in late June impacted urban as opposed to rural areas. Notwithstanding that fact, the flooding has caused apprehension amongst farmers, which tempered sales activity in the second quarter. However, all indications continue to point to a strong growing season corner to corner in the Canadian Prairies and we expect this apprehension to dissipate. Overall, the outlook across our territory is positive despite a late start.

In response to new air emission standards recently enacted by Environment Canada, as well as other international counterparts, equipment manufacturers have been required to incorporate Tier 4 engines into their equipment in order to comply with the new regulations. The adoption of Tier 4 engines has significantly increased the manufacturing costs and related selling price of these units. As a result of the increased pricing, some customers may elect to defer equipment purchases and continue with their current fleet of equipment for 2013. In some cases, the customer may elect to purchase used equipment resulting in a moderate shift in sales mix from new to used equipment.

On the agriculture side of the business, we enter into pre-sale arrangements whereby our customers pre-order equipment during the summer months and take delivery during the fourth quarter. To date, we have noted that this increased pricing has adversely affected pre-sale activity and as a result, we expect to deliver fewer new agriculture equipment units during the fourth quarter of 2013. Our focus for the balance of the year will be to fill the demand for these units with our used equipment inventory.

Despite softer sales during the quarter, we achieved a $28 million sequential decrease in our inventory levels. This remains an area of focus for Rocky going forward, and we expect this trend to continue throughout the balance of the year.

In the mid- to long-term, 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 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.

The stimulus spending throughout the past several years in response to the economic recession has given way in recent months to deficit reduction measures which have, and are expected to continue to, reduce the number of civil, institutional and government projects. Although not directly exposed to fluctuations in capital spending in the mining sector, expected decreases may also have a correlative impact on demand for certain of our product lines.

Lower than anticipated sales activity across Alberta in recent quarters has left construction equipment dealers with elevated levels of inventory. This excess supply has created a highly competitive sales environment which has, and is expected to continue to, put pressure on margins. In anticipation of these developments, we have spent the past several quarters adjusting our inventory profile and levels which we continue to monitor. Recent flooding in Southern Alberta may drive additional residential, commercial and road building demand. We do not however expect this to materially affect our construction equipment sales outlook.

Alberta remains one of the strongest construction markets in North America. The province is expected to see average growth in real GDP of approximately 3.6% in 2013 and 2014 compared to the national forecast of 2.4% for the same period.

Overall

The outlook for the agriculture and construction end-markets, healthy 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 longer-term 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. Last year, 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 has already begun to yield results as shown by the growth in some of our newer regions.

Rocky's underlying business fundamentals remain strong. We have exclusive distribution rights for some of the world's leading equipment brands in a vibrant agriculture and construction market. Our installed base and customer relationships create an annuity of equipment sales and product support revenue, which help drive dependable earnings and cash flow. It is these strong fundamentals that continue to provide stability in our results and value to our shareholders.

SELECTED FINANCIAL INFORMATION

$ thousands, except per share amounts

	For the three months ended June 30,				For the six months ended June 30,			
	2013		2012		**2013**		2012	
Sales								
New equipment	**131,534**	**55.2%**	131,155	58.1%	**246,609**	**55.5%**	243,587	58.3%
Used equipment	**71,805**	**30.2%**	63,110	28.0%	**143,110**	**32.2%**	121,114	29.0%
Parts	**26,667**	**11.2%**	23,067	10.2%	**39,966**	**9.0%**	36,907	8.8%
Service	**7,310**	**3.1%**	7,421	3.3%	**13,521**	**3.0%**	14,061	3.4%
Other	**790**	**0.3%**	988	0.4%	**1,406**	**0.3%**	2,123	0.5%
	238,106	**100.0%**	225,741	100.0%	**444,612**	**100.0%**	417,792	100.0%
Cost of sales	**202,166**	**84.9%**	191,515	84.8%	**376,181**	**84.6%**	355,846	85.2%
Gross profit	**35,940**	**15.1%**	34,226	15.2%	**68,431**	**15.4%**	61,946	14.8%
Selling, general and administrative	**25,873**	**10.9%**	24,386	10.8%	**51,374**	**11.6%**	46,470	11.1%
Loss on repurchase of convertible debentures	**-**	**-**	4,232	1.9%	**-**	**-**	4,232	1.0%
Interest on short-term debt	**3,037**	**1.3%**	2,274	1.0%	**5,643**	**1.3%**	4,001	1.0%
Interest on long-term debt	**597**	**0.2%**	802	0.4%	**1,211**	**0.2%**	1,672	0.4%
Earnings from operations	**6,433**	**2.7%**	2,532	1.1%	**10,203**	**2.3%**	5,571	1.3%
Provision for income taxes	**1,939**	**0.8%**	937	0.4%	**2,871**	**0.7%**	1,817	0.4%
Net earnings	**4,494**	**1.9%**	1,595	0.7%	**7,332**	**1.6%**	3,754	0.9%
Earnings per share								
Basic	**0.23**		0.09		**0.38**		0.20	
Diluted	**0.23**		0.08		**0.38**		0.20	
Dividends per share	**0.1000**		0.0675		**0.1675**		0.1125	
Non-IFRS Measures(1)								
EBITDA	**8,572**	**3.6%**	4,605	2.0%	**14,573**	**3.3%**	9,947	2.4%
Normalized EBITDA	**8,215**	**3.5%**	9,111	4.0%	**14,227**	**3.2%**	14,435	3.5%
Operating SG&A	**24,688**	**10.4%**	22,904	10.1%	**48,561**	**10.9%**	43,820	10.5%
Cash Flow from Net Earnings	**5,593**	**2.3%**	4,775	2.1%	**4,298**	**1.0%**	7,085	1.7%
Normalized Diluted Earnings per Share	**0.22**		0.26		**0.37**		0.38	

(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 June 30,					For the six months ended June 30,				
			Change					Change		
	2013	2012	Same Store	Acquired	Total	**2013**	2012	Same Store	Acquired	Total
New equipment										
Agriculture	**117,490**	106,555	(1,152)	12,087	10,935	**220,139**	202,634	(3,735)	21,240	17,505
Construction	**14,044**	24,600	(10,556)	-	(10,556)	**26,470**	40,953	(14,483)	-	(14,483)
Used equipment										
Agriculture	**68,076**	60,754	420	6,902	7,322	**137,520**	116,999	8,358	12,163	20,521
Construction	**3,729**	2,356	1,373	-	1,373	**5,590**	4,115	1,475	-	1,475
Parts	**26,667**	23,067	1,166	2,434	3,600	**39,966**	36,907	(1,153)	4,212	3,059
Service	**7,310**	7,421	(663)	552	(111)	**13,521**	14,061	(1,507)	967	(540)
Other	**790**	988	(210)	12	(198)	**1,406**	2,123	(736)	19	(717)
Total sales	**238,106**	225,741	(9,622)	21,987	12,365	**444,612**	417,792	(11,781)	38,601	26,820

Three Months Ended June 30, 2013

For the three months ended June 30, 2013, total sales were $238.1 million representing an increase of $12.4 million or 5.5% over the same period in 2012. Acquired sales growth for the period amounted to $22.0 million which was offset by a decrease in same store sales of $9.6 million. The decrease in same store sales is largely attributable to weaker construction equipment sales.

New equipment sales remained relatively flat over the same period in 2012. The flooding in Southern Alberta in late June created hesitation amongst some of our customers which negatively impacted equipment sales activity during the quarter. The late spring thaw and timing of when our customers hit the fields resulted in seeding efforts being concentrated into a short window and some customers foregoing equipment purchases in their haste to get their crops in the ground.

We also entered 2013 with a higher proportion of used equipment inventory relative to new. In response, we implemented a number of initiatives aimed at moving used equipment inventory which shifted our equipment sales mix slightly from new to used. The combination of these factors limited growth potential and resulted in a slight contraction in same store new agriculture equipment sales of $1.2 million. This decrease was offset by $12.1 million of acquired new equipment sales for the quarter.

On the construction side, revenues fell short of our expectations and resulted in a $10.6 million contraction in same store new construction equipment sales, which offset the increase in new agriculture sales for the quarter. We are addressing these challenges through investment in the sales infrastructure in our construction stores and will continue to focus on all aspects of our construction equipment distribution.

Used equipment sales increased by $8.7 million or 13.8% compared to the same period in 2012, with $6.9 million of the increase being attributable to acquired used agriculture equipment sales. The remaining $1.8 million increase is attributable to same store sales growth. Sales initiatives aimed at moving used equipment inventory as well as the changes to our inventory profile have resulted in additional used equipment sales for the quarter. Used equipment sales growth was however tempered by the aforementioned weather and economic conditions.

Parts sales for the quarter ended June 30, 2013 increased by $3.6 million or 15.6%. Acquired parts sales contributed $2.4 million of this increase with the remaining $1.2 million attributable to increased same store parts sales. Service sales for the quarter were relatively flat compared to the same period last year where a $0.7 million contraction in same store service sales was effectively offset by acquired service sales.

When used equipment inventory is taken in on trade, it undergoes a process of inspection, assessment and repair to bring it to a saleable condition. This necessary process consumes service resources, which, depending on current capacity and seasonality, can constrain our ability to perform external service work. During the second quarter of 2013, the combination of increased used equipment inventory and our need for additional qualified service technicians caused the Company to experience this constraint.

Other sales comprise rental, lease, finance and insurance revenues. For the three months ended June 30, 2013, other sales decreased by $0.2 million largely as a result of the Company divesting itself of the rock trucks in its rental fleet in the latter part of 2012.

Six Months Ended June 30, 2013

For the six months ended June 30, 2013, total sales were $444.6 million representing an increase of $26.8 million or 6.4% over the same period in 2012. Acquired sales growth for the period amounted to $38.6 million, which was offset by a decrease in same store sales of $11.8 million. The decrease in same store sales is largely attributable to weaker construction results.

New equipment sales increased by $3.0 million or 1.2% over the same period in 2012. The aforementioned challenges in our construction business resulted in a $14.5 million contraction in same store new construction equipment sales. On the agriculture side, certain equipment purchases that were initially deferred in the early part of 2013 as a result of the late spring were ultimately forgone by our customers due to a relatively short seeding window. As stated, we also experienced a slight shift in our sales mix from new to used as a result of our inventory profile entering into 2013, as well as some flood related apprehension in Southern Alberta towards the end of June. These factors limited same store sales growth potential resulting in a slight contraction of same store new agriculture equipment sales of $3.7 million. These decreases were offset by $21.2 million of acquired new equipment sales for the period.

Used equipment sales increased by $22.0 million or 18.2% compared to the same period in 2012. The increase is comprised of $12.2 million of acquired used agriculture equipment sales as well as same store agriculture and construction equipment sales growth of $8.4 million and $1.4 million, respectively. Same store used equipment sales growth is largely the result of initiatives aimed at moving used equipment inventory as well as the change in our inventory profile.

Parts sales for the six months ended June 30, 2013 increased by $3.1 million or 8.3%. Acquired parts sales contributed $4.2 million but were offset by a decrease in same store sales of $1.1 million. Service sales for the period were relatively flat compared to the same period last year where a $1.5 million contraction in same store service sales was effectively offset by $1.0 million of acquired service sales. As discussed, internal service requirements constrained our ability to perform external work which resulted in the decrease in same store service sales for the period.

Other sales comprise rental, lease, finance and insurance revenues. For the six months ended June 30, 2013, other sales decreased by $0.7 million largely as a result of the Company divesting itself of the rock trucks in its rental fleet in the latter part of 2012.

Gross Profit

Gross profit for the three and six months ended June 30, 2013 increased by $1.7 million or 5.0% and $6.5 million or 10.5%, respectively, over the same periods in 2012. The increases are primarily the result of increased equipment sales during the periods. As a percentage of sales, gross profit declined slightly by 0.1% to 15.1% during the second quarter. For the year to date, gross profit is 15.4% of sales, a 0.6% increase over the same period last year. The increase in margin year to date is primarily attributable to sales process initiatives and a normal level of volume bonus recognized in the period, along with lower prior year margins due to initiatives to improve our inventory profile during 2012.

Selling, General and Administrative

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. 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 six months ended June 30, 2013, Operating SG&A was $24.7 million and $48.6 million, respectively (2012 – $22.9 million and $43.8 million, respectively). The increases in Operating SG&A for the three and six months ended June 30, 2013 pertain to additional commissions and salaries driven by incremental sales activity and the acquisition of six new branches contributing to increased facility and other SG&A costs.

For the three and six months ended June 30, 2013, Operating SG&A as a percentage of sales was 10.4% and 10.9%, respectively (2012 – 10.1% and 10.5%, respectively). The increases are largely attributable to negative same store sales growth and below-average results in some of our newly acquired stores during the quarter and year to date. This caused our fixed costs to have a disproportionate effect

on our Operating SG&A as a percentage of sales. The Company continues to target a sub-10% Operating SG&A on an annual basis. Given the seasonality of the business, it is not uncommon for Operating SG&A to exceed this target in the first six months of a fiscal year.

Depreciation included in SG&A amounted to $1.5 million and $3.2 million for the respective three and six month periods ended June 30, 2013 (2012 – $1.2 million and $2.4 million).

Loss on Repurchase of Convertible Debentures

During 2012, the Company took up 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 Debentures were replaced with a lower interest-bearing facility resulting in both interest savings for Rocky and reduced earnings dilution to shareholders.

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 $0.8 million and $1.6 million for the three and six month periods ended June 30, 2013, respectively. These increases in short-term interest expense are the result of the increase in the balance of floor plan payable outstanding which arose in response to increased equipment inventory levels. Long-term interest expense decreased by $0.2 million and $0.5 million for the respective three and six month periods ended June 30, 2013. These decreases are primarily attributable to interest savings as a result of replacing the Debentures with a lower interest bearing facility.

Net Earnings

For the three and six month periods ended June 30, 2013, we generated net earnings of $4.5 million and $7.3 million, respectively (2012 – $1.6 million and $3.8 million, respectively). The increase in net earning both during the quarter and year to date was primarily the result of the loss on the repurchase of the Debentures recognized during the second quarter of 2012, net of tax.

On a per share basis, the Company's Normalized Diluted Earnings per share for the three and six months ended June 30, 2013 were $0.22 and $0.37, respectively (2012 – $0.26 and $0.38, respectively).

SUMMARY OF QUARTERLY RESULTS

$ thousands, except per share amounts

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Sales									
New equipment	**131,534**	115,075	195,813	109,636	131,155	112,432	132,712	90,523	115,974
Used equipment	**71,805**	71,305	79,709	96,653	63,110	58,004	82,318	78,468	62,481
Parts	**26,667**	13,299	16,369	31,377	23,067	13,840	16,155	26,757	20,714
Service	**7,310**	6,211	7,933	8,465	7,421	6,640	7,459	8,034	6,885
Other	**790**	616	956	1,403	988	1,135	1,945	1,073	1,438
	238,106	206,506	300,780	247,534	225,741	192,051	240,589	204,855	207,492
Cost of sales	**202,166**	174,015	254,913	207,836	191,515	164,331	203,620	171,556	176,405
Gross profit	**35,940**	32,491	45,867	39,698	34,226	27,720	36,969	33,299	31,087
SG&A	**25,873**	25,501	26,060	25,181	24,386	22,084	21,964	20,915	21,299
Loss on repurchase of Debentures	**-**	-	-	-	4,232	-	-	-	-
Interest and taxes	**5,573**	4,152	8,037	6,066	4,013	3,477	6,044	5,263	5,324
Net earnings	**4,494**	2,838	11,770	8,451	1,595	2,159	8,961	7,121	4,464
EPS – basic	**0.23**	0.15	0.63	0.45	0.09	0.12	0.48	0.38	0.24
EPS – diluted	**0.23**	0.15	0.62	0.45	0.08	0.11	0.42	0.34	0.23

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.

Over time, we expect second and third quarter sales activity to increase relative to the fourth quarter as our increased installed base drives more parts and service activity and our customers decide to trade their equipment earlier in the year to take advantage of advancements in technology before the harvest season.

Weather conditions, such as the late spring experienced in the current year, may positively or negatively impact sales activity for any given period.

BALANCE SHEET SUMMARY

$ thousands

	June 30, 2013	December 31, 2012
Assets		
Current assets	**589,255**	586,722
Property and equipment	**21,651**	21,558
Goodwill	**14,692**	13,884
Total assets	**625,598**	622,164
Liabilities and equity		
Current liabilities	**429,483**	421,767
Long-term debt	**41,462**	45,977
Obligations under finance leases	**977**	1,379
Deferred income taxes	**630**	7,042
Derivative financial instruments	**344**	1,438
	472,896	477,603
Shareholders' equity	**152,702**	144,561
Total liabilities and equity	**625,598**	622,164

Current assets at June 30, 2013 consist primarily of new and used equipment inventory of approximately $256.3 million and $236.5 million, respectively (December 31, 2012 – $226.7 million and $233.2 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, 2012 is primarily attributable to the acquisition of Murray's Farm Supplies ("MFS"), the investment in newly acquired stores and taking on normal equipment deliveries for 2013. Of the $40.4 million increase in inventory over December 31, 2012, $25.3 million pertains to new agriculture equipment inventory. Since March 31, 2013, inventory levels have declined by $27.8 million.

Current liabilities consist predominantly of floor plan payable for financed inventory of approximately $379.0 million as at June 30, 2013 (December 31, 2012 – $351.8 million). The increase in floor plan payable is the result of additional equipment inventory carried by the Company. As a percentage of equipment inventory, floor plan payable is relatively consistent with year-end with a slight increase from 76.5% at December 31, 2012 to 76.9% at June 30, 2013.

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 June 30, 2013, 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 June 30,		For the six months ended June 30,	
$ thousands	**2013**	2012	**2013**	2012
Net earnings	**4,494**	1,595	**7,332**	3,754
Effect of non-cash items in net earnings	**1,099**	3,180	**(3,034)**	3,331
Cash Flow from Net Earnings(1)	**5,593**	4,775	**4,298**	7,085
Effect of non-cash working capital items	**2,098**	(7,237)	**(1,624)**	(6,046)
Cash flows from operating activities	**7,691**	(2,462)	**2,674**	1,039
Cash flows from financing activities	**(4,199)**	(6,440)	**(6,081)**	(8,777)
Cash flows from investing activities	**(2,233)**	(1,542)	**(8,283)**	422
Net increase (decrease) in cash and cash equivalents	**1,259**	(10,444)	**(11,690)**	(7,316)
Cash and cash equivalents, beginning of period	**21,228**	34,160	**34,177**	31,032
Cash and cash equivalents, end of period	**22,487**	23,716	**22,487**	23,716

(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 six months ended June 30, 2013, we generated Cash Flow from Net Earnings of $5.6 million and $4.3 million, respectively (2012 - $4.8 million and $7.1 million, respectively). The changes in Cash Flow from Net Earnings for the three and six months ended June 30, 2013 are largely the result of non-cash changes in deferred income taxes.

For the three and six months ended June 30, 2013, the Company generated $7.7 million and $2.7 million in cash flow from operating activities, respectively (2012 – utilized $2.5 million and generated $1.0 million, respectively).

Cash Flows from Financing Activities

For the three and six months ended June 30, 2013, we utilized $4.2 million and $6.1 million, respectively, for financing activities (2012 – $6.4 million and $8.8 million, respectively). Cash utilized for financing activities for the three and six month periods ended June 30, 2013 and 2012 pertained primarily to scheduled debt repayments, dividend payments and the net cash flows associated with the repurchase and refinancing of the Debentures in the second quarter of 2012.

Cash Flows from Investing Activities

For the three and six months ended June 30, 2013, we utilized $2.2 million and $8.3 million for investing activities compared to utilizing $1.5 million and generating $0.4 million for the same periods in 2012. Cash utilized for investing activities in the three and six months ended June 30, 2013 and 2012 was the result of our normal capital expenditures offset for the six months ended June 30, 2012 by cash generated on the disposal of a portion of our rental fleet of rock trucks. Also included in cash utilized for investing activities during the three and six months ended June 30, 2013 is the cash consideration paid on account of business combinations.

ADEQUACY OF CAPITAL RESOURCES

We use cash flow from operations to finance the purchase of inventory, service our debt requirements, pay dividends, and fund our operating activities, including working capital, both operating and finance leases and floor plan payable. Our ability to service our debt and distribute dividends to shareholders 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 a credit facility with a syndicate of lenders (the "Syndicated Facility"). The Syndicated Facility is a revolving facility secured in favour of the syndicate by a general security agreement. Advances under the Syndicated Facility may be made based on our lenders' prime rate or the US base rate plus 1.0% – 2.5% or based on the banker's acceptance ("BA") rate plus 2.0% – 3.5%. The Company pays standby fees of between 0.5% and 0.8% per annum on any undrawn portion of the Syndicated Facility. The standby fees and premiums on base interest rates within the respective ranges are determined based on the Company's covenant compliance. During the quarter, the Syndicated Facility was renewed, extending the maturity date until June 1, 2016. It is the Company's intention to renew this facility prior to its maturity date.

The Syndicated Facility consists of:

- The "Operating Facility" – which 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 general corporate operating requirements.
- The "Flooring Facility" – which may be used to finance up to 75% of the value of eligible equipment inventory. Draws against the Flooring Facility are repayable over a term of 24 months however; they become due in full upon the sale of the associated equipment.
- The "Acquisition Facility" – which may be used to finance up to 60% of the cost of future acquisitions with tranches repayable in monthly installments over an amortization period of 60 months.
- The "Fleet Facility" – which may be used to finance the Company's fleet of vehicles with draws repayable in monthly installments over an amortization period of 36-60 months.
- The "Debenture Repayment Facility" – which was used to finance the repurchase of the Debentures. This facility is repayable with quarterly installments of $0.9 million plus interest with the remaining principal to be paid out on September 30, 2017.

During the three and six months ended June 30, 2013, the Company increased its available floor plan by $25.0 million and $40.0 million, respectively. Including the Syndicated Flooring Facility, we now have total available floor plan financing of approximately $590.0 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 by banks and specialty lenders.

In addition to our available cash balance of $22.5 million as at June 30, 2013, we have approximately $262.9 million available on our various credit facilities.

$ millions	Facility limit	Amount drawn	Available
Operating Facility	30.0	-	30.0
Acquisition Facility	30.0	15.6	14.4
Fleet Facility	10.0	2.5	7.5
Debenture Repayment Facility	31.5	31.5	-
Various floor plan facilities			
OEM floor plan facilities	250.0	93.9	156.1
Syndicated Flooring Facility	100.0	93.3	6.7
Other floor plan facilities	240.0	191.8	48.2
	691.5	428.6	262.9

Interest Rate Swaps

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 portions of its Acquisition and Flooring Facilities as well as 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. At June 30, 2013, the notional amount of the swap was $9.8 million (December 31, 2012 – $11.2 million). The interest rate swap related to the Flooring Facility is non-amortizing and matures on August 31, 2018. The notional amount outstanding at June 30, 2013 was $25.0 million (December 31, 2012 – $25.0 million). The interest rate swap on the Debenture Repayment Facility amortizes with principal repayments on the debt until April 27, 2017. At June 30, 2013, the notional amount of the swap was $31.5 million (December 31, 2012 – $33.3 million).

The Hedged Facilities each bear interest at a floating rate based on the prevailing one-month BA rate plus 2.0% – 3.5%. The Swaps hedge our exposure to fluctuations in the BA rate. At June 30, 2013 the effective rates on the Acquisition, Flooring and Debenture

Repayment Facilities were 3.7%, 4.5% and 4.3%, respectively (December 31, 2012 – 3.7%, 4.5% and 4.3%, respectively). We have designated these instruments as hedges and have accounted for them using hedge accounting in our consolidated 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 these cash flow hedges, 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.

Dividends

On August 12, 2013, Rocky's Board of Directors declared a quarterly dividend of $0.10 per common share on the Company's outstanding common shares. The dividend is payable on September 30, 2013, to shareholders of record at close of business on August 30, 2013.

SHARE CAPITAL – OUTSTANDING SHARES

Thousands

	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Opening balance	**18,993**	18,768
Shares issued upon exercise of stock options	**244**	16
Closing balance	**19,237**	18,784

As at August 12, 2013, there were 19,262,020 shares outstanding.

The options outstanding at June 30, 2013 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 (years)
December 29, 2009	103	103	9.22	December 29, 2014	1.5
March 11, 2011	52	30	10.39	March 11, 2016	2.7
August 11, 2011	175	48	8.71	August 11, 2016	3.1
March 28, 2012	296	95	11.96	March 28, 2017	3.7
March 13, 2013	435	-	12.89	March 13, 2018	4.7
	1,061	276	11.46		3.8

As at August 12, 2013, there were 1,033,567 options outstanding.

GOODWILL

During the six months ended June 30, 2013, goodwill increased by $0.8 million as a result of the acquisition of MFS.

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 June 30, 2013, the Company has identified one CGU and as such, all goodwill has been allocated to that CGU.

The Company performed a goodwill impairment test on December 31, 2012 and determined that the recoverable amount of the CGU exceeded its carrying amount. Consequently, no impairment charge was made against goodwill. As at June 30, 2013, 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 June 30, 2013 include long-term debt consisting predominantly of the Debenture Repayment, Acquisition and Fleet Facilities and operating lease commitments which relate primarily to the Company's facilities and vehicles. Lease terms are between one and eleven years and most building leases contain five-year renewal options.

The Company assesses its liquidity based on the expected period in which cash flows will occur. The following table summarizes the Company's expected undiscounted cash flows as at June 30, 2013 assuming the Syndicated Facility is renewed prior to maturity on June 1, 2016. The analysis is based on foreign exchange rates and interest rates in effect at the consolidated balance sheet date, and includes both principal and interest cash flows.

$ thousands

	Total	Remainder of 2013	2014-2015	2016-2017	Thereafter
Trade payables, accruals and other	**37,008**	37,008	-	-	-
Floor plan payable	**392,254**	196,127	196,127	-	-
Long-term debt	**55,410**	5,823	20,618	28,931	38
Obligations under finance leases	**2,058**	611	1,435	12	-
Operating lease obligations	**42,324**	4,259	15,724	10,948	11,393
Derivative financial instruments	**764**	277	487	-	-
Total contractual obligations	**529,818**	244,105	234,391	39,891	11,431

In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for the long-term debt outstanding as at June 30, 2013 would be $29.0 million in 2016-2017 and $Nil thereafter.

RELATED PARTY TRANSACTIONS

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

$ thousands	**Three months ended**		**Six months ended**	
	2013	2012	**2013**	2012
Management fees	**-**	-	**-**	31
Flight costs	**41**	150	**80**	308
Other expenses	**117**	12	**181**	68
Rental payments on Company facilities	**1,294**	1,151	**2,635**	2,199
Equipment sales	**1,264**	2,081	**1,303**	2,581
Equipment purchases	**1,256**	993	**1,331**	996

All related parties are either directly or indirectly owned, or their operations are significantly influenced 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 June 30, 2013 and December 31, 2012, 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

	June 30, 2013	December 31, 2012
Due from related parties	**1,285**	31
Due to related parties	**(11)**	(77)

The amounts due from related parties are not secured and are to be settled in cash. As at June 30, 2013 and December 31, 2012, the amounts due from related parties are considered collectible.

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 one and eleven years. Most building leases contain five-year renewal options. We have paid monthly amounts under these operating leases ranging from $0.1 thousand to $64.2 thousand. The current operating leases expire between July 2013 and July 2023.

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 23 of the audited consolidated financial statements for the year ended December 31, 2012, 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 information 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 creditworthiness 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.

Manufacturer Incentives

Certain manufacturers offer annual performance incentives which are linked to the Company's market share achievement and annual sales volumes. The Company uses estimated annual market share statistics derived from historical results which have been adjusted for any anticipated changes in the current year, as well as sales volume to date to accrue the proportion of these annual manufacturer incentives earned during the period.

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

Selling, General and Administrative Expenses

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 administrative 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 associated with the Company’s various long-term credit facilities and obligations under 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; integration of acquisitions; 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.

SIGNIFICANT NEW ACCOUNTING POLICIES

Effective January 1, 2013, the Company adopted the amendments to IAS 1, 'Presentation of financial statements'. These amendments require the Company to group items within other comprehensive income by those that will be subsequently reclassified to net earnings and those that will not. Accordingly, the Company has updated the presentation of other comprehensive income in the consolidated statements of comprehensive income.

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 OEMs 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 sales, 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 sales) 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.

The Company hedges some of its exposure to floating interest rates by entering into floating-to-fixed interest rate swaps.

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.
- "**Normalized EBITDA**" is calculated by adding back non-recurring charges to EBITDA. 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 six months ended June 30, 2013 and 2012, the loss on the repurchase of the Debentures, the ineffective portion of derivative financial instruments and acquisition transaction costs are considered by management to be non-recurring charges. Adding back these non-recurring charges allows management to assess EBITDA from ongoing operations.
- "**Cash Flow from Net Earnings**" is calculated by adding back non-cash items such as depreciation expense, non-cash finance charges on the Debentures and long-term debt, deferred tax recovery, share-based payment expense, (gains) losses on the disposal of property and equipment, the ineffective portion of derivative financial instruments and the loss on the repurchase of the Debentures. 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 recognized in SG&A 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 six months ended June 30, 2013 and 2012, the ineffective portion of derivative 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. Adding back these non-recurring charges to net earnings allows management to assess the fully diluted earnings per share from ongoing operations.

RECONCILIATION OF NON-IFRS MEASURES TO IFRS

Reconciliation of Net Earnings to EBITDA and Normalized EBITDA

$ thousands	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	**2013**	2012
Net earnings	**4,494**	1,595	**7,332**	3,754
Interest on long-term debt	**597**	802	**1,211**	1,672
Depreciation expense	**1,542**	1,271	**3,159**	2,704
Income taxes	**1,939**	937	**2,871**	1,817
EBITDA	**8,572**	4,605	**14,573**	9,947
Non-recurring charges				
Loss on repurchase of Debentures	**-**	4,232	**-**	4,232
Ineffective portion of derivative financial instruments	**(359)**	274	**(382)**	256
Acquisition transaction charges	**2**	-	**36**	-
Normalized EBITDA	**8,215**	9,111	**14,227**	14,435

Reconciliation of Cash Flow from Net Earnings

$ thousands	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	**2013**	2012
Net earnings	**4,494**	1,595	**7,332**	3,754
Depreciation expense	**1,542**	1,271	**3,159**	2,704
Accretion expense	**-**	31	**-**	123
Deferred tax recovery	**(572)**	(3,005)	**(6,600)**	(4,671)
Share-based payment expense	**404**	484	**758**	756
Non-cash impact of credit promissory note	**-**	5	**1**	12
Loss (gain) on disposal of property and equipment	**84**	(112)	**30**	(81)
Loss (gain) on derivative financial instruments	**(359)**	274	**(382)**	256
Loss on repurchase of Debentures	**-**	4,232	**-**	4,232
Cash Flow from Net Earnings	**5,593**	4,775	**4,298**	7,085

Reconciliation of Operating SG&A to Selling, General and Administrative Expenses

$ thousands	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	**2013**	2012
SG&A	**25,873**	24,386	**51,374**	46,470
Depreciation expense	**(1,542)**	(1,208)	**(3,159)**	(2,394)
Non-recurring charges				
Ineffective portion of derivative financial instruments	**359**	(274)	**382**	(256)
Acquisition transaction charges	**(2)**	-	**(36)**	-
Operating SG&A	**24,688**	22,904	**48,561**	43,820

Reconciliation of Normalized Diluted Earnings per Share

$ thousands, except per share amounts	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	**2013**	2012
Earnings used in the calculation of diluted earnings per share	**4,494**	1,595	**7,332**	3,754
After tax impact of non-recurring charges in SG&A and loss on repurchase of Debentures(1)	**(268)**	3,402	**(260)**	3,388
Earnings used in the calculation of Normalized Diluted Earnings per Share	**4,226**	4,997	**7,072**	7,142
Weighted average diluted shares used in the calculation of diluted earnings per share	**19,260**	18,874	**19,195**	18,880
Normalized Diluted Earnings per Share	**0.22**	0.26	**0.37**	0.38

(1) – After applying statutory rate of 25% (2012 – 25%)

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 June 30, 2013, 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 June 30, 2013, the Company has sufficiently documented and tested the effectiveness of the ICFR 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 ICFR 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) strong short-term outlook for commodity prices, (vi) discussion around the 2013 crop cycle, including delays in harvesting and discussions of a strong growing season despite the late start to the season, (vii) continuing demand from China, India, and demand resulting from bio-fuel crop production, and discussion that high demand will require farmers to increase productivity, (viii) continued demand for parts and service due to the number of units Rocky has in the areas it services, (ix) any discussion regarding anticipated GDP growth, (x) discussion of any accretive benefits as a result of Rocky's recent re-branding campaign and its continued ability to be a partner of choice for equipment purchasers, (xi) discussion of the change in sales mix or customer buying patterns as a result of the pricing changes resulting from the shift to Tier 4 engines, (xii) discussion that the floods that occurred in Alberta during June 2013 will not materially affect construction equipment sales outlook, (xiii) the highly competitive sales environment among construction equipment dealers in Alberta is expected to continue to put pressure on margins, (xiv) we believe cash flow from operations, along with existing credit facilities, will provide for our capital needs, (xv) discussion of overcoming challenges in the construction market through investment in the sales infrastructure of our construction stores being key to our success in coming quarters, (xvi) discussion around SG&A expenses related to acquired stores or providing direct customer related resources such as equipment specialists, and our ability to decrease these costs over time, (xvii) discussion that our fourth quarter is generally our strongest quarter financially, and discussion that we expect our second and third quarter sales activity to increase as our installed base increases, and (xviii) discussions that we expect inventory to decrease in coming quarters.

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 or stability in the markets we operate in, (viii) purchases and other sales activity that have historically occurred in the first quarter of previous years is being deferred due to weather conditions in 2013, (ix) the Company's cash flow will remain sufficient to, in connection with its credit facilities, adequately finance its fleet needs, and (x) past experience indicating Rocky's fourth quarter is typically its strongest, (xi) the anticipated positive effect of operating under a single brand and identity, and (xii) the anticipated improvement in second- and third-quarter revenues, including parts and service revenue, as our installed base increases.

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 Six Month Periods Ended June 30, 2013 and 2012 (Unaudited)

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

	Note	**June 30, 2013 $**	December 31, 2012 $
Assets			
Current			
Cash		**22,487**	34,177
Trade receivables and other		**28,024**	52,924
Inventory	**7**	**535,555**	495,151
Prepaid expenses		**3,189**	4,470
		589,255	586,722
Non-current			
Property and equipment		**21,651**	21,558
Goodwill		**14,692**	13,884
		36,343	35,442
		625,598	622,164
Liabilities			
Current			
Trade payables, accruals and other		**37,008**	53,576
Floor plan payable		**378,989**	351,812
Deferred revenue and advances		**3,001**	5,236
Current portion of long-term debt		**9,519**	10,159
Current portion of obligations under finance leases		**966**	984
		429,483	421,767
Non-current			
Long-term debt		**41,462**	45,977
Obligations under finance leases		**977**	1,379
Deferred tax liability		**630**	7,042
Derivative financial instruments	**14**	**344**	1,438
		43,413	55,836
		472,896	477,603
Shareholders' Equity			
Common shares		**85,646**	81,947
Contributed surplus		**4,223**	4,435
Accumulated other comprehensive loss		**(65)**	(597)
Retained earnings		**62,898**	58,776
		152,702	144,561
		625,598	622,164

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 six month periods ended
Expressed in thousands of Canadian dollars except per share amounts (unaudited)

	Note	**Three Months Ended June 30, 2013 $**	Three Months Ended June 30, 2012 $	**Six Months Ended June 30, 2013 $**	Six Months Ended June 30, 2012 $
Sales					
New equipment		**131,534**	131,155	**246,609**	243,587
Used equipment		**71,805**	63,110	**143,110**	121,114
Parts		**26,667**	23,067	**39,966**	36,907
Service		**7,310**	7,421	**13,521**	14,061
Other		**790**	988	**1,406**	2,123
	10	**238,106**	225,741	**444,612**	417,792
Cost of sales		**202,166**	191,515	**376,181**	355,846
Gross profit		**35,940**	34,226	**68,431**	61,946
Selling, general and administrative	**11**	**25,873**	24,386	**51,374**	46,470
Loss on repurchase of convertible debentures	**8**	**-**	4,232	**-**	4,232
Interest on short-term debt		**3,037**	2,274	**5,643**	4,001
Interest on long-term debt		**597**	802	**1,211**	1,672
Earnings before income taxes		**6,433**	2,532	**10,203**	5,571
Provision for (recovery of) income taxes					
Current		**2,511**	3,942	**9,471**	6,488
Deferred		**(572)**	(3,005)	**(6,600)**	(4,671)
	12	**1,939**	937	**2,871**	1,817
Net earnings		**4,494**	1,595	**7,332**	3,754
Earnings per share					
Basic		**0.23**	0.09	**0.38**	0.20
Diluted		**0.23**	0.08	**0.38**	0.20

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

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

	Note	**Three Months Ended June 30, 2013 $**	Three Months Ended June 30, 2012 $	**Six Months Ended June 30, 2013 $**	Six Months Ended June 30, 2012 $
Net earnings		**4,494**	1,595	**7,332**	3,754
Other comprehensive income (loss):					
Items which may subsequently be reclassified to net earnings:					
Unrealized gain (loss) on derivative financial instruments (net of tax)	**14**	**337**	(885)	**532**	(406)
Total other comprehensive income (loss) for the period, net of tax		**337**	(885)	**532**	(406)
Net earnings and comprehensive income		**4,831**	710	**7,864**	3,348

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)

	Note	Common shares						
		Number of shares	Amount $	Convertible debentures $	Contributed surplus $	Accumulated other comprehensive loss $	Retained earnings $	Total equity $
Balance, December 31, 2012		18,993	81,947	-	4,435	(597)	58,776	144,561
Shares issued upon exercise of stock options	9	244	3,699	-	(970)	-	-	2,729
Share-based payment expense	11	-	-	-	758	-	-	758
Net earnings		-	-	-	-	-	7,332	7,332
Other comprehensive income	14	-	-	-	-	532	-	532
Dividends paid		-	-	-	-	-	(3,210)	(3,210)
Balance, June 30, 2013		19,237	85,646	-	4,223	(65)	62,898	152,702

	Note	Common shares						
		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	9	16	114	-	(37)	-	-	77
Share-based payment expense	11	-	-	-	756	-	-	756
Net earnings		-	-	-	-	-	3,754	3,754
Other comprehensive loss	14	-	-	-	-	(406)	-	(406)
Dividends paid		-	-	-	-	-	(2,113)	(2,113)
Repurchase of convertible debentures	8	-	-	(990)	-	-	(4,250)	(5,240)
Balance, June 30, 2012		18,784	79,782	-	5,023	(908)	41,092	124,989

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

Consolidated Statements of Cash Flows
For the three and six month periods ended
Expressed in thousands of Canadian dollars (unaudited)

	Note	**Three Months Ended June 30, 2013 $**	Three Months Ended June 30, 2012 $	**Six Months Ended June 30, 2013 $**	Six Months Ended June 30, 2012 $
Operating activities					
Net earnings		**4,494**	1,595	**7,332**	3,754
Adjustments for:					
Depreciation expense		**1,542**	1,271	**3,159**	2,704
Accretion expense	**8**	**-**	31	**-**	123
Deferred tax recovery		**(572)**	(3,005)	**(6,600)**	(4,671)
Share-based payment expense	**11**	**404**	484	**758**	756
Non-cash impact of credit promissory note		**-**	5	**1**	12
Loss (gain) on disposal of property and equipment		**84**	(112)	**30**	(81)
Loss (gain) on derivative financial instruments	**14**	**(359)**	274	**(382)**	256
Loss on repurchase of convertible debentures	**8**	**-**	4,232	**-**	4,232
		5,593	4,775	**4,298**	7,085
Changes in non-cash working capital		**2,098**	(7,237)	**(1,624)**	(6,046)
		7,691	(2,462)	**2,674**	1,039
Financing activities					
Repayment of long-term debt		**(2,288)**	(1,256)	**(5,156)**	(2,553)
Repurchase of convertible debentures		**-**	(37,800)	**-**	(37,800)
Transaction costs incurred on repurchase of convertible debentures		**-**	(840)	**-**	(840)
Proceeds from long-term debt		**-**	35,000	**-**	35,000
Net change in obligations under finance leases		**(225)**	(311)	**(444)**	(548)
Dividends paid		**(1,923)**	(1,268)	**(3,210)**	(2,113)
Proceeds from issuance of common shares	**9**	**237**	35	**2,729**	77
		(4,199)	(6,440)	**(6,081)**	(8,777)
Investing activities					
Purchase of property and equipment		**(2,200)**	(1,937)	**(3,405)**	(3,215)
Disposal of property and equipment		**195**	395	**324**	3,637
Purchase of equipment dealerships, net of cash acquired	**6**	**(228)**	-	**(5,202)**	-
		(2,233)	(1,542)	**(8,283)**	422
Net increase (decrease) in cash and cash equivalents		**1,259**	(10,444)	**(11,690)**	(7,316)
Cash and cash equivalents, beginning of period		**21,228**	34,160	**34,177**	31,032
Cash and cash equivalents, end of period		**22,487**	23,716	**22,487**	23,716
Cash taxes paid		**6,311**	3,268	**9,853**	9,722
Cash interest received		**-**	3	**-**	8
Cash interest paid		**3,634**	2,580	**6,853**	5,728

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, 2012, 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 August 12, 2013.

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2012 except for new standards, interpretations and amendments mandatorily effective for the first time from January 1, 2013 and 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.

Effective January 1, 2013, the Company adopted the amendments to IAS 1, 'Presentation of financial statements'. These amendments require the Company to group items within other comprehensive income by those that will be subsequently reclassified to net earnings and those that will not. Accordingly, the Company has updated the presentation of other comprehensive income in the consolidated statements of comprehensive income.

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, 2012. In addition to those estimates, management makes certain estimates with respect to annual market share statistics for the purposes of recognizing the proportion of annual manufacturer incentives earned to date. Estimated annual market share statistics are derived from historical results which have been adjusted for any anticipated changes in the current year. Actual results may differ from these estimates.

5. 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.

6. Acquisitions

On February 1, 2013, the Company acquired 100% of the outstanding common shares of Murray's Farm Supplies ("MFS"), a dealer of various agriculture short-lines including Bourgault, MacDon and Kubota, with stores in Shoal Lake and Russell, Manitoba. The preliminary purchase price allocation for MFS is as follows:

	$
Cash consideration	
Paid	3,095
Payable	223
Cash consideration	3,318
Net working capital	
Cash	405
Trade receivables and other	474
Inventory	4,803
Trade payables, accruals and other	(552)
Floor plan payable	(2,789)
Current portion of obligations under finance leases	(13)
	2,328
Property and equipment	201
Deferred taxes	(8)
Obligations under finance leases	(11)
Goodwill	808
Net assets	3,318

During the three and six months ended June 30, 2013, the Company incurred $2 and $36 respectively, of acquisition related costs (2012 – $Nil and $Nil respectively). These costs are recognized as administrative expenses within selling, general and administrative expenses in the period in which they are incurred. During the three and six months ended June 30, 2013, the Company also paid $228 and $2,512 respectively, of cash consideration for acquisitions occurring during 2012.

Revenue and net income generated by MFS and included in the consolidated statement of net earnings for the three months ended June 30, 2013 amounted to $4,407 and $201, respectively (six months ended June 30, 2013 – $4,625 and $94 respectively). Had this acquisition been effected at January 1, 2013, the Company estimates that consolidated revenue and net income for the six months ended June 30, 2013 would have been $445,416 and $7,348, 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, 2013.

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

7. Inventory

	June 30, 2013 $	December 31, 2012 $
New equipment	**256,336**	226,688
Used equipment	**236,463**	233,202
Parts	**39,926**	33,573
Work-in-progress	**2,830**	1,688
	535,555	495,151

For the three and six months ended June 30, 2013, inventory recognized as an expense amounted to $198,851 and $369,158 (2012 – $187,611 and $348,868), respectively, which is included in cost of sales in the consolidated statements of net earnings. There were $Nil and $645 in write downs of inventory to net realizable value for the three and six months ended June 30, 2013, (2012 – $Nil and $Nil), respectively. The Company's inventory has been pledged as security for its bank indebtedness, floor plan payable and long-term debt.

8. Convertible debentures

On March 22, 2012, the Company announced an offer to acquire all of its outstanding convertible debentures (the "Debentures") at a price of $1.2 (the "Offer Price") for each $1.0 principal amount for a total of $37,800.

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 Debentures repurchased had a face value of $31,500 and bore interest at a rate of 7%.

During the three and six months ended June 30, 2012, the Company allocated $4,232 of the loss on the repurchase of the Debentures to net earnings and $4,250 (net of income taxes of $284) to retained earnings.

For the three and six months ended June 30, 2012, accretion relating to the Debentures totalled $31 and $123, respectively, and is included in interest on long-term debt.

9. 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 five years and a vesting period of three years with one-third of the grant vesting on each of its first three anniversary dates.

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

	2013	2012
Weighted average risk-free interest rate	**1.2%**	1.3%
Weighted average expected option life	**4.0 years**	4.5 years
Weighted average expected volatility [(1)]	**50.6%**	55.3%
Weighted average expected annual dividend per share	**$0.27**	$0.18
Weighted average exercise price	**$12.89**	$11.96
Weighted average share price on date of grant	**$12.89**	$11.96
Weighted average fair value	**$4.46**	$4.92

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

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

	2013		2012	
	Number of options (thousands)	**Weighted average exercise price $**	Number of options (thousands)	Weighted average exercise price $
Balance, January 1	**1,112**	**11.04**	908	10.33
Granted	**452**	**12.89**	356	11.96
Exercised	**(244)**	**11.19**	(16)	4.80
Forfeited	**(38)**	**12.38**	(13)	11.60
Expired	**(221)**	**12.40**	-	-
Balance, June 30	**1,061**	**11.46**	1,235	10.86

The weighted average share price at the date of exercise for the three and six months ended June 30, 2013 was $13.55 and $12.78 respectively (2012 – $11.22 and $11.45).

9. Stock options, continued

The options outstanding at June 30, 2013 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 29, 2009	103	103	9.22	December 29, 2014	1.5
March 11, 2011	52	30	10.39	March 11, 2016	2.7
August 11, 2011	175	48	8.71	August 11, 2016	3.1
March 28, 2012	296	95	11.96	March 28, 2017	3.7
March 13, 2013	435	-	12.89	March 13, 2018	4.7
	1,061	276	11.46		3.8

10. Sales

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

	Three Months Ended June 30, 2013 $	Three Months Ended June 30, 2012 $	**Six Months Ended June 30, 2013 $**	Six Months Ended June 30, 2012 $
Agriculture equipment sales	**185,566**	167,309	**357,659**	319,633
Construction equipment sales	**17,773**	26,956	**32,060**	45,068
Parts sales	**26,667**	23,067	**39,966**	36,907
Sale of goods	**230,006**	217,332	**429,685**	401,608
Rendering of services	**8,100**	8,409	**14,927**	16,184
Total sales	**238,106**	225,741	**444,612**	417,792

11. Selling, general and administrative

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

	Three Months Ended June 30, 2013 $	Three Months Ended June 30, 2012 $	**Six Months Ended June 30, 2013 $**	Six Months Ended June 30, 2012 $
Compensation and related expenses	**16,960**	14,761	**33,323**	28,747
Administrative expenses	**3,141**	4,676	**6,373**	7,936
Rent and other facility expenses	**3,826**	3,257	**7,761**	6,637
Depreciation expense	**1,542**	1,208	**3,159**	2,394
Share-based payment expense	**404**	484	**758**	756
Total selling, general and administrative expenses	**25,873**	24,386	**51,374**	46,470

Included in compensation and related expenses for the three and six months ended June 30, 2013 are variable sales commissions of $3,762 and $7,376 respectively (2012 - $4,057 and $6,469). Included in administrative expenses are marketing, training, insurance, travel, professional fees and other miscellaneous expenses.

12. Income taxes

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 June 30, 2013 $	Three Months Ended June 30, 2012 $	**Six Months Ended June 30, 2013 $**	Six Months Ended June 30, 2012 $
Earnings before income taxes	**6,433**	2,532	**10,203**	5,571
Computed tax at statutory tax rate of 25.0% (2012 – 25.0%)	**1,608**	633	**2,551**	1,393
Non-deductible expenses	**141**	157	**310**	251
Debenture repurchase	**-**	22	**-**	22
Adjustment from prior year income tax expenses	**221**	(25)	**93**	62
Other	**(31)**	150	**(83)**	89
	1,939	937	**2,871**	1,817

13. Related party transactions

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

	Three Months Ended June 30, 2013 $	Three Months Ended June 30, 2012 $	**Six Months Ended June 30, 2013 $**	Six Months Ended June 30, 2012 $
Management fees	**-**	-	**-**	31
Flight costs	**41**	150	**80**	308
Other expenses	**117**	12	**181**	68
Rental payments on Company facilities	**1,294**	1,151	**2,635**	2,199
Equipment sales	**1,264**	2,081	**1,303**	2,581
Equipment purchases	**1,256**	993	**1,331**	996

All related parties are either directly or indirectly owned, or their operations are significantly influenced 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.

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:

	June 30, 2013 $	December 31, 2012 $
Due from related parties	**1,285**	31
Due to related parties	**(11)**	(77)

The amounts due from related parties are not secured and are to be settled in cash. As at June 30, 2013 and December 31, 2012, the amounts due from related parties are considered collectible.

14. 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 monthly intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

Derivatives are initially recognized on the date a derivative contract is entered into and are subsequently re-measured at their fair values. The Company's derivative financial instruments are classified as Level 2 financial instruments and have not been reclassified during the period. Level 2 financial instruments are those whose fair values can be derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The 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.

	June 30, 2013 $		December 31, 2012 $	
	Assets	**Liabilities**	Assets	Liabilities
Interest rate swaps – cash flow hedges	**-**	**344**	-	1,438

For the three and six months ended June 30, 2013, the ineffective portion amounted to a gain of $359 and $382 (2012 – loss of $274 and $256), respectively, and is recognized in net earnings. At June 30, 2013, the effective fixed interest rate on the underlying debt was 4.3% (December 31, 2012 – 4.3%) and the effective floating rate using the Bankers' Acceptance rate was 3.5% (December 31, 2012 – 3.5%).

The aggregate of the notional principal amounts of the interest rate swaps outstanding at June 30, 2013 was $66,330 (December 31, 2012 – $69,718). Gains recognized in accumulated other comprehensive income within equity for the three and six months ended June 30, 2013 were $337 and $532 (2012 – losses of $885 and $406), respectively, net of tax. These accumulated gains will be continuously released to the consolidated statement of net earnings within interest on short- and long-term debt until full repayment of the underlying debt.