ROCKY MOUNTAIN DEALERSHIPS

# ROCKY MOUNTAIN DEALERSHIPS INC.
# MANAGEMENT'S DISCUSSION & ANALYSIS
# FOR THE THREE MONTHS ENDED MARCH 31, 2016

This Management's Discussion and Analysis ("MD&A") was prepared as of May 2, 2016 and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the three months ended March 31, 2016. It should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2016 and the audited consolidated financial statements for the years ended December 31, 2015, and 2014 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 Rocky Mountain Equipment Canada Ltd. ("RME Canada") and Rocky Mountain Dealer Acquisition Corp. ("RMDAC").

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 15, 2016 ("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.

## SUMMARY OF THE QUARTER ENDED MARCH 31, 2016

- Amalgamated our two Industrial facilities in Edmonton, Alberta and amalgamated our Bow Island, Alberta agriculture location with our Taber and Medicine Hat, Alberta locations.
- Completed the construction of our new state of the art facility in Yorkton, Saskatchewan.
- Used equipment inventory declined by $10.9 million or 3.8%.
- Total revenues declined by 14.0% to $189.5 million.
- Agriculture segment product support revenues reported a tenth consecutive quarter of growth versus the comparable period in the prior year.
- Gross margin increased to 14.9%, up from 14.3% in the first quarter of 2015.
- Gross profit decreased by 10.1% to $28.3 million.
- Operating SG&A(1) was reduced by $2.9 million or 11.6% to $22.4 million.
- Adjusted Diluted Earnings per Share(1) of $0.02 as compared to $0.03 in the first quarter of 2015.
- Adjusted EBITDA(1) declined by $0.5 million to $2.7 million.

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

## COMPANY OVERVIEW

Headquartered in Calgary, Alberta, Rocky is Canada's largest agriculture equipment dealer with a network of full-service agriculture and industrial equipment stores across the Canadian Prairie Provinces.

Rocky is Canada's largest retail dealer of CNH Industrial N.V. ("CNH") equipment, which includes Case IH, New Holland, and Case Construction. We are also a major independent dealer of equipment from a number of other manufacturers, including, but not limited to, Bourgault, Seed Hawk, 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 or arrange other ancillary services such as GPS signal subscriptions and geomatics services.

The Company's operations in Alberta, Saskatchewan and Manitoba are conducted through RME Canada under the name Rocky Mountain Equipment.

## MARKET FUNDAMENTALS AND OUTLOOK

### Agriculture Market

Our agriculture equipment sales are made primarily to grain, pulse and oilseed crop farmers in Western Canada. Demand for our equipment is largely driven by equipment and agricultural commodity prices, input costs and weather. Changes in these demand drivers can cause our customers' buying patterns to shift. Equipment utilization rates, by contrast, are comparatively less volatile as agricultural equipment incurs hours in the field regardless of weather or economic conditions. Farmers are required to work their fields each year, however circumstances may exist whereby farmers opt for used equipment in lieu of new equipment, or they may elect to maintain rather than replace their fleets. The breadth of Rocky's product offering enables us to respond to these shifts in buying patterns and provides a measure of stability within our agriculture segment's financial results.

In 2015, Canadian farmers enjoyed a bumper crop and record crop cash receipts. Statistics Canada is anticipating relatively flat principal field crop production in 2016 as compared to 2015, while early estimates from Agriculture and Agri-Food Canada are calling for a similar level of crop receipts year-over-year.

Prices for key Western Canadian crops remain strong. Farmers in the Canadian Prairies primarily plant cereal grains, pulse crops and oilseeds, which have not experienced the same price decline as has been experienced with corn of late. In the near term, agriculture commodity prices in Canada are expected to continue to be supported by the disparity between the Canadian and U.S. dollars, while sustained cost reductions in fuel and fertilizer prices are providing input cost relief to farmers.

As the Canadian dollar depreciated, however, the price of new equipment increased, which softened demand. Many of our customers are responding by deferring their fleet replacement and/or purchasing used rather than new equipment. We have also experienced strong product support demand as some customers are electing to maintain rather than replace their fleets.

Agriculture, as a whole, exhibits cyclical surges in demand and profitability driven by the aforementioned macroeconomic factors, as well as other factors that can impact our industry. While we continue to be at the low end of the equipment demand cycle, we reiterate the stability of the fundamentals underlying the agriculture industry. Farmers' balance sheets are healthy and the agriculture industry, especially in Western Canada, remains strong. While weather continues to have a significant influence on our overall demand, advances made in farming practices, seed technology and application techniques, have helped to mitigate this exposure to some extent.

Within the Canadian agriculture sector, the trend towards larger farms continues to support farm equipment sales. These operators typically require larger, more productive equipment along with specialized support and tend to replace their equipment more frequently to capitalize on the latest technological advances and equipment efficiencies. These larger operators tend to value the per-acre cost certainty that comes with maintaining a newer fleet.

As part of their drive to improve productivity and reduce cost per acre, farmers are continually 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, 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.

**Industrial Market**

Our industrial equipment sales are balanced through residential construction, roadwork (including paving and aggregate production), and commercial, industrial, and municipal construction in the Alberta market. The success of Rocky's industrial segment is largely correlated to investment in residential housing as well as overall economic activity and spending in Alberta. The significant decline in the Alberta economy has tempered spending in all sectors and we continue to feel the effects on our industrial business.

While we do not have a significant direct presence in Alberta's oil industry, we are prone to the indirect effects that a downturn in that industry may have. For instance, the weakening economic environment has curtailed housing starts in Alberta. The Canadian Mortgage and Housing Corporation reported a 53.1% decline in Alberta housing starts during the first quarter of 2016 as compared to the same period last year.

As these industry headwinds persist, it is anticipated that overall infrastructure and residential housing investment may be further curtailed which, in turn, is likely to negatively impact our industrial segment results.

In response, we have implemented a number of cost rationalization measures to offset the expected reduction in gross profit and right-size our cost structure to the current market.

In the coming quarters, the Company will be making fundamental changes to its industrial equipment distribution strategy. We will be amalgamating the industrial distribution facilities located in Calgary and Red Deer, Alberta into existing agriculture facilities located in those areas. This change will not impact our current territory coverage, and will eliminate the costs associated with operating and maintaining multiple physical locations in the same trade area. These locations, as well as our two former Edmonton facilities which were also recently amalgamated, have historically incurred annual facility and other administrative costs of approximately $3.0 million, which we expect to discontinue once the amalgamations have been completed during the third quarter of 2016. As a result of this restructuring, we expect to incur one-time costs of $2.5 – $3.0 million in the second and third quarters of this year. The Company is in the process of assessing the impact of this restructuring on its segmented financial reporting for future periods.

ROCKY MOUNTAIN DEALERSHIPS

**Overall**

The disparity between the Canadian and U.S. dollars is also expected to continue to generate incremental demand for used equipment from U.S. customers looking to capitalize on the favourable exchange rate.

Rocky's success and growth, while predicated on the larger economic conditions and factors discussed above, are also affected by our continued ability to be a partner of choice for equipment purchasers. To that end, we continue to invest in our people, through training and employee engagement programs and in the communities that we serve. As noted earlier, farmers' balance sheets are strong, and agriculture continues to be a strong, stable industry in Western Canada. In the end, it is our response to these positive trends and advancements in the agriculture industry, and our ability to continually provide a compelling value proposition to our customers, that will predicate our long-term success.

As discussed, we also continue to right size our bricks and mortar footprint to better scale the associated fixed costs and rationalize our product offering, focusing our efforts on key product lines. We believe that for a store to be successful, ensuring the business can support the customers and the communities effectively, a minimum annual revenue opportunity of $20.0 – $25.0 million is required. With the changes we made in 2015 and those changes that we are continuing to enact in 2016, the majority of our locations will have the market opportunity to achieve these targets as the market recovers.

The outlook for our end-markets, long-term health in agricultural commodity prices, the impact of previously acquired dealerships and trade areas and our strong original equipment manufacturer ("OEM") relationships, position us well to pursue our longer-term revenue and earnings growth initiatives.

Our underlying business fundamentals remain strong. We have distribution rights for some of the world's leading equipment brands over a vast sales territory. Furthermore, significant barriers to entry exist in this market, which help us maintain our position as an exclusive supplier of these brands. Our installed base and customer relationships create an annuity of equipment sales and product support revenue, which help drive dependable earnings and cash flow.

**SELECTED QUARTERLY FINANCIAL INFORMATION**

| For the three months ended March 31, unless otherwise stated<br>$ thousands, except per share amounts | **2016** | | 2015 | |
|---|---|---|---|---|
| **Sales** | | | | |
| New equipment | **79,802** | **42.1%** | 111,748 | 50.7% |
| Used equipment | **83,666** | **44.2%** | 83,785 | 38.0% |
| Parts | **18,342** | **9.7%** | 16,988 | 7.7% |
| Service | **6,748** | **3.6%** | 7,053 | 3.2% |
| Other | **906** | **0.4%** | 849 | 0.4% |
| | **189,464** | **100.0%** | 220,423 | 100.0% |
| Cost of sales | **161,181** | **85.1%** | 188,963 | 85.7% |
| Gross profit | **28,283** | **14.9%** | 31,460 | 14.3% |
| Selling, general and administrative | **24,469** | **12.9%** | 27,630 | 12.5% |
| Interest on short-term debt | **3,093** | **1.6%** | 2,855 | 1.3% |
| Interest on long-term debt | **453** | **0.3%** | 514 | 0.3% |
| **Earnings before income taxes** | **268** | **0.1%** | 461 | 0.2% |
| Provision for income taxes | **4** | **0.0%** | 129 | 0.0% |
| **Net earnings** | **264** | **0.1%** | 332 | 0.2% |
| Earnings per share | | | | |
| Basic | **0.01** | | 0.02 | |
| Diluted | **0.01** | | 0.02 | |
| Dividends per share | **0.1150** | | 0.1150 | |
| Book value per share – diluted (as at March 31, 2016 and 2015) | **8.62** | | 8.55 | |
| **Non-IFRS Measures(1)** | | | | |
| Adjusted Diluted Earnings per Share | **0.02** | | 0.03 | |
| Adjusted EBITDA | **2,743** | **1.4%** | 3,211 | 1.5% |
| Operating SG&A | **22,447** | **11.8%** | 25,394 | 11.5% |
| Floor Plan Neutral Operating Cash Flow | **(5,666)** | **(3.0%)** | 3,472 | 1.6% |

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

ROCKY MOUNTAIN DEALERSHIPS

**Segmented Financial Reporting**

The Company's branches have been aggregated on the basis of the primary industry which they serve, being agriculture or industrial. Certain of our branches serve both industries. In cases where branches distribute both agriculture and industrial equipment, the primary industry served is agriculture and, therefore, these facilities have been categorized as such. As a result, certain industrial related results are included in the agriculture segment for the purposes of segmented financial reporting. As previously discussed, the Company is in the process of assessing the impact of the proposed restructuring of its industrial footprint on its segmented financial reporting for future periods.

| $ thousands | For the three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | | | 2015 | | |
| | **Agriculture** | **Industrial** | **Total** | Agriculture | Industrial | Total |
| **Sales** | | | | | | |
| New equipment | **75,640** | **4,162** | **79,802** | 106,699 | 5,049 | 111,748 |
| Used equipment | **82,814** | **852** | **83,666** | 82,802 | 983 | 83,785 |
| Parts | **15,953** | **2,389** | **18,342** | 14,090 | 2,898 | 16,988 |
| Service | **5,907** | **841** | **6,748** | 5,762 | 1,291 | 7,053 |
| Other | **867** | **39** | **906** | 809 | 40 | 849 |
| | **181,181** | **8,283** | **189,464** | 210,162 | 10,261 | 220,423 |
| Gross profit | **26,739** | **1,544** | **28,283** | 28,962 | 2,498 | 31,460 |
| Gross margin | **14.8%** | **18.6%** | **14.9%** | 13.8% | 24.3% | 14.3% |
| Net income (loss) | **1,881** | **(1,617)** | **264** | 1,416 | (1,084) | 332 |

**Revenue and Gross Profit**

The Company uses the terms "acquired" versus "same store" in assessing its revenue. Each acquired store has an average historical level of sales prior to being acquired by Rocky. When the Company discusses "acquired" results, it is referring to these average historical levels. This base level of activity continues to be classified as acquired until such time as the acquired store has been included in our dealership network for twelve months after which point, all activity is classified as same store. For the quarter ended March 31, 2016, all acquired growth pertains to the agriculture segment of the Company. As a start-up entity, the historical sales for NGF Geomatics Inc. were negligible and have not been presented as acquired sales.

<u>Agriculture Segment</u>

| $ thousands | For the three months ended March 31, | | | | |
|---|---|---|---|---|---|
| | | | Change | | |
| | **2016** | 2015 | Total | Acquired | Same Store |
| **Sales** | | | | | |
| New equipment | **75,640** | 106,699 | (31,059) | 5,074 | (36,133) |
| Used equipment | **82,814** | 82,802 | 12 | 1,668 | (1,656) |
| Parts | **15,953** | 14,090 | 1,863 | 993 | 870 |
| Service | **5,907** | 5,762 | 145 | 225 | (80) |
| Other | **867** | 809 | 58 | - | 58 |
| | **181,181** | 210,162 | (28,981) | 7,960 | (36,941) |
| Gross profit | **26,739** | 28,962 | (2,223) | | |
| Gross margin | **14.8%** | 13.8% | 1.0% | | |

For the quarter ended March 31, 2016, total sales for the agriculture segment decreased by $29.0 million or 13.8% over the same period in 2015. Excluding $8.0 million of acquired sales, same store revenues declined by $36.9 million or 17.6% as compared to the first quarter last year.

This reduction in sales is primarily the result of a $36.1 million contraction in same store new equipment sales. The continuing weakness in the Canadian dollar was more pronounced during the first quarter of 2016 as compared to the same period last year, increasing prices and reducing demand for new equipment in general. The decline in new equipment revenues quarter-over-quarter comes despite increased selling prices for new equipment, which partially offset the impact of reduced unit sales on revenue. The timing of deliveries from our OEMs also deferred delivery of certain units beyond the first quarter of 2016, modestly contributing to the decline in new equipment sales.

ROCKY MOUNTAIN DEALERSHIPS

Same store product support sales for the quarter ended March 31, 2016 increased by $0.8 million or 4.0% over the same period in 2015. Our continued focus on product support initiatives, namely our "winter works" programs, contributed to modest increases in product support, particularly as it pertains to parts revenues. The growth in parts sales can also partially be attributed to pricing increases stemming from the weaker Canadian dollar.

Total product support revenues in the agriculture segment continue to demonstrate stable growth having reported increases in each quarter since the inception of the segment, amounting to ten consecutive quarters of growth as compared to the comparable period in the prior year.

Gross profit for the quarter ended March 31, 2016 decreased by $2.2 million or 7.7% versus the first quarter of last year as a result of the aforementioned reduction in new equipment revenues and a resulting $0.9 million reduction in manufacturer incentives recognized quarter-over-quarter. Gross margin for the quarter ended March 31, 2016, increased by 1.0% over the first quarter of last year due largely to a shift in sales mix towards higher-margin product support.

Industrial Segment

| $ thousands | **For the three months ended March 31,** | | |
|---|---|---|---|
| | **2016** | 2015 | Change |
| **Sales** | | | |
| New equipment | **4,162** | 5,049 | (887) |
| Used equipment | **852** | 983 | (131) |
| Parts | **2,389** | 2,898 | (509) |
| Service | **841** | 1,291 | (450) |
| Other | **39** | 40 | (1) |
| | **8,283** | 10,261 | (1,978) |
| Gross profit | **1,544** | 2,498 | (954) |
| Gross margin | **18.6%** | 24.3% | (5.7%) |

For the quarter ended March 31, 2016, total sales for the industrial segment decreased by $2.0 million or 19.3% over the same period in 2015.

Equipment and product support sales for the quarter ended March 31, 2016 experienced declines of $1.0 million or 16.9% and $1.0 million and 22.9%, respectively, over the comparable period last year. Persistent low oil prices have continued to reduce the use of, and consequently demand for, industrial equipment during the quarter. Although our industrial customer base is not heavily concentrated in the oil and gas sector, the impact of low oil prices has had a negative impact on Alberta's overall GDP, and by implication, our industrial segment sales. We are seeing many of the units in our installed base remain either idle or, where possible, our customers are electing to defer maintenance and repairs.

Gross profit for the quarter ended March 31, 2016, decreased by $1.0 million or 38.2% quarter-over-quarter, while gross margin declined by 5.7% to 18.6% over the same period. These reductions are attributable to both lower sales levels and tighter margins across all categories.

**Product Support Revenues**

Certain product support activity is performed for the benefit of other departments within the Company. This activity is excluded from reported parts and service revenues. Management assesses overall product support activity to ensure that the resources deployed are adequate in light of total activity. Total parts and service activity is reconciled to our reported revenues for the respective departments as follows:

| $ thousands | **For the three months ended March 31,** | |
|---|---|---|
| | **2016** | 2015 |
| **Parts activity** | | |
| Total activity | **21,429** | 19,631 |
| Internal activity eliminated | **(3,087)** | (2,643) |
| Reported revenues | **18,342** | 16,988 |
| **Service activity** | | |
| Total activity | **11,350** | 12,364 |
| Internal activity eliminated | **(4,602)** | (5,311) |
| Reported revenues | **6,748** | 7,053 |

ROCKY MOUNTAIN DEALERSHIPS

### Selling, General and Administrative

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 and amortization of intangible assets. Many of these costs are fixed. When we acquire new stores, these costs typically 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 generally decrease as we incorporate their finance and other administrative functions into our centralized corporate resources. Similarly, our costs will increase as we add direct customer-related resources such as equipment specialists, but will normalize relative to sales volumes as those positions drive incremental revenue and increase our customer base.

Fixed costs are subject to price increases, which increases are driven primarily by real estate and labour demand in Western Canada. Variable costs included within SG&A expenses consist primarily of sales commissions.

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). The Company targets a sub-10% Operating SG&A as a percentage of sales on an annual basis.

For the quarter ended March 31, 2016, Operating SG&A decreased by $2.9 million or 11.6% over the first quarter of 2015. This decrease comes despite an additional $1.9 million of expenses associated with businesses acquired during 2015, as the costs of these operations have now been included in our consolidated results since the beginning of the current year. Excluding these costs, Operating SG&A for the quarter is down $4.8 million or 18.9%. This reduction is primarily the result of cost containment measures implemented throughout 2015 to better align our resources deployed with current industry demand. Selling, general and administrative expenses also includes a net gain recognized due to foreign currency translation for transactions and balances aggregating $0.5 million for the quarter ended March 31, 2016 (2015 – loss of $0.1 million).

We also continue to scale the business by amalgamating facilities were appropriate. We expect to generate a minimum of $20.0 – $25.0 million in revenue per location in order to meet our customers' needs and expectations while appropriately scaling the costs associated with a facility. During the quarter, we completed the consolidation of our two facilities in Edmonton, Alberta and amalgamated our Bow Island, Alberta location with our Taber and Medicine Hat locations. Our customers in the Bow Island, Alberta area are now served by these two locations. We also completed construction on our new flagship facility in Yorkton, Saskatchewan, into which our existing 2 facilities in the Yorkton area will be amalgamated during the second quarter of 2016.

### Interest

The Company's short-term interest expense is attributable to the floor plan financing associated with its new and used equipment inventory as well as interest on its Operating Facility. Interest on long-term debt pertains primarily to the Company's Term Facility as well as its former Debenture Repayment, Acquisition, Real Estate and Fleet Facilities for the comparable period. During the quarter ended March 31, 2016, total interest expense increased by $0.2 million or 5.3%, due largely to interest on the Company's Operating Facility utilized to extinguish debt assumed as part of the Chabot Implements acquisition. The increase in the Company's hedged position with respect to its short-term floating-rate debt has also increased its effective cost of funds, contributing to the increase in short-term interest expense, quarter-over-quarter.

### Net Earnings

Net earnings for the quarter ended March 31, 2016 decreased by $0.1 million or $0.01 per share over the first quarter of 2015. Adjusted Diluted Earnings per Share amounted to $0.02 for the first quarter of 2016, as compared to $0.03 during the same period last year. See the definition and reconciliation of Adjusted Diluted Earnings per Share in the "Non-IFRS Measures" and "Reconciliation of Non-IFRS Measures to IFRS" sections below.

ROCKY MOUNTAIN DEALERSHIPS

## SUMMARY OF QUARTERLY RESULTS

| $ thousands, except per share amounts | **Q1 2016** | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | | | |
| New equipment | **79,802** | 162,424 | 80,432 | 95,393 | 111,748 | 182,555 | 81,837 | 133,086 | 124,269 |
| Used equipment | **83,666** | 92,676 | 125,534 | 75,487 | 83,785 | 79,810 | 102,354 | 70,621 | 50,751 |
| Parts | **18,342** | 20,614 | 37,918 | 31,989 | 16,988 | 21,320 | 35,568 | 29,216 | 15,518 |
| Service | **6,748** | 8,714 | 10,711 | 9,387 | 7,053 | 9,569 | 10,041 | 8,478 | 6,976 |
| Other | **906** | 1,159 | 1,391 | 1,204 | 849 | 838 | 995 | 953 | 652 |
| | **189,464** | 285,587 | 255,986 | 213,460 | 220,423 | 294,092 | 230,795 | 242,354 | 198,166 |
| Cost of sales | **161,181** | 248,049 | 215,944 | 180,519 | 188,963 | 254,623 | 191,680 | 204,548 | 168,934 |
| Gross profit | **28,283** | 37,538 | 40,042 | 32,941 | 31,460 | 39,469 | 39,115 | 37,806 | 29,232 |
| Gross margin | **14.9%** | 13.1% | 15.6% | 15.4% | 14.3% | 13.4% | 16.9% | 15.6% | 14.8% |
| SG&A | **24,469** | 27,449 | 30,334 | 26,363 | 27,630 | 27,548 | 27,165 | 25,985 | 25,058 |
| Interest and taxes | **3,550** | 5,509 | 5,356 | 4,549 | 3,498 | 5,700 | 5,746 | 5,925 | 3,570 |
| Net earnings | **264** | 4,580 | 4,352 | 2,029 | 332 | 6,221 | 6,204 | 5,896 | 604 |
| EPS – basic | **0.01** | 0.24 | 0.23 | 0.10 | 0.02 | 0.32 | 0.32 | 0.31 | 0.03 |
| EPS – diluted | **0.01** | 0.24 | 0.23 | 0.10 | 0.02 | 0.32 | 0.32 | 0.31 | 0.03 |

Fluctuating seasonal revenue cycles are common in both the agriculture and industrial 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 typically vary between quarters. The first quarter is generally the weakest due to the lack of agriculture activity and 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.

On the agriculture side, seeding activity typically commences between the latter part of the first quarter and the start of the second quarter while harvest begins towards the middle of the third quarter, and continues through into the fourth quarter. Accordingly, our financial results vary between quarters.

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 a late spring, excess moisture or drought conditions may also positively or negatively impact sales activity and profitability for any given period.

ROCKY MOUNTAIN DEALERSHIPS

## BALANCE SHEET SUMMARY

| $ thousands | **March 31, 2016** | December 31, 2015 | March 31, 2015 |
|---|---|---|---|
| **Assets** | | | |
| Inventory | **509,381** | 499,760 | 527,257 |
| Other current assets | **51,001** | 63,824 | 67,048 |
| Total current assets | **560,382** | 563,584 | 594,305 |
| Property and equipment | **50,575** | 39,888 | 24,789 |
| Deferred tax asset | **2,861** | 2,367 | 1,852 |
| Intangible assets | **630** | 671 | - |
| Goodwill | **18,776** | 18,802 | 15,514 |
| **Total assets** | **633,224** | 625,312 | 636,460 |
| **Liabilities and equity** | | | |
| Floor plan payable | **358,691** | 356,568 | 381,898 |
| Other current liabilities | **59,881** | 53,893 | 55,857 |
| Total current liabilities | **418,572** | 410,461 | 437,755 |
| Long-term debt | **38,487** | 40,080 | 28,158 |
| Obligations under finance leases | **777** | 154 | - |
| Derivative financial liabilities | **8,306** | 4,859 | 4,958 |
| | **466,142** | 455,554 | 470,871 |
| Shareholders’ equity | **167,082** | 169,758 | 165,589 |
| **Total liabilities and equity** | **633,224** | 625,312 | 636,460 |

Current assets at March 31, 2016, consisted primarily of new and used equipment inventory. The Company’s new and used equipment inventory is comprised predominantly of agriculture equipment. Rocky has a diverse customer base for its agriculture equipment and strives to carry an appropriate mix of both new and used equipment to best serve our customers. Typically, our agriculture customers trade in their used equipment when making equipment purchases. Industrial equipment, by contrast, is generally utilized to the end of its useful life by one owner. Trades of used industrial equipment are less common and as such, the Company carries less used industrial equipment relative to new. The composition of the Company’s equipment inventory is as follows:

| $ thousands | **March 31, 2016** | December 31, 2015 | March 31, 2015 |
|---|---|---|---|
| New agriculture equipment | **131,790** | 113,182 | 149,599 |
| New industrial equipment | **54,575** | 59,153 | 64,120 |
| Total new equipment | **186,365** | 172,335 | 213,719 |
| Used agriculture equipment | **272,441** | 282,868 | 264,005 |
| Used industrial equipment | **4,438** | 4,916 | 5,068 |
| Total used equipment | **276,879** | 287,784 | 269,073 |
| Total equipment inventory | **463,244** | 460,119 | 482,792 |

The Company increased its new agriculture equipment inventory during the first quarter of 2016 in preparation for demand anticipated during the growing season. As is typical for the first quarter, we also took delivery of certain units procured to fulfill pre-sale arrangements which have yet to be delivered to the end customer.

The decline in used agriculture equipment inventory during the quarter reflects the sustained shift in demand for used equipment, as well as management’s continued focus on inventory reduction.

Both new and used industrial equipment inventory declined during the quarter despite softer overall demand. We continue to closely monitor our procurement of industrial equipment, limiting new orders while focusing our sales efforts on existing inventory.

Parts inventory also increased during the quarter as the Company prepares for the spike in demand associated with the growing season.

ROCKY MOUNTAIN DEALERSHIPS

Current liabilities consist predominantly of floor plan payable for financed equipment inventory of approximately $358.7 million as at March 31, 2016 (December 31, 2015 – $356.6 million). As a percentage of equipment inventory, floor plan payable was 77.4% as at March 31, 2016, relatively flat compared to December 31, 2015.

## LIQUIDITY AND CAPITAL RESOURCES

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

- Operating activities, including, the levels of accounts receivable, inventory, accounts payable and floor plan payable;
- Financing activities, including bank credit facilities, long-term debt and other capital market activities; and,
- Investing activities, including capital expenditures, dispositions of fixed assets and acquisitions of complementary businesses.

### Summary of Cash Inflows (Outflows)

| $ thousands | For the three months ended March 31, | |
|---|---|---|
| | **2016** | 2015 |
| Net earnings | **264** | 332 |
| Effect of non-cash items in net earnings and changes in working capital | **(3,807)** | 2,957 |
| Cash flows from operating activities | **(3,543)** | 3,289 |
| Cash flows from financing activities | **(1,322)** | (5,051) |
| Cash flows from investing activities | **(4,005)** | (2,767) |
| Net decrease in cash | **(8,870)** | (4,529) |
| Cash, beginning of period | **16,690** | 22,952 |
| Cash, end of period | **7,820** | 18,423 |
| | | |
| Floor Plan Neutral Operating Cash Flow(1) | **(5,666)** | 3,472 |

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

### Cash Flows from Operating Activities

The Company assesses its Floor Plan Neutral Operating Cash Flow in analyzing its cash flows from operating activities. See the definition and reconciliation of Floor Plan Neutral Operating Cash Flow in the “Non-IFRS Measures” and “Reconciliation of Non-IFRS Measures to IFRS” sections below.

Rocky is eligible to finance its equipment inventory using its various floor plan facilities. Floor plan facilities are asset-backed lending arrangements whereby each draw is associated with a specific piece of equipment. The Company is under no obligation to finance any of its equipment inventory and, as a general rule, financed units can be paid out for a period of time and refinanced at a later date. Adjusting cash flows from operating activities for changes in the balance of floor plan payable allows management to isolate and analyze cash flows from operating activities, prior to any sources or uses of cash associated with equipment financing decisions.

For the quarter ended March 31, 2016, Floor Plan Neutral Operating Cash Flow decreased by $9.1 million as compared to the same period in 2015. This decrease is primarily attributable to additional cash invested in inventory. Cash flows from operating activities decreased by $6.8 million during the first quarter of 2016 as compared to the first quarter of 2015 due primarily to an increase in cash invested in inventory, net of floor plan payable.

### Cash Flows from Financing Activities

Cash flows from financing activities pertained primarily to debt and dividend payments. For the quarter ended March 31, 2016, cash outflows from financing activities decreased by $3.7 million. The decrease is primarily associated with the interest-only period on the Term Facility which substantially eliminated principal repayments during the first quarter of 2016.

### Cash Flows from Investing Activities

Cash utilized for investing activities was the result of our normal capital expenditures, investment in new facility construction and the net cash consideration paid pursuant to business combinations, offset by proceeds on the disposition of property and equipment. During the quarter ended March 31, 2016, cash utilized for investing activities increased by $1.2 million over

ROCKY MOUNTAIN DEALERSHIPS

the same period in 2015 primarily as a result of $2.7 million invested in new facility construction as compared to $1.0 million in the first quarter of last year.

## ADEQUACY OF CAPITAL RESOURCES

We use operating cash flows 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, availability of adequate credit facilities, compliance with debt covenants, as well as other factors, some of which are beyond our control. Based on our current operational performance, we believe that cash flows 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 which matures on September 24, 2018, 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 U.S. 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 0.4% – 0.7% 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 ratio of debt to tangible net worth.

The Syndicated Facility consists of:

- The "Operating Facility" – which may be utilized to advance up to the lesser of the established borrowing base and $70.0 million. The borrowing base is supported by otherwise unencumbered assets including certain accounts receivable, inventory and items of property and equipment, less priority payables. This facility may be used to finance general corporate operating requirements.
- The "Flooring Facility" – which may be utilized to finance up to 75% of the value of eligible equipment inventory to a maximum of $125.0 million. Draws against the Flooring Facility are repayable over a term of 28 months however; they become due in full upon the sale of the associated equipment.
- The "Term Facility" – which may be utilized to finance up to 60% of the cost of acquisitions and 75% of the cost of real estate to a maximum of $75.0 million. Draws are repayable in quarterly installments with acquisition and real estate related draws amortized over periods of 7 and 15 years, respectively. The $45.0 million balance on the Term Facility has an interest-only period for the first six months, followed by a seven year repayment period which commences in April of 2016.

Including the syndicated Flooring Facility, we have total floor plan facilities of approximately $592.0 million (inclusive of seasonal increases) from various lending institutions for the purpose of financing equipment 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 Industrial Capital Canada Ltd.), as well as by banks and specialty lenders. The Company also has an additional $75.0 million of floor plan availability with its OEMs, to be made available to the Company if required as a result of business combinations.

In addition to our available cash balance of $15.9 million as at March 31, 2016, we have approximately $323.8 million available on our various credit facilities.

| $ millions | Facility limit | Amount drawn | **Available** |
|---|---|---|---|
| Operating Facility[1] | 70.0 | 8.0 | **62.0** |
| Term Facility | 75.0 | 45.0 | **30.0** |
| Various floor plan facilities | | | |
| OEM floor plan facilities | 205.0 | 103.3 | **101.7** |
| Syndicated Flooring Facility | 125.0 | 80.9 | **44.1** |
| Other floor plan facilities[2] | 262.0 | 176.0 | **86.0** |
| | 737.0 | 413.2 | **323.8** |

(1) – Availability subject to borrowing base calculation.

(2) – Includes floor plan payable classified as liabilities associated with assets held for sale.

ROCKY MOUNTAIN DEALERSHIPS

### Financial Covenants

Pursuant to agreements with lenders, the Company is required to monitor and report certain financial ratios on a quarterly basis.

The Company's recent financial results reflect the low-end of the agriculture equipment demand cycle as well as the impact of Alberta's considerable economic headwinds on our industrial segment performance.

The Company's financial results are also subject to the seasonality inherent in agriculture and industrial activity levels driven in large part by weather conditions, the timing of crop receipts and farming cycles and the timing of infrastructure expenditures.

With softer trailing earnings and the unpredictability associated with the timing of spring demand typical of the first quarter of the year, the Company approached its syndicate of lenders as well as one of its floor plan financing providers to request amendments to their respective fixed charge coverage ratio compliance requirements for the first quarter of 2016. The compliance requirements were amended by both lenders from 1.20:1.00 to 1.05:1.00 and, without further amendment, will revert back to 1.20:1.00 beginning in the second quarter of 2016.

During the quarter, the Company's fixed charge coverage ratio requirement on its OEM provided flooring facility was also amended, reducing the compliance requirement to 1.15:1.00.

Subsequent to the amendments, the Company's financial covenant and applicable compliance ranges are as follows:

| | **March 31, 2016** | December 31, 2015 |
|---|---|---|
| Fixed charge coverage of at least | **1.05-1.15:1** | 1.20-1.50:1 |
| Debt to tangible net worth less than | **4.00-5.00:1** | 4.00-5.00:1 |
| Current ratio of at least | **1.15-1.20:1** | 1.15-1.20:1 |

Each lender has its own definition of which account balances are to be included in these computations. Failing to meet these covenants would constitute a default event which may result in, among other restrictions and remedies, the associated debt becoming due and restrictions being placed on the Company's ability to draw on its facilities or make distributions to shareholders.

As at March 31, 2016 and December 31, 2015, the Company was in compliance with all externally imposed capital requirements. The Company's fixed charge coverage ratios for the first quarter of 2016 satisfied the original compliance requirements and as such, the relaxation of the covenants obtained by the Company was not required.

The Company's continued compliance with its financial covenants is dependent on various factors which influence our financial results including, but not limited to, overall demand for our products and services and the timing of that demand driven by weather and other factors. As agriculture equipment demand remains at the low end of the cycle and our industrial segment results continue to be impacted by considerable economic headwinds in Alberta, there is a risk that the Company's financial results and/or position may weaken and that we may not comply with our financial covenants, most notably, our fixed charge coverage ratios.

### Derivative Financial Instruments

The Company utilizes derivative financial instruments to hedge its exposure to changes in interest rates and fluctuations in the valuation of its common shares. We do not use derivatives to speculate, but rather as a risk management tool. The Company's portfolio of derivative financial instruments consists of interest rate and total return swaps.

Losses realized on derivative financial instruments are as follows:

| $ thousands | **For the three months ended March 31,** | |
|---|---|---|
| | **2016** | 2015 |
| Loss recognized in net earnings | **252** | 433 |
| Loss recognized in accumulated other comprehensive loss – net of tax | **794** | 1,154 |
| Loss recognized in deferred tax position | **293** | 397 |

ROCKY MOUNTAIN DEALERSHIPS

Interest Rate Swaps

The Company has five separate interest rate swaps related to portions of its Term Facility and various floor plan facilities (collectively, the "Hedged Facilities").

The Hedged Facilities each bear interest at a floating rate based on the prevailing BA rate. The interest rate swaps hedge our exposure to fluctuations in the BA rate. The Company's hedged and at risk positions are summarized as follows:

| | | | **March 31, 2016** | | December 31, 2015 | |
|---|---|---|---|---|---|---|
| | Maturity | Type | **Effective rate** | **Amount ($ thousands)** | Effective Rate | Amount ($ thousands) |
| Hedged position | | | | | | |
| *Current debt* | | | | | | |
| Floor plan facility #1 | August, 2018 | Non-amortizing | **4.2%** | **25,000** | 4.2% | 25,000 |
| Floor plan facility #2 | September, 2020 | Non-amortizing | **5.1%** | **35,000** | 5.1% | 35,000 |
| Floor plan facility #3 | September, 2022 | Non-amortizing | **5.4%** | **50,000** | 5.4% | 50,000 |
| | | | **5.0%** | **110,000** | 5.0% | 110,000 |
| *Long-term debt* | | | | | | |
| Term Facility #1(1) | May, 2016 | Amortizing | **3.5%** | **546** | 3.5% | 1,365 |
| Term Facility #2(2) | April, 2017 | Amortizing | **4.1%** | **21,875** | 4.1% | 22,750 |
| | | | **4.0%** | **22,421** | 4.0% | 24,115 |
| | | | **4.9%** | **132,421** | 4.8% | 134,115 |
| Position at risk | | | | | | |
| Floating-rate debt | | | | **302,090** | | 299,694 |
| Position hedged | | | | **43.8%** | | 44.8% |

(1) – Formerly the Acquisition Facility.

(2) – Formerly the Debenture Repayment Facility.

At inception, these instruments were designated as hedges and were accounted for using hedge accounting. Subsequently, the interest rate swaps on the Term Facility failed their effectiveness testing and as such, hedge accounting was discontinued. The $0.1 million accumulated loss recognized within accumulated other comprehensive loss will be reversed into net earnings over the remainder of terms of these derivatives. Future changes in the fair value of these derivatives will be recognized within net earnings in the period in which they arise.

The interest rate swaps on the various floor plan facilities continue to remain effective and as such, we continue to account for these cash flow hedges using hedge accounting. 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. To the extent that changes in the fair value of these derivatives are not completely offset by changes in the fair value of the hedged items, the ineffective portions of the hedging relationships are recorded immediately in net earnings.

During the quarter ended March 31, 2016, we recognized in net earnings, a mark-to-market gain of $0.1 million on our interest rate swaps (2015 – loss of $0.2 million).

Total Return Swaps

The Company has several total return swap arrangements to hedge the exposure associated with increases in its share price on its outstanding Director Share Units ("DSUs") and Share Appreciation Rights ("SARs"). If not renewed by the Company, these arrangements mature between September 2016 and July 2018. It is the Company's intention to continue to renew these derivative financial instruments to match the terms associated with the DSUs and SARs. The hedging relationship with the SARs is ineffective to the extent that the Company's share price falls below the strike price of the SARs.

During the vesting period, the accounting treatment of the SARs creates an inherent discrepancy from the total return swaps in terms of the timing of the impact on net earnings. Changes in the Company's share price are factored into the Black-Scholes option pricing model to determine the fair value of the SARs at each reporting date. This fair value will then be expensed over the remainder of the vesting period. The derivative financial instruments, by contrast, are marked-to-market at each reporting date. Once vested, the SARs will also be marked-to-market at each reporting period, eliminating the timing discrepancy.

The Company does not apply hedge accounting to these relationships and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise. During the quarter ended March 31, 2016, the Company recognized a $0.3 million mark-to-market loss on the total return swaps (2015 – loss of $0.2 million). The Company anticipates that the accumulated mark-to-market loss will be reversed in subsequent periods as its share price returns to a more typical range representing at least book value.

The Company's hedged and at risk positions are summarized as follows:

| In thousands of shares/units except per share amounts | **March 31, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **Weighted average price/share $** | **Shares/ units** | Weighted average price/share $ | Shares/ units |
| Hedged position | | | | |
| DSUs | **10.54** | **100** | 10.54 | 100 |
| SARs | **9.21** | **1,170** | 9.21 | 1,170 |
| | **9.31** | **1,270** | 9.31 | 1,270 |
| Position at risk | | | | |
| DSUs | | **83** | | 75 |
| SARs | | **1,146** | | 1,146 |
| | | **1,229** | | 1,221 |
| Position hedged | | **103.3%** | | 104.0% |

**Dividends**

On May 2, 2016, the Board of Directors of Rocky approved a quarterly dividend of $0.115 per common share on its outstanding common shares. The common share dividend is payable on June 30, 2016, to shareholders of record at the close of business on May 31, 2016.

## SHARE CAPITAL – OUTSTANDING SHARES

During the quarters ended March 31, 2016 and 2015, there were no changes in the issued and outstanding common shares of the Company. As at March 31, 2016 and 2015 as well as May 2, 2016, there were 19,384,086 shares outstanding.

The options outstanding at March 31, 2016 are as follows:

| Grant date | Options outstanding (thousands) | Options exercisable (thousands) | Weighted average exercise price ($) | Weighted average contractual life (years) |
|---|---|---|---|---|
| August 11, 2011 | 142 | 142 | 8.71 | 0.4 |
| March 28, 2012 | 237 | 237 | 11.96 | 1.0 |
| March 13, 2013 | 363 | 363 | 12.89 | 1.9 |
| March 13, 2014 | 391 | 261 | 11.52 | 2.9 |
| | 1,133 | 1,003 | 11.70 | 1.9 |

As at May 2, 2016, there were 1,088,332 options outstanding.

## 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 March 31, 2016 include long-term debt consisting predominantly of the Term Facility and operating lease commitments which relate primarily to the Company's facilities. Lease terms are between one and eleven years and most building leases contain renewal options for periods ranging from three to five years.

The Company assesses its liquidity based on the period in which cash flows are expected to occur. The following table summarizes the Company's expected undiscounted cash flows as at March 31, 2016 assuming the Syndicated Facility is renewed prior to maturity on September 24, 2018. 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** | 2016 | 2017-2018 | 2019-2020 | Thereafter |
|---|---|---|---|---|---|
| Trade payables, accruals and other | **38,632** | 38,632 | - | - | - |
| Floor plan payable(1) | **372,555** | 279,416 | 93,139 | - | - |
| Long-term debt | **49,486** | 5,766 | 14,782 | 14,029 | 14,909 |
| Obligations under finance leases | **1,210** | 312 | 827 | 71 | - |
| Operating lease obligations | **31,329** | 6,570 | 13,639 | 7,349 | 3,771 |
| Derivative financial instruments | **10,665** | 1,584 | 6,840 | 2,049 | 192 |
| Total contractual obligations | **503,877** | 332,280 | 129,227 | 23,498 | 18,872 |

(1) – Includes floor plan payable classified as liabilities associated with assets held for sale.

In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for long-term debt outstanding as at March 31, 2016 would be $41.9 million in 2017-2018 and $Nil thereafter.

## RELATED PARTY TRANSACTIONS

During the quarter ended March 31, 2016, the Company entered into the following transactions with related parties:

| $ thousands | **For the three months ended March 31,** | |
|---|---|---|
| | **2016** | 2015 |
| Equipment and product support sales | **16** | 300 |
| Expenditures | | |
| Rental payments on Company facilities | **1,448** | 1,375 |
| Equipment purchases | **3** | 96 |
| Flight costs | **16** | 56 |
| Other expenses | **23** | 56 |

All related parties are either directly or indirectly owned by a member of senior management of the Company and/or a close family member thereof. These transactions were made on terms equivalent to those that prevail in arm's length transactions and are made only if such terms can be substantiated.

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 | **March 31, 2016** | December 31, 2015 |
|---|---|---|
| Due from related parties | **94** | 111 |
| Due to related parties | **-** | (13) |

The amounts due from related parties are not secured and are to be settled in cash. As at March 31, 2016 and December 31, 2015, the amounts due from related parties are considered collectible and therefore have not been provided for in the allowance for doubtful accounts. During the quarter ended March 31, 2016, $Nil has been recognized in bad debt expenses with regards to related party transactions (2015 – $Nil).

The Company has contractual obligations to related parties in the form of facility leases. As at March 31, 2016, these contractual obligations and due dates are as follows:

| $ thousands | **Total** | 2016 | 2017-2018 | 2019-2020 | Thereafter |
|---|---|---|---|---|---|
| Operating lease obligations | **22,615** | 4,303 | 8,797 | 5,744 | 3,771 |

ROCKY MOUNTAIN DEALERSHIPS

## 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 renewal options for periods of three to five years. We have paid monthly amounts under these operating leases of up to $64.2 thousand. In some instances, the counterparty to the Company's operating lease obligations is a related party. Refer to the "Related Party Transactions" section of this MD&A for a discussion of the terms and amounts of such arrangements. The current operating leases expire between April 2016 and July 2023.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated 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 consolidated 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 and settlement 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 eligible sales and settlement volumes to date to accrue the proportion of these annual manufacturer incentives earned during the period. The manufacturer incentives received by the Company are primarily associated with agriculture equipment sales and, accordingly, the majority of such incentives are accrued within the financial results of the agriculture segment.

### Derivative Financial Instruments

The Company utilizes floating-to-fixed interest rate swaps to manage its interest rate exposure. These derivatives are initially recognized on the date the contract is entered into and are subsequently re-measured at their fair values. The fair values of the 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 counterparty, if different from the spread implicit in the swap curve.

The Company also has several total return swap arrangements to hedge the exposure associated with increases in its share price on its outstanding DSUs and SARs. These derivatives accrue to the Company, any gains (losses) associated with changes in the value of its common shares as well as dividends paid on its hedged position, net of interest costs charged by the bank to build and hold their positions. These derivatives are initially recognized on the date the contract is entered into and are subsequently re-measured at their fair values. The fair values are calculated as the net present value of estimated future cash flows.

ROCKY MOUNTAIN DEALERSHIPS

### Business Combinations

Assets acquired and liabilities assumed pursuant to business combinations are measured at their acquisition date fair values. Where appropriate, management bases its fair value estimates on observable third party data as reported by sources deemed both reputable and qualified. In the case of inventory acquired, management estimates the value in the manner discussed within the “Net Realizable Value of Inventory” section above.

Goodwill is measured as the excess of the fair value of consideration transferred over the acquisition-date fair value of the net identifiable assets acquired.

The purchase price allocation is subject to change throughout the duration of the measurement period. The measurement period is the period from the date of acquisition, to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

## KEY FINANCIAL STATEMENT COMPONENTS

### Equipment Sales

Equipment revenues are derived from the sale of new and used agriculture and industrial 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

Parts revenue 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.

### 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, plus applicable overheads.

### Selling, General and Administrative Expenses

SG&A expenses include sales and marketing expenses, sales commissions, payroll, and related benefit costs, insurance expenses, professional fees, rent, and other facility costs and administrative overhead including depreciation of property and equipment and amortization of intangible assets.

### Interest Expense

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

## RISKS AND UNCERTAINTIES

Risk factors faced by Rocky are listed in the Company’s AIF, which can be found on SEDAR. These risk factors include industry risks associated with agriculture and industrial equipment dealerships and others, including but not limited to: economic conditions; weather and climate conditions; commodity prices; inventory risk; industry oversupply; the seasonality and cyclicality of the industries we service; foreign exchange exposure; our reliance on key manufacturers; the nature of our dealership agreements; interest rate changes; changes in the value of our common shares; government regulations in the areas we operate; competition within our industry; credit facilities; consolidation within the equipment manufacturing industry; the non-exclusive nature of key geographic markets; customer credit risks; our information systems; the availability of floor plan financing and other forms of credit to the Company; unfavorable conditions (economic, weather or otherwise) in key geographic markets; our continued ability to pay our dividend; import restrictions and foreign trade risks; insurance matters; branch leases; the retention of key personnel; labour relations; labour costs and shortages; freight costs; future warranty claims; product liability risks; restrictions and impediments on acquisitions; aviation risks; growth risks; and our ability to successfully integrate our acquisitions.

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.

## RISKS RELATED TO FINANCIAL INSTRUMENTS

Through its financial instruments, the Company has exposure to the following risks: credit risk, market risk (consisting of foreign currency exchange risk, interest rate risk and equity price risk), and liquidity risk.

### Credit Risk

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

The Company's exposure to credit risk on its cash balance is mitigated as these financial assets are held with major financial institutions with strong credit ratings.

During the quarter ended March 31, 2016, the Company recognized $0.2 million in bad debt expense (2015 – recovery of $10 thousand). Bad debt expense (recovery) is recognized in SG&A expenses.

### Market Risk

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

<u>Foreign Currency Exchange Risk</u>

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 gains and losses thereon. The nature of exposure to foreign exchange fluctuations differs between equipment manufacturers and the various dealer agreements with them.

A weakening of the U.S. dollar in comparison to the Canadian dollar will generally have 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. By contrast, a strengthening U.S. dollar will increase the cost of equipment purchases. If we are unable to fully offset the increase in cost of goods through price increases, our financial results will 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 payment date.

Included in selling, general and administrative expenses is a net gain recognized due to foreign currency translation for transactions and balances aggregating $0.5 million for the quarter ended March 31, 2016 (2015 – loss of $0.1 million).

<u>Interest Rate Risk</u>

We also finance our equipment inventory, certain capital expenditures, business acquisitions and occasionally, our other general working capital requirements, by way of various financing facilities under which we are charged interest at floating rates. As a result, rising interest rates have the effect of increasing our overall costs. 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 from us. A customer's decision to purchase may be affected by interest rates available to finance the purchase.

The Company manages its interest rate risk by using floating-to-fixed interest rate swaps when appropriate. Generally, the Company will obtain floor plan financing and long-term debt at floating rates. When the Company enters into a floating-to-fixed interest rate swap, it agrees with a third party to exchange the difference between the fixed and floating contract rates based on agreed notional amounts.

Refer to the "Derivative Financial Instruments" section of this MD&A for additional information and gains (losses) on derivative financial instruments.

Equity Price Risk

As part of its overall compensation of directors, officers and employees, the Company has issued cash-settled share-based payments in the form of DSUs and SARs. The DSUs are valued on a per DSU basis at an amount equal to the volume weighted average trading price of the Company's common shares over the immediately preceding 20 day trading period. The SARs are revalued at each reporting date using the Black-Scholes option pricing model. Increases in the Company's share value result in additional compensation expense to the Company related to these two programs. As cash-settled share-based payments, the DSUs and SARs are not accounted for as financial instruments.

The Company has entered into several total return swaps to hedge the exposure associated with increases in its share value on its outstanding DSUs and SARs. The total return swaps are classified as derivative financial instruments. The intent of these derivatives is to offset the incremental cost to the Company associated with increases in its common share price on its cash-settled share-based payments.

Refer to the "Derivative Financial Instruments" section of this MD&A for additional information and gains (losses) on derivative financial instruments.

### Liquidity Risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balance and cash flows generated from operations as well as available credit facilities to meet its requirements.

Refer to the "Adequacy of Capital Resources" section of this MD&A for a discussion of the liquidity risks faced by the Company as well as the Company's various credit facilities.

## 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:

- **"Adjusted Diluted Earnings per Share"** is calculated by eliminating from net earnings, the after-tax impact of the losses (gains) arising from the Company's derivative financial instruments and DSUs, as well as the expense (recovery) associated with its SARs. These items arise from changes in the Company's share price as well as fluctuations in interest rates and are not reflective of the Company's core operations.

  The Company also adjusts for any non-recurring charges (recoveries) recognized in net earnings. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that the Company incurs outside of its common day-to-day operations. Adjusting for these items allows management to isolate and analyze diluted earnings per share from core business operations. For the periods presented, no non-recurring charges (recoveries) have been identified.

- "**EBITDA**" is a commonly used metric in the dealership industry. EBITDA is calculated by adding interest on long-term debt, income taxes and depreciation and amortization to net earnings. Adding back non-operating expenses allows management to consistently compare periods by removing changes in tax rates, long-term assets and financing costs related to the Company's capital structure.

- **"Adjusted EBITDA"** is calculated by eliminating from EBITDA, the impact of the losses (gains) arising from the Company's derivative financial instruments and DSUs, as well as the expense (recovery) associated with its SARs. These items arise from changes in the Company's share price as well as fluctuations in interest rates and are not reflective of the Company's core operations.

  The Company also adjusts for any non-recurring charges (recoveries) recognized in EBITDA. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that the Company incurs outside of its common day-to-day operations. Adjusting for these items allows management to isolate and analyze EBITDA from core business operations. For the periods presented, no non-recurring charges (recoveries) have been identified.

- **"Operating SG&A"** is calculated by eliminating from SG&A, the impact of the losses (gains) arising from the Company's derivative financial instruments and DSUs, as well as the expense (recovery) associated with its SARs. These items arise from changes in the Company's share price as well as fluctuations in interest rates and are not reflective of the Company's core operations.

  The Company also adjusts for depreciation and amortization as well as any non-recurring charges (recoveries) recognized in SG&A. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that the Company incurs outside of its common day-to-day operations. Adjusting for these items allows management to assess discretionary expenses from ongoing operations. For the periods presented, no non-recurring charges (recoveries) have been identified. We target a sub-10% Operating SG&A as a percentage of total sales on an annual basis.

- **"Floor Plan Neutral Operating Cash Flow"** is calculated by eliminating the impact of the change in floor plan payable (excluding floor plan assumed pursuant to business combinations) from cash flows from operating activities. Adjusting cash flows from operating activities for changes in the balance of floor plan payable allows management to isolate and analyze operating cash flows during a period, prior to any sources or uses of cash associated with equipment financing decisions.

**RECONCILIATION OF NON-IFRS MEASURES TO IFRS**

**Adjusted Diluted Earnings per Share**

| $ thousands | For the three months ended March 31, | |
|---|---|---|
| | **2016** | 2015 |
| Earnings used in the calculation of diluted earnings per share | **264** | 332 |
| Loss on derivative financial instruments | **252** | 433 |
| Gain on DSUs | **(9)** | (20) |
| SAR (recovery) expense | **(6)** | 23 |
| Tax effect of adjustments (2016 – 27%, 2015 – 25%) | **(64)** | (109) |
| Earnings used in the calculation of Adjusted Diluted Earnings per Share | **437** | 659 |
| Weighted average diluted shares used in the calculation of diluted earnings per share (in thousands) | **19,384** | 19,371 |
| Adjusted Diluted Earnings per Share | **0.02** | 0.03 |

**EBITDA and Adjusted EBITDA**

| $ thousands | For the three months ended March 31, | |
|---|---|---|
| | **2016** | 2015 |
| Net earnings | **264** | 332 |
| Interest on long-term debt | **453** | 514 |
| Depreciation and amortization expense | **1,785** | 1,800 |
| Income taxes | **4** | 129 |
| EBITDA | **2,506** | 2,775 |
| Loss on derivative financial instruments | **252** | 433 |
| Gain on DSUs | **(9)** | (20) |
| SAR (recovery) expense | **(6)** | 23 |
| Adjusted EBITDA | **2,743** | 3,211 |

**Operating SG&A**

| $ thousands | For the three months ended March 31, 2016 | 2015 |
|---|---|---|
| SG&A | **24,469** | 27,630 |
| Depreciation and amortization expense | **(1,785)** | (1,800) |
| Loss on derivative financial instruments | **(252)** | (433) |
| Gain on DSUs | **9** | 20 |
| SAR recovery (expense) | **6** | (23) |
| Operating SG&A | **22,447** | 25,394 |

**Floor Plan Neutral Operating Cash Flow**

| $ thousands | For the three months ended March 31, 2016 | 2015 |
|---|---|---|
| Cash flow from operating activities | **(3,543)** | 3,289 |
| Net decrease (increase) in floor plan payable | **(2,123)** | 183 |
| Floor plan assumed pursuant to business combinations | **-** | - |
| Floor Plan Neutral Operating Cash Flow | **(5,666)** | 3,472 |

## 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 March 31, 2016, 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 March 31, 2016, 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 believes 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", "predict" 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, the following: (i) disclosure under the heading "Market Fundamentals and Outlook", (ii) continuing demand for Rocky's products and services, and the cyclical nature of agriculture equipment demand and any revenue or inventory statements or forecasts attributed thereto, (iii) statements pertaining to the growth of Rocky's business and operations, including through acquisitions, (iv) statements pertaining to arid weather conditions and the anticipated effect of such conditions on crop quality and yield, (v) statements that declines in oil prices have impacted spending, as well as the Alberta residential housing and industrial markets, which may also impact the Company's results, (vi) statements that recent fluctuations in the Canadian dollar relative to the U.S. dollar are expected to increase pricing, (vii) any discussion of the anticipated mix of new and used equipment sales for the remainder of 2016, (viii) discussion on the fundamentals of Rocky's business, including discussion regarding growth in GDP, farmers' crop receipts, increases in global food demand, bio-fuel production, and the future demand for agriculture equipment and commodities, (ix) statements pertaining to the impact of declining oil prices on infrastructure spending and our industrial segment results, and any statements on the effectiveness of measures taken by us to offset our overall exposure to oil prices, (x) statements that technological enhancements aimed at meeting emissions standards and the recent weakening of the Canadian dollar are expected to contribute to premiums on new equipment pricing, (xi) statements regarding customer buying patterns, including the extent to which we are able to convert new equipment customers to used equipment customers and attract U.S. customers looking to capitalize on favorable U.S.-Canadian foreign exchange rates, (xii) any statements or discussions regarding Rocky's inventory management and any expected increases or decreases in Rocky's inventory levels, (xiii) statements that any anticipated reduction in inventories are not expected to occur in a linear manner, (xiv) discussions regarding initiatives to restore our industrial results, including statements regarding our intention to leverage our recent successes to gain market acceptance and better market presence within the territories we operate, (xv) discussions that the impact of previously acquired dealerships and trade areas, coupled with our OEM relationships, make us well-positioned to pursue our longer-term revenue and earnings growth initiatives, (xvi) statements that we believe cash flow from operations, along with existing credit facilities, will provide for our capital needs, (xvii) discussion around SG&A expenses including the seasonal variances and expectations in operating SG&A, (xviii) discussion that our first quarter is generally the weakest financial quarter due to lack of agricultural activity and winter shutdowns, that the 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 equipment- and customer-base increases, (xix) statements that as acquisitions are integrated into the business, the associated SG&A costs for Rocky will generally decrease, (xx) statements related to our per-location revenue expectations and any assessment of the economies of scale associated with any facility, (xxi) statements that our installed base and customer relationships create an annuity of equipment sales and product support revenue, which help drive dependable earnings and cash flow, (xxii) statements that weather conditions may impact sales activity for any given period, (xxiii) statements that the Company anticipates that the loses related to the total return swaps will be reversed in subsequent periods as its share price returns to a more typical range; (xxiv) statements concerning the Company's ongoing compliance with, or potential breaches of, its covenants under its credit facilities, including the recently-amended Syndicated Facility; (xxv) statements concerning the Company's expected undiscounted cash flows as at Marcy 31, 2016; and, (xxvi) statements regarding the planned amalgamations of Rocky's industrial distribution facilities located in Calgary and Red Deer, Alberta, the planned amalgamations of Rocky's facilities located in the Yorkton, Saskatchewan area, and the one-time costs, or economic benefits, as a result of such amalgamations.

With respect to the FLS listed above and contained in this MD&A, Rocky has made assumptions regarding, among other things: (i) expectations that commodity prices will continue to remain above historical levels, (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, including increasing demand from China and India for grain and oilseed products, as well as increasing crop land dedicated to bio-fuel production, will cause producers to improve their productivity, and as a result invest in new equipment, (v) expectations that increases in farmer liquidity would generally correlate to farmers making capital re-investments in their business, so as to increase their productivity and lower their input costs, which investments may include Rocky's products and services, (vi) inventory levels will fluctuate during a year, both positively and negatively, based on timing of equipment deliveries, and volume of whole-good sales involving a unit taken in on trade, (vii) the general GDP growth and/or relative economic stability in the markets we operate in, (viii) the trend towards larger farms in the agriculture sector will continue to benefit further farm equipment sales as larger farm operations tend to replace their equipment more frequently, (ix) the Company's cash flow will remain sufficient to, in connection with its credit facilities, adequately finance its capital needs, (x) as stores are consolidated, certain functions can be centralized thereby reducing SG&A costs as a result, (xi) the anticipated improvement in ongoing revenue and cash-flow, including parts and service revenue, as our installed base increases, (xii) expectations that no material change will happen to our OEM relationships and related contractual agreements, (xiii) expectations that customers who purchase their equipment from the Company will, generally, return to the Company for their product support needs; (xix) the Company expects that its share price will return to a more typical range, allowing it to offset losses related to the total return swap; and, (xx) the renewal of its Syndicated Facility prior to maturity on September 24, 2018.

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 FLS 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 FLS. 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 FLS are based will occur. All FLS 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 FLS 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.

# ROCKY MOUNTAIN DEALERSHIPS

Condensed Consolidated Interim Financial Statements and Notes

Three Month Periods Ended March 31, 2016 and 2015 (Unaudited)

ROCKY MOUNTAIN DEALERSHIPS

## Condensed Consolidated Interim Balance Sheets

Expressed in thousands of Canadian dollars (unaudited)

| | Note | March 31, 2016 $ | December 31, 2015 $ | March 31, 2015 $ |
|---|---|---|---|---|
| **Assets** | | | | |
| Current | | | | |
| Cash | | **15,927** | 21,691 | 18,423 |
| Restricted cash | 7 | **879** | 879 | - |
| Trade receivables and other | | **28,146** | 25,152 | 31,868 |
| Inventory | 8 | **509,381** | 499,760 | 527,257 |
| Income taxes receivable | | **-** | 47 | 1,385 |
| Prepaid expenses | | **4,451** | 5,513 | 4,848 |
| Assets held for sale | 9 | **1,598** | 10,542 | 10,524 |
| Total current assets | | **560,382** | 563,584 | 594,305 |
| Non-current | | | | |
| Property and equipment | 9 | **50,575** | 39,888 | 24,789 |
| Deferred tax asset | 13.2 | **2,861** | 2,367 | 1,852 |
| Intangible assets | | **630** | 671 | - |
| Goodwill | 6 | **18,776** | 18,802 | 15,514 |
| Total non-current assets | | **72,842** | 61,728 | 42,155 |
| Total assets | | **633,224** | 625,312 | 636,460 |
| **Liabilities** | | | | |
| Current | | | | |
| Bank indebtedness | 10 | **8,107** | 5,001 | - |
| Trade payables, accruals and other | | **38,632** | 33,963 | 38,557 |
| Income taxes payable | | **151** | - | - |
| Floor plan payable | | **358,691** | 356,568 | 381,898 |
| Deferred revenue and advances | | **3,248** | 4,404 | 3,921 |
| Current portion of long-term debt | | **6,405** | 4,852 | 9,662 |
| Current portion of obligations under finance leases | | **395** | 71 | 312 |
| Current portion of derivative financial instruments | 15 | **1,932** | 4,040 | 308 |
| Liabilities associated with assets held for sale | 9 | **1,011** | 1,562 | 3,097 |
| Total current liabilities | | **418,572** | 410,461 | 437,755 |
| Non-current | | | | |
| Long-term debt | | **38,487** | 40,080 | 28,158 |
| Obligations under finance leases | | **777** | 154 | - |
| Derivative financial instruments | 15 | **8,306** | 4,859 | 4,958 |
| Total non-current liabilities | | **47,570** | 45,093 | 33,116 |
| Total liabilities | | **466,142** | 455,554 | 470,871 |
| **Shareholders' Equity** | | | | |
| Common shares | | **87,709** | 87,709 | 87,709 |
| Contributed surplus | | **6,012** | 5,929 | 5,662 |
| Accumulated other comprehensive loss | | **(4,403)** | (3,609) | (3,238) |
| Retained earnings | | **77,764** | 79,729 | 75,456 |
| Total shareholders' equity | | **167,082** | 169,758 | 165,589 |
| Total liabilities and shareholders' equity | | **633,224** | 625,312 | 636,460 |

APPROVED BY THE BOARD

*"Signed" Dennis Hoffman*
Dennis Hoffman, Director

*"Signed" Matthew Campbell*
Matthew Campbell, Director

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

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

| | Note | March 31, 2016 $ | March 31, 2015 $ |
|---|---|---|---|
| **Sales** | | | |
| New equipment | | **79,802** | 111,748 |
| Used equipment | | **83,666** | 83,785 |
| Parts | | **18,342** | 16,988 |
| Service | | **6,748** | 7,053 |
| Other | | **906** | 849 |
| Total sales | 11 | **189,464** | 220,423 |
| Cost of sales | 8 | **161,181** | 188,963 |
| Gross profit | | **28,283** | 31,460 |
| Selling, general and administrative | 12 | **24,469** | 27,630 |
| Interest on short-term debt | | **3,093** | 2,855 |
| Interest on long-term debt | | **453** | 514 |
| Earnings before income taxes | | **268** | 461 |
| Income taxes | | | |
| Current | | **226** | 398 |
| Deferred | 13.2 | **(222)** | (269) |
| Total income taxes | 13.1 | **4** | 129 |
| **Net earnings** | | **264** | 332 |
| Earnings per share | | | |
| Basic | | **0.01** | 0.02 |
| Diluted | | **0.01** | 0.02 |

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

ROCKY MOUNTAIN DEALERSHIPS

**Condensed Consolidated Interim Statements of Comprehensive Loss**
For the three month periods ended
Expressed in thousands of Canadian dollars (unaudited)

| | Note | March 31, 2016 $ | March 31, 2015 $ |
|---|---|---|---|
| **Net earnings** | | 264 | 332 |
| **Other comprehensive loss** | | | |
| Items which will subsequently be reclassified to net earnings: | | | |
| Unrealized loss on derivative financial instruments, net of tax | 15 | (794) | (1,154) |
| **Total other comprehensive loss, net of tax** | | (794) | (1,154) |
| **Comprehensive loss** | | (530) | (822) |

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

ROCKY MOUNTAIN DEALERSHIPS

## Condensed Consolidated Interim Statements of Changes in Equity

Expressed in thousands of Canadian dollars and thousands of common shares (unaudited)

| | Note | Common shares | | | | | |
|---|---|---|---|---|---|---|---|
| | | Number of shares | Amount $ | Contributed surplus $ | Accumulated other comprehensive loss $ | Retained earnings $ | Total equity $ |
| **Balance, December 31, 2015** | | 19,384 | 87,709 | 5,929 | (3,609) | 79,729 | 169,758 |
| Equity-settled share-based payment expense | 12 | - | - | 83 | - | - | 83 |
| Net earnings | | - | - | - | - | 264 | 264 |
| Other comprehensive loss | | - | - | - | (794) | - | (794) |
| Dividends paid | | - | - | - | - | (2,229) | (2,229) |
| **Balance, March 31, 2016** | | 19,384 | 87,709 | 6,012 | (4,403) | 77,764 | 167,082 |

| | Note | Common shares | | | | | |
|---|---|---|---|---|---|---|---|
| | | Number of shares | Amount $ | Contributed surplus $ | Accumulated other comprehensive loss $ | Retained earnings $ | Total equity $ |
| **Balance, December 31, 2014** | | 19,384 | 87,709 | 5,429 | (2,084) | 77,353 | 168,407 |
| Equity-settled share-based payment expense | 12 | - | - | 233 | - | - | 233 |
| Net earnings | | - | - | - | - | 332 | 332 |
| Other comprehensive loss | | - | - | - | (1,154) | - | (1,154) |
| Dividends paid | | - | - | - | - | (2,229) | (2,229) |
| **Balance, March 31, 2015** | | 19,384 | 87,709 | 5,662 | (3,238) | 75,456 | 165,589 |

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

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

| | Note | March 31, 2016 $ | March 31, 2015 $ |
|---|---|---|---|
| **Operating activities** | | | |
| Net earnings | | 264 | 332 |
| Adjustments for: | | | |
| Depreciation and amortization expense | 12 | 1,785 | 1,800 |
| Deferred tax recovery | 13.2 | (222) | (269) |
| Equity-settled share-based payment expense | 12 | 83 | 233 |
| Gain on disposal of property and equipment | | (76) | (22) |
| Loss on derivative financial instruments | 15 | 252 | 433 |
| Changes in non-cash working capital | | (5,629) | 782 |
| Total cash (used) generated from operating activities | | (3,543) | 3,289 |
| **Financing activities** | | | |
| Repayment of long-term debt | | (57) | (2,672) |
| Net change in obligations under finance leases | | 947 | (150) |
| Dividends paid | | (2,229) | (2,229) |
| Deferred debt issuance costs | | 17 | - |
| Total cash used from financing activities | | (1,322) | (5,051) |
| **Investing activities** | | | |
| Purchase of property and equipment | | (4,238) | (2,103) |
| Disposal of property and equipment | | 233 | 169 |
| Acquisition of business, net of cash acquired and bank indebtedness assumed | 6 | - | (833) |
| Total cash used from investing activities | | (4,005) | (2,767) |
| **Net decrease in cash** | | (8,870) | (4,529) |
| **Cash, beginning of period** | | 16,690 | 22,952 |
| **Cash, end of period** | | 7,820 | 18,423 |
| Taxes paid | | - | 8,444 |
| Interest paid | | 3,484 | 3,369 |
| **Cash, end of period consists of:** | | | |
| Cash | | 15,927 | 18,423 |
| Bank indebtedness | 10 | (8,107) | - |
| | | 7,820 | 18,423 |

*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 product and warranty support for a wide variety of agriculture and industrial equipment in Western Canada. All of the Company's operating subsidiaries are incorporated in Alberta, Canada and all of the equipment dealership locations operate under the name "Rocky Mountain Equipment".

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, 2015, 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 May 2, 2016.

## 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, 2015 except for new standards, interpretations and amendments mandatorily effective for the first time from January 1, 2016 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.

No new standards, interpretations or amendments were adopted for the first time from January 1, 2016, which had a material impact on the Company's financial statements.

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee (IFRIC) have issued the following amendments which are not yet effective for the relevant reporting periods. These amendments are in addition to those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2015. The Company has not early adopted these amendments, however the Company is currently assessing what impact the application of these amendments will have on the consolidated financial statements.

Amendment to IAS 7, *'Statement of cash flows'*

Amended to improve information provided to users of financial statements about an entity's financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

Amendment to IAS 12, *'Income taxes'*

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017.

## 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, 2015.

In thousands of Canadian dollars except per share and per option amounts (unaudited)

## 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 industrial and agriculture work difficult to perform.

## 6. Acquisitions

On February 12, 2015, the Company acquired 100% of the outstanding common shares of NGF Geomatics Inc. ("NGF"), a geomatics company specializing in the collection of geospatial survey data using unmanned aerial vehicles. NGF is a start-up company with minimal assets and liabilities and is included in our agriculture segment. During the three months ended March 31, 2015, the Company paid $833 in purchase consideration, net of cash acquired.

On April 1, 2015, the Company purchased 100% of the issued and outstanding shares of the entities forming Chabot Implements ("Chabot"). Chabot operated as a Manitoba-based dealer of Case IH agriculture equipment with locations in Portage La Prairie, Steinbach and Elie. Chabot also sold Kubota equipment through its Neepawa, Manitoba location. The final purchase price was $9,396 and was funded with cash and various credit facilities.

The table below illustrates Chabot's purchase price allocation as reported in the Company's annual consolidated financial statements for the year ended December 31, 2015 and the changes to adjust to the final allocation.

| | December 31, 2015 | Changes | **March 31, 2016** |
|---|---|---|---|
| | $ | $ | **$** |
| Purchase price allocation | | | |
| Cash consideration | | | |
| Paid | 8,656 | - | **8,656** |
| Payable | 751 | (11) | **740** |
| Purchase consideration | 9,407 | (11) | **9,396** |
| Net working capital | | | |
| Trade receivables and other | 1,132 | - | **1,132** |
| Income tax receivable | 369 | - | **369** |
| Inventory | 43,587 | - | **43,587** |
| Bank indebtedness | (7,140) | - | **(7,140)** |
| Trade payables, accruals and other | (2,609) | (42) | **(2,651)** |
| Floor plan payable | (32,782) | - | **(32,782)** |
| Current portion of long-term debt | (4,977) | - | **(4,977)** |
| | (2,420) | (42) | **(2,462)** |
| Property and equipment | 8,309 | 78 | **8,387** |
| Deferred tax liability | (372) | (21) | **(393)** |
| Goodwill | 3,890 | (26) | **3,864** |
| Net assets | 9,407 | (11) | **9,396** |

In thousands of Canadian dollars except per share and per option amounts (unaudited)

## 7. Restricted Cash

Restricted cash as at March 31, 2016 is comprised of $879 related to a holdback on the Chabot acquisition that is held in trust (December 31, 2015 - $879, March 31, 2015 –$Nil).

## 8. Inventory

| | March 31, 2016 $ | December 31, 2015 $ | March 31, 2015 $ |
|---|---|---|---|
| New equipment | **186,365** | 172,335 | 213,719 |
| Used equipment | **276,879** | 287,784 | 269,073 |
| Parts | **44,041** | 37,872 | 41,481 |
| Work-in-progress | **2,096** | 1,769 | 2,984 |
| | **509,381** | 499,760 | 527,257 |

For the three months ended March 31, 2016, inventory recognized as an expense amounted to $158,652 (2015 – $186,168), which is included in cost of sales in the consolidated statement of net earnings. For the three months ended March 31, 2016, there were net write downs of inventory to net realizable value of $1,150 (2015 – $743) in cost of sales in the consolidated statement of net earnings. The Company's inventory has been pledged as security for its bank indebtedness, floor plan payable and long-term debt.

## 9. Assets held for sale

As at March 31, 2016, one parcel of land with a net book value of $200 (December 31, 2015 – three parcels of land with a net book value of $8,472, March 31, 2015 – three parcels of land with a net book value of $10,524) is classified as held for sale. The debt associated with the land amounts to $Nil (December 31, 2015 - $Nil, March 31, 2015 – $3,097) and has been classified as a current liability.

During the first quarter of 2016, two parcels of land with a net book value of $8,272 (December 31, 2015 - $8,272) were reclassified as long-term assets held for sale as they are no longer expected to be sold within the next twelve months. These assets have been recorded within property and equipment.

In 2015, the Company made the decision to divest itself of a portion of the inventory and related distribution territory of an agriculture short-line it represents. "Short-line" is a term commonly used in the agriculture equipment manufacturing and distribution industry. Typically, a "short-line" is a manufacturer or brand that limits its product offering to specific equipment segments or categories, as opposed to providing a full line equipment offering.

During the first quarter of 2016, additional whole-goods and parts inventory associated with the short-line in the amount of $1,398 was reclassified to current assets held for sale. Floor plan associated with the whole goods in the amount of $1,011was also reclassified to current liabilities associated with assets held for sale.

Whole-goods and parts associated with this portion of the short-line that were classified as assets held for sale at December 31, 2015, in the amount of $2,070 along with floor plan associated with the inventory of $1,562 that was classified as a current liability at December 31, 2015 was fully disposed of during the first quarter of 2016, resulting in a gain of $287 recorded in selling, general and administrative expense.

In thousands of Canadian dollars except per share and per option amounts (unaudited)

## 10. Bank indebtedness

The Company's bank indebtedness is comprised of the Operating Facility made available to the Company through its Syndicated Facility. Advances under the Operating Facility are limited to the lesser of the established borrowing base and $70.0 million. The borrowing base is supported by otherwise unencumbered assets including certain accounts receivable, inventory and items of property and equipment, less priority payables. This facility may be used to finance general corporate operating requirements.

The Syndicated Facility is a revolving facility which matures on September 24, 2018, and which is 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 U.S. 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 0.4% – 0.7% 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 ratio of debt to tangible net worth.

## 11. Sales

The Company's sales for the three months ended March 31 are comprised of:

| | March 31, 2016 $ | March 31, 2015 $ |
|---|---|---|
| Agriculture equipment sales | **156,069** | 184,209 |
| Industrial equipment sales | **7,399** | 11,324 |
| Parts sales | **18,342** | 16,988 |
| Sale of goods | **181,810** | 212,521 |
| Rendering of services | **7,654** | 7,902 |
| Total sales | **189,464** | 220,423 |

## 12. Selling, general and administrative

The Company's selling, general and administration expenses for the three months ended March 31 are comprised of:

| | March 31, 2016 $ | March 31, 2015 $ |
|---|---|---|
| Compensation and related expenses | **16,335** | 16,769 |
| Administrative expenses | **2,565** | 5,180 |
| Rent and other facility expenses | **3,701** | 3,648 |
| Depreciation and amortization expense | **1,785** | 1,800 |
| Equity-settled share-based payment expense | **83** | 233 |
| Total selling, general and administrative expenses | **24,469** | 27,630 |

Included in compensation and related expenses as at March 31, 2016 are variable sales commissions of $3,000 (2015 – $3,201). Costs included in administrative expenses are marketing, training, insurance, travel, professional fees and other miscellaneous expenses. Also included in administrative expenses are losses for the three months ended March 31, 2016 of $252 (2015 – losses of $433) related to the non-cash mark to market of derivative financial instruments. Depreciation and amortization expense at March 31, 2016 is comprised of property and equipment depreciation of $1,744 (2015 - $1,800) and intangible asset amortization of $41 (2015 - $Nil).

In thousands of Canadian dollars except per share and per option amounts (unaudited)

## 13. Income taxes

### 13.1. Income tax recognized in net earnings

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:

| | **March 31, 2016 $** | March 31, 2015 $ |
|---|---|---|
| Earnings before income taxes | **268** | 461 |
| Computed tax at statutory tax rate of 27% (2015 – 25%) | **72** | 115 |
| Non-deductible expenses | **49** | 98 |
| Adjustment from prior year income tax expenses | **(44)** | - |
| Other | **(73)** | (84) |
| | **4** | 129 |

### 13.2. Deferred tax asset (liability)

| | Share issue costs $ | Cumulative eligible capital $ | Property and equipment $ | Intangible Asset $ | DSUs $ | Interest rate swaps $ | Total $ |
|---|---|---|---|---|---|---|---|
| January 1, 2016 | 89 | 116 | (183) | (181) | 123 | 2,403 | 2,367 |
| Added in acquisition (Note 6) | - | - | (21) | - | - | - | (21) |
| Recognized in net earnings | (10) | (7) | 150 | 11 | 10 | 68 | 222 |
| Recognized in equity | - | - | - | - | - | 293 | 293 |
| March 31, 2016 | 79 | 109 | (54) | (170) | 133 | 2,764 | 2,861 |

| | Share issue costs $ | Cumulative eligible capital $ | Property and equipment $ | DSUs $ | Interest rate swaps $ | Total $ |
|---|---|---|---|---|---|---|
| January 1, 2015 | 187 | 139 | (147) | 170 | 837 | 1,186 |
| Recognized in net earnings | (24) | (7) | 179 | 12 | 109 | 269 |
| Recognized in equity | - | - | - | - | 397 | 397 |
| March 31, 2015 | 163 | 132 | 32 | 182 | 1,343 | 1,852 |

The Company also has capital losses in the amount of $3,150 with no fixed expiry date and non-capital losses of $1,510 which expire in 2035. No deferred future tax asset has been recognized for the capital or the non-capital losses as the Company does not expect to have sufficient future taxable profit against which the capital or the non-capital losses can be utilised.

In thousands of Canadian dollars except per share and per option amounts (unaudited)

## 14. Related party transactions

During the three months ended March 31, the Company entered into the following transactions with related parties:

| | **March 31, 2016 $** | March 31, 2015 $ |
|---|---|---|
| Equipment and product support sales | **16** | 300 |
| Expenditures | | |
| Rental payment on Company facilities | **1,448** | 1,375 |
| Equipment purchases | **3** | 96 |
| Flight costs | **16** | 56 |
| Other expenses | **23** | 56 |

All related parties are either directly or indirectly owned by a member of senior management of the Company and/or a close family member thereof. These transactions were made on terms equivalent to those that prevail in arm's length transactions and are made only if such terms can be substantiated. Amounts due from (to) related parties are included in the consolidated balance sheets under trade receivables and other (trade payables, accruals and other) and are as follows:

| | **March 31, 2016 $** | December 31, 2015 $ | March 31, 2015 $ |
|---|---|---|---|
| Due from related parties | **94** | 111 | 260 |
| Due to related parties | **-** | (13) | (89) |

The amounts due from related parties are not secured and are to be settled in cash. As at March 31, 2016, December 31, 2015, and March 31, 2015, the amounts due from related parties are considered collectible and therefore have not been provided for in the allowance for doubtful accounts. During the three months ended March 31, 2016, $Nil has been recognized in bad debt expenses with respect to related party transactions (2015 – $Nil).

The Company has contractual obligations to related parties in the form of facility leases. As at March 31, 2016, these contractual obligations and due dates are as follows:

| | **Total $** | Remainder of 2016 $ | 2017-2018 $ | 2019-2020 $ | Thereafter $ |
|---|---|---|---|---|---|
| Operating lease obligations | **22,615** | 4,303 | 8,797 | 5,744 | 3,771 |

In thousands of Canadian dollars except per share and per option amounts (unaudited)

## 15. Derivative financial instruments and hedges

The Company has long and short-term debt raised at floating interest rates and hedges a portion of this risk by using floating to-fixed interest rate swaps. Under the interest rate swaps, the Company hedges 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. The interest rate swaps hedge the Company's exposure to interest rate fluctuations on portions of the Term and Flooring Facilities. Interest rate swaps outstanding at March 31, 2016 mature between May 2016 and September 2022 (December 31, 2015 – between May 2016 and September 2022, March 31, 2015 between May 2016 and September 2020). The accumulated amounts recognized within accumulated other comprehensive loss will be reversed into net earnings over the remainder of the term of the derivatives. Future charges in fair value will be recognized within net earnings in the period in which they arise.

The combined notional principal amounts of interest rate swaps outstanding at March 31, 2016 was $132,421 (December 31, 2015 – $134,115, March 31, 2015 – $89,198). At March 31, 2016, the effective fixed interest rate on the underlying debt was 4.9% (December 31, 2015 – 4.8%, March 31, 2015 – 4.5%) and the effective floating rate using the Bankers' Acceptance rate was 3.5% (December 31, 2015 – 3.5%, March 31, 2015 – 3.3%).

The Company has several total return swaps to hedge the exposure associated with increases in its share value on its outstanding Director Share Units (DSUs) and Share Appreciation Rights (SARs). The Company does not apply hedge accounting to these relationships and as such, gains and losses arising from marking the derivatives to market are recognized in earnings in the period in which they arise.

Derivative financial instruments recognized as liabilities are as follows:

| | **March 31, 2016 $** | December 31, 2015 $ | March 31, 2015 $ |
|---|---|---|---|
| Total return swaps | **3,955** | 3,606 | 308 |
| Interest rate swaps | **6,283** | 5,293 | 4,958 |
| | **10,238** | 8,899 | 5,266 |
| Current portion | **1,932** | 4,040 | 308 |
| Long-term portion | **8,306** | 4,859 | 4,958 |

Losses on derivative financial instruments are as follows:

| | **March 31, 2016 $** | March 31, 2015 $ |
|---|---|---|
| Opening net derivative financial instruments | **8,899** | 3,282 |
| Loss recognized in net earnings | **252** | 433 |
| Loss recognized in other comprehensive loss – net of tax | **794** | 1,154 |
| Tax on loss recognized in other comprehensive loss | **293** | 397 |
| Ending net derivative financial instruments | **10,238** | 5,266 |

These accumulated losses will be continuously released to the consolidated statement of net earnings within interest on short-term, long-term debt and selling, general and administrative expenses until full repayment of the underlying debt.

In thousands of Canadian dollars except per share and per option amounts (unaudited)

## 16. Segmented Reporting

The company has two reportable operating segments, the agriculture segment and the industrial segment, which are both supported by the corporate office. The business segments are strategic business units that offer different products and services and are managed separately. The corporate office provides finance, treasury, human resource, legal and other administrative support to the business segments. Corporate expenditures are allocated and absorbed in each individual segment on the basis of the distribution of assets deployed in the segment.

The agriculture segment primarily includes sales of agricultural equipment, parts and services and the industrial segment includes sales of industrial equipment, parts and services. The Company's branches have been aggregated based on the primary industry which they serve. In the case where certain branches serve both industries, the primary industry served is agriculture and therefore, these facilities have been categorized as such. As a result, certain Industrial related results are included in the agriculture segment for the purposes of segmented financial reporting. See Note 11 for total industrial equipment sales for the three months ended March 31, 2016 and 2015.

The Company is currently assessing the impact on its segmented reporting as a result of the forthcoming changes to the Company's industrial equipment distribution strategy.

| **For the three months ended, March 31, 2016** | Agriculture<br>$ | Industrial<br>$ | Total<br>$ |
|---|---|---|---|
| Sales | | | |
| New equipment | 75,640 | 4,162 | 79,802 |
| Used equipment | 82,814 | 852 | 83,666 |
| Parts | 15,953 | 2,389 | 18,342 |
| Service | 5,907 | 841 | 6,748 |
| Other | 867 | 39 | 906 |
| | 181,181 | 8,283 | 189,464 |
| Cost of sales | 154,442 | 6,739 | 161,181 |
| Gross profit | 26,739 | 1,544 | 28,283 |
| Selling, general and administrative | 21,730 | 2,739 | 24,469 |
| Interest on short-term debt | 2,693 | 400 | 3,093 |
| Interest on long-term debt | 407 | 46 | 453 |
| Earnings (loss) before income taxes | 1,909 | (1,641) | 268 |
| Income taxes | 28 | (24) | 4 |
| **Net earnings (loss)** | 1,881 | (1,617) | 264 |

ROCKY MOUNTAIN DEALERSHIPS

Notes to the Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2016 and 2015
In thousands of Canadian dollars except per share and per option amounts (unaudited)

| For the three months ended, March 31, 2015 | Agriculture $ | Industrial $ | Total $ |
|---|---|---|---|
| Sales | | | |
| New equipment | 106,699 | 5,049 | 111,748 |
| Used equipment | 82,802 | 983 | 83,785 |
| Parts | 14,090 | 2,898 | 16,988 |
| Service | 5,762 | 1,291 | 7,053 |
| Other | 809 | 40 | 849 |
| | 210,162 | 10,261 | 220,423 |
| Cost of sales | 181,200 | 7,763 | 188,963 |
| Gross profit | 28,962 | 2,498 | 31,460 |
| Selling, general and administrative | 23,913 | 3,717 | 27,630 |
| Interest on short-term debt | 2,625 | 230 | 2,855 |
| Interest on long-term debt | 458 | 56 | 514 |
| Earnings (loss) before income taxes | 1,966 | (1,505) | 461 |
| Income taxes | 550 | (421) | 129 |
| **Net earnings (loss)** | 1,416 | (1,084) | 332 |

Balance Sheet Information:

| March 31, 2016 | Agriculture $ | Industrial $ | Total $ |
|---|---|---|---|
| Inventory | 465,046 | 44,335 | 509,381 |
| Intangible assets | 630 | - | 630 |
| Goodwill | 18,776 | - | 18,776 |
| Other assets | 87,700 | 16,737 | 104,437 |
| **Total assets** | 572,152 | 61,072 | 633,224 |

| December 31, 2015 | Agriculture $ | Industrial $ | Total $ |
|---|---|---|---|
| Inventory | 451,088 | 48,672 | 499,760 |
| Intangible assets | 671 | - | 671 |
| Goodwill | 18,802 | - | 18,802 |
| Other assets | 88,732 | 17,347 | 106,079 |
| **Total assets** | 559,293 | 66,019 | 625,312 |

| March 31, 2015 | Agriculture $ | Industrial $ | Total $ |
|---|---|---|---|
| Inventory | 474,605 | 52,652 | 527,257 |
| Goodwill | 15,514 | - | 15,514 |
| Other assets | 75,435 | 18,254 | 93,689 |
| **Total assets** | 565,554 | 70,906 | 636,460 |