



**ROCKY MOUNTAIN DEALERSHIPS INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016**

This Management's Discussion and Analysis ("MD&A") was prepared as of August 9, 2016 and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the three and six months ended June 30, 2016. It should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 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.

Unless otherwise indicated, changes in financial results for the three and six months ended June 30, 2016 have been calculated using the same periods in the prior year as comparative figures, whereas changes in our financial position as at June 30, 2016 are calculated using December 31, 2015 as the comparative.

SUMMARY OF THE QUARTER ENDED JUNE 30, 2016

- Total revenues increased by \$19.1 million or 9.0%.
- Gross profit increased by \$1.2 million or 3.7% (14.7% of sales, down from 15.4%).
- Inventory decreased by \$14.5 million or 2.9% and \$46.1 million or 8.5% over Q1 2016 and Q2 2015, respectively.
- Agriculture segment product support revenues reported an eleventh consecutive quarter of growth as compared to the same quarter in the prior year.
- Operating SG&A⁽¹⁾ declined by \$2.5 million or 10.2% (9.6% of sales, down from 11.7%).
- Adjusted Diluted Earnings per Share⁽¹⁾ increased by \$0.12 or 133.3% to \$0.21.
- Adjusted EBITDA⁽¹⁾ increased by \$3.8 million or 79.3%.
- Amalgamation of industrial distribution facilities located in Calgary and Red Deer, Alberta into existing agriculture facilities located in those areas, incurring one-time costs of \$2.2 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. Our broad range of product and service offerings enable us to respond to these shifts in buying patterns and provide a measure of stability within our agriculture segment's financial results.

Forecasts from Agriculture and Agri-Food Canada are calling for relatively flat seeded acreage of principal field crops in 2016 as compared to last year. Ample precipitation throughout the prairie provinces during the late spring and early summer has led to a more optimistic outlook for 2016's crop as compared to the this time last year when arid weather conditions threatened both crop yield and grade.

Commodity prices softened slightly during the quarter, due largely to increased levels of global supply and forecasted production. Despite this softening, prices for key Western Canadian crops remain healthy. 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.

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 remain at the low end of the equipment demand cycle, we reiterate the stability of the fundamentals underlying the agriculture industry. And 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. These factors notwithstanding, farmers' balance sheets continue to be healthy and the agriculture industry, especially in Western Canada, remains strong.

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 42.9% decline in Alberta housing starts during the first half 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 order to ensure that stores are economically viable and capable of effectively supporting the customers and the communities they serve, we believe that a minimum annual revenue opportunity of \$20.0 million is required. In response, we have made fundamental changes to our industrial equipment distribution strategy. We have amalgamated our industrial distribution facilities located in Calgary and Red Deer, Alberta into existing agriculture facilities in those areas. Effective June 30, 2016, we have ceased to operate from these facilities.

Through this change, we have maintained our territory coverage while eliminating the costs associated with operating 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. During the second quarter of 2016, we recognized one-time costs of \$2.2 million associated with this restructuring. With these changes, the amalgamated locations now have the market opportunity to meet our minimum annual revenue targets. With our Calgary operations being absorbed into our High River and Balzac stores, we have also expanded the number of facilities supporting our industrial customer base.



Overall

The disparity between the Canadian and U.S. dollars is also expected to continue to support 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, farmers' balance sheets are strong, and agriculture continues to be a healthy, 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.

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 FINANCIAL INFORMATION

\$ thousands, except per share amounts

	For the three months ended June 30,				For the six months ended June 30,			
	2016		2015		2016		2015	
Sales								
New equipment	111,971	48.1%	95,393	44.7%	191,773	45.4%	207,141	47.7%
Used equipment	78,468	33.7%	75,487	35.4%	162,134	38.4%	159,272	36.7%
Parts	32,314	13.9%	31,989	15.0%	50,656	12.0%	48,977	11.3%
Service	8,550	3.7%	9,387	4.4%	15,298	3.6%	16,440	3.8%
Other	1,272	0.6%	1,204	0.5%	2,178	0.6%	2,053	0.5%
	232,575	100.0%	213,460	100.0%	422,039	100.0%	433,883	100.0%
Cost of sales	198,428	85.3%	180,519	84.6%	359,609	85.2%	369,482	85.2%
Gross profit	34,147	14.7%	32,941	15.4%	62,430	14.8%	64,401	14.8%
Selling, general and administrative	25,455	10.9%	26,363	12.4%	49,924	11.8%	53,993	12.4%
Interest on short-term debt	3,297	1.4%	3,304	1.5%	6,390	1.5%	6,159	1.4%
Interest on long-term debt	454	0.3%	526	0.2%	907	0.3%	1,040	0.3%
Earnings before income taxes	4,941	2.1%	2,748	1.3%	5,209	1.2%	3,209	0.7%
Provision for income taxes	1,575	0.7%	719	0.3%	1,579	0.3%	848	0.2%
Net earnings	3,366	1.4%	2,029	1.0%	3,630	0.9%	2,361	0.5%
Earnings per share								
Basic	0.17		0.10		0.19		0.12	
Diluted	0.17		0.10		0.19		0.12	
Dividends per share	0.1150		0.1150		0.2300		0.2300	
Book value per share – diluted (as at June 30)					8.68		8.57	
Adjusted Diluted Earnings per Share ⁽¹⁾	0.21		0.09		0.23		0.12	
Adjusted EBITDA ⁽¹⁾	8,494	3.7%	4,738	2.2%	11,237	2.7%	7,949	1.8%
Operating SG&A ⁽¹⁾	22,356	9.6%	24,899	11.7%	44,803	10.6%	50,293	11.6%
Floor Plan Neutral Operating Cash Flow ⁽¹⁾	14,904	6.4%	33,343	15.6%	9,238	2.2%	36,815	8.5%

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



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 a result of the recent industrial facilities amalgamation and restructuring, much of the Company's industrial segment operations have been absorbed by agriculture segment facilities. The remaining industrial segment operations are no longer expected to be quantitatively significant for disclosure purposes commencing with the third quarter of 2016.

\$ thousands

	For the three months ended June 30,					
	2016			2015		
	Agriculture	Industrial	Total	Agriculture	Industrial	Total
Sales						
New equipment	106,650	5,321	111,971	87,327	8,066	95,393
Used equipment	77,553	915	78,468	73,977	1,510	75,487
Parts	30,024	2,290	32,314	28,130	3,859	31,989
Service	7,740	810	8,550	8,162	1,225	9,387
Other	1,123	149	1,272	1,052	152	1,204
	223,090	9,485	232,575	198,648	14,812	213,460
Gross profit	32,216	1,931	34,147	30,115	2,826	32,941
Gross margin	14.4%	20.4%	14.7%	15.2%	19.1%	15.4%
Net income (loss)	4,760	(1,394)	3,366	2,524	(495)	2,029

\$ thousands

	For the six months ended June 30,					
	2016			2015		
	Agriculture	Industrial	Total	Agriculture	Industrial	Total
Sales						
New equipment	182,290	9,483	191,773	194,026	13,115	207,141
Used equipment	160,367	1,767	162,134	156,779	2,493	159,272
Parts	45,977	4,679	50,656	42,220	6,757	48,977
Service	13,647	1,651	15,298	13,924	2,516	16,440
Other	1,990	188	2,178	1,861	192	2,053
	404,271	17,768	422,039	408,810	25,073	433,883
Gross profit	58,955	3,475	62,430	59,077	5,324	64,401
Gross margin	14.6%	19.6%	14.8%	14.5%	21.2%	14.8%
Net income (loss)	6,641	(3,011)	3,630	3,940	(1,579)	2,361

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 three and six months ended June 30, 2016, all acquired growth pertains to the agriculture segment of the Company.



Agriculture Segment

\$ thousands	For the three months ended June 30,					For the six months ended June 30,				
	2016	2015	Change			2016	2015	Change		
			Total	Acquired	Same Store			Total	Acquired	Same Store
Sales										
New equipment	106,650	87,327	19,323	-	19,323	182,290	194,026	(11,736)	5,074	(16,810)
Used equipment	77,553	73,977	3,576	-	3,576	160,367	156,779	3,588	1,668	1,920
Parts	30,024	28,130	1,894	-	1,894	45,977	42,220	3,757	993	2,764
Service	7,740	8,162	(422)	-	(422)	13,647	13,924	(277)	225	(502)
Other	1,123	1,052	71	-	71	1,990	1,861	129	-	129
	223,090	198,648	24,442	-	24,442	404,271	408,810	(4,539)	7,960	(12,499)
Gross profit	32,216	30,115	2,101			58,955	59,077	(122)		
Gross margin	14.4%	15.2%	(0.8%)			14.6%	14.5%	0.1%		

For the three and six months ended June 30, 2016, total sales for the agriculture segment were \$223.1 million (an increase of \$24.4 million or 12.3%) and \$404.3 (a decrease of \$4.5 million or 1.1%). Excluding \$8.0 million of acquired sales, same store revenues declined by \$12.5 million or 3.1%, on a year-to-date basis.

During the second quarter of 2016, the Company implemented certain OEM-supported sales initiatives geared towards moving new equipment through the supply chain. These initiatives, in conjunction with ideal growing conditions across the prairies, resulted in our customers being more receptive to purchasing new equipment during Q2 2016 as compared to a year ago when arid weather conditions throughout the late spring and early summer threatened both crop yields and grade.

The timing of deliveries from our OEMs also deferred delivery of certain units beyond the first quarter of 2016, contributing in small part, to the increase in new equipment sales during the second quarter of 2016.

While market conditions continue to support demand for used equipment, our OEM-supported new equipment sales initiatives and the deferred delivery of certain units from the first to the second quarter resulted in a \$19.3 million increase in new equipment sales during the second quarter of 2016. As a result, our year-to-date equipment sales mix has largely realigned with the same period last year.

For the three and six months ended June 30, 2016, product support sales were \$37.8 million (an increase of \$1.5 million or 4.1%) and \$59.6 million (an increase of \$3.5 million or 6.2%). Excluding \$1.2 million of acquired sales, same store product support revenues increased by \$2.3 million or 4.0%. During the second quarter of 2016, we continued to pursue product support growth opportunities, introducing promotional pricing on the repairs and maintenance of harvesting equipment. The growth in parts sales can also partially be attributed to pricing increases stemming from the weaker Canadian dollar.

Our gains in product support sales were partially offset by a slight contraction in service sales. The aforementioned promotional pricing was more aggressive on the service side of the business, diminishing the associated benefit relative to our parts sales in Q2 2016. This corresponded with a comparatively dryer seeding season in 2016 than was the case a year ago. These conditions resulted in less stress on the equipment and consequently, the rate of machine failures declined. We feel this impact more profoundly on the service side of our business as in-season service work is often performed on site and at premium rates.

Overall, total product support revenues in the agriculture segment continue to demonstrate consistent growth having reported increases in each quarter since the inception of the segment, amounting to eleven consecutive quarters of growth as compared to the same quarter in the prior year.

Gross profit for the three and six months ended June 30, 2016 increased by \$2.1 million or 7.0%, and decreased by \$0.1 million or 0.2%, respectively. The increase in gross profit during the second quarter of 2016 was driven primarily by increased equipment sales. Gross margin for the three and six months ended June 30, 2016 decreased by 0.8% and increased by 0.1%, respectively. The decrease in gross margin for Q2 was driven primarily by increased equipment sales levels, which with their lower relative margins, diluted overall gross margin for the period.



Industrial Segment

\$ thousands

	For the three months ended June 30,			For the six months ended June 30,		
	2016	2015	Change	2016	2015	Change
Sales						
New equipment	5,321	8,066	(2,745)	9,483	13,115	(3,632)
Used equipment	915	1,510	(595)	1,767	2,493	(726)
Parts	2,290	3,859	(1,569)	4,679	6,757	(2,078)
Service	810	1,225	(415)	1,651	2,516	(865)
Other	149	152	(3)	188	192	(4)
	9,485	14,812	(5,327)	17,768	25,073	(7,305)
Gross profit	1,931	2,826	(895)	3,475	5,324	(1,849)
Gross margin	20.4%	19.1%	1.3%	19.6%	21.2%	(1.6%)

For the three and six months ended June 30, 2016, total sales for the industrial segment decreased by \$5.3 million or 36.0% and \$7.3 million or 29.1%, respectively. Persistent low oil prices have continued to reduce the use of, and consequently demand for, industrial equipment and product support during the both the quarter- and year-to-date. Although our customer base for industrial equipment 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 extension, 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.

Activity levels within our industrial segment during the second quarter of 2016 were also tempered, in part, by the restructuring of our distribution network which saw a portion of our human capital temporarily reallocated to the execution of this initiative.

These factors combined to reduce sales levels across all functions within our industrial segment for the second quarter of 2016.

Gross profit for the three and six months ended June 30, 2016 decreased by \$0.9 million or 31.7% and \$1.8 million or 34.7%, respectively. These decreases in gross profit are due largely to reduced sales levels. Gross margin for the three and six months ended June 30, 2016 increased by 1.3% and decreased by 1.6%, respectively.

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 June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Parts activity				
Total activity	35,666	36,341	57,095	55,972
Internal activity eliminated	(3,352)	(4,352)	(6,439)	(6,995)
Reported revenues	32,314	31,989	50,656	48,977
Service activity				
Total activity	13,609	16,264	24,959	28,628
Internal activity eliminated	(5,059)	(6,877)	(9,661)	(12,188)
Reported revenues	8,550	9,387	15,298	16,440

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 three and six months ended June 30, 2016, Operating SG&A decreased by \$2.5 million or 10.2% and \$5.5 million or 10.9%, respectively. The year-to-date 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 year-to-date is down \$7.4 million or 14.6%. This reduction is primarily the result of cost containment measures implemented throughout 2015 and 2016 to better align our resources deployed with current industry demand. We expect the cost savings associated with the restructuring of our industrial segment to begin materializing during Q3 2016.

Excluded from Operating SG&A for the three and six months ended June 30, 2016 are unrealized gains on our derivative financial instruments of \$1.5 million and \$1.2 million, respectively (2015 – \$0.6 million and \$0.2 million, respectively).

During the second quarter of 2016, we also recognized \$2.2 million of non-recurring costs associated with the amalgamation of our Calgary and Red Deer industrial facilities into existing agriculture facilities in those areas. Included in these expenses is an accrual of \$1.1 million in estimated net costs associated with vacating these facilities. The Company is in the process of negotiating early lease terminations with the landlords, one of whom is a related party (see the "Related Party Transactions" section below for additional details). Failing that, the Company will look to sublet the facilities for the duration of the lease terms. The accrual equates to 50% of the \$2.2 million of remaining contractual obligations associated with the vacated facilities, and reflects an estimated reduction and/or recovery of such obligations through either early termination or sublease. If the Company is unable to negotiate early terminations and/or sublet the facilities, it may be required to recognize additional expenses of up to \$1.1 million associated with vacating the facilities. These one-time costs accrued during the quarter have also been removed from SG&A expenses in deriving Operating SG&A. For segment reporting purposes, these costs have been reported in the industrial segment.

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 (as defined below, see discussion under the heading "Adequacy of Capital Resources – Finance Facilities"). Interest on long-term debt pertains primarily to the Company's Term Facility (as defined below, see discussion under the heading "Adequacy of Capital Resources – Finance Facilities") as well as its former debenture repayment, acquisition, real estate and fleet facilities for the comparable period. During the three and six months ended June 30, 2016, total interest expense remained relatively flat.

Net Earnings

Net earnings for the three and six months ended June 30, 2016 increased by \$1.3 million or 65.9% and \$1.3 million and 53.7%, respectively. Adjusted Diluted Earnings per Share increased by \$0.12 (133.3%) and \$0.11 (91.7%) to \$0.21 and \$0.23 for the respective three and six month periods ended June 30, 2016, as compared to the same periods 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. These increases in net earnings were realized primarily as a result of reduced operating costs. The increase in Q2 net earnings was also the result of increased gross profit on stronger sales.



SUMMARY OF QUARTERLY RESULTS

\$ thousands, except per share amounts

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Sales									
New equipment	111,971	79,802	162,424	80,432	95,393	111,748	182,555	81,837	133,086
Used equipment	78,468	83,666	92,676	125,534	75,487	83,785	79,810	102,354	70,621
Parts	32,314	18,342	20,614	37,918	31,989	16,988	21,320	35,568	29,216
Service	8,550	6,748	8,714	10,711	9,387	7,053	9,569	10,041	8,478
Other	1,272	906	1,159	1,391	1,204	849	838	995	953
	232,575	189,464	285,587	255,986	213,460	220,423	294,092	230,795	242,354
Cost of sales	198,428	161,181	248,049	215,944	180,519	188,963	254,623	191,680	204,548
Gross profit	34,147	28,283	37,538	40,042	32,941	31,460	39,469	39,115	37,806
Gross margin	14.7%	14.9%	13.1%	15.6%	15.4%	14.3%	13.4%	16.9%	15.6%
SG&A	25,455	24,469	27,449	30,334	26,363	27,630	27,548	27,165	25,985
Interest and taxes	5,326	3,550	5,509	5,356	4,549	3,498	5,700	5,746	5,925
Net earnings	3,366	264	4,580	4,352	2,029	332	6,221	6,204	5,896
EPS – basic	0.17	0.01	0.24	0.23	0.10	0.02	0.32	0.32	0.31
EPS – diluted	0.17	0.01	0.24	0.23	0.10	0.02	0.32	0.32	0.31

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 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. Our financial results vary between quarters accordingly.

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.



BALANCE SHEET SUMMARY

\$ thousands

Assets

	June 30, 2016	December 31, 2015	June 30, 2015
Inventory	494,845	499,760	540,950
Other current assets	42,919	63,824	50,580
Total current assets	537,764	563,584	591,530
Property and equipment	50,909	39,888	34,242
Deferred tax asset	2,557	2,367	1,652
Derivative financial assets	-	-	62
Intangible assets	589	671	821
Goodwill	18,776	18,802	17,764
Total assets	610,595	625,312	646,071

Liabilities and equity

Floor plan payable	340,986	356,568	379,302
Other current liabilities	58,279	53,893	60,166
Total current liabilities	399,265	410,461	439,468
Long-term debt	36,744	40,080	38,082
Obligations under finance leases	742	154	-
Derivative financial liabilities	5,562	4,859	2,686
	442,313	455,554	480,236
Shareholders' equity	168,282	169,758	165,835
Total liabilities and equity	610,595	625,312	646,071

Current assets at June 30, 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. Recent market conditions have, however, created an environment whereby we are experiencing a modest increase in industrial equipment trades. The composition of the Company's equipment inventory is as follows:

\$ thousands

	June 30, 2016	December 31, 2015	June 30, 2015
New agriculture equipment	115,635	113,182	152,010
New industrial equipment	48,407	59,153	71,569
Total new equipment	164,042	172,335	223,579
Used agriculture equipment	279,214	282,868	263,512
Used industrial equipment	6,725	4,916	4,600
Total used equipment	285,939	287,784	268,112
Total equipment inventory	449,981	460,119	491,691

During the first half of 2016, the Company continued its inventory reduction efforts. As it pertains to agriculture equipment, the progress made to date in 2016 is consistent with our expectations and the seasonal nature of demand. Typically, our biggest opportunity for inventory reduction comes in the third quarter of the year and we expect 2016 to mirror this trend.

On the industrial side of the business, weaker sales activity has slowed our progress, however, we remain committed to our stated inventory reduction initiative and will continue to tailor our sales efforts accordingly.

Current liabilities are comprised predominantly of floor plan payable for financed equipment inventory of approximately \$341.0 million as at June, 2016 (December 31, 2015 – \$356.6 million). As a percentage of equipment inventory, floor plan payable was 75.8% as at June 30, 2016, down from 77.5% at 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 June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Net earnings	3,366	2,029	3,630	2,361
Non-cash items and changes in working capital	(6,167)	(4,064)	(9,974)	(1,107)
Cash flows (used for) from operating activities	(2,801)	(2,035)	(6,344)	1,254
Cash flows (used for) from financing activities	(4,025)	3,752	(5,347)	(1,299)
Cash flows used for investing activities	(3,096)	(18,799)	(7,101)	(21,566)
Net change in cash	(9,922)	(17,082)	(18,792)	(21,611)
Cash, beginning of period	7,820	18,423	16,690	22,952
Cash (cash deficiency), end of period	(2,102)	1,341	(2,102)	1,341
Floor Plan Neutral Operating Cash Flow ⁽¹⁾	14,904	33,343	9,238	36,815

(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 three and six months ended June 30, 2016, Floor Plan Neutral Operating Cash Flow decreased by \$18.4 million and \$27.6 million, respectively. The strong Floor Plan Neutral Operating Cash Flow generated during the first half of 2015 reflects the considerable reduction in inventory during that period. While we continue to reduce our inventory balance and free-up cash, the amount by which we have reduced our inventory declined during the first half of 2016 accounting for the reduction in cash generation.

Cash flows from operating activities for the three and six months ended declined by \$0.8 million and \$7.6 million, respectively. These decreases are due primarily to decreased cash generation from inventory, net of floor plan payable. During Q2 2016, our floor plan payable as a percentage of equipment inventory also declined, consuming operating cash flows otherwise generated during the period.

Cash Flows from Financing Activities

Cash flows from financing activities pertained primarily to debt and dividend payments as well as net proceeds associated with the financing of acquisitions and real estate assets. For the three and six months ended June 30, 2016, cash flows from financing activities declined by \$7.8 million and \$4.0 million, respectively. During Q2 of last year, the Company drew on its credit facilities to fund the purchase price of, and repay debt assumed pursuant to, an acquisition as well as to fund the construction of a new agriculture equipment facility in Neepawa, Manitoba. The net inflow of cash offset scheduled debt repayments and dividends in the comparative period. Repayments of debt during the six months ended June 30, 2016 also reflect an interest-only period on the Company’s Term Facility which expired during Q2 of 2016 when principal payments commenced.



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. For the three and six months ended June 30, 2016, cash flows from investing activities increased by \$15.7 million and \$14.5 million, respectively. These increases reflect the purchase consideration paid on acquisitions affected during the second quarter 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 \$60.0 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. During the second quarter of 2016, the Company requested and received a reduction in its Operating Facility limit to \$60.0 million, a \$10.0 million reduction. The reduction eliminates redundant room on the facility and the associated carrying costs.
- 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 Term Facility has a seven year repayment period which commenced 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. These facilities are 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 \$12.9 million as at June 30, 2016, we have approximately \$327.4 million available on our various credit facilities.

\$ millions

	Facility limit	Amount drawn	Available
Operating Facility ⁽¹⁾	60.0	15.0	45.0
Term Facility	75.0	43.2	31.8
Various floor plan facilities			
OEM floor plan facilities	205.0	115.0	90.0
Syndicated Flooring Facility	125.0	73.0	52.0
Other floor plan facilities	262.0	153.4	108.6
	727.0	399.6	327.4

(1) – Availability subject to borrowing base calculation.



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 financial covenants and applicable compliance ranges are as follows:

	June 30, 2016	December 31, 2015
Fixed charge coverage of at least	1.15-1.20:1	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 June 30, 2016 and December 31, 2015, the Company was in compliance with all externally imposed capital requirements.

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 (gains) recognized on derivative financial instruments are as follows:

\$ thousands	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Gain recognized in net earnings	(1,469)	(597)	(1,217)	(164)
Loss (gain) recognized in other comprehensive income (loss) – net of tax	(45)	(353)	749	801
Tax on loss (gain) recognized in other comprehensive income (loss)	(17)	(111)	276	286



Interest Rate Swaps

The Company has several 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:

			June 30, 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%	1,365
Term Facility #2 ⁽²⁾	April, 2017	Amortizing	4.1%	21,000	4.1%	22,750
			4.1%	21,000	4.0%	24,115
			4.9%	131,000	4.8%	134,115
Position at risk						
Floating-rate debt				270,875		299,694
Position hedged						
				48.4%		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 associated with the Term Facility #2 swap which was recognized within accumulated other comprehensive loss will be reversed into net earnings over the remainder of the term of the derivative. Future changes in the fair value of this derivative 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.

For the respective three and six month periods ended June 30, 2016, we recognized in net earnings, mark-to-market gains of \$0.1 million and \$0.2 million our interest rate swaps (2015 – gain of \$0.1 million and 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 maintain a hedged position which matches 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 date, 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. For the respective three and six



month periods ended June 30, 2016, the Company recognized mark-to-market gains of \$1.4 million and \$1.1 million (2015 – \$0.5 million and \$0.3 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		June 30, 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			55		75
SARs			1,065		1,146
			1,120		1,221
Position hedged			113.4%		104.0%

Dividends

On August 9, 2016, Rocky's Board of Directors (the "Board") approved a quarterly dividend of \$0.115 per common share on its outstanding common shares. The common share dividend is payable on September 30, 2016, to shareholders of record at the close of business on August 31, 2016.

This dividend is designated by Rocky to be an "eligible dividend" for the purposes of the Income Tax Act (Canada) and any similar provincial or territorial legislation. An enhanced dividend tax credit applies to "eligible dividends" paid to Canadian residents. Please consult with your own tax advisor for advice with respect to the income tax consequences to you from Rocky designating its dividends as "eligible dividends." Investors are cautioned that quarterly dividends remain subject to approval by Rocky's Board, and that the Board may, at any time, increase, decrease or suspend payment of the dividend.

SHARE CAPITAL – OUTSTANDING SHARES

During the six months ended June 30, 2016 and 2015, there were no changes in the issued and outstanding common shares of the Company. As at June 30, 2016 and 2015 as well as August 9, 2016, there were 19,384,086 shares outstanding.

The options outstanding at June 30, 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	0.1
March 28, 2012	214	214	11.96	0.7
March 13, 2013	339	339	12.89	1.7
March 13, 2014	367	244	11.52	2.7
	1,062	939	11.67	1.6

As at August 9, 2016, there were 1,061,832 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 June 30, 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 June 30, 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	31,429	31,429	-	-	-
Floor plan payable	352,369	176,185	176,184	-	-
Long-term debt	47,326	3,792	14,717	13,968	14,849
Obligations under finance leases	1,216	229	911	76	-
Operating lease obligations	33,092	4,372	14,359	8,729	5,632
Derivative financial instruments	9,114	1,087	5,449	2,127	451
Total contractual obligations	474,546	217,094	211,620	24,900	20,932

In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for long-term debt outstanding as at June 30, 2016 would be \$41.7 million in 2017-2018 and \$Nil thereafter.

RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

\$ thousands	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Equipment and product support sales	136	569	152	869
Expenditures				
Rental payments on Company facilities	1,447	1,375	2,895	2,750
Equipment purchases	46	473	49	569
Flight costs	-	-	16	56
Other expenses	10	36	33	92

All related parties are either directly or indirectly owned by a member of senior management or director 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	June 30, 2016	December 31, 2015
Due from related parties	87	111
Due to related parties	(533)	(13)

The amounts due from related parties are not secured and are to be settled in cash. As at June 30, 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 respective three and six month periods ended June 30, 2016, \$Nil and \$Nil has been recognized in bad debt expenses with regards to related party transactions (2015 – \$Nil and \$Nil).

The amount due to related parties reflects the estimated net costs associated with vacating one of the industrial facilities which is currently leased from a related party. The Company is in the process of negotiating an early lease termination with the landlord and failing that, will look to sublet the facility for the duration of the lease term. The accrual equates to 50% of the \$1.1 million of remaining contractual obligations associated with the vacated facility, and reflects an estimated reduction and/or recovery of such obligations through either early termination or sublease. If the Company is unable to negotiate an early termination and/or sublet the facility, it may be required to recognize additional expenses of up to \$0.5 million associated with vacating the facility.



The Company has contractual obligations to related parties in the form of facility leases. As at June 30, 2016, these contractual obligations and due dates, inclusive of the aforementioned vacated facility which is presented at its gross amount, are as follows:

\$ thousands	Total	2016	2017-2018	2019-2020	Thereafter
Operating lease obligations	25,143	2,870	9,517	7,124	5,632

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 range of expiry dates on the current operating leases extend until June 2026.

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.

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.

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 cyclicity of the industries we service; foreign exchange exposure; our reliance on key manufacturers; our continued ability to pay our dividend; 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; 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.



For the respective three and six month periods ended June 30, 2016, the Company recognized recoveries of \$0.3 million and \$0.1 million associated with bad debts (2015 – expenses of \$0.2 million and \$0.2 million). 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.

Foreign Currency Exchange Risk

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.

For the respective three and six month periods ended June 30, 2016, the Company recognized foreign exchange gains of \$0.2 million and \$0.7 million (2015 – \$0.2 million and \$0.1 million). These gains are included in selling, general and administrative expenses.

Interest Rate Risk

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 second quarter of 2016, costs associated with amalgamating the industrial segment operations have been classified as non-recurring charges.

- **"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 second quarter of 2016, costs associated with amalgamating the industrial segment operations have been classified as non-recurring charges.

- **"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 second quarter of 2016, costs associated with amalgamating the industrial segment operations have been classified as non-recurring charges. 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 June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Earnings used in the calculation of diluted earnings per share	3,366	2,029	3,630	2,361
Gain on derivative financial instruments	(1,469)	(597)	(1,217)	(164)
Loss (gain) on DSUs	79	17	70	(3)
SAR expense	90	87	84	110
Non-recurring industrial amalgamation charges	2,231	-	2,231	-
Tax effect of adjustments (27%)	(251)	133	(315)	15
Earnings used in the calculation of Adjusted Diluted Earnings per Share	4,046	1,669	4,483	2,319
Weighted average diluted shares used in the calculation of diluted earnings per share (in thousands)	19,384	19,339	19,384	19,355
Adjusted Diluted Earnings per Share	0.21	0.09	0.23	0.12

EBITDA and Adjusted EBITDA

\$ thousands

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Net earnings	3,366	2,029	3,630	2,361
Interest on long-term debt	454	526	907	1,040
Depreciation and amortization expense	2,168	1,957	3,953	3,757
Income taxes	1,575	719	1,579	848
EBITDA	7,563	5,231	10,069	8,006
Gain on derivative financial instruments	(1,469)	(597)	(1,217)	(164)
Loss (gain) on DSUs	79	17	70	(3)
SAR expense	90	87	84	110
Non-recurring industrial amalgamation charges	2,231	-	2,231	-
Adjusted EBITDA	8,494	4,738	11,237	7,949

Operating SG&A

\$ thousands

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
SG&A	25,455	26,363	49,924	53,993
Depreciation and amortization expense	(2,168)	(1,957)	(3,953)	(3,757)
Gain on derivative financial instruments	1,469	597	1,217	164
Gain (loss) on DSUs	(79)	(17)	(70)	3
SAR expense	(90)	(87)	(84)	(110)
Non-recurring industrial amalgamation charges	(2,231)	-	(2,231)	-
Operating SG&A	22,356	24,899	44,803	50,293
Operating SG&A as a % of revenue	9.6%	11.7%	10.6%	11.6%

Floor Plan Neutral Operating Cash Flow

\$ thousands

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Cash flow from operating activities	(2,801)	(2,035)	(6,344)	1,254
Net decrease in floor plan payable	17,705	2,596	15,582	2,779
Floor plan assumed pursuant to business combinations	-	32,782	-	32,782
Floor Plan Neutral Operating Cash Flow	14,904	33,343	9,238	36,815



INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

The CEO and CFO have evaluated the effectiveness of our DC&P and assessed the design of our ICFR, as of June 30, 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 June 30, 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 the decline in investment in Alberta's infrastructure and residential housing markets will likely negatively impact the Company's industrial sales or results; (vi) statements that the disparity between the Canadian and U.S. dollars are expected to support agriculture commodity prices, while sustained cost reductions in fuel and fertilizer prices provide input cost relief to farmers; (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, 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 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; (xi) statements pertaining to Rocky's ability to negotiate early termination or to sublet its redundant facilities and to realize the cost savings associated with the restructuring of its industrial segment; (xii) any statements or discussions regarding Rocky's inventory management and any expected increases or decreases in Rocky's inventory levels, and the timing thereof; (xiii) discussions regarding initiatives to restore our industrial results, including statements regarding the need for a minimum annual revenue opportunity of \$20.0 million, the anticipated benefits of our recent restructuring and our anticipated ability to meet this target; (xiv) 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; (xv) statements that we believe cash flow from operations, along with existing credit facilities, will provide for our capital needs; (xvi) discussion around SG&A expenses including the seasonal variances and expectations in operating SG&A; (xvii) 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; (xviii) statements that as acquisitions are integrated into the business, the associated SG&A costs for Rocky will generally decrease; (xix) statements related to our per-location revenue expectations and any assessment of the economies of scale associated with any facility; (xx) 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; (xxi) statements that weather conditions may impact sales activity for any given period; (xxii) statements that the Company anticipates that the losses related to the total return swaps will be reversed in subsequent periods as its share price returns to a more typical range; (xxiii) statements concerning the Company's ongoing compliance with, or potential breaches of, its covenants under its credit facilities, including the Syndicated Facility; (xxiv) statements concerning the Company's expected undiscounted cash flows as at June 30, 2016; (xxv) statements regarding the anticipated one-time costs or economic benefits of the amalgamations of Rocky's facilities in Calgary and Red Deer, Alberta; and, (xxvi) statements regarding the ongoing quantitative significance of our industrial segment.

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 food demand, 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, (iii) 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, (iv) 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, (v) the general GDP growth and/or relative economic stability in the markets we operate in, (vi) 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, (vii) the Company's cash flow will remain sufficient to, in connection with its credit facilities, adequately finance its capital needs, (viii) as stores are consolidated, certain functions can be centralized thereby reducing SG&A costs as a result, (ix) the anticipated improvement in ongoing revenue and cash-flow, including parts and service revenue, as our installed base increases, (x) expectations that no material change will happen to our OEM relationships; (xi) expectations that customers who purchase their equipment from the Company will, generally, return to the Company for their product support needs; (xii) 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, (xiii) 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.