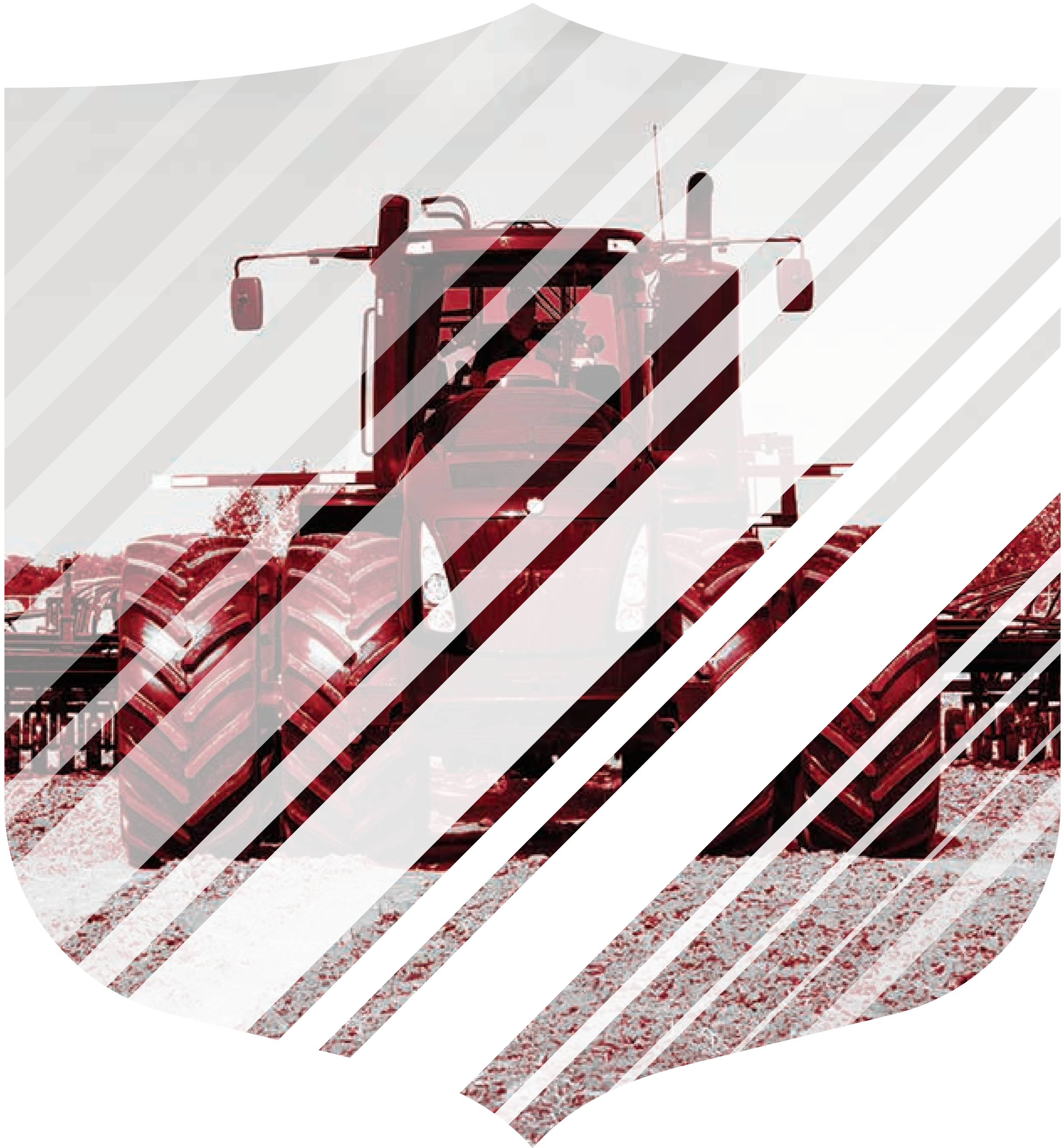
ANNUAL REPORT | 2013

ROCKY MOUNTAIN DEALERSHIPS ANNUAL REPORT 2013



Being successful in the equipment business takes more than moving huge pieces of iron. It takes a dedication to the partnerships and relationships you foster with your customers – and your people. It requires a steady, balanced approach to growth. Being successful in the long-term takes prudence and the foresight to see where the markets are going, not just where they are at one given moment in time. Ultimately, being successful in the equipment business requires you to read between the lines and understand the impact of decisions not just for today, but for tomorrow, and for the life of the business.

Beyond the lines is the theme of this years' annual report – we invite you to read beyond our lines, too.

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CASE IH

We continue to be an organization that offers shareholders **tremendous upside growth** potential while still rewarding them with a healthy dividend.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This Annual Report contains certain statements or disclosures relating to Rocky Mountain Dealerships Inc., including its various subsidiaries (hereinafter collectively "Rocky"), that are based on the estimates or expectations of its management as well as assumptions made by and information currently available to Rocky, which may constitute forward-looking statements or information under applicable securities laws. All such statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that Rocky anticipates or expects may, or will occur in the future (in whole or in part) should be considered forward-looking statements. In most cases, forward-looking statements can be identified by terms such as "forecast", "future", "may", "will", "expect", "anticipate", "believe", "hope", "potential", "enable", "plan", "continue", "contemplate", "pro-forma", "should", "intend", or other comparable terminology suggesting future outcomes or events. Forward-looking statements may, among other things, relate to: Discussion contained in the Message to Shareholders, including discussion on the business outlook for our segments and strategy going forward, discussion about profitability and opportunity in the parts and service side of Rocky's business, discussion around cost structure affecting profitability, statements that our recent measures and initiatives may improve revenues and margins across the entire construction segment, discussion that the agriculture industry remains stable or may remain stable, discussion that Rocky offers investors tremendous upside growth and discussion about Rocky's dividend or continued ability to pay the same; the continued and/or future success of Rocky's growth strategy; plans and objectives of management for future operations; forecast business results; and anticipated overall financial performance. Rocky cannot assure investors that actual performance or results will be consistent with these forward-looking statements. Rocky's actual results could differ materially from those anticipated in the forward-looking statements contained in this Annual Report as a result of the risk factors set forth in Rocky's annual information form dated March 11, 2014, available on SEDAR at www.sedar.com. All forward-looking statements in this Annual Report are qualified in their entirety by the cautionary statements herein, in addition to the cautionary statements on forward-looking information set forth in the Management's Discussion and Analysis included in this Annual Report.

MESSAGE TO SHAREHOLDERS

MESSAGE TO SHAREHOLDERS

2013 saw Rocky Mountain Dealerships continue a tradition of prudent, responsible management of our business. We paid attention to our balance sheet and managed our inventory closely. We focussed on driving initiatives to spread best practices across the network, with the long-term goal of sustainable performance across the organization. Our acquisition was small, but done in a way that was consistent with our strategy and should be a credit to the organization. While our fiscal results did not meet our own expectations, we remain confident in the outlook for our segments and our strategy going forward.

Following our re-branding campaign in 2012, the business is now conducted through 38 Rocky Mountain Equipment stores across the western Canadian prairies, as shown in the chart below.

LOCATIONS	AB	SK	MB	TOTAL
Case IH	18	4	8	30
Case CE	3	–	–	3
New Holland	3	–	–	3
Metso Crushing	1	–	–	1
Kubota	–	–	1	1
Total	**25**	**4**	**9**	**38**
CO-LOCATED BRANDS	**AB**	**SK**	**MB**	**TOTAL**
Dual Case IH / CE Stores	4	–	–	4
Dual Case IH / New Holland Stores	2	–	–	2
Kubota Licensees *(co-located with Case IH stores)*	4	1	3	8

The vast majority of these stores represent CNH Industrial N.V. equipment brands (Case IH Agriculture, New Holland Agriculture and Case Construction), with 2 specialty stores representing certain specialized lines of business. The Metso Crushing and Screening store in Edmonton, Alberta, serves an important niche market for our construction customers, without requiring a large network of supporting stores. The Shoal Lake store, which we acquired as part of the Murray's Farm Equipment acquisition in 2013, offers a selection of important specialty brands, such as Kubota tractors, as well as Bourgault seeding and planting equipment. All of our stores offer sales and service of other complementary brands and categories of equipment, ensuring that Rocky is a complete solution for our customers, rather than just a dealer of a single brand of equipment.

Within their respective brand lines and territories, each store offers the customer a full service location, with sales and rentals of whole goods, field and in-shop service, as well as parts sales. Our network provides us with exceptional access to inventory, as well as practical "know-how" and real-world experience in all facets of the business. We are proud to be Canada's largest agriculture and construction dealership network and the 2nd largest CNH dealer in the world.

On balance, our agriculture segment continued to perform solidly in 2013. Overall sales increased 7.9% from 2012, to $943.9 million. We made a conscious decision to focus on moving used equipment inventory (used equipment sales up $62.2 million), which in return put some downward pressure on our new equipment sales. This ultimately resulted in us taking in significantly less incentive dollars from our Original Equipment Manufacturers (down $6.0 million). Nevertheless, we feel strongly that this decision was a wise and prudent one, given the escalating levels of used

inventory in the industry. We will continue to monitor the industry as a whole, and will base our decisions not just on short-term opportunities, but on the long-term health of the business.

Parts revenues in our Agriculture segment grew from $68.9 million to $79.2 million, with a solid mix between acquired and same-store growth. Service revenues in our Agriculture segment increased slightly as a result of acquisition and modest same-store growth, but continue to be constrained by the shortage of qualified equipment technicians and the cyclical nature of the business that drives capacity constraints in many of our locations. Our Temporary Foreign Worker program has provided us with some success in finding techs and we will continue to aggressively seek out new pools of skilled technicians. Moving forward, we see opportunity in our parts and service business being a significant driver of our profitability. With the introduction of new practices, promotions and pricing actions, we are aiming to deliver results both to our customers and to our shareholders.

Our construction segment was challenged in 2013 with increased inventory levels across equipment distributors in Alberta, price premiums resulting from the adoption of Tier 4 emissions compliant equipment and slower overall infrastructure spending. Revenues declined across the board, as did margins. As we finished the year, we took steps to properly scale our inventory, to purchase Tier 3 while it is still available and to bolster our sales force. The cost structure of equipment dealerships is heavily skewed towards fixed costs and does not scale easily with reduced activity levels. The result of this model is that when times are lean, they can be especially hard on net profitability.

Adding to the difficulties we experienced was the announcement that Terex had reached an agreement to sell its rigid- and articulated-frame truck business to a competitor. While Rocky remains committed to our current customer base of Terex operators, we know that the uncertainty created by the sale of this line to a competitive brand has an impact on the real-world retail value of the trucks we already had in our inventory. As a result, we recorded an impairment charge of $5.0 million against the affected inventory during the fourth quarter of 2013.

Despite these factors, we are driving towards better performance from our construction equipment business, and have undertaken a number of measures to improve our revenues and margins across the entire construction segment. Rocky has been an industry leader in the construction equipment realm before, and we are committed to doing whatever it takes to return to that position.

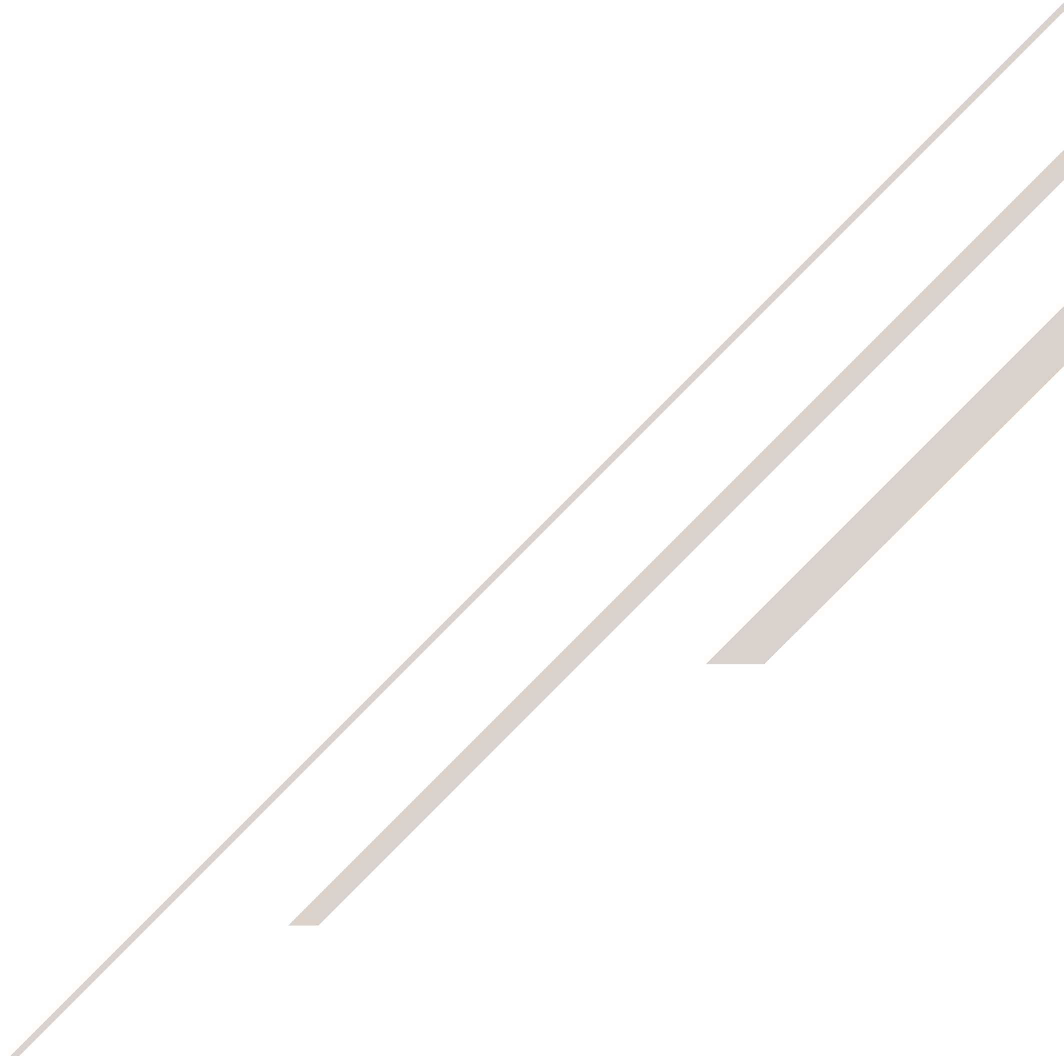
The agriculture industry remains stable and consistent within our territories, as rising food demand continues to put a spotlight on farm efficiency and output. The construction industry in Alberta, despite our recent and short-term struggles, remains one of the premier locations worldwide to operate in as an equipment dealer. Our brand, Rocky Mountain Equipment, is strong and growing. Our nearly 1,000 people who work in the field, in the branches, and in our head office are committed, experienced and knowledgeable.

We believe strongly that we continue to be an organization that offers shareholders tremendous upside growth potential while still rewarding them with a healthy dividend.

We are Rocky Mountain Equipment. Dependable is what we do.

Matthew C. Campbell
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS



ROCKY MOUNTAIN DEALERSHIPS INC. MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013

This Management Discussion and Analysis ("MD&A") was prepared as of March 11, 2014 and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the year ended December 31, 2013. It should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2013 and 2012 together with the notes thereto and the auditor's report thereon. The results reported herein have been derived from consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and are presented in Canadian dollars.

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

Rocky's common shares trade on the Toronto Stock Exchange under the symbol 'RME' and on the OTCQX under the symbol 'RCKXF'. Additional information relating to Rocky, including the Company's Annual Information Form, dated March 11, 2014 ("AIF"), is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

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

COMPANY OVERVIEW

Rocky is one of Western Canada's largest equipment dealers with a network of 38 full-service agriculture and/or construction equipment stores across the Canadian Prairie Provinces. Our network currently includes 25 branches in Alberta, 9 in Manitoba and 4 in Saskatchewan, all operating under the name Rocky Mountain Equipment.

We are Canada's largest retail dealer of CNH Industrial N.V. ("CNH") equipment. We are also a major independent dealer of equipment from a number of other manufacturers, including, but not limited to, Bourgault, 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 other ancillary services such as equipment transportation and global positioning satellite (GPS) signal subscriptions.

Headquartered in Calgary, Alberta, our business during 2013 was carried on through the Partnership doing business as Rocky Mountain Equipment. Effective January 2, 2014, the Company affected a restructuring whereby the business assets, liabilities, and all other operations of the Partnership were rolled over to RMEC pursuant to an asset transfer agreement. All the Company's operations in Alberta, Saskatchewan and Manitoba are conducted through RMEC as of January 2, 2014. On February 27, 2014, the Partnership was dissolved. All our dealership locations continue to operate under the name "Rocky Mountain Equipment".

SUMMARY OF FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2013

- Total revenues increased by 4.3% to $1,007.8 million.
- Equipment inventory decreased by $14.8 million.
- Gross profit of $140.4 million (13.9% of sales).
- Diluted Earnings per Share of $0.80.
- EBITDA[1] of $29.7 million.
- Paid dividends of $0.3675 per share.

SUMMARY OF FINANCIAL RESULTS FOR THE QUARTER ENDED DECEMBER 31, 2013

- Total revenues declined by 3.4% to $290.6 million.
- Used equipment revenues increased by 6.5% to $84.9 million.
- Recorded one time impairment charge of $5.0 million ($0.19 per fully diluted share).
- Gross profit declined to $33.3 million (11.4% of sales).
- Diluted Earnings per Share of $0.11.
- EBITDA[1] of $4.9 million.

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

MARKET FUNDAMENTALS AND OUTLOOK

AGRICULTURE MARKET

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

A late spring thaw postponed seeding activity, getting the 2013 growing season off to a late start. Warm temperatures throughout the third quarter, however, provided excellent growing conditions across the Canadian Prairies. Despite the late start and a difficult harvest, 2013 yields exceeded typical levels and the overall quality of the crop was good.

With this increase in supply of harvested crops, commodity prices have decreased as of late from recent historical highs. We continue to see commodity prices affected by strong supply and other external market factors that may continue to soften prices.

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

As part of the need to improve productivity, farmers are 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. Within the Canadian agriculture sector, the trend towards larger farms is further benefiting farm equipment sales. According to its most recent census data, Statistics Canada reported a 31.2% increase in the number of Canadian farms managing operations with crop receipts in excess of $1.0 million. These operators require larger, more productive equipment and they tend to replace their equipment more frequently to capitalize on the latest technological advances and equipment efficiencies.

Demand from China and India, crop land dedicated to bio-fuel production, and general GDP growth are all putting pressure on worldwide production. Parts and service demand is also expected to remain strong due to the increased number of units that we have installed within the regions that we operate. Overall, the fundamentals underpinning agriculture equipment demand continue to be strong.

CONSTRUCTION MARKET

Our construction equipment sales are balanced through residential construction, roadwork (including paving and aggregate production), and commercial, industrial, and municipal construction in the Alberta market. Housing starts, oil rig count, vehicle sales, and GDP growth are all factors that influence construction equipment purchases in Alberta.

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

Price increases in certain natural resources, like those recently experienced in natural gas, may provide the impetus for increased spending in the construction sector provided those increases are sustained. Typically, when the Alberta treasury outlook strengthens, infrastructure and development projects become more likely to go forward.

Lower than anticipated sales activity across Alberta in recent quarters has left construction equipment dealers with elevated levels of inventory. This excess supply has created a highly competitive sales environment which has, and is expected to continue to, put pressure on margins. In anticipation of these developments, we have spent the past several quarters adjusting our inventory profile and levels which we continue to monitor.

In December 2013, Terex Corporation announced that it had reached an agreement to sell its truck business to a Volvo Construction Equipment. The truck business includes off-highway rigid and articulated haul trucks. The sale is subject to government regulatory approvals and is targeted to close in the first half of 2014. At this point, our continued representation of and ability to support the Terex brand remains unchanged as no formal announcement has yet been made. The position of the Terex equipment line within Volvo's product offering remains unclear, as does its future support. Part of the valuation of any piece of equipment is based on the support the dealer representative can give and, without certainty of that support, the value suffers.

In recent quarters, we have experienced challenges in our ability to deliver new construction units into the marketplace. These challenges notwithstanding, we are committed to succeeding in the construction market and management has committed additional resources to restore our construction results.

Alberta remains one of the strongest construction markets in North America. The province is expected to see average growth in real GDP of approximately 3.7% in 2014 and 2015 compared to the national forecast of 2.7% for the same period.

OVERALL

In response to new air emission standards recently enacted by Environment Canada, as well as other international counterparts, equipment manufacturers have been required to incorporate Tier 4 engines into their equipment in order to comply with the new regulations. The adoption of Tier 4 engines has significantly increased the manufacturing costs and related selling prices of these units. The disparity in pricing between tiers can result in a competitive advantage or disadvantage in the marketplace, depending on the overall inventory profiles in the area as compared to individual dealers' profiles. To date, this disparity has been more prevalent on construction equipment which has constrained our construction sales over the past twelve months. Orders placed that are expected to land in the second quarter of 2014 include certain Tier 3 products that should help to address the pricing differential. Legislative compliance with Tier 4 regulations will ultimately remove these disparities as we progress through the transition period.

The valuation of equipment in the North American market is dictated in US dollars. The recent weakening of the Canadian dollar relative to the US dollar is expected to contribute to pricing pressure on new equipment inventory purchased in US dollars. This increase in pricing should be somewhat offset by price advantages on inventory acquired when the currencies approximated parity.

The outlook for our end-markets, healthy 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.

Rocky's success and growth, while predicated on the larger economic conditions and factors discussed above, is also affected by our ability to be a partner of choice for equipment purchasers.

Our underlying business fundamentals remain strong. We have exclusive distribution rights, with significant barriers to entry, for some of the world's leading equipment 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. It is these strong fundamentals that continue to provide stability in our results and value to our shareholders.

SELECTED ANNUAL FINANCIAL INFORMATION

$ THOUSANDS, EXCEPT PER SHARE AMOUNTS	2013		2012		2011	
Sales						
New equipment	523,522	51.9%	549,036	56.8%	423,933	52.8%
Used equipment	358,861	35.6%	297,476	30.8%	269,809	33.6%
Parts	92,599	9.2%	84,653	8.8%	75,531	9.4%
Service	29,421	2.9%	30,459	3.2%	28,028	3.5%
Other	3,359	0.4%	4,482	0.4%	5,462	0.7%
	1,007,762	100.0%	966,106	100.0%	802,763	100.0%
Cost of sales	867,356	86.1%	818,595	84.7%	677,571	84.4%
Gross profit	140,406	13.9%	147,511	15.3%	125,192	15.6%
Selling, general and administrative	105,450	10.5%	97,711	10.1%	82,001	10.2%
Loss on repurchase of convertible debentures	–	0.0%	4,232	0.4%	–	0.0%
Interest on short-term debt	11,696	1.2%	9,071	0.9%	8,306	1.0%
Interest on long-term debt	2,233	0.1%	2,843	0.4%	3,587	0.5%
Earnings before income taxes	21,027	2.1%	33,654	3.5%	31,298	3.9%
Provision for income taxes	5,714	0.6%	9,679	1.0%	8,089	1.0%
Net earnings	15,313	1.5%	23,975	2.5%	23,209	2.9%
Earnings per share						
Basic	0.80		1.28		1.24	
Diluted	0.80		1.28		1.12	
Dividends per share	0.3675		0.2475		0.1800	
Non-IFRS Measures[1]						
EBITDA	29,731	3.0%	42,008	4.3%	41,225	5.1%
Normalized EBITDA	29,542	2.9%	46,510	4.8%	44,437	5.5%
Operating SG&A	99,168	9.8%	92,391	9.6%	73,872	9.2%
Floor Plan Neutral Operating Cash Flow	42,342	4.2%	(82,824)	(8.6%)	28,280	3.5%
Normalized Diluted Earnings per Share	0.79		1.46		1.22	

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

SEGMENTED FINANCIAL REPORTING

During the fourth quarter of 2013, the Company realigned its organizational structure which resulted in changes to the information reported to the Chief Operating Decision Maker ("CODM") for the purposes of making resource allocation decisions. As a result of this realignment, the Company has identified two reportable operating segments, each being comprised of an aggregation of branches.

The Company's branches have been aggregated on the basis of the primary industry which they serve, being agriculture or construction. Certain branches serve both industries. In cases where branches distribute both agriculture and construction equipment, the primary industry served is agriculture and therefore, these facilities have been categorized as such. As a result, certain construction related results are included in the agriculture segment for the purposes of segmented financial reporting.

Comparative information presented for 2012 has been derived using allocations and estimates made by management.

$ THOUSANDS	2013			2012		
	AGRICULTURE	CONSTRUCTION	TOTAL	AGRICULTURE	CONSTRUCTION	TOTAL
Sales						
New equipment	484,046	39,476	523,522	488,902	60,134	549,036
Used equipment	354,043	4,818	358,861	291,798	5,678	297,476
Parts	79,210	13,389	92,599	68,869	15,784	84,653
Service	24,050	5,371	29,421	22,430	8,029	30,459
Other	2,574	785	3,359	2,757	1,725	4,482
	943,923	63,839	1,007,762	874,756	91,350	966,106
Gross profit	135,078	5,328	140,406	131,463	16,048	147,511
Gross margin	14.3%	8.3%	13.9%	15.0%	17.6%	15.3%
Net income (loss)	23,979	(8,666)	15,313	27,282	(3,307)	23,975

REVENUE AND GROSS PROFIT

The Company uses the terms "acquired" versus "same store" in assessing its sales results. Each acquired store has an average historical level of sales generated prior to being acquired by Rocky. When the Company discusses "acquired" sales, it is referring to the average historical sales level realized by each acquired store prior to acquisition. This base level of sales continues to be classified as acquired until such time as the acquired store has been included in our dealership for a complete calendar year after which point, all sales are classified as same store. For the year ended December 31, 2013, all acquired sales growth pertains to the Agriculture segment of the Company.

AGRICULTURE SEGMENT

$ THOUSANDS	2013	2012	CHANGE		
			TOTAL	ACQUIRED	SAME STORE
Sales					
New equipment	484,046	488,902	(4,856)	31,526	(36,382)
Used equipment	354,043	291,798	62,245	16,769	45,476
Parts	79,210	68,869	10,341	6,916	3,425
Service	24,050	22,430	1,620	1,340	280
Other	2,574	2,757	(183)	46	(229)
	943,923	874,756	69,167	56,597	12,570
Gross profit	135,078	131,463	3,615		
Gross margin	14.3%	15.0%	(0.7%)		

For the year ended December 31, 2013, total sales for the Agriculture segment were $943.9 million representing an increase of $69.2 million or 7.9% over the same period in 2012. Acquired stores contributed $56.6 million for the year, with the remainder of the increase attributable to same store sales growth.

Equipment sales for the year ended December 31, 2013 increased by $57.4 million or 7.4% over the same period in 2012. The majority of this increase was the result of $48.3 million of acquired equipment sales growth. Increased pricing on new agriculture equipment adversely affected our 2013 pre-sale activity. We also continued to balance our sales profile against our balance sheet risk, particularly with regards to used equipment. These factors resulted in the delivery of fewer new agriculture equipment units during the fourth quarter of 2013. A heavy harvest, our continued focus on moving used equipment inventory and the price advantages relative to new equipment which have arisen since the implementation of Tier 4 engines all contributed to used agriculture equipment sales growth in 2013 resulting in $9.1 million in same store agriculture equipment sales growth.

Parts sales for the year ended December 31, 2013 increased by $10.3 million or 15.0%. Acquired parts sales contributed $6.9 million of this increase. Service sales for the year increased $1.6 million due largely to $1.3 million of acquired service sales. When used equipment inventory is taken in on trade, it undergoes a process of inspection, assessment and repair to bring it to a saleable condition. This necessary process consumes service resources, which, depending on current capacity and seasonality, can constrain our ability to perform external service work. During 2013, elevated used equipment sales activity and our need for additional qualified service technicians caused the Company to experience this constraint and prevented service sales from keeping pace with the overall agriculture sales growth for the period.

Gross profit for the year ended December 31, 2013 increased by $3.6 million or 2.7% over 2012. The increase in gross profit is primarily attributable to increased sales activity during the year. As a percentage of sales, gross profit declined by 0.7% to 14.3%. A shift in our agriculture equipment sales mix from new to used equipment contributed to a reduction in incentives received from manufacturers of approximately $6.0 million which deteriorated our overall agriculture margins accounting for approximately 0.6% of the decrease. The remaining decrease is attributable to equipment pricing increases which we were unable to pass on in their entirety to our customers.

CONSTRUCTION SEGMENT

$ THOUSANDS	2013	2012	CHANGE
Sales			
New equipment	39,476	60,134	(20,658)
Used equipment	4,818	5,678	(860)
Parts	13,389	15,784	(2,395)
Service	5,371	8,029	(2,658)
Other	785	1,725	(940)
	63,839	91,350	(27,511)
Gross profit	5,328	16,048	(10,720)
Gross margin	8.3%	17.6%	(9.3%)

For the year ended December 31, 2013, total sales for the Construction segment were $63.8 million representing a decrease of $27.5 million or 30.1% over the same period in 2012. Construction sales continued to fall short of our expectations. In conjunction with our primary OEM, we have developed a comprehensive strategy around improving our overall performance in the construction market. Through investment in our management and sales functions, we expect to see an increase in delivered units to correspond with market opportunity over the coming year.

In early 2013, we closed our Fort McMurray store. Historically, this location produced solid top line revenues and margins, however, costs associated with operating in the Fort McMurray environment rendered the location unprofitable. Although every effort has been made to continue to serve our customers in the area, the closure has contributed to a decrease in overall construction sales.

Equipment sales for the year ended December 31, 2013 decreased by $21.5 million or 32.7% over the same period in 2012. Lower than anticipated sales activity across Alberta in recent quarters has left construction equipment dealers with elevated levels of inventory and created a highly competitive sales environment. The pricing disparity between Tier 3 and Tier 4 equipment has, in some instances, put us at a disadvantage in an already difficult sales environment. These factors combined to reduce our overall construction equipment sales for the year.

Parts and service sales for the year ended December 31, 2013 decreased by $2.4 million and $2.7 million or 15.2% and 33.1%, respectively, primarily as a result of the closure of the Fort McMurray facility.

Gross profit for the year ended December 31, 2013 decreased by $10.7 million or 66.8% over 2012. As a percentage of sales, gross profit declined by 9.3% to 8.3%. While we remain committed to serving our customers, uncertainty around the Terex line and the future availability of OEM support had a negative impact on the valuation of our Terex articulated and rigid-framed trucks. Consequently an impairment charge of $5.0 million was taken which reduced diluted earnings per share by $0.20. The remainder of the decrease in gross profit was as a result of decreased sales activity for the year.

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. The majority of these costs are fixed. As we acquire new stores, these costs will increase as we incur additional expenditures related to the direct selling, general and administrative functions. Over time, as these acquisitions are amalgamated into the business, the costs will generally decrease as we incorporate their finance and administrative functions into our corporate resources. Similarly, costs will increase as we add direct customer related resources such as equipment specialists, but will normalize as those positions drive sales and increase the customer base.

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

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

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

For the year ended December 31, 2013, Operating SG&A was $99.2 million compared to $92.4 million in 2012. The increase in Operating SG&A pertains to additional commissions and salaries driven by incremental sales activity and the acquisition of new branches contributing to increased facility and other SG&A costs.

The Company targets a sub-10% Operating SG&A as a percentage of sales on an annual basis. Operating SG&A as a percentage of sales for 2013 was 9.8%, up from 9.6% in 2012 and within the Company's targeted range.

Depreciation included in SG&A amounted to $6.5 million for the year ended December 31, 2013, up from $5.1 million in 2012.

LOSS ON REPURCHASE OF CONVERTIBLE DEBENTURES

During 2012, the Company took up all of its convertible debentures (the "Debentures"). Upon derecognition, the Company allocated $4.2 million of the loss to net earnings and $4.3 million (net of income taxes of $0.3 million) to retained earnings. The Debentures were replaced with a lower interest-bearing facility resulting in both interest savings for Rocky and reduced earnings dilution to shareholders.

INTEREST

The majority of the Company's short-term interest expense is attributable to the floor plan financing associated with our new and used equipment inventory. During 2013, short-term interest expense increased by $2.6 million. This increase is the result of the increase in the average balance of floor plan payable outstanding throughout the respective years which arose in response to increased equipment inventory levels. During the year, long-term interest expense decreased by $0.6 million primarily due to interest savings as a result of replacing the Debentures with a lower interest bearing facility.

NET EARNINGS

For the year ended December 31, 2013, we generated net earnings of $15.3 million, down $8.7 million from 2012. The decrease in net earnings is primarily attributable to decreased margins as discussed above, offset by the loss on the repurchase of the Debentures recognized during the second quarter of 2012, net of tax.

On a per share basis, the Company's Normalized Diluted Earnings per share were $0.79, down from $1.46 in 2012.

SUMMARY OF QUARTERLY RESULTS

$ THOUSANDS, EXCEPT PER SHARE AMOUNTS	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Sales									
New equipment	179,359	97,554	131,534	115,075	195,813	109,636	131,155	112,432	132,712
Used equipment	84,925	130,826	71,805	71,305	79,709	96,653	63,110	58,004	82,318
Parts	18,099	34,534	26,667	13,299	16,369	31,377	23,067	13,840	16,155
Service	7,403	8,497	7,310	6,211	7,933	8,465	7,421	6,640	7,459
Other	795	1,158	790	616	956	1,403	988	1,135	1,945
	290,581	272,569	238,106	206,506	300,780	247,534	225,741	192,051	240,589
Cost of sales	257,329	233,846	202,166	174,015	254,913	207,836	191,515	164,331	203,620
Gross profit	33,252	38,723	35,940	32,491	45,867	39,698	34,226	27,720	36,969
SG&A	27,249	26,827	25,873	25,501	26,060	25,181	24,386	22,084	21,964
Loss on repurchase of Debentures	–	–	–	–	–	–	4,232	–	–
Interest and taxes	3,937	5,981	5,573	4,152	8,037	6,066	4,013	3,477	6,044
Net earnings	2,066	5,915	4,494	2,838	11,770	8,451	1,595	2,159	8,961
EPS – basic	0.11	0.31	0.23	0.15	0.63	0.45	0.09	0.12	0.48
EPS – diluted	0.11	0.31	0.23	0.15	0.62	0.45	0.08	0.11	0.42

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

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

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

BALANCE SHEET SUMMARY

$ THOUSANDS	DECEMBER 31, 2013	DECEMBER 31, 2012	DECEMBER 31, 2011
Assets			
Inventory	482,824	495,151	354,631
Other current assets	74,520	91,571	79,848
Property and equipment	30,860	21,558	21,369
Goodwill	14,692	13,884	9,961
Total assets	602,896	622,164	465,809
Liabilities and equity			
Floor plan payable	342,364	351,812	226,863
Other current liabilities	56,607	69,955	59,312
Long-term debt	41,681	45,977	40,462
Obligations under finance leases	541	1,379	1,589
Deferred tax liability	2,576	7,042	8,283
Derivative financial instruments	1,706	1,438	1,139
	445,475	477,603	337,648
Shareholders' equity	157,421	144,561	128,161
Total liabilities and equity	602,896	622,164	465,809

Current assets at December 31, 2013 consist primarily of new and used equipment inventory of approximately $214.7 million and $230.4 million, respectively (December 31, 2012 – $226.7 million and $233.2 million, respectively). The Company's new and used equipment inventory is comprised predominantly of agriculture equipment. Typically, our agriculture customers trade-in their used equipment when purchasing new equipment. The Company has a diverse customer base for its agriculture equipment and carries an appropriate mix of both new and used equipment to best serve its customers. Construction equipment, by contrast, is generally utilized from sale to the end of its useful life by one owner. Trades of used construction equipment are less common and as such, the Company carries a more modest inventory of used construction equipment relative to new.

Throughout 2013, the Company implemented a number of sales initiatives to reduce its equipment inventory from the all-time high reached in first quarter of the year. Through a combination of rationalizing new equipment purchases and sales initiatives aimed at moving equipment, we have brought our overall equipment levels back in line with 2012 despite increased sales activity and the addition of two new facilities during the year. As anticipated, the decreases achieved during the second and third quarters of the year were partially offset by seasonal equipment deliveries and trades taken on the post-harvest sales activity during the fourth quarter.

Current liabilities consist predominantly of floor plan payable for financed inventory of approximately $342.4 million as at December 31, 2013 (2012 – $351.8 million). The decrease in floor plan payable corresponds with the reduction in equipment inventory carried by the Company. As a percentage of equipment inventory, floor plan payable is relatively consistent year over year, with a slight increase from 76.5% at December 31, 2012 to 76.9% at December 31, 2013.

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, floor plan payable, and financing provided to customers;
- Financing activities, including bank credit facilities, long-term debt and other capital market activities providing both short- and long-term financing; and,
- Investing activities, including capital expenditures, acquisitions of complementary businesses and divestitures of non-core businesses.

WORKING CAPITAL REQUIREMENTS

Through credit and financing facilities, the Company is required to maintain minimum working capital requirements. The definitions and calculations for minimum working capital requirements vary between lenders. As at December 31, 2013, the Company was in compliance with all working capital requirements and other financial covenants (including liquidity and financial leverage ratios) as defined by its various lenders.

SUMMARY OF CASH FLOWS

Cash flow for the years ended December 31, can be summarized as follows:

$ THOUSANDS	2013	2012	2011
Net earnings	15,313	23,975	23,209
Effect of non-cash items in net earnings and changes in working capital	14,792	(1,972)	9,580
Cash flows from operating activities	30,105	22,003	32,789
Cash flows from financing activities	(8,459)	(4,450)	(4,564)
Cash flows from investing activities	(21,101)	(14,408)	(14,332)
Net increase in cash and cash equivalents	545	3,145	13,893
Cash and cash equivalents, beginning of period	34,177	31,032	17,139
Cash and cash equivalents, end of period	34,722	34,177	31,032
Floor Plan Neutral Operating Cash Flow[1]	42,342	(82,824)	28,280

[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 year ended December 31, 2013, we generated Floor Plan Neutral Operating Cash Flow of $42.3 million as compared to an $82.8 million use in 2012. The change in Floor Plan Neutral Operating Cash Flow is largely the result of equipment inventory acquired throughout the prior year as well as the loss on the repurchase of the Debentures recognized during the second quarter of 2012.

For the year ended December 31, 2013, the Company generated $30.1 million in cash flow from operating activities, an increase of $8.1 million over 2012. The increase is primarily attributable to decreases in equipment inventory, net of applicable floor plan financing.

CASH FLOWS FROM FINANCING ACTIVITIES

For the year ended December 31, 2013, we utilized $8.5 million for financing activities compared to $4.5 million in 2012. Cash flows from financing activities during 2013 and 2012 pertained primarily to scheduled debt repayments, draws against credit facilities, dividend payments and the net cash flows associated with the repurchase and refinancing of the Debentures in the second quarter of 2012.

CASH FLOWS FROM INVESTING ACTIVITIES

For the year ended December 31, 2013, we utilized $21.1 million for investing activities compared to $14.4 million in 2012. Cash utilized for investing activities was the result of our normal capital expenditures and the acquisitions of two parcels of land for the purpose of constructing new facilities, offset by cash generated on the disposal of a portion of our rental fleet of rock trucks during 2012. Also included in cash utilized for investing activities during 2013 and 2012 is the cash consideration paid on account of business combinations.

ADEQUACY OF CAPITAL RESOURCES

We use cash flow from operations to finance the purchase of inventory, service our debt requirements, pay dividends, and fund our operating activities, including working capital, both operating and finance leases and floor plan payable. Our ability to service our debt and distribute dividends to shareholders will depend upon our ability to generate cash, which depends on our future operating performance, general economic conditions, as well as other factors, some of which are beyond our control. Based on our current operational performance, we believe that cash flow from operations, along with existing credit facilities, will provide for our capital needs.

FINANCE FACILITIES

The Company has a credit facility with a syndicate of lenders (the "Syndicated Facility"). The Syndicated Facility is a revolving facility secured in favour of the syndicate by a general security agreement. Advances under the Syndicated Facility may be made based on our lenders' prime rate or the US base rate plus 1.0% – 2.5% or based on the banker's acceptance ("BA") rate plus 2.0% – 3.5%. The Company pays standby fees of between 0.5% and 0.8% per annum on any undrawn portion of the Syndicated Facility. The standby fees and premiums on base interest rates within the respective ranges are determined based on the Company's covenant compliance. The Syndicated Facility matures on June 1, 2016. It is however the Company's intention to renew this facility prior to its maturity date.

The Syndicated Facility consists of:

- The "Operating Facility" – which may be utilized to advance up to the lesser of 50% of eligible inventory plus 75% of eligible accounts receivable or $30.0 million and may be used to finance general corporate operating requirements.
- The "Flooring Facility" – which may be used to finance up to 75% of the value of eligible equipment inventory. Draws against the Flooring Facility are repayable over a term of 24 months however; they become due in full upon the sale of the associated equipment.
- The "Acquisition Facility" – which may be used to finance up to 60% of the cost of future acquisitions with tranches repayable in monthly installments over an amortization period of 60 months.
- The "Fleet Facility" – which may be used to finance the Company's fleet of vehicles with draws repayable in monthly installments over an amortization period of 36–60 months.
- The "Debenture Repayment Facility" – which was used to finance the repurchase of the Debentures. This facility is repayable with quarterly installments of $0.9 million plus interest with the remaining principal to be paid out on September 30, 2017.

Including the Syndicated Flooring Facility, we have total available floor plan financing of approximately $588.1 million (inclusive of seasonal increases) from various lending institutions for the purpose of financing inventory. Our equipment inventory is financed by way of floor plan financing, which is made available to Rocky by the equipment manufacturers' captive finance companies or divisions (such as CNH Capital), as well as by banks and specialty lenders.

In addition to our available cash balance of $34.7 million as at December 31, 2013, we have approximately $294.3 million available on our various credit facilities.

$ MILLIONS	FACILITY LIMIT	AMOUNT DRAWN	AVAILABLE
Operating Facility	30.0	–	30.0
Acquisition Facility	30.0	17.2	12.8
Fleet Facility	10.0	4.2	5.8
Debenture Repayment Facility	29.8	29.8	–
Various floor plan facilities			
OEM floor plan facilities	250.0	72.6	177.4
Syndicated Flooring Facility	100.0	92.9	7.1
Other floor plan facilities	238.1	176.9	61.2
	687.9	393.6	294.3

INTEREST RATE SWAPS

The Company utilizes derivative financial instruments to hedge its exposure to changes in interest rates. We do not use derivatives to speculate, but rather as a risk management tool. During 2013, the Company entered into a floating-to-fixed interest rate swap on an incremental $35.0 million of its Flooring Facility. Inclusive of this new swap, the Company has four separate interest rate swaps (the "Swaps") related to portions of its Acquisition and Flooring Facilities as well as the Debenture Repayment Facility (collectively the "Hedged Facilities").

The interest rate swap related to the Acquisition Facility amortizes with principal payments on the debt until May 27, 2016. At December 31, 2013, the notional amount of the swap was $7.9 million (December 31, 2012 – $11.2 million). The interest rate swaps related to the Flooring Facility are non-amortizing with $25.0 million maturing on August 31, 2018 and $35.0 million maturing on September 30, 2020. The aggregate notional amount outstanding at December 31, 2013 was $60.0 million (December 31, 2012 – $25.0 million). The interest rate swap on the Debenture Repayment Facility amortizes with principal repayments on the debt until April 27, 2017. At December 31, 2013, the notional amount of the swap was $29.8 million (December 31, 2012 – $33.3 million).

The Hedged Facilities each bear interest at a floating rate based on the prevailing one-month BA rate plus 2.0% – 3.5%. The Swaps hedge our exposure to fluctuations in the BA rate. At December 31, 2013 the effective rates on the hedged portions of the Acquisition, Flooring and Debenture Repayment Facilities were 3.7%, 5.0% and 4.3%, respectively (December 31, 2012 – 3.7%, 4.5% and 4.3%, respectively). We have designated these instruments as hedges and have accounted for them using hedge accounting in our consolidated financial statements.

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

DIVIDENDS

On February 3, 2014, Rocky's Board of Directors declared a quarterly dividend of $0.10 per common share on the Company's outstanding common shares. The dividend is payable on March 31, 2014, to shareholders of record at close of business on February 28, 2014.

SHARE CAPITAL – OUTSTANDING SHARES

THOUSANDS	2013	2012
Opening balance	18,993	18,768
Issued pursuant to:		
Stock option exercises	320	105
Restricted share unit exercises	–	120
Closing balance	19,313	18,993

As at March 11, 2014, there were 19,315,253 shares outstanding.

The options outstanding at December 31, 2013 are as follows (expressed in thousands except per option and average life amounts):

GRANT DATE	OPTIONS OUTSTANDING (THOUSANDS)	OPTIONS EXERCISABLE (THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE ($)	WEIGHTED AVERAGE CONTRACTUAL LIFE (YEARS)
December 29, 2009	61	61	9.22	1.0
March 11, 2011	42	20	10.39	2.2
August 11, 2011	150	87	8.71	2.6
March 28, 2012	277	89	11.96	3.2
March 13, 2013	415	–	12.89	4.2
	945	257	11.61	3.4

As at March 11, 2014, there were 915,500 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 December 31, 2013 include long-term debt consisting predominantly of the Debenture Repayment, Acquisition and Fleet Facilities and operating lease commitments which relate primarily to the Company's facilities. Lease terms are between one and eleven years and most building leases contain five-year renewal options.

The Company assesses its liquidity based on the expected period in which cash flows will occur. The following table summarizes the Company's expected undiscounted cash flows as at December 31, 2013 assuming the Syndicated Facility is renewed prior to maturity on June 1, 2016. The analysis is based on foreign exchange rates and interest rates in effect at the consolidated balance sheet date, and includes both principal and interest cash flows.

$ THOUSANDS	TOTAL	2014	2015–2016	2017–2018	THEREAFTER
Trade payables, accruals and other	41,107	41,107	–	–	–
Floor plan payable	355,853	355,853	–	–	–
Long-term debt	56,187	12,159	20,339	23,655	34
Obligations under finance leases	1,406	850	556	–	–
Operating lease obligations	38,354	8,491	13,240	7,836	8,787
Derivative financial instruments	2,442	1,197	1,245	–	–
Total contractual obligations	495,349	419,657	35,380	31,491	8,821

In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for the long-term debt outstanding as at December 31, 2013 would be $42.9 million in 2015–2016 and $Nil thereafter.

RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties for the respective years ended:

$ THOUSANDS	2013	2012
Management fees	–	31
Flight costs	183	403
Other expenses	406	68
Rental payments on Company facilities	5,280	4,138
Equipment sales	4,476	6,339
Equipment purchases	4,206	4,314

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.

The remuneration of the directors and officers of the Company is determined by the Compensation, Governance and Nominating Committee of the Board of Directors based on performance and is consistent with market trends. The remuneration of directors and officers of the Company identified as key management is as follows for the respective years ended:

$ THOUSANDS	2013	2012
Short-term benefits	1,984	2,832
Post-retirement benefits	36	34
Share-based payment	1,054	1,069
	3,074	3,935

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:

$ THOUSANDS	2013	2012
Due from related parties	141	31
Due to related parties	(39)	(77)

The amounts due from related parties are not secured and are to be settled in cash. As at December 31, 2013 and 2012, the amounts due from related parties are considered collectible and therefore have not been provided for in the allowance for doubtful accounts. During the year ended December 31, 2013, $Nil has been recognized in bad debt expenses with respect to related party transactions (2012 – $Nil).

Key management personnel are comprised of the Company's officers. As at December 31, 2013, there is a $2.9 million commitment (December 31, 2012 – $3.0 million) relating to change of control or termination of employment of the key management personnel.

OFF-BALANCE SHEET ARRANGEMENTS

We use off-balance sheet financing in connection with numerous operating leases. These leases relate to the Company's buildings and certain vehicles with lease terms of between one and eleven years. Most building leases contain five-year renewal options. We have paid monthly amounts under these operating leases ranging from $0.1 thousand to $64.2 thousand. The current operating leases expire between January 2014 and July 2023.

SELECTED QUARTERLY FINANCIAL INFORMATION

$ THOUSANDS, EXCEPT PER SHARE AMOUNTS	2013		2012		2011	
Sales						
New equipment	179,359	61.7%	195,813	65.1%	132,712	55.2%
Used equipment	84,925	29.2%	79,709	26.5%	82,318	34.2%
Parts	18,099	6.2%	16,369	5.4%	16,155	6.7%
Service	7,403	2.5%	7,933	2.6%	7,459	3.1%
Other	795	0.4%	956	0.4%	1,945	0.8%
	290,581	100.0%	300,780	100.0%	240,589	100.0%
Cost of sales	257,329	88.6%	254,913	84.8%	203,620	84.6%
Gross profit	33,252	11.4%	45,867	15.2%	36,969	15.4%
Selling, general and administrative	27,249	9.4%	26,060	8.7%	21,964	9.1%
Interest on short-term debt	2,802	1.0%	2,622	0.9%	2,022	0.8%
Interest on long-term debt	572	0.1%	572	0.1%	917	0.5%
Earnings before income taxes	2,629	0.9%	16,613	5.5%	12,066	5.0%
Provision for income taxes	563	0.2%	4,843	1.6%	3,105	1.3%
Net earnings	2,066	0.7%	11,770	3.9%	8,961	3.7%
Earnings per share						
Basic	0.11		0.63		0.48	
Diluted	0.11		0.62		0.42	
Dividends per share	0.1000		0.0675		0.0450	
Non-IFRS Measures[1]						
EBITDA	4,872	1.7%	18,557	6.2%	14,587	6.1%
Normalized EBITDA	4,929	1.7%	18,579	6.2%	14,529	6.0%
Operating SG&A	25,521	8.8%	24,671	8.2%	20,804	8.6%
Floor Plan Neutral Operating Cash Flow	(19,916)	(6.9%)	(27,449)	(9.1%)	(21,017)	(8.7%)
Normalized Diluted Earnings per Share	0.11		0.62		0.42	

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

SEGMENTED FINANCIAL REPORTING

$ THOUSANDS	2013			2012		
	AGRICULTURE	CONSTRUCTION	TOTAL	AGRICULTURE	CONSTRUCTION	TOTAL
Sales						
New equipment	168,771	10,588	179,359	183,011	12,802	195,813
Used equipment	83,952	973	84,925	77,829	1,880	79,709
Parts	15,166	2,933	18,099	12,832	3,537	16,369
Service	6,293	1,110	7,403	6,207	1,726	7,933
Other	610	185	795	707	249	956
	274,792	15,789	290,581	280,586	20,194	300,780
Gross profit	37,769	(4,517)	33,252	43,487	2,380	45,867
Gross margin	13.7%	(28.6%)	11.4%	15.5%	11.8%	15.2%
Net income (loss)	8,357	(6,291)	2,066	13,674	(1,904)	11,770

AGRICULTURE SEGMENT REVENUE AND GROSS PROFIT

$ THOUSANDS	2013	2012	CHANGE		
			TOTAL	ACQUIRED	SAME STORE
Sales					
New equipment	168,771	183,011	(14,240)	4,046	(18,286)
Used equipment	83,952	77,829	6,123	1,871	4,252
Parts	15,166	12,832	2,334	919	1,415
Service	6,293	6,207	86	133	(47)
Other	610	707	(97)	15	(112)
	274,792	280,586	(5,794)	6,984	(12,778)
Gross profit	37,769	43,487	(5,718)		
Gross margin	13.7%	15.5%	(1.8%)		

For the quarter ended December 31, 2013, total sales for the Agriculture segment were $274.8 million, a decrease of $5.8 million or 2.1% over the same period in 2012. Acquired stores contributed $7.0 million for the quarter, but were offset by a contraction in same store sales.

Equipment sales for the quarter ended December 31, 2013 decreased by $8.1 million or 3.1% over the same period in 2012. The majority of the decrease in equipment sales pertains to a $14.0 million reduction in same store equipment sales. As stated, increased equipment pricing reduced our pre-sale activity for the quarter. Acquired equipment sales amounted to $5.9 million for the quarter.

Parts sales for the quarter ended December 31, 2013 increased by $2.3 million or 18.2%. Acquired parts sales contributed $0.9 million of this increase. Service sales for the quarter were relatively flat.

Gross profit for the quarter ended December 31, 2013 decreased by $5.7 million or 13.1% over the same period in 2012. As a percentage of sales, gross profit declined by 1.8% to 13.7% during the fourth quarter. These decreases are primarily attributable to reduced manufacturer incentives, lower sales activity and equipment pricing increases which we were unable to pass on in their entirety to our customers.

CONSTRUCTION SEGMENT REVENUE AND GROSS PROFIT

$ THOUSANDS	2013	2012	CHANGE
Sales			
New equipment	10,588	12,802	(2,214)
Used equipment	973	1,880	(907)
Parts	2,933	3,537	(604)
Service	1,110	1,726	(616)
Other	185	249	(64)
	15,789	20,194	(4,405)
Gross profit	(4,517)	2,380	(6,897)
Gross margin	(28.6%)	11.8%	(40.4%)

For the quarter ended December 31, 2013, total sales for the Construction segment were $15.8 million representing a decrease of $4.4 million or 21.8% over the same period in 2012.

Equipment sales for the quarter ended December 31, 2013 decreased by $3.1 million or 21.3% over the same period in 2012. The price disparity on certain types of construction equipment as it pertains to Tier 3 vs. Tier 4 equipment coupled with a highly competitive sales environment to reduce equipment sales during the period.

Parts and service sales for the quarter ended December 31, 2013 decreased by $0.6 million and $0.6 million or 17.1% and 35.7%, respectively, primarily as a result of the closure of the Fort McMurray facility.

Gross profit for the quarter ended December 31, 2013 decreased by $6.9 million over 2012. Uncertainty surrounding our ability to continue to support the Terex line of articulated and rigid frame trucks has resulted in an impairment charge of approximately $5.0 million in the fourth quarter of 2013 accounting for the majority of the decrease over the same period in 2012.

SELLING, GENERAL AND ADMINISTRATIVE

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

For the three months ended December 31, 2013, Operating SG&A was $25.5 million, up from $24.7 million in 2012. The increase in Operating SG&A pertains to the acquisition of new branches contributing to increased facility and other SG&A costs. Operating SG&A as a percentage of sales increased by 0.6% to 8.8% in 2013 due to the aforementioned increase in fixed SG&A costs in combination with the decline in sales for the quarter.

Depreciation included in SG&A amounted to $1.7 million in the fourth quarter of 2013 versus $1.4 million in the same period in 2012.

NET EARNINGS

For the three months ended December 31, 2013, we generated net earnings of $2.1 million, down from $11.8 million in the same period in 2012. Net earnings have decreased predominantly as a result of a contraction in equipment sales and decreased margins during the quarter.

The Company's Diluted Earnings per share for the three months ended December 31, 2013 were $0.11 compared to $0.62 for the fourth quarter of 2012.

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.

NET RECOVERABLE AMOUNT OF GOODWILL

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

MANUFACTURER INCENTIVES

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

KEY FINANCIAL STATEMENT COMPONENTS

EQUIPMENT SALES

Equipment revenues are derived from the sale of new and used construction and agriculture equipment. Revenue is recognized when the customer has signed the sales agreement, has paid or is credit-approved, and title to and risk of loss for the piece of equipment have transferred. New equipment sales also include certain rental revenues.

PARTS SALES

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

SERVICE REVENUE

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

OTHER REVENUE

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

COST OF SALES

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

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. Short-term interest also includes charges related to credit and financing. Long-term interest includes the aggregate expense for interest associated with the Company's various long-term credit facilities and obligations under finance leases.

RISKS AND UNCERTAINTIES

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

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

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

RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, market risk (consisting of foreign currency exchange risk and interest rate risk), and liquidity risk.

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 year ended December 31, 2013, the Company decreased its allowance for doubtful accounts by $0.3 million (2012 – increased by $0.6 million) and wrote-off $0.3 million (2012 – $0.2 million). Changes in the carrying amount of the allowance for doubtful accounts, including write-offs, are recognized in selling, general and administrative expenses.

MARKET RISK

Market risk is the risk from changes in market prices, such as changes in foreign currency exchange rates and interest rates which will affect the Company's 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.

The last several years have seen a weakening of the U.S. dollar in comparison to the Canadian dollar. This has generally had a positive effect on our performance by lowering our cost of goods sold. However, as the markets in which we operate are highly competitive, a declining U.S. dollar also has the effect of reducing sales prices in Canadian dollars and, as a consequence, we cannot capture the entire potential benefit of a declining U.S. dollar environment. If the U.S. dollar strengthens in comparison to the Canadian dollar, and we are unable to fully offset the increase in cost of goods through

price increases, our financial results may be negatively affected. We mitigate some of this risk by occasionally purchasing forward contracts for U.S. dollars on large transactions to cover the period from the time the equipment is ordered from the manufacturer to the delivery date.

Included in selling, general and administrative expenses are gains recognized due to foreign currency translation for transactions and balances aggregating $0.5 million for the year ended December 31, 2013 (2012 – $0.5 million).

INTEREST RATE RISK

We finance our purchases of new and, to a lesser extent, used equipment inventory through floor plan borrowing arrangements, under which we are charged interest at floating rates. As a result, rising interest rates have the effect of increasing our 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 through 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 raise floor plan financing and/or long-term debt at floating rates. When the Company enters into a floating-to-fixed interest rate swap, it agrees with a third party to exchange the difference between the fixed and floating contract rates based on agreed notional amounts.

The ineffective portion of the mark to market revaluation amounted to a gain of $0.2 million for the year ended December 31, 2013 (2012 – loss of $0.2 million), and was recognized in net earnings. Losses recognized in accumulated other comprehensive loss within equity for the year ended December 31, 2013 were $0.4 million net of income tax of $0.1 million (2012 – $0.1 million, net of income tax of $30 thousand). These accumulated losses will be continuously released to the consolidated statement of net earnings within interest on short- and long-term debt until full repayment of the underlying debt.

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 Finance Facilities section of this MD&A for details on the Company's various credit facilities.

RISKS RELATED TO FINANCIAL INSTRUMENTS

SIGNIFICANT NEW ACCOUNTING POLICIES

Effective January 1, 2013, the Company adopted the amendments to IAS 1, 'Presentation of financial statements', which require the Company to group items within other comprehensive income by those that will be subsequently reclassified to net earnings and those that will not; and the amendment to IAS 36, 'Impairment of assets', which removes the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets, but there has been no impairment.

NON-IFRS MEASURES

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

"EBITDA" is a commonly used metric in the dealership industry. EBITDA is calculated by adding interest on long-term debt, income taxes and depreciation to ne 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.

"Normalized EBITDA" is calculated by adding back non-recurring charges to EBITDA. Management deems non-recurring charges to be unusual and/or infrequent charges that the Company incurs outside of its common day-to-day operations. For the years ended December 31, 2013, 2012 and 2011, the loss on the repurchase of the Debentures, syndication charges, severance changes, the ineffective portion of derivative financial instruments and acquisition transaction charges are considered by management to be non-recurring charges. Adding back these non-recurring charges allows management to assess EBITDA from ongoing operations.

"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 flow from operating activities. Adjusting cash flow from operating activities for changes in the balance of floor plan payable allows management to isolate and analyze operating cash generated during a period, prior to any sources or uses of cash associated with equipment financing decisions.

"Operating SG&A" is calculated by adding back depreciation of property and equipment and any non-recurring charges recognized in SG&A during the period to SG&A. Management deems non-recurring charges to be unusual and/or infrequent charges that the Company incurs outside of its common day-to-day operations. For the years ended December 31, 2013, 2012 and 2011, syndication charges, severance changes, the ineffective portion of derivative financial instruments and acquisition transaction charges are considered by management to be non-recurring charges. Adding back these items allows management to assess discretionary expenses from ongoing operations. We target a sub-10% Operating SG&A as a percentage of total sales on an annual basis.

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

RECONCILIATION OF NON-IFRS MEASURES TO IFRS

EBITDA AND NORMALIZED EBITDA

$ THOUSANDS	FOR THE QUARTER ENDED DECEMBER 31			FOR THE YEAR ENDED DECEMBER 31		
	2013	2012	2011	2013	2012	2011
Net earnings	2,066	11,770	8,961	15,313	23,975	23,209
Interest on long-term debt	572	572	917	2,233	2,843	3,587
Depreciation expense	1,671	1,372	1,604	6,471	5,511	6,340
Income taxes	563	4,843	3,105	5,714	9,679	8,089
EBITDA	4,872	18,557	14,587	29,731	42,008	41,225
Non-recurring charges						
Loss on repurchase of Debentures	–	–	–	–	4,232	–
Syndication charges	–	–	–	–	–	1,083
Severance charges	–	–	–	–	–	1,634
Ineffective portion of derivative financial instruments	57	(44)	(58)	(225)	174	465
Acquisition transaction charges	–	66	–	36	96	30
Normalized EBITDA	4,929	18,579	14,529	29,542	46,510	44,437

OPERATING SG&A

$ THOUSANDS	FOR THE QUARTER ENDED DECEMBER 31			FOR THE YEAR ENDED DECEMBER 31		
	2013	2012	2011	2013	2012	2011
SG&A	27,249	26,060	21,964	105,450	97,711	82,001
Depreciation expense	(1,671)	(1,367)	(1,218)	(6,471)	(5,050)	(4,917)
Non-recurring charges						
Syndication charges	–	–	–	–	–	(1,083)
Severance charges	–	–	–	–	–	(1,634)
Ineffective portion of derivative financial instruments	(57)	44	58	225	(174)	(465)
Acquisition transaction charges	–	(66)	–	(36)	(96)	(30)
Operating SG&A	25,521	24,671	20,804	99,168	92,391	73,872

FLOOR PLAN NEUTRAL OPERATING CASH FLOW

$ THOUSANDS	FOR THE QUARTER ENDED DECEMBER 31			FOR THE YEAR ENDED DECEMBER 31		
	2013	2012	2011	2013	2012	2011
Cash flow from operating activities	(221)	19,487	3,013	30,105	22,003	32,789
Net decrease (increase) in floor plan payable	(19,695)	(50,565)	(24,030)	9,448	(124,949)	(16,438)
Floor plan assumed pursuant to business combinations	–	3,629	–	2,789	20,122	11,929
Floor Plan Neutral Operating Cash Flow	(19,916)	(27,449)	(21,017)	42,342	(82,824)	28,280

NORMALIZED DILUTED EARNINGS PER SHARE

$ THOUSANDS, EXCEPT PER SHARE AMOUNTS	FOR THE QUARTER ENDED DECEMBER 31			FOR THE YEAR ENDED DECEMBER 31		
	2013	2012	2011	2013	2012	2011
Earnings used in the calculation of diluted earnings per share	2,066	11,770	9,459	15,313	23,975	25,179
After tax impact of non-recurring charges in SG&A and loss on repurchase of Debentures[1]	43	17	(43)	(142)	3,399	2,361
Earnings used in the calculation of Normalized Diluted Earnings per Share	2,109	11,787	9,416	15,171	27,374	27,540
Weighted average diluted shares used in the calculation of diluted earnings per share	19,269	18,996	22,626	19,224	18,778	22,565
Normalized Diluted Earnings per Share	0.11	0.62	0.42	0.79	1.46	1.22

[1] – After applying statutory rate of 25% (2012 & 2011 – 25%).

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

The CEO and CFO have evaluated the effectiveness of our DC&P and assessed the design of our ICFR, as of December 31, 2013, pursuant to the requirements of National Instrument 52-109, and have concluded that:

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

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

Management has concluded that, as of December 31, 2013, the Company has sufficiently documented and tested the effectiveness of the ICFR for the Company and can conclude that these controls are working effectively. It should be noted that while the Company's management 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: **(i)** disclosure under the heading “Market Fundamentals and Outlook”, **(ii)** continuing demand for Rocky’s products and services, **(iii)** growth of Rocky’s business and operations, **(iv)** business strategies and implementation plans, **(v)** weaker short-term outlook for commodity prices due to strong supply and other external market factors, **(vi)** the effect on customer buying patterns due to the Environment Canada new air emissions standards relating to Tier 4 engines and equipment, **(vii)** discussion on the fundamentals of Rocky’s business, including discussion that GDP growth, population growth, increases in global food demand, bio-fuel production, and a decrease in crop land will require farmers to increase productivity, thereby maintaining or improving equipment demand, **(viii)** continued demand for parts and service due to the number of units Rocky has in the areas it services, creating dependable earnings and cash flow, **(ix)** discussion that market conditions, particularly in the construction sector, may result in decreases in demand and downward pressure on margins, **(x)** discussion regarding initiatives to restore our construction results, including statements that our construction results will begin to recover over the coming year, **(xi)** discussion regarding our initiatives for longer-term revenue and earnings growth, **(xii)** we believe cash flow from operations, along with existing credit facilities, will provide for our capital needs, **(xiii)** discussion around SG&A expenses including the seasonal variances and expectations in operating SG&A, **(xiv)** discussion that our fourth quarter is generally our strongest quarter financially, and discussion that we expect our second and third quarter sales activity to increase as our installed base increases, and **(xv)** discussions respecting inventory reduction initiatives.

With respect to the FLS listed above and contained in this MD&A, Rocky has made assumptions regarding, among other things: **(i)** grain and oilseed prices and

management's characterization of the growing supply and demand imbalance therein, **(ii)** increasing global food demand over the next 25 years in response to a growing world population and a decrease in arable land per capita, **(iii)** rising demand for agriculture commodities and insufficient investment in productive capacity and infrastructure, especially in developing countries, **(iv)** increasing food demand will cause producers to seek improved production techniques, **(v)** increasing demand from China and India for grain and oilseed products, **(vi)** increasing crop land dedicated to bio-fuel production, **(vii)** general GDP growth and/or relative economic stability in the markets we operate in, **(viii)** customers will meet their equipment needs by purchasing used equipment as opposed to new equipment as a result of recent price increases, **(ix)** the Company's cash flow will remain sufficient to, in connection with its credit facilities, adequately finance its capital needs, **(x)** past experience regarding the seasonal nature of Rocky's earnings and SG&A costs, **(xi)** the anticipated improvement in ongoing revenue and cash-flow, including parts and service revenue, as our installed base increases, and **(xii)** that we expect our construction results to begin to recover over the coming year.

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

2013 saw **Rocky Mountain Dealerships** continue a tradition of **prudent, responsible management** of our business. We paid attention to our balance sheet and managed our inventory closely.

We focussed on **driving initiatives** to spread best practices across the network, with the long-term **goal of sustainable performance** across the organization.

MANAGEMENT'S REPORT TO SHAREHOLDERS

MANAGEMENT'S REPORT TO SHAREHOLDERS

The accompanying Consolidated Financial Statements of Rocky Mountain Dealerships Inc. (the "Company") are the responsibility of management. The financial statements have been prepared by management in Canadian dollars in accordance with International Financial Reporting Standards (IFRS) and include certain estimates that reflect management's best judgments.

Management has overall responsibility for internal controls and has developed and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Company's operating and financial results and that the Company's assets are safeguarded. The policy of the Company is to maintain the highest standard of ethics in all its activities and it has a written business conduct and ethics policy.

The Board of Directors of the Company (the "Board") has approved the information contained in the financial statements. The Board fulfills its responsibility regarding the financial statements mainly through its Audit Committee which has a written mandate that complies with the current requirements of Canadian securities legislation. The Audit Committee meets at least on a quarterly basis.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was appointed by the shareholders to audit the Consolidated Financial Statements and provide an independent opinion.

CONSOLIDATED FINANCIAL STATEMENTS

March 11, 2014

Independent Auditor's Report

To the Shareholders of
Rocky Mountain Dealerships Inc.

We have audited the accompanying consolidated financial statements of Rocky Mountain Dealerships Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of net earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
111 – 5th Avenue SW, Suite 3100, Calgary, AB, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rocky Mountain Dealerships Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

	NOTE	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Assets			
Current			
Cash		34,722	34,177
Trade receivables and other	6	29,368	52,660
Income taxes receivable		4,887	264
Inventory	7	482,824	495,151
Prepaid expenses		5,543	4,470
		557,344	586,722
Non-current			
Property and equipment	8	30,860	21,558
Goodwill	9	14,692	13,884
		45,552	35,442
		602,896	622,164
Liabilities			
Current			
Trade payables, accruals and other	10	41,107	50,058
Income taxes payable		–	3,518
Floor plan payable	11	342,364	351,812
Deferred revenue and advances		4,021	5,236
Current portion of long-term debt	12	10,656	10,159
Current portion of obligations under finance leases	13	823	984
		398,971	421,767
Non-current			
Long-term debt	12	41,681	45,977
Obligations under finance leases	13	541	1,379
Deferred tax liability	19.2	2,576	7,042
Derivative financial instruments	24.6	1,706	1,438
		46,504	55,836
		445,475	477,603
Commitments, contingencies and guarantees	15, 24.3		
Shareholders' Equity			
Common shares		86,695	81,947
Contributed surplus		4,662	4,435
Accumulated other comprehensive loss	24.6	(962)	(597)
Retained earnings		67,026	58,776
		157,421	144,561
		602,896	622,164

APPROVED BY THE BOARD

"Signed" Dennis Hoffman
Dennis Hoffman, Director

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

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

CONSOLIDATED STATEMENTS OF NET EARNINGS

YEARS ENDED
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS

	NOTE	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Sales			
New equipment		523,522	549,036
Used equipment		358,861	297,476
Parts		92,599	84,653
Service		29,421	30,459
Other		3,359	4,482
	17	1,007,762	966,106
Cost of sales	7	867,356	818,595
Gross profit		140,406	147,511
Selling, general and administrative	18	105,450	97,711
Loss on repurchase of convertible debentures	14	–	4,232
Interest on short-term debt		11,696	9,071
Interest on long-term debt		2,233	2,843
Earnings before income taxes		21,027	33,654
Income taxes			
Current		10,060	10,759
Deferred	19.2	(4,346)	(1,080)
	19.1	5,714	9,679
Net earnings		15,313	23,975
Earnings per share			
Basic	20	0.80	1.28
Diluted	20	0.80	1.28

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

	NOTE	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Net earnings		15,313	23,975
Other comprehensive loss			
Items which will subsequently be reclassified to net earnings:			
Unrealized loss on derivative financial instruments, net of tax	24.6	(365)	(95)
Total other comprehensive loss for the year, net of tax		(365)	(95)
Comprehensive income		14,948	23,880

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS AND THOUSANDS OF COMMON SHARES

	NOTE	COMMON SHARES	
		NUMBER OF SHARES	AMOUNT $
Balance, December 31, 2012		18,993	81,947
Shares issued upon exercise of stock options	16.3	320	4,748
Share-based payment expense		–	–
Net earnings		–	–
Other comprehensive loss	24.6	–	–
Dividends paid	16.2	–	–
Balance, December 31, 2013	16.1	19,313	86,695

	NOTE	COMMON SHARES	
		NUMBER OF SHARES	AMOUNT $
Balance, December 31, 2011		18,768	79,668
Shares issued:			
Upon exercise of stock options	16.3	105	1,075
Upon exercise of restricted share units	16.4	120	1,204
Share-based payment expense		–	–
Net earnings		–	–
Other comprehensive loss	24.6	–	–
Dividends paid	16.2	–	–
Repurchase of convertible debentures	14	–	–
Balance, December 31, 2012	16.1	18,993	81,947

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

CONVERTIBLE DEBENTURES $	CONTRIBUTED SURPLUS $	ACCUMULATED OTHER COMPREHENSIVE LOSS $	RETAINED EARNINGS $	TOTAL EQUITY $
–	4,435	(597)	58,776	144,561
–	(1,321)	–	–	3,427
–	1,548	–	–	1,548
–	–	–	15,313	15,313
–	–	(365)	–	(365)
–	–	–	(7,063)	(7,063)
–	4,662	(962)	67,026	157,421

CONVERTIBLE DEBENTURES $	CONTRIBUTED SURPLUS $	ACCUMULATED OTHER COMPREHENSIVE LOSS $	RETAINED EARNINGS $	TOTAL EQUITY $
990	4,304	(502)	43,701	128,161
–	(278)	–	–	797
–	(1,204)	–	–	–
–	1,613	–	–	1,613
–	–	–	23,975	23,975
–	–	(95)	–	(95)
–	–	–	(4,650)	(4,650)
(990)	–	–	(4,250)	(5,240)
–	4,435	(597)	58,776	144,561

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

	NOTE	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Operating activities			
Net earnings		15,313	23,975
Adjustments for:			
Depreciation expense	8	6,471	5,511
Accretion expense	14	–	123
Deferred tax recovery	19.2	(4,346)	(1,080)
Share-based payment expense		1,548	1,613
Non-cash impact of credit promissory note		1	18
Loss on disposal of property and equipment	8	150	554
Loss (gain) on derivative financial instruments	24.6	(225)	174
Loss on repurchase on convertible debenture	14	–	4,232
		18,912	35,120
Changes in non–cash working capital	21	11,193	(13,117)
		30,105	22,003
Financing activities			
Repayment of long–term debt		(9,940)	(7,302)
Repurchase of convertible debentures	14	–	(37,800)
Transaction costs incurred on repurchase of convertible debentures		–	(840)
Proceeds from long-term debt		6,140	45,478
Net change in obligations under finance leases		(1,023)	(133)
Dividends paid	16.2	(7,063)	(4,650)
Proceeds from issuance of common shares		3,427	797
		(8,459)	(4,450)
Investing activities			
Purchase of property and equipment	8	(16,263)	(9,263)
Disposal of property and equipment	8	541	4,709
Purchase of equipment dealerships, net of cash acquired	5	(5,379)	(9,854)
		(21,101)	(14,408)
Net increase in cash and cash equivalents		545	3,145
Cash and cash equivalents, beginning of year		34,177	31,032
Cash and cash equivalents, end of year		34,722	34,177
Taxes paid		18,201	11,790
Interest received		–	8
Interest paid		13,928	12,324

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AND PER OPTION AMOUNTS

1. GENERAL INFORMATION

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

During the years ended December 31, 2013 and 2012, the Company completed three acquisitions of equipment dealerships as discussed further in Note 5.

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

2.1. Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards. These consolidated financial statements were authorized for issue by the Board of Directors on March 11, 2014.

2.2. Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on January 1, 2013. For the purpose of preparing and presenting the consolidated financial statements for the relevant periods, the Company has consistently adopted all of these new standards for the relevant reporting periods.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income

This amendment requires the Company to group items within other comprehensive income by those that will be subsequently reclassified to net earnings and those that will not. Accordingly, the Company has updated the presentation of other comprehensive income in the consolidated statements of comprehensive income.

Amendment to IAS 36, 'Impairments of assets'

This amendment removes the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets, but there has been no impairment.

Other standards and interpretations issued or amended which are effective for the first time for fiscal year ends beginning on or after January 1, 2013 but which did not have a material impact on the Company's consolidated financial statements or note disclosures as currently presented include:

New standards and interpretations

IFRS 10, 'Consolidated financial statements'
IFRS 11, 'Joint arrangements'
IFRS 12, 'Disclosure of interests in other entities'
IFRS 13, 'Fair value measurement'
IFRIC 20, 'Stripping costs in the production phase of a surface mine'

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Amendments to existing standards and interpretations

IFRS 7, 'Financial instruments: Disclosures'
IAS 19, 'Employee benefits'
IAS 27, 'Separate financial statements'
IAS 28, 'Investments in associates and joint ventures'

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee (IFRIC) have issued the following new and revised standards and interpretations which are not yet effective for the relevant reporting periods. The Company has not early adopted these standards, amendments or interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements.

Amendment to IFRS 7, 'Financial instruments: Disclosures' on derecognition

In conjunction with the transition from IAS 39 to IFRS 9 for fiscal years beginning on or after January 1, 2015, IFRS 7 will also be amended to require additional disclosure in the year of transition.

Amendment to IAS 32, 'Financial instruments: Presentation'

The amendment clarifies the requirements for offsetting financial assets and liabilities. Specifically, the amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. This amendment is effective for fiscal periods beginning on or after January 1, 2014.

IFRS 9, 'Financial instruments'

IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. This standard is effective for fiscal periods beginning on or after January 1, 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of measurement

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

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

3.2. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012
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Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns, to an extent generally accompanying a shareholding that confers more than half of the voting rights. Subsidiaries are included in the consolidated financial statements of the Company from the date control of the subsidiary commences until the date that control ceases. Intercompany transactions and balances are eliminated on consolidation.

3.3. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs incurred have been included in selling, general and administrative expenses in the period in which they are incurred.

Where applicable, the consideration for the acquisition may include any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in fair values of contingent consideration are adjusted against the cost of the acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS.

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

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

3.4. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Company has identified two operating segments being agriculture and construction.

3.5. Cash and cash equivalents

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

3.6. Property and equipment

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

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

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Items of property and equipment are depreciated commencing on the date they are ready for use using the following methods and rates:

Land	Not depreciated
Rental assets	Straight-line over 3–5 years or unit of usage
Buildings	Straight-line over 20 years
Computer equipment	Straight-line over 3–6 years
Furniture and fixtures	Straight-line over 5–10 years
Leasehold improvements	Straight-line over the lesser of the lease term and useful life
Shop tools and equipment	Straight-line over 5–10 years
Vehicles	Straight-line over 3–5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in net earnings. Items of property and equipment are tested for impairment as discussed in Note 3.9.

3.7. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquiree at the date of acquisition. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill generated on initial recognition is not deductible for tax purposes and has an indefinite useful life.

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

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

3.8. Key estimates and judgements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Balances in these consolidated financial statements that are subject to estimation include the allowance for doubtful accounts (Note 6), the net realizable value of inventory (Note 3.12), the depreciation periods and methods applied to items of property and equipment (Note 3.6), the net recoverable value of goodwill (Note 9), and the fair value of derivative financial instruments (Note 3.19.11).

Management also makes certain estimates with respect to manufacturer incentives. Certain manufacturers offer annual performance incentives which are linked to the Company's market share achievement and annual sales volumes. The Company uses estimated annual market share statistics derived from current and historical results which have been adjusted for any anticipated changes in the current year, as well as annual sales volume to accrue manufacturer incentives earned during the year.

3.9. Impairment of assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Corporate assets are also allocated to individual CGUs.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the assets (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the original carrying amount. A reversal of impairment loss is recognized immediately in net earnings.

3.10. Earnings per share

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

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

3.11. Leases

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.12. Inventory

Equipment inventory is valued at the lower of cost and net realizable value, with cost being determined on a specific item, actual cost basis. Net realizable value is estimated using 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. Net realizable value is estimated using 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.

3.13. Revenue recognition

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

3.13.1. Sale of goods

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012
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3.13.2. Rendering of services

Revenue derived from the rendering of services is recognized when:

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

3.13.3. Other revenue

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

3.14. Deferred revenue and advances

Deferred revenue and advances comprises equipment sales in which cash has been received but not all terms and conditions have been fulfilled to meet the requirements of revenue recognition, maintenance plans sold to customers in which all services have not yet been provided and manufacturer advances received but not yet earned by the Company.

3.15. Share-based transactions

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

Cash-settled share-based payments are recorded as liabilities and are measured initially at their fair values. At the end of each reporting period and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net earnings for the period. Details regarding the determination of the fair value of cash-settled share-based payments are set out in Note 16.5.

3.16. Employee Share Ownership Plan

The Company has an Employee Share Ownership Plan ("ESOP"). Under the ESOP, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Company matches the employee contribution amount to a maximum of $5 per annum or an amount modified and approved by the Company's Compensation, Governance and Nominating Committee. The Company's contributions vest to the employee on December 31 of the contribution year and are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3.17. Income taxes

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

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

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

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

3.18. Foreign currency translation

Transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at prevailing rates.

3.19. Financial instruments

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

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

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3.19.1. Classification of financial instruments

Financial instruments are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments, available-for-sale ("AFS") financial assets, loans and receivables, financial liabilities at FVTPL and other financial liabilities. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition. The Company has no financial assets classified as held-to-maturity or AFS.

3.19.2. Effective interest method

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

3.19.3. Financial instruments at FVTPL

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

A financial asset (liability) is classified as held for trading if:

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

A financial instrument other than one held for trading may be designated as at FVTPL upon initial recognition if:

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

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Financial assets classified as at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net earnings. The net gain or loss recognised in net earnings incorporates any dividends or interest earned on the financial asset and is included in selling, general and administrative expenses. The Company has designated its derivative financial instruments as at FVTPL. Fair value is determined in the manner described in Notes 3.19.11 and 24.5.

3.19.4. Loans and receivables

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

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

3.19.5. Other financial liabilities

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

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

3.19.6. Impairment of financial assets

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

3.19.7. Derecognition of financial instruments

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

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

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

3.19.8. Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity

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in accordance with the substance of the contractual arrangement and the definitions of a financial liability and equity instrument.

3.19.9. Equity instruments

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

3.19.10. Compound financial instruments

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

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

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

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

Interest, losses and gains relating to the financial liability were recognized in net earnings.

3.19.11. Derivative financial instruments and hedging activities

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

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company may designate derivatives of a particular risk associated with a recognized asset or liability or highly probable forecast transaction as cash flow hedges.

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The Company documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Company uses the regression method to determine whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and uses the cumulative dollar offset method to measure the ineffective portion. The documentation identifies the anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in accomplishing the objective of offsetting changes in anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated, or upon early settlement of the hedged item.

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

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recognized in other comprehensive income (loss) while the ineffective portion is recognized in the consolidated statement of net earnings. Amounts in accumulated other comprehensive income (loss) are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

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

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

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

4. PRIOR YEAR COMPARATIVE DISCLOSURES

Certain prior period comparative information has been revised to conform to current period presentation.

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5. ACQUISITIONS

During the years ended December 31, 2013 and 2012, the Company completed three business acquisitions. Over time, these acquisitions offer synergies in the forms of cost reduction, greater access to used inventory and expanded territory for sales and product support. Acquisitions completed during these periods are as follows:

2013 Acquisitions

Murray's Farm Supplies

On February 1, 2013, the Company acquired 100% of the outstanding common shares of Murray's Farm Supplies ("MFS"). The operating results of the business acquired are consolidated from February 1, 2013, the acquisition's closing date.

2012 Acquisitions

Houlder Automotive Ltd.

On November 1, 2012, the Company purchased the Case IH Agriculture dealership assets of Houlder Automotive Ltd. ("HAL"). The operating results of the business acquired are consolidated from November 1, 2012, the acquisition's closing date.

Camrose Farm Equipment Ltd.

On July 3, 2012, the Company acquired 100% of the outstanding common shares of Camrose Farm Equipment Ltd. ("CFE"), a Case IH and New Holland Agriculture dealer. The operating results of the business acquired are consolidated from July 3, 2012, the acquisition's closing date.

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The business combinations completed during the years ended December 31, 2013 and 2012 are summarized as follows:

	2013	2012		
	MFS	HAL	CFE	TOTAL
Purchase price allocation				
Purchase consideration	3,272	5,165	7,352	12,517
Net working capital				
Cash	405	–	151	151
Trade receivables and other	474	131	2,086	2,217
Inventory	4,803	7,328	20,086	27,414
Prepaid expenses	–	–	15	15
Trade payables, accruals and other	(598)	–	(2,314)	(2,314)
Floor plan payable	(2,789)	(3,629)	(16,493)	(20,122)
Current portion of obligations under finance leases	(13)	–	–	–
	2,282	3,830	3,531	7,361
Property and equipment	201	471	1,229	1,700
Deferred taxes	(8)	–	(153)	(153)
Long-term debt	–	–	(314)	(314)
Obligations under finance leases	(11)	–	–	–
Goodwill	808	864	3,059	3,923
Net assets acquired	3,272	5,165	7,352	12,517
Cash consideration paid, net of cash acquired – During 2013	2,867	290	2,222	5,379
– During 2012	–	4,875	4,979	9,854

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The Company incurred $36 of acquisition related costs during the year ended December 31, 2013 (2012 – $96). These costs are recognized as administrative expenses within selling, general and administrative expenses in the period in which they are incurred.

The acquisition effected during the year ended December 31, 2013, generated revenue of $11,080 during the year of acquisition (2012 – $21,888) and net earnings of $280 (2012 – $428). Had this business combination been effected at January 1 of the acquisition year, the Company estimates that consolidated revenue and net earnings for the year ended December 31, 2013 would have been $1,008,553 and $15,333, respectively (2012 – $1,007,261 and $25,268, respectively). The pro forma revenues and earnings are not necessarily indicative of the results that actually would have occurred had these acquisitions taken place on January 1, or of the results which may be obtained in the future.

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

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

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6. TRADE RECEIVABLES AND OTHER

	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Trade receivables		
Current	11,209	18,299
Aged between 61 – 120 days	1,775	3,144
Aged greater than 120 days	2,095	2,042
	15,079	23,485
Allowance for doubtful accounts	(1,272)	(1,573)
Net trade receivables	13,807	21,912
Contracts in transit	14,576	28,039
Warranty receivables	985	2,709
	29,368	52,660

The Company considers its trade receivable and other which are neither past due nor impaired to be of good credit quality. Contracts in transit and warranty receivables are due from retail finance institutions and original equipment manufacturers, respectively.

The allowance for doubtful accounts can be reconciled as follows:

	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
As at January 1,	1,573	1,001
Provided for during the year	(17)	795
Written-off during the year	(284)	(223)
As at December 31,	1,272	1,573

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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 generally limited to specific customer circumstances.

7. INVENTORY

	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
New equipment	214,677	226,688
Used equipment	230,412	233,202
Parts	35,095	33,573
Work-in-progress	2,640	1,688
	482,824	495,151

For the year ended December 31, 2013, inventory recognized as an expense amounted to $846,652 (2012 – $802,404), which is included in cost of sales in the consolidated statement of net earnings. For the year ended December 31, 2013, there were write downs of inventory to net realizable value of $5,957 (2012 – $1,071) and there have been $Nil reversals of previously recorded inventory write downs (2012 – $Nil) in the consolidated statements of net earnings. The Company's inventory has been pledged as security for liabilities as disclosed in Notes 11 and 12.

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8. PROPERTY AND EQUIPMENT

	LAND $	RENTAL ASSETS $	BUILDINGS $	COMPUTER EQUIPMENT $
Cost				
January 1, 2012	2,252	8,916	373	3,580
Additions	–	144	102	2,902
Business combinations (Note 5)	–	–	–	58
Disposals	–	(9,060)	–	(3)
December 31, 2012	2,252	–	475	6,537
Additions	8,272	–	7	1,351
Business combinations (Note 5)	–	–	–	20
Disposals	–	–	–	(78)
December 31, 2013	10,524	–	482	7,830
Accumulated depreciation				
January 1, 2012	–	3,619	179	1,934
Depreciation charge	–	461	47	870
Disposals	–	(4,080)	–	(1)
December 31, 2012	–	–	226	2,803
Depreciation charge	–	–	90	1,335
Disposals	–	–	–	(78)
December 31, 2013	–	–	316	4,060
Net book value				
January 1, 2012	2,252	5,297	194	1,646
December 31, 2012	2,252	–	249	3,734
December 31, 2013	10,524	–	166	3,770

Included in selling, general and administrative expenses for the year ended December 31, 2013 is depreciation expense of $6,471 (2012 – $5,050) and a loss on the disposal of property and equipment of $150 (2012 – $554). Included in cost of sales for the year ended December 31, 2013 is depreciation expense of $Nil (2012 – $461) for rental assets.

FURNITURE AND FIXTURES $	LEASEHOLD IMPROVEMENTS $	SHOP TOOLS AND EQUIPMENT $	VEHICLES $	TOTAL $
2,288	2,319	6,430	12,500	38,658
631	839	782	3,863	9,263
79	–	721	842	1,700
(1)	–	(48)	(1,332)	(10,444)
2,997	3,158	7,885	15,873	39,177
186	2,091	640	3,716	16,263
27	–	44	110	201
(78)	(564)	(156)	(919)	(1,795)
3,132	4,685	8,413	18,780	53,846
1,080	643	3,141	6,693	17,289
452	381	1,308	1,992	5,511
(1)	–	(24)	(1,075)	(5,181)
1,531	1,024	4,425	7,610	17,619
515	441	1,404	2,686	6,471
(61)	(276)	(104)	(585)	(1,104)
1,985	1,189	5,725	9,711	22,986
1,208	1,676	3,289	5,807	21,369
1,466	2,134	3,460	8,263	21,558
1,147	3,496	2,688	9,069	30,860

As at December 31, 2013, assets under finance leases included in computer equipment and vehicles have net carrying amounts of $609 and $852 (2012 – $731 and $1,560), respectively. Certain items of property and equipment have been pledged as security for liabilities as disclosed in Notes 12 and 13.

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9. GOODWILL

	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Opening balance	13,884	9,961
Recognized on business acquisitions (Note 5)	808	3,923
Ending balance	14,692	13,884

Goodwill recognized pursuant to a business combination is allocated, at the time of acquisition, to the Company's ("CGU") that is expected to benefit from that business combination. As at December 31, 2013, the Company has identified two CGU's, agriculture and construction. All goodwill has been allocated to the agriculture CGU. As at December 31, 2012, the Company had identified one CGU.

The recoverable amount of the CGUs was determined from value in use calculations. The key assumptions made for the value in use calculations are those regarding the discount and growth rates. These key assumptions are based on past experience which has been adjusted for expected changes in future conditions.

As at December 31, 2013 and 2012, the Company prepared cash flow forecasts derived from the most recent financial plans prepared by management for the next five years and extrapolated these cash flows into perpetuity using growth assumptions relevant to the business sector. The growth rate used for the purposes of these analyses was 2.0%.

As at December 31, 2013, the rate used to discount the forecasted cash flows was 11.9% (2012 – 11.6%), and represents the Company's estimate of the pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the particular CGU. The recoverable amount of each CGU to which goodwill has been allocated exceeded its carrying value at the impairment test dates.

The Company has conducted a sensitivity analysis based on reasonable possible changes in the key assumptions used for the impairment tests. Had the estimated cost of capital used in determining the pre-tax discount rates been 1% higher than management's estimates or the estimated growth rate used in extrapolating forecasted results been 1% lower, the recoverable amount of the CGU would continue to exceed its carrying amount for the respective periods.

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10. TRADE PAYABLES, ACCRUALS AND OTHER

	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Trade payables and accruals	40,451	49,487
Directors' share units (Note 16.5)	656	571
	41,107	50,058

11. FLOOR PLAN PAYABLE

Floor plan payable is due to various creditors who have extended credit on wholesale inventory items, and is due on various dates, at fixed or variable interest rates ranging from 0.0% to the bank's prime rate plus 4.3% at December 31, 2013 (2012 – ranging from 0.0% to the bank's prime rate plus 4.3%). At December 31, 2013, the Company had unused floor plan of approximately $245,736 available (2012 – $198,188). The amounts due are secured by specific new and used equipment inventories and are due when the equipment is sold or transferred, up to a maximum term of 48 months. At December 31, 2013, the Company had $1,348 of floor plan outstanding in US currency (2012 – $3,697). The entire amount of floor plan payable has been classified as current, as the corresponding inventory to which it relates has also been classified as current.

Pursuant to agreements with lenders, the Company is required to monitor and report certain non-IFRS measures (Note 25).

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12. LONG-TERM DEBT

The following table summarizes the Company's long-term debt. The Debenture Repayment, Acquisition and Fleet Facilities are governed by a syndicate credit agreement which, if not renewed, will mature on June 1, 2016. It is managements intention to review this credit agreement before its maturity date. The table presented below assumes the agreement is renewed prior to maturity.

	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Debenture Repayment Facility, amortized with quarterly principal instalments of $875 plus interest with the remaining principal paid on September 30, 2017. The effective interest rate at December 31, 2013 was 3.5% (2012 – 3.5%).	29,750	33,250
Acquisition Facility, revolving facility payable in monthly principal instalments over 60 months. The effective interest rate at December 31, 2013 was 3.5% (December 31, 2012 – 3.5%).	17,232	17,939
Fleet Facility, revolving facility payable in monthly principal instalments over 36–60 months. The effective interest rate at December 31, 2013 was 3.7% (2012 – 3.7%).	4,248	2,761
Various other facilities	1,107	2,186
	52,337	56,136
Current portion	10,656	10,159
Long-term portion	41,681	45,977

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13. OBLIGATIONS UNDER FINANCE LEASES

Finance leases relate primarily to vehicles with lease terms ranging from three to five years. The Company has options to purchase many of these vehicles for a nominal amount at the conclusion of the lease terms. The lessors' title to the leased assets provides security for the Company's obligations under finance leases.

Interest rates underlying all obligations under finance leases are fixed at the respective contract dates ranging from 3.4% to 7.6% at December 31, 2013 (2012 – 3.1%–8.0%).

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

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

	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Due within one year	850	1,088
Due later than one year and not later than five years	556	1,447
Due later than five years	–	–
Total future minimum lease payments	1,406	2,535
Less future finance charges	(42)	(172)
Present value of future minimum lease payments	1,364	2,363
Current portion of obligations under finance leases	823	984
Long-term portion of obligations under finance leases	541	1,379

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14. CONVERTIBLE DEBENTURES

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

On April 23, 2012, a special meeting of the holders of the Debentures (the "Debentureholders") took place where the Debentureholders approved an amendment to the debenture indenture. This amendment allowed the Company to redeem all of its Debentures which were not tendered pursuant to the Offer, at the Offer Price. On April 30, 2012, the Company repurchased all Debentures which were tendered pursuant to the Offer and redeemed the remainder pursuant to the amendment. The Debentures repurchased had a face value of $31,500 and bore interest at a rate of 7%.

The Company allocated $4,232 of the loss on the repurchase of the Debentures to net earnings and $4,250 (net of income taxes of $284) to retained earnings.

Accretion relating to the Debentures totalled $123 for the year ended December 31, 2012, and is included in interest on long-term debt.

15. CONTINGENCY AND GUARANTEE

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

16. SHARE CAPITAL

16.1. Common shares

The Company is authorized to issue an unlimited amount of common shares with no par value. As at December 31, 2013, 19,313 thousand shares were issued and outstanding (December 31, 2012 – 18,993). All issued and outstanding shares were fully paid as at December 31, 2013 and 2012.

16.2. Dividends paid

Dividends paid during the year ended December 31, 2013 were $7,063 or $0.3675 per share (2012 – $4,650 or $0.2475 per share).

In respect of the fourth quarter of 2013, the Board of Directors declared a dividend of $0.10 per common share on the Company's outstanding common shares. The dividend is payable on March 31, 2014, to shareholders of record at the close of business on February 28, 2014. The payment of this dividend will not have any tax consequences for the Company.

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16.3. Stock options

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

The general terms of stock options granted under the plan include a maximum exercise period of five years and a vesting period of three years with one-third of the grant vesting on each anniversary date.

The fair value of the options granted using the Black-Scholes option pricing model and assumptions used in their determination during the years ended December 31 are as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Risk-free interest rate	1.2%	1.3%
Expected option life (years)	4.0	4.5
Expected volatility[(1)]	50.6%	55.3%
Expected annual dividend per share	$0.27	$0.18
Exercise price	$12.89	$11.96
Share price on grant date	$12.89	$11.96
Fair value	$4.46	$4.92

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

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The reconciliation of options outstanding during the years ended December 31 is as follows:

	2013		2012	
	NUMBER OF OPTIONS (THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS (THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE $
January 1	1,112	11.04	908	10.33
Granted	452	12.89	356	11.96
Exercised	(320)	10.72	(105)	7.65
Forfeited	(78)	12.35	(47)	11.89
Expired	(221)	12.40	–	–
December 31	945	11.61	1,112	11.04

The weighted average share price at the date of exercise for the options exercised during the year ended December 31, 2013 was $12.75 (2012 – $11.70).

Options outstanding at December 31, 2013 are summarized as follows:

GRANT DATE	OPTIONS OUTSTANDING (THOUSANDS)	OPTIONS EXERCISABLE (THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE ($)	WEIGHTED AVERAGE CONTRACTUAL LIFE (YEARS)
December 29, 2009	61	61	9.22	1.0
March 11, 2011	42	20	10.39	2.2
August 11, 2011	150	87	8.71	2.6
March 28, 2012	277	89	11.96	3.2
March 13, 2013	415	–	12.89	4.2
	945	257	11.61	3.4

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16.4. Restricted share unit plan

In 2007, the Company reserved 158 thousand shares under a restricted share unit plan. Under this plan, certain key employees would receive treasury shares in the Company on December 20, 2012 should they remain with the Company at that time. These shares were valued upon issuance, using the Black-Scholes option pricing model, at $10 per share, and the compensation expense was allocated over the vesting term of five years.

On December 20, 2012, 120 thousand shares were issued in respect to the vested restricted share units. During the year ended December 31, 2012, 2 thousand of these units were forfeited.

16.5. Directors' share unit plan

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

Upon redemption and at each reporting period, the DSUs are valued on a per DSU basis at an amount equal to the volume weighted average trading price of the Company's shares over the immediately preceding 20 day trading period. At December 31, 2013, $656 was included in trade payables, accruals and other with respect to the DSUs (December 31, 2012 – $571). During the year ended December 31, 2013, 14 thousand DSU's were redeemed for proceeds of $193 (2012 – Nil).

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DSUs granted and redeemed and the unrealized losses recognized on the DSUs during the years ended December 31 are as follows:

	2013		2012	
	DSUS (THOUSANDS)	$	DSUS (THOUSANDS)	$
January 1,	50	571	33	285
Granted[1]	17	221	17	177
Redeemed	(14)	(193)	–	–
Loss on mark to market revaluation[1]	–	57	–	109
December 31,	53	656	50	571

[1] – *Included in selling general and administrative expenses.*

16.6. Employee share ownership plan

During the year ended December 31, 2013, the Company recognized $1,050 in selling, general and administrative expenses in respect of employee contributions to the ESOP plan which were matched by the Company (2012 – $906).

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17. SALES

The Company's annual sales consist of the following for the respective years ended:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Agriculture equipment sales	806,966	748,867
Construction equipment sales	75,417	97,645
Parts sales	92,599	84,653
Sale of goods	974,982	931,165
Rendering of services	32,780	34,941
Total sales	1,007,762	966,106

18. SELLING, GENERAL AND ADMINISTRATIVE

The Company's selling, general and administration expenses consist of the following for the respective years ended:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Compensation and related expenses	65,541	60,325
Administrative expenses	17,121	16,969
Rent and other facility expenses	14,769	13,754
Depreciation expense	6,471	5,050
Share-based payment expense	1,548	1,613
Total selling, general and administrative expenses	105,450	97,711

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19. INCOME TAXES

19.1. 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:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Earnings before income taxes	21,027	33,654
Computed tax at statutory tax rate of 25% (2012 – 25%)	5,257	8,414
Non-deductible expenses	526	526
Debenture repurchase	–	478
Adjustment from prior year income tax expenses	(116)	91
Other	47	170
	5,714	9,679

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19.2. Deferred tax liabilities (assets)

	SHARE ISSUE COSTS $	CUMULATIVE ELIGIBLE CAPITAL $	PROPERTY AND EQUIPMENT $	PARTNERSHIP DEFERRAL $	CONVERTIBLE DEBENTURES $	DSUS $	INTEREST RATE SWAPS $	TOTAL $
January 1, 2012	(184)	(92)	971	7,588	361	(71)	(290)	8,283
Acquired pursuant to business combinations	–	–	153	–	–	–	–	153
Recognized in net earnings	(103)	7	(862)	356	(361)	(72)	(45)	(1,080)
Recognized in equity	(284)	–	–	–	–	–	(30)	(314)
December 31, 2012	(571)	(85)	262	7,944	–	(143)	(365)	7,042
Acquired pursuant to business combinations	–	–	8	–	–	–	–	8
Recognized in net earnings	242	(86)	(167)	(4,372)	–	(21)	58	(4,346)
Recognized in equity	–	–	–	–	–	–	(128)	(128)
December 31, 2013	(329)	(171)	103	3,572	–	(164)	(435)	2,576

The Company also has an unrecognized deferred tax asset of $788 related to the capital loss on the repurchase of its convertible debentures.

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20. EARNINGS PER SHARE

Both basic and diluted earnings per share have been calculated using net earnings for the respective periods. The weighted average number of ordinary shares used in the calculations of basic and diluted EPS for the respective years ended, are as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Weighted average number of ordinary shares used in the calculation of basic EPS	19,167	18,748
Dilutive impact of stock options	57	30
Weighted average number of ordinary shares used in the calculation of diluted EPS	19,224	18,778

For the year ended December 31, 2013, 693 stock options were anti-dilutive (2012 – 752).

21. CHANGES IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital for the years ended December 31 is comprised of the following sources (uses) of cash:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Trade receivables and other	23,834	(5,058)
Income taxes receivable	(4,623)	(264)
Inventory	17,130	(113,106)
Prepaid expenses	(1,073)	(1,092)
Trade payables, accruals and other	(7,105)	915
Income taxes payable	(3,518)	(767)
Floor plan payable	(12,237)	104,827
Deferred revenue and advances	(1,215)	1,428
	11,193	(13,117)

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22. OPERATING LEASE ARRANGEMENTS

Operating leases relate primarily to the Company's facilities with lease terms of between one and eleven years. Most building leases contain five-year renewal options. During the year ended December 31, 2013, the Company recognized $9,000 of operating lease payments as expenses (2012 – $8,361).

Non-cancellable operating lease commitments at December 31 are due as follows:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Not later than one year	8,491	9,173
Later than one year and not later than five years	21,076	27,357
Later than five years	8,787	11,140
	38,354	47,670

23. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties for the respective years ended:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Management fees	–	31
Flight costs	183	403
Other expenses	406	68
Rental payment on Company facilities	5,280	4,138
Equipment sales	4,476	6,339
Equipment purchases	4,206	4,314

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.

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The remuneration of the directors and officers of the Company is determined by the Compensation, Governance and Nominating Committee of the Board of Directors based on performance and is consistent with market trends. The remuneration of directors and officers of the Company identified as key management is as follows for the respective years ended:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Short-term benefits	1,984	2,832
Post-retirement benefits	36	34
Share-based payment	1,054	1,069
	3,074	3,935

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:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Due from related parties	141	31
Due to related parties	(39)	(77)

The amounts due from related parties are not secured and are to be settled in cash. As at December 31, 2013 and 2012, the amounts due from related parties are considered collectible and therefore have not been provided for in the allowance for doubtful accounts. During the year ended December 31, 2013, $Nil has been recognized in bad debt expenses with respect to related party transactions (2012 – $Nil).

Key management personnel are comprised of the Company's officers. As at December 31, 2013, there is a $2,944 commitment (December 31, 2012 – $3,026) relating to change of control or termination of employment of the key management personnel.

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24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, market risk (consisting of foreign currency exchange risk and interest rate risk), and liquidity risk. The following analysis provides a measurement of risks as at December 31, 2013 and 2012.

24.1. 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.

The aging of the Company's trade receivables is disclosed in Note 6. Contracts in transit and warranty receivables are due from counterparties who maintain strong credit ratings and the Company has a history of collecting on these accounts. Trade receivables consist of amounts due from a large number of customers, spread across diverse industries and geographic areas. On-going credit evaluation is performed on the financial condition of trade receivables.

24.2. Market risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24.2.1. Foreign currency exchange risk and sensitivity analysis

Certain of the Company's financial instruments are exposed to fluctuations in the U.S. dollar ("USD"). When considered appropriate, the Company purchases forward contracts for USD as means of mitigating this risk.

The following tables detail the Company's exposure to currency risk at December 31, 2013 and 2012 and a sensitivity analysis to changes in currency (a 5.0% change in currency was used for obligations that would be retired in 30 days or less and a 10.0% change in currency for obligations that would be retired within one year). The sensitivity analysis includes USD denominated monetary items and adjusts their translation at year end for their respective change in the USD. For the respective weakening of the USD, there would be an equal and opposite impact on the Company's net earnings.

	CHANGE IN CURRENCY RATES %	DENOMINATED IN USD $	EFFECT ON NET EARNINGS YEAR ENDED DECEMBER 31, 2013 $	DENOMINATED IN USD $	EFFECT ON NET EARNINGS YEAR ENDED DECEMBER 31, 2012 $
Cash	5.0	928	35	1,228	46
Trade payables, accruals and other	5.0	(807)	(30)	(69)	(3)
Floor plan payable	10.0	(1,348)	(101)	(3,697)	(277)
		(1,227)	(96)	(2,538)	(234)

Included in selling, general and administrative expenses are gains recognized due to foreign currency translation for transactions and balances aggregating $482 for the year ended December 31, 2013 (2012 – $506).

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24.2.2. Interest rate risk and sensitivity analysis

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

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

The following table details the Company's exposure to interest rate risk as at December 31, 2013 and 2012 and a sensitivity analysis to an increase of interest rates by 0.5% on net earnings. The sensitivity includes floating rate financial liabilities and adjusts their effect at period end for a 0.5% increase in interest rates. A decrease of 0.5% would result in an equal and opposite effect on net earnings. This analysis excludes floating rate financial liabilities for which the Company has hedged its exposure to interest rate fluctuations though the use of floating-to-fixed interest rate swaps.

	CHANGE IN INTEREST RATES %	FLOATING RATE FINANCIAL LIABILITIES $	EFFECT ON NET EARNINGS YEAR ENDED DECEMBER 31, 2013 $	FLOATING RATE FINANCIAL LIABILITIES $	EFFECT ON NET EARNINGS YEAR ENDED DECEMBER 31, 2012 $
Floor plan payable	0.5	212,980	799	246,268	924
Acquisition Facility	0.5	9,313	35	6,744	25
Fleet Facility	0.5	4,248	16	2,761	10
Other long-term debt	0.5	422	2	584	2
		226,963	852	256,357	961

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24.3. 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.

The Company has credit facilities with a syndicate of lenders to help finance the general day-to-day cash requirements of its operations (the "Operating Facility"), to finance its inventory (the "Flooring Facility"), to make acquisitions (the "Acquisition Facility"), to finance the Company's fleet of vehicles (the "Fleet Facility") and to finance the repurchase of the Debentures (the "Debenture Repayment Facility") (collectively the "Syndicated Facility").

The Syndicated Facility is a revolving facility secured in favour of the syndicate by a general security agreement. Advances under the Syndicated Facility may be made based on our lender's prime rate or the US base rate plus 1.0% – 2.5% or based on the banker's acceptance ("BA") rate plus 2.0% – 3.5%. The Company pays standby fees of between 0.5% and 0.8% per annum on any undrawn portion of the Syndicated Facility. The Syndicated Facility matures on June 1, 2016 however, it is the Company's intention to renew this facility prior to its maturity date.

The facilities included in the Syndicated Facility have the following limits:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Operating Facility	30,000	30,000
Flooring Facility	100,000	100,000
Acquisition Facility	30,000	30,000
Fleet Facility	10,000	10,000
Debenture Repayment Facility	29,750	33,250

In addition to the Flooring Facility, the Company has additional floor plan facilities of approximately $488,100 as at December 31, 2013 (2012 – $450,000).

The Company assesses its liquidity based on the expected period in which cash flows will occur. The following tables summarize the Company's undiscounted cash flows expected for its financial liabilities as at December 31. 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.

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AS AT DECEMBER 31, 2013	INTEREST AND PRINCIPAL OUTSTANDING $	2014 $	2015–2016 $	2017–2018 $	THEREAFTER $
Trade payables, accruals and other[1]	40,451	40,451	–	–	–
Floor plan payable	355,853	355,853	–	–	–
Long-term debt	56,187	12,159	20,339	23,655	34
Obligations under finance leases	1,406	850	556	–	–
Derivative financial instruments	2,442	1,197	1,245	–	–
	456,339	410,510	22,140	23,655	34

AS AT DECEMBER 31, 2012	INTEREST AND PRINCIPAL OUTSTANDING $	2013 $	2014–2015 $	2016–2017 $	THEREAFTER $
Trade payables, accruals and other[1]	49,487	49,487	–	–	–
Floor plan payable	364,125	364,125	–	–	–
Long-term debt	61,028	11,323	20,698	28,969	38
Obligations under finance leases	2,535	1,088	1,435	12	–
Derivative financial instruments	1,551	550	751	250	–
	478,726	426,573	22,884	29,231	38

[1]-Trade payables, accruals and other excludes DSUs which are not financial instruments.

In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for the long-term debt outstanding as at December 31, 2013 would be $42,895 in 2015–2016 and $Nil in subsequent periods (December 31, 2012 – $47,955 for 2014–2015 and $Nil in subsequent periods).

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24.4. Fair value of financial instruments carried at amortized cost

The carrying amounts of cash, trade receivables and other, bank indebtedness and trade payables, accruals and other (excluding DSUs) approximate their fair values because of the short-term maturities of these items. The carrying amounts of floor plan payable, long-term debt and obligations under finance lease approximate their fair values as the interest rates are consistent with market rates for similar debt. Substantially all short- and long-term interest expense pertains to financial liabilities that are not at FVTPL.

24.5. Fair value measurements recognized in the consolidated balance sheet

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

- Level 1 financial instruments are those which can be derived from quoted market prices (unadjusted) in active markets for similar financial assets or liabilities. The Company does not have any Level 1 financial instruments.
- Level 2 financial instruments are those whose fair value can be derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The Company's Level 2 financial instruments consist of derivatives in the form of interest rate swaps, which had a fair value of $1,706 at December 31, 2013 (2012 – $1,438).
- Level 3 financial instruments are those derived from valuation techniques that include inputs for the financial asset or liability which are not based on observable market data (unobservable inputs). The Company has no Level 3 financial instruments.

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

24.6. 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 the Debenture Repayment Facility as well as portions of the Acquisition and Flooring Facilities. Interest rate swaps outstanding at December 31, 2013 mature between May 2016 and September 2020 (2012 – between May 2016 and August 2018).

The combined notional principal amounts of interest rate swaps outstanding at December 31, 2013 was $97,668 (2012 – $69,718). At December 31, 2013, the effective fixed interest rate on the underlying debt was 4.7% (2012 – 4.3%) and the effective floating rate using the Bankers' Acceptance rate was 3.5% (2012 – 3.5%).

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Derivative financial instruments recognized as liabilities are as follows:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Interest rate swaps	1,706	1,438

The ineffective portion of the mark to market revaluation amounted to a gain of $225 for the year ended December 31, 2013 (2012 – loss of $174), and was recognized in net earnings. Losses recognized in accumulated other comprehensive loss within equity for the year ended December 31, 2013 were $365 net of income tax of $128 (2012 – $95, net of income tax of $30). These accumulated losses will be continuously released to the consolidated statement of net earnings within interest on short- and long-term debt until full repayment of the underlying debt.

During the years presented and cumulatively to date, changes in counterparty credit risk have not significantly contributed to the overall changes in the fair value of these derivative financial instruments.

25. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are:

(a) To maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and

(b) To maintain capital in a manner which balances the interests of equity and debt holders.

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

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

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The Company monitors debt to equity capitalization. This ratio is a non-IFRS measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

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

The debt to equity ratio target excluding floor plan payable is between 0.3 and 0.5 to 1. The debt to equity ratio target for the Company including floor plan payable is debt between 2.5 and 3.0 to 1.0. As at December 31, 2013 and 2012, the Company was within its target ranges. The components of debt to equity ratios are as follows:

	DECEMBER 31, 2013 ($)	DECEMBER 31, 2012 ($)
Current portion of long-term debt	10,656	10,159
Current portion of obligations under finance leases	823	984
Long-term debt	41,681	45,977
Obligations under finance leases	541	1,379
Total debt excluding floor plan payable	53,701	58,499
Floor plan payable	342,364	351,812
Total debt including floor plan payable	396,065	410,311
Shareholders' equity	157,421	144,561
Debt equity ratios		
– excluding floor plan payable	0.34	0.40
– including floor plan payable	2.52	2.84

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Pursuant to agreements with lenders, the Company is also required to monitor and report certain non-IFRS measures on a quarterly basis. These measures and the applicable compliance ranges are as follows:

	DECEMBER 31, 2013 $	DECEMBER 31, 2012 $
Fixed charge coverage of at least	1.25–1.50:1	1.25–1.50:1
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. As at December 31, 2013 and 2012, the Company was in compliance with all externally imposed capital requirements.

26. SEGMENTED REPORTING

The company has two reportable operating segments, the agriculture segment and the construction 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 distribution of assets deployed in the segment.

The agriculture segment primarily includes sales of agricultural equipment, parts and services and the construction segment includes sales of construction 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 construction related results are included in the agriculture segment for the purposes of segmented financial reporting shown below.

Comparative information presented for 2012 has been derived using allocations and estimated made by management.

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The accounting policies of the reportable operating segments are the same as those described in Note 3 – Summary of significant accounting policies.

DECEMBER 31, 2013	AGRICULTURE $	CONSTRUCTION $	TOTAL $
Sales			
New equipment	484,046	39,476	523,522
Used equipment	354,043	4,818	358,861
Parts	79,210	13,389	92,599
Service	24,050	5,371	29,421
Other	2,574	785	3,359
	943,923	63,839	1,007,762
Cost of sales	808,845	58,511	867,356
Gross profit	135,078	5,328	140,406
Selling, general and administrative	90,823	14,627	105,450
Interest on short-term debt	9,355	2,341	11,696
Interest on long-term debt	1,973	260	2,233
Earnings (loss) before income taxes	32,927	(11,900)	21,027
Income taxes	8,948	(3,234)	5,714
Net earnings (loss)	23,979	(8,666)	15,313

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DECEMBER 31, 2012	AGRICULTURE $	CONSTRUCTION $	TOTAL $
Sales			
New equipment	488,902	60,134	549,036
Used equipment	291,798	5,678	297,476
Parts	68,869	15,784	84,653
Service	22,430	8,029	30,459
Other	2,757	1,725	4,482
	874,756	91,350	966,106
Cost of sales	743,293	75,302	818,595
Gross profit	131,463	16,048	147,511
Selling, general and administrative	80,183	17,528	97,711
Loss on repurchase of convertible debentures	3,640	592	4,232
Interest on short-term debt	6,931	2,140	9,071
Interest on long-term debt	2,413	430	2,843
Earnings (loss) before income taxes	38,296	(4,642)	33,654
Income taxes	11,014	(1,335)	9,679
Net earnings (loss)	27,282	(3,307)	23,975

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Selected Balance Sheet Information:

DECEMBER 31, 2013	AGRICULTURE $	CONSTRUCTION $	TOTAL $
Inventory	428,532	54,292	482,824
Goodwill	14,692	–	14,692
Other assets	93,679	11,701	105,380
Total assets	536,903	65,993	602,896

DECEMBER 31, 2012	AGRICULTURE $	CONSTRUCTION $	TOTAL $
Inventory	428,129	67,022	495,151
Goodwill	13,884	–	13,884
Other assets	96,909	16,220	113,129
Total assets	538,922	83,242	622,164

27. ECONOMIC DEPENDENCE

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

CORPORATE INFORMATION

CORPORATE INFORMATION

DIRECTORS

Matthew C. Campbell
Calgary, Alberta

Derek I. Stimson
Coaldale, Alberta

Paul S. Walters (1)(2)(3)
Toronto, Ontario

Robert K. Mackay (2)
Vancouver, British Columbia

Patrick J. Priestner (1) (2)
Edmonton, Alberta

Dennis J. Hoffman (1) (2)
Calgary, Alberta

(1) Audit Committee Member
(2) Compensation, Governance and Nominating Committee Member
(3) Lead Independent Director

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Derek I. Stimson
President

Garrett A.W. Ganden
Chief Operating Officer

David J. Ascott
Chief Financial Officer

Jerald D. Palmer Jr.
General Counsel & Corporate Secretary

Auditor
PricewaterhouseCoopers LLP
Calgary, Alberta

External Legal Counsel
Dentons Canada LLP
Calgary, Alberta

Banker
HSBC Bank Canada

Stock Exchange Listing
Toronto Stock Exchange
Symbol: RME (RCKXF on the OTCQX)

Transfer Agent
Olympia Trust Company
Calgary, Alberta

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ROCKY MOUNTAIN EQUIPMENT

ALBERTA

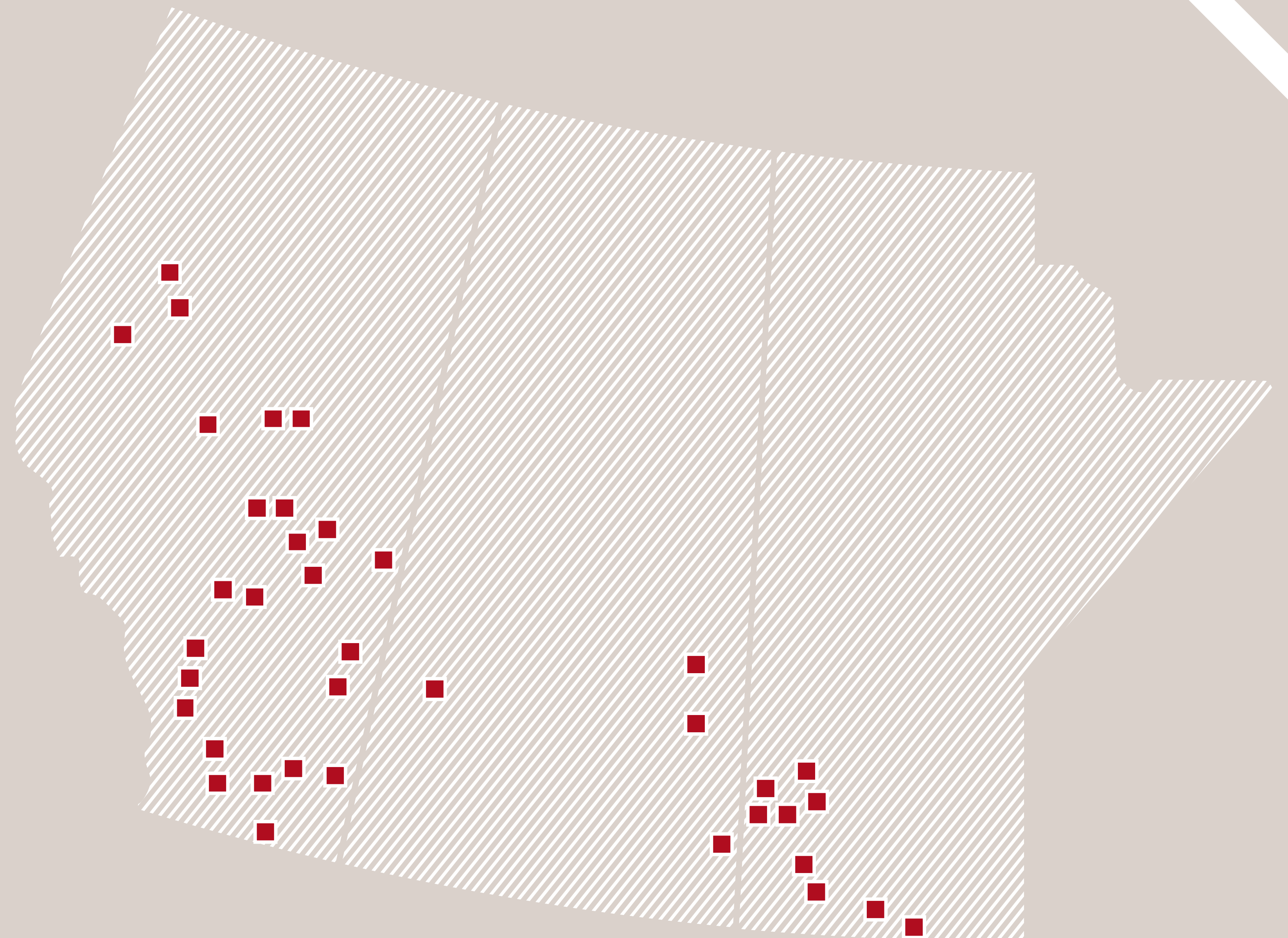
BALZAC	CASE IH
BARRHEAD	NEW HOLLAND
BOW ISLAND	CASE IH
CALGARY	CASE CE
CAMROSE	CASE IH	NEW HOLLAND
DRUMHELLER	CASE IH	KUBOTA
EDMONTON	CASE CE
EDMONTON	METSO
FALHER	CASE IH
GRANDE PRAIRIE	CASE IH	CASE CE
GRIMSHAW	CASE IH	NEW HOLLAND
HIGH RIVER	CASE IH
KILLAM	CASE IH
LETHBRIDGE	CASE IH	CASE CE
MEDICINE HAT	CASE IH	CASE CE
MILK RIVER	CASE IH	KUBOTA
OYEN	CASE IH
PICTURE BUTTE	CASE IH
RED DEER	CASE CE
RED DEER	NEW HOLLAND
TABER	CASE IH	CASE CE
VEGREVILLE	CASE IH
VERMILION	CASE IH	KUBOTA
WESTLOCK	CASE IH	KUBOTA
WESTLOCK	NEW HOLLAND

SASKATCHEWAN

KINDERSLEY	CASE IH
MOOSOMIN	CASE IH	KUBOTA
PREECEVILLE	CASE IH
YORKTON	CASE IH

MANITOBA

BOISSEVAIN	CASE IH
BRANDON	CASE IH	KUBOTA
DAUPHIN	CASE IH	KUBOTA
KILLARNEY	CASE IH
NEEPAWA	CASE IH
RUSSELL	CASE IH	KUBOTA
SHOAL LAKE	CASE IH
SHOAL LAKE ALLIED	KUBOTA
WINKLER	CASE IH



Branch locations as of April 1st, 2014