Consolidated Financial Statements and Notes

Years Ended December 31, 2016 and 2015

March 14, 2017

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 statements of financial position as at December 31, 2016 and December 31, 2015 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 audits. We conducted our audits 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 audits is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

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

Consolidated Statements of Financial Position
Expressed in thousands of Canadian dollars

	Note	**December 31, 2016 $**	December 31, 2015 $
Assets			
Current			
Cash		**28,542**	21,691
Restricted cash	**6**	**-**	879
Trade receivables and other	**7**	**27,504**	25,152
Inventory	**8**	**442,742**	499,760
Income taxes receivable		**487**	47
Prepaid expenses		**6,208**	5,513
Current portion of derivative financial assets	**29.6**	**290**	-
Assets held for sale	**9**	**2,501**	10,542
Total current assets		**508,274**	563,584
Non-current			
Property and equipment	**9, 11**	**48,586**	39,888
Deferred tax asset	**24.2**	**1,210**	2,367
Derivative financial assets	**29.6**	**578**	-
Intangible assets	**10**	**507**	671
Goodwill	**12**	**18,776**	18,802
Total non-current assets		**69,657**	61,728
Total assets		**577,931**	625,312
Liabilities			
Current			
Bank indebtedness	**15**	**-**	5,001
Trade payables, accruals and other	**13**	**47,995**	33,963
Floor plan payable	**14**	**296,061**	356,568
Deferred revenue		**3,204**	4,404
Current portion of long-term debt	**16**	**6,825**	4,852
Current portion of obligations under finance leases	**17**	**440**	71
Current portion of derivative financial liabilities	**29.6**	**1,449**	4,040
Liabilities associated with assets held for sale	**9**	**1,606**	1,562
Total current liabilities		**357,580**	410,461
Non-current			
Long-term debt	**16**	**40,778**	40,080
Obligations under finance leases	**17**	**521**	154
Derivative financial liabilities	**29.6**	**1,871**	4,859
Total non-current liabilities		**43,170**	45,093
Total liabilities		**400,750**	455,554
Commitments, contingencies and guarantees	**18, 27**		
Shareholders' Equity			
Common shares		**87,709**	87,709
Contributed surplus		**6,065**	5,929
Accumulated other comprehensive loss		**(2,371)**	(3,609)
Retained earnings		**85,778**	79,729
Total shareholders' equity		**177,181**	169,758
Total liabilities and shareholders' equity		**577,931**	625,312

APPROVED BY THE BOARD

"Signed" Dennis Hoffman — Dennis Hoffman, Director

"Signed" Matthew Campbell — Matthew Campbell, Director

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

Consolidated Statements of Net Earnings
Years ended December 31, 2016 and 2015
Expressed in thousands of Canadian dollars except per share amounts

	Note	**December 31, 2016 $**	December 31, 2015 $
Sales	**20**	**930,435**	975,456
Cost of sales	**8**	**797,028**	833,475
Gross profit		**133,407**	141,981
Selling, general and administrative	**21**	**97,970**	108,228
(Gain) loss on derivative financial instruments	**29.6**	**(4,751)**	3,548
Restructuring charges	**22**	**3,564**	-
Impairment loss on vacant land	**11**	**1,360**	-
Earnings before finance costs and income taxes		**35,264**	30,205
Finance costs	**23**	**14,343**	14,807
Earnings before income taxes		**20,921**	15,398
Income taxes	**24.1**	**5,955**	4,105
Net earnings		**14,966**	11,293
Earnings per share			
Basic	**25**	**0.77**	0.58
Diluted	**25**	**0.77**	0.58

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

Consolidated Statements of Comprehensive Income
Years ended December 31, 2016 and 2015
Expressed in thousands of Canadian dollars

	Note	**December 31, 2016 $**	December 31, 2015 $
Net earnings		**14,966**	11,293
Other comprehensive income (loss)			
Items which will subsequently be reclassified to net earnings:			
Unrealized gain (loss) on derivative financial instruments, net of tax	**29.6**	**1,238**	(1,525)
Total other comprehensive income (loss) for the year, net of tax		**1,238**	(1,525)
Comprehensive income		**16,204**	9,768

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	Common shares: Amount $	Contributed surplus $	Accumulated other comprehensive loss $	Retained earnings $	Total equity $
Balance, December 31, 2015		**19,384**	**87,709**	**5,929**	**(3,609)**	**79,729**	**169,758**
Equity-settled share-based payment expense	**21**	**-**	**-**	**136**	**-**	**-**	**136**
Net earnings		**-**	**-**	**-**	**-**	**14,966**	**14,966**
Other comprehensive income		**-**	**-**	**-**	**1,238**	**-**	**1,238**
Dividends paid	**19.2**	**-**	**-**	**-**	**-**	**(8,917)**	**(8,917)**
Balance, December 31, 2016	**19.1**	**19,384**	**87,709**	**6,065**	**(2,371)**	**85,778**	**177,181**

	Note	Common shares: Number of shares	Common shares: Amount $	Contributed surplus $	Accumulated other comprehensive loss $	Retained earnings $	Total equity $
Balance, December 31, 2014		19,384	87,709	5,429	(2,084)	77,353	168,407
Equity-settled share-based payment expense	21	-	-	500	-	-	500
Net earnings		-	-	-	-	11,293	11,293
Other comprehensive loss		-	-	-	(1,525)	-	(1,525)
Dividends paid	19.2	-	-	-	-	(8,917)	(8,917)
Balance, December 31, 2015	19.1	19,384	87,709	5,929	(3,609)	79,729	169,758

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015
Expressed in thousands of Canadian dollars

	Note	December 31, 2016 $	December 31, 2015 $
Operating activities			
Net earnings		**14,966**	11,293
Adjustments for:			
Depreciation and amortization expense	**10,11**	**7,755**	7,803
Deferred tax expense (recovery)	**24.2**	**678**	(1,229)
Equity-settled share-based payment expense	**21**	**136**	500
Asset impairment loss on vacant land and other assets	**9**	**1,460**	-
Gain on disposal of property and equipment	**11**	**(208)**	(302)
(Gain) loss on derivative financial instruments	**29.6**	**(4,751)**	3,548
Amortization of deferred debt issuance costs		**70**	-
Changes in non-cash working capital	**26**	**7,057**	13,847
Total cash generated from operating activities		**27,163**	35,460
Financing activities			
Repayment of long-term debt		**(5,083)**	(19,008)
Proceeds from long-term debt		**7,800**	15,566
Repayment of obligations under finance leases		**(378)**	(237)
Dividends paid	**19.2**	**(8,917)**	(8,917)
Deferred debt issuance costs		**(116)**	(192)
Total cash used from financing activities		**(6,694)**	(12,788)
Investing activities			
Purchase of property and equipment	**11**	**(10,184)**	(13,284)
Disposal of property and equipment including assets held for sale	**11**	**2,307**	1,041
Purchase of equipment dealerships, net of cash acquired	**5**	**(740)**	(16,691)
Total cash used from investing activities		**(8,617)**	(28,934)
Net increase (decrease) in cash		**11,852**	(6,262)
Cash, beginning of year		**16,690**	22,952
Cash, end of year		**28,542**	16,690
Taxes paid		**5,704**	12,042
Interest paid		**14,093**	14,745
Cash, end of period consists of:			
Cash		**28,542**	21,691
Bank indebtedness	**15**	**-**	(5,001)
Cash, end of year		**28,542**	16,690

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

1. General information

Rocky Mountain Dealerships Inc. (the "Company") is incorporated under the *Business Corporations Act (Alberta)*. Through its wholly-owned subsidiaries, the Company sells, leases and provides product and warranty support for a wide variety of agriculture and industrial equipment in Western Canada. All of the Company's operating subsidiaries are incorporated in Alberta, Canada and all of the equipment dealership locations operate under the name "Rocky Mountain Equipment".

The head office, principal address, 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 14, 2017.

2.2. Adoption of new and revised standards and interpretations

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

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee (IFRIC) have issued the following 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.

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, 2018.

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, 2018, IFRS 7 will also be amended to require additional disclosure in the year of transition.

IFRS 15, 'Revenue from contracts with customers'

IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This standard is effective for fiscal periods beginning on or after January 1, 2018.

IFRS 16, 'Leases'

IFRS 16 replaces IAS 17 and requires most leases to be recognized as assets and liabilities on the statement of financial position. This standard includes an optional exemption for certain short-term leases and leases of low-value assets and is effective for fiscal periods beginning on or after January 1, 2019.

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 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

The Company had two reportable operating segments, the agriculture segment and the industrial segment. As part of the amalgamations of the industrial facilities into existing agricultural facilities during 2016, the majority of the Company's industrial equipment distribution assets were transferred to agriculture branches. After these amalgamations the Company only has one reportable segment.

3.5. Cash

Cash consists of cash on hand.

3.6. Restricted cash

Restricted cash consists of cash equivalents designated for a specific purpose and not available for immediate and general use by the Company.

3.7. Bank indebtedness

Bank indebtedness consists of draws on the Company's Operating Facility.

3.8. 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.

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
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 (including renewals) and useful life
Shop tools and equipment	Straight-line over 3 – 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 recognized in net earnings. Items of property and equipment are tested for impairment as discussed in Note 3.12.

3.9. 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.

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 7), the net realizable value of inventory (Note 3.15), the valuation of equipment taken in on trade (Note 3.15), the timing of revenue recognition (Note 3.16), the depreciation periods and methods applied to items of property and equipment (Note 3.8), the net recoverable value of goodwill (Note 12), the fair value of derivative financial instruments (Note 3.22.10), impairment of assets other than goodwill (Note 3.12), shared-based transactions (Note 3.18), and the fair value of business combinations (Note 3.3).

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.

3.10. Identifiable intangible assets

Identifiable intangible assets are initially recorded at cost. Finite lived intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company's identifiable intangible assets consist of intellectual properties acquired pursuant to the acquisition of NGF Geomatics Inc. ("NGF") during 2015. The Company expects the useful life of these assets to be five years.

3.11. Goodwill and impairment of 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") 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 an 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. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. 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. Any impairment loss for goodwill is recognized in net earnings. Such impairment losses are not reversed in subsequent periods.

3.12. Impairment of assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its identifiable 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 on the basis of the distribution of assets deployed in the CGU. The CGUs are subject to impairment testing as described in Note 3.11.

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 carrying amount that would have been determined net of amortization or depreciation had no impairment loss been recognized for the asset. A reversal of impairment loss is recognized immediately in net earnings.

3.13. 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 reflect the potential dilution that could occur if options to purchase common

shares were exercised. 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 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.

3.14. Leases

Assets held under finance leases are initially recognized as assets, recorded 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 statement of financial position 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 recognized 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.

3.15. 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. Value is assigned to equipment inventory acquired through trade-in by using recent sales of the same or similar equipment inventory or market values as established by industry publications. 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.

3.16. Revenue recognition

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

3.16.1. 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.

3.16.2. 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.

3.16.3. Other revenue

Other revenue consists of commission revenue from finance and insurance, recognized when the finance contract is signed.

3.17. Deferred revenue

Deferred revenue 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, and maintenance plans sold to customers in which all services have not yet been provided.

3.18. 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.

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, these liabilities are remeasured at fair value, with any changes 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 19.4 and Note 19.5.

3.19. Employee Share Ownership Plan

The Company has an Employee Share Ownership Plan ("ESOP"). Under the ESOP, the Company matches eligible employee contributions, subject to certain limitations based on employee tenure. The Company's formerly-constituted Compensation, Governance and Nominating Committee, now its Compensation and Human Resources Committee, may approve modifications to these limitations as part of executive compensation plans. The Company's contributions vest immediately to the employee and are expensed as incurred.

ESOP shares are purchased on the open market. Dividends paid on the Company's common shares held for the ESOP are used to purchase additional common shares on the open market.

3.20. Income taxes

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, 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 expected to be realized or the deferred tax liability is expected to be 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 applied. Deferred tax assets are reviewed at each reporting date and are recognized only to the extent that it is probable that the related tax benefit will be realized.

Current and deferred tax expenses (recoveries) are recognized in net earnings except, to the extent that they relate to items that are recognized within other comprehensive income or directly within equity. In such cases, the current and deferred tax expenses (recoveries) are also recognized in other comprehensive income or directly in equity, respectively. Where current or deferred tax positions arise from the initial accounting for a business combination, the tax effect is included in the allocation of the purchase price.

3.21. 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 the date of each statement of financial position, monetary assets and liabilities denominated in foreign currencies are retranslated at prevailing rates.

3.22. 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.

3.22.1. 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.

3.22.2. 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, 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.

3.22.3. 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.

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 gains or losses recognized in net earnings incorporate any dividends or interest associated with the financial instrument. The Company has designated its derivative financial instruments as at FVTPL. The methods for determining fair value and the presentation of gains and losses are described in Notes 3.22.10 and 29.6.

3.22.4. 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 provisions for impairment.

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

3.22.5. Other financial liabilities

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

The Company has classified its bank indebtedness, trade payables, accruals and other (with the exception of the Directors' share units and share appreciation rights), floor plan payable (including any portion classified as liabilities associated with assets held for sale), long-term debt, and obligations under finance leases as other financial liabilities.

3.22.6. 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 trade receivables and other. Any impairment determined on trade receivables and other reduces the 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.

3.22.7. 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 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.

3.22.8. Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and equity instrument.

3.22.9. 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 a value equal to the proceeds received, net of direct issue costs. Repurchases of the Company's own equity instruments are recognized as direct reductions to equity. No gain or loss is recognized in net earnings on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3.22.10. 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 streams, 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.

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 has designated certain floating-to-fixed interest rate swaps as cash flow hedges. The Company uses the regression method to determine whether these interest rate swaps are highly effective in offsetting changes in fair values or cash flows of these hedged items and use 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, and 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.

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 while the ineffective portion is recognized within net earnings. Amounts in accumulated other comprehensive loss are reclassified to net earnings in the periods when the hedged item affects profit or loss.

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

4. Prior year comparative disclosures

Certain prior period information in the statement of net earnings has been revised to conform to the current period presentation. The revisions had no impact on net earnings, cash flows or the financial position of the Company.

5. Acquisitions

The Company completed no new business acquisitions during the year ended December 31, 2016 (2015 - two business acquisitions completed). The acquired locations expand the Company's sales and service territory and provide synergistic sales growth and cost leveraging opportunities. Acquisitions completed during 2015 are as follows:

NGF Geomatics Inc.

On February 12, 2015, the Company acquired 100% of the issued and outstanding common shares of NGF, a geomatics company specializing in the collection of geospatial survey data using unmanned aerial vehicles. NGF is a start-up company with minimal assets and liabilities. The operating results of the business acquired are consolidated from February 12, 2015, the date control was acquired. The final purchase price was $902 and was funded with cash.

Chabot Implements

On April 1, 2015, the Company acquired 100% of the issued and outstanding common shares of the entities forming Chabot Implements ("Chabot"), a Manitoba-based dealer of Case IH agriculture equipment with stores in Portage La Prairie, Steinbach and Elie. Chabot also represented various short-lines including Bourgault, MacDon and Kubota through its Neepawa, Manitoba location. The operating results of the business acquired are consolidated from April 1, 2015, the date control was acquired. The final purchase price was $9,396 and was funded with cash and various credit facilities.

The table below illustrates the purchase price allocations as reported in the Company's annual consolidated financial statements for the year ended December 31, 2015.

	2015		
	NGF Final	Chabot Preliminary	Total
	$	$	$
Purchase price allocation			
Cash consideration			
Paid	902	8,656	9,558
Payable	-	751	751
Purchase consideration	902	9,407	10,309
Net working capital			
Cash	7	-	7
Trade receivables and other	41	1,132	1,173
Income tax receivable	15	369	384
Inventory	-	43,587	43,587
Bank indebtedness	-	(7,140)	(7,140)
Trade payables, accruals and other	(3)	(2,609)	(2,612)
Floor plan payable	-	(32,782)	(32,782)
Current portion of long-term debt	-	(4,977)	(4,977)
	60	(2,420)	(2,360)
Property and equipment	20	8,309	8,329
Deferred tax liability	(220)	(372)	(592)
Intangible assets	822	-	822
Goodwill	220	3,890	4,110
Net assets	902	9,407	10,309

The table below illustrates the measurement period adjustments made during 2016 to Chabot's preliminary purchase price allocation as reported in the Company's annual consolidated financial statements for the year ended December 31, 2015 in order to arrive at the final purchase price allocation in 2016.

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

Cash flows outflows associated with business combinations are presented net of cash acquired and bank indebtedness assumed as summarized in the following table:

	NGF $	Chabot $	Total $
Cash consideration paid	902	8,656	9,558
Less: cash acquired	(7)	-	(7)
Plus: bank indebtedness assumed	-	7,140	7,140
Cash outflows - December 31, 2015	895	15,796	16,691
Cash consideration paid	-	740	740
Cash outflows – December 31, 2016	**-**	**740**	**740**

The Company incurred $Nil of acquisition related costs during the year ended December 31, 2016 (2015 – $188). These costs are recognized as administrative expenses within selling, general and administrative expenses in the period in which they are incurred.

The acquisitions effected during the year ended December 31, 2015, generated revenue of $34,483 during the year of acquisition and a net loss of $562. Had these business combinations been effected at January 1 of the acquisition year, the Company estimates that consolidated revenue and net earnings for the year ended December 31, 2015 would have been

$983,700 and $11,294, 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 acquisitions is not deductible for tax purposes.

6. Restricted cash

Restricted cash as at December 31, 2016 is $Nil (December 31, 2015 - $879). The entire amount of restricted cash at December 31, 2015 related to a holdback on the Chabot acquisition that was held in trust. These funds were released during 2016.

7. Trade receivables and other

	December 31, 2016 $	December 31, 2015 $
Trade receivables		
Current	**9,639**	11,866
Aged between 61 – 120 days	**948**	1,415
Aged greater than 120 days	**1,627**	2,528
	12,214	15,809
Allowance for doubtful accounts	**(1,206)**	(1,939)
Net trade receivables	**11,008**	13,870
Contracts in transit	**15,275**	9,732
Warranty receivables	**1,221**	1,550
	27,504	25,152

The Company considers its trade receivables 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, 2016 $	December 31, 2015 $
As at January 1,	**1,939**	1,745
Net (recovery) provision	**(87)**	479
Written-off during the year	**(646)**	(285)
As at December 31,	**1,206**	1,939

The allowance for doubtful accounts is reviewed by management and 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.

8. Inventory

	December 31, 2016 **$**	December 31, 2015 $
New equipment	**113,517**	172,335
Used equipment	**289,485**	287,784
Parts	**37,781**	37,872
Work-in-progress	**1,959**	1,769
	442,742	499,760

For the year ended December 31, 2016, inventory recognized as an expense amounted to $782,802 (2015 – $819,064), which is included in cost of sales in the consolidated statement of net earnings.

For the year ended December 31, 2016, there were net write downs of inventory to net realizable value of $4,702 (2015 – $6,497) in cost of sales in the consolidated statement of net earnings. The Company's inventory has been pledged as security for its bank indebtedness, floor plan payable and long-term debt.

9. Assets held for sale

Assets held for sale and liabilities associated with assets held for sale for the respective years ended are disclosed below:

Assets held for sale	Inventory $	Land $	Buildings $	Total $
December 31, 2014	-	2,252	-	2,252
Classified as held for sale during the period (Note 11)	2,070	8,311	161	10,542
Assets no longer held for sale (Note 11)	-	(2,252)	-	(2,252)
December 31, 2015	2,070	8,311	161	10,542
Classified as held for sale during the period (Note 11)	3,899	-	495	4,394
Disposed of during the period	(3,468)	(39)	(556)	(4,063)
Impairment charges recognized during the period	-	(1,360)	(100)	(1,460)
December 31, 2016	**2,501**	**6,912**	**-**	**9,413**
Non-current – presented within property and equipment (Note 11)	-	6,912	-	6,912
Current	2,501	-	-	2,501

During 2016, two parcels of land with a net book value of $8,272, were reclassified as non-current assets held for sale as they are no longer expected to be sold within the next twelve months. These assets have been presented within property and equipment.

The Company also recorded in 2016, asset impairment charges of $1,360 (2015 - $Nil) on vacant land which was considered redundant (2015 - $Nil) and $100 (2015 - $Nil) on operational assets that were disposed of during the year.

Liabilities associated with assets held for sale:

	Inventory $	Land $	Total $
December 31, 2014	-	253	253
Classified as held for sale during the period	1,562	-	1,562
Assets no longer held for sale	-	(253)	(253)
December 31, 2015	1,562	-	1,562
Classified as held for sale during the period	2,617	-	2,617
Disposed of during the period	(2,573)	-	(2,573)
December 31, 2016	**1,606**	**-**	**1,606**

10. Intangible assets

Intangible assets are comprised of intellectual properties acquired pursuant to the acquisition of NGF during 2015.

	Intangible Assets $
Cost	
December 31, 2014	-
Business combinations (Note 5)	822
December 31, 2015	822
December 31, 2016	**822**
Accumulated amortization	
December 31, 2014	-
Amortization charge	151
December 31, 2015	151
Amortization charge	164
December 31, 2016	**315**
Net book value	
December 31, 2014	-
December 31, 2015	671
December 31, 2016	**507**

The amortization expense of $164 (2015 - $151) has been recorded in selling, general and administrative expense.

11. Property and equipment

	Land $	Buildings $	Computer equipment $	Furniture and fixtures $	Leasehold improve-ments $	Shop tools and equipment $	Vehicles $	Total $
Cost								
December 31, 2014	10,909	3,979	8,942	3,608	5,355	9,846	17,612	60,251
Additions	1,203	5,516	980	670	525	1,649	2,741	13,284
Business combinations (Note 5)	2,787	4,693	-	179	107	222	341	8,329
Assets held for sale (Note 9)	(8,311)	(161)	-	-	-	-	-	(8,472)
Assets no longer held for sale (Note 9)	2,252	-	-	-	-	-	-	2,252
Disposals	-	(67)	(39)	(70)	(53)	(452)	(1,999)	(2,680)
December 31, 2015	8,840	13,960	9,883	4,387	5,934	11,265	18,695	72,964
Additions	81	4,110	1,801	1,242	1,065	882	2,117	11,298
Business combinations (Note 5)	-	78	-	-	-	-	-	78
Assets held for sale (Note 9)	6,912	(495)	-	-	-	-	-	6,417
Disposals	(349)	(422)	(3,263)	(424)	(858)	(512)	(2,685)	(8,513)
December 31, 2016	15,484	17,231	8,421	5,205	6,141	11,635	18,127	82,244
Accumulated depreciation								
December 31, 2014	-	366	5,558	2,437	1,841	7,072	10,091	27,365
Depreciation charge	-	386	1,676	460	660	1,463	3,007	7,652
Disposals	-	(15)	(38)	(70)	(50)	(328)	(1,440)	(1,941)
December 31, 2015	-	737	7,196	2,827	2,451	8,207	11,658	33,076
Depreciation charge	-	778	1,742	459	668	1,294	2,650	7,591
Disposals	-	(237)	(3,239)	(384)	(504)	(320)	(2,325)	(7,009)
December 31, 2016	-	1,278	5,699	2,902	2,615	9,181	11,983	33,658
Net book value								
December 31, 2014	10,909	3,613	3,384	1,171	3,514	2,774	7,521	32,886
December 31, 2015	8,840	13,223	2,687	1,560	3,483	3,058	7,037	39,888
December 31, 2016	15,484	15,953	2,722	2,303	3,526	2,454	6,144	48,586

Included in selling, general and administrative expenses for the year ended December 31, 2016 is depreciation expense of $7,591 (2015 – $7,652) and a gain on the disposal of property and equipment of $208 (2015 – gain of $302). As at December 31, 2016, assets under finance leases included in computer equipment and vehicles have net carrying amounts of $1,053 and $28 (2015 – $186 and $63), respectively. Certain items of property and equipment have been pledged as security for the Company's bank indebtedness, long-term debt and obligations under finance leases. Included in additions in 2016 are assets under finance lease of $1,114.

12. Goodwill

	December 31, 2016 $	December 31, 2015 $
Opening balance	**18,802**	14,692
Recognized on business acquisitions (Note 5)	**(26)**	4,110
Ending balance	**18,776**	18,802

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, 2016 and 2015, the Company has identified two CGU's, agriculture and industrial. All goodwill has been allocated to the agriculture CGU.

The agriculture CGU has been assessed for impairment annually on December 31, 2016 and 2015. The recoverable amount of the CGU 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, 2016 and 2015, the Company prepared cash flow forecasts derived from the most recent financial plans prepared by management 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, 2016, the rate used to discount the forecasted cash flows was 10.3% (2015 – 10.9%), 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 agriculture CGU. The recoverable amount of the agriculture CGU exceeded its carrying value at the impairment test dates.

The Company has conducted a sensitivity analysis based on 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 7.3% (2015 – 6.4%) higher than management's estimates or the estimated growth rate used in extrapolating forecasted results been 14.5% (2015 – 13.8%) lower, the recoverable amount of the CGU would equal its carrying amount for the respective periods. Any additional negative change in the assumption would cause goodwill to be impaired.

13. Trade payables, accruals and other

	December 31, 2016 $	December 31, 2015 $
Trade payables and accruals	**46,528**	33,466
Directors' share units (Note 19.4)	**667**	454
Share appreciation rights (Note 19.5)	**800**	43
	47,995	33,963

14. Floor plan payable

The Company utilizes floor plan financing arrangements with various suppliers and creditors to finance equipment inventory on hand. The terms of these arrangements may include up to a twelve month interest-free period followed by a fixed or variable interest rate term ranging from 0.0% to the bank's prime rate plus 4.3% at December 31, 2016 (2015 – ranging from 0.0% to the bank's prime rate plus 4.3%). At December 31, 2016, the Company had unused floor plan of approximately $293,727 available (2015 – $233,372). The amounts due are secured by specific new and used equipment inventories and the payments are due when the equipment is sold or transferred, up to a maximum term of 48 months. At December 31, 2016, the Company's US

denominated floor plan payable translated into Canadian currency was $2,014 (2015 – $6,818). 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 30).

15. Bank indebtedness

Bank indebtedness outstanding at December 31, 2016 was $Nil (2015 - $5,001).

The Company's bank indebtedness is comprised of the Operating Facility made available to the Company through a syndicate of lenders. Advances under the Operating Facility are limited to the lesser of the established borrowing base and $60,000 (2015 - $70,000). During 2016, the Company requested and received a $10,000 dollar reduction in its Operating Facility limit to $60,000. The reduction eliminates redundant room on the facility and the carrying costs associated therewith. The borrowing base is supported by otherwise unencumbered assets including certain accounts receivable, inventory and items of property and equipment, less priority payables. This facility may be used to finance general corporate operating requirements.

The Operating Facility is a revolving facility which matures on September 24, 2019, and which is secured in favour of the syndicate by a general security agreement. Advances under the Operating Facility may be made based on our lenders' prime rate or the U.S. base rate plus 1.0% - 2.5% (2015 – 1.0% - 2.5%) or based on the banker's acceptance ("BA") rate plus 2.0% – 3.5% (2015 – 2.0% - 3.5%). The Company pays standby fees of between 0.4% – 0.7% (2015 – 0.4% - 0.7%) per annum on any undrawn portion of the Operating Facility. The standby fees and premiums on base interest rates within the respective ranges are determined based on the Company's ratio of debt to tangible net worth. Within the Operating facility is a $7,000 letter of credit pledged as security for the hedged position on the total return swaps (Note 29.6). The effective interest rate at December 31, 2015 was 3.7%.

16. Long-term debt

During 2016, the Company renewed its Syndicated Facility extending the maturity date to September 24, 2019.

The following table summarizes the Company's long-term debt under the assumption that the Syndicated Facility is renewed prior to maturity.

	December 31, 2016 $	December 31, 2015 $
Term Facility, revolving facility with tranches payable in quarterly principal instalments plus interest over periods of 7 to 15 years (2015 – 7 years). The effective interest rate at December 31, 2016 was 3.0% (2015 – 2.9%)	**47,818**	45,000
Various other facilities	**23**	124
	47,841	45,124
Less: current portion	**(6,825)**	(4,852)
Less: deferred debt issuance cost	**(238)**	(192)
Long-term portion	**40,778**	40,080

17. Obligations under finance leases

Finance leases relate to vehicles and computer equipment with lease terms ranging from three to five years. 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 1.9% to 5.5% at December 31, 2016 (2015 – 2.7% to 7.1%).

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, 2016 $	December 31, 2015 $
Due within one year	**458**	77
Due later than one year and not later than five years	**529**	160
Due later than five years	**-**	-
Total future minimum lease payments	**987**	237
Less: future finance charges	**(26)**	(12)
Present value of future minimum lease payments	**961**	225
Current portion of obligations under finance leases	**(440)**	(71)
Long-term portion of obligations under finance leases	**521**	154

18. 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 purchase or rental of equipment. The Company is exposed to potential losses arising from the difference between the assessed value of the underlying security and the amounts guaranteed by the Company. Any resulting losses are recorded as soon as the amount of the loss can be reasonably estimated. As the assessed value of the underlying security generally exceeds the amount guaranteed by the Company, management believes that the net exposure is not significant. As at December 31, 2016, gross recourse amounted to $2,066 (2015 - $4,662), prior to any consideration of the value associated with the securitized assets. As at December 31, 2016, the Company has accrued $715 (2015 - $664) for anticipated losses in trade payables, accruals and other.

19. Share capital

19.1. Common shares

The Company is authorized to issue an unlimited amount of common shares with no par value. As at December 31, 2016, 19,384 thousand shares were issued and outstanding (2015 – 19,384 thousand). All issued and outstanding shares were fully paid as at December 31, 2016 and 2015.

19.2. Dividends paid

Dividends declared and paid during the year ended December 31, 2016 were $8,917 or $0.46 per share (2015 – $8,917 or $0.46 per share).

On January 25, 2017, the Board of Directors declared a dividend of $0.115 per common share on the Company’s outstanding common shares. The dividend is payable on March 31, 2017, to shareholders of record at the close of business on February 28, 2017.

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

	2016		2015	
	Number of options (thousands)	**Weighted average exercise price $**	Number of options (thousands)	Weighted average exercise price $
January 1,	**1,165**	**11.66**	1,236	11.68
Expired	**(172)**	**9.00**	-	-
Forfeited	**(89)**	**12.09**	(71)	11.97
December 31,	**904**	**12.13**	1,165	11.66

No new options were granted and no options were exercised during the years ended December 31, 2016 and December 31, 2015.

Options outstanding at December 31, 2016 are summarized as follows:

Grant date	Options outstanding (thousands)	Options exercisable (thousands)	Weighted average exercise price ($)	Weighted average contractual life (years)
March 28, 2012	210	210	11.96	0.2
March 13, 2013	334	334	12.89	1.2
March 13, 2014	360	240	11.52	2.2
	904	784	12.13	1.4

19.4. 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 for 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 date, 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, 2016, $667 was included in trade payables, accruals and other with respect to the DSUs (2015 – $454). During the year ended December 31, 2016, 36 thousand DSUs were redeemed (2015 – 26 thousand DSUs were redeemed).

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

	2016		2015	
	DSUs (thousands)	**$**	DSUs (thousands)	$
January 1,	**75**	**454**	75	680
Granted[1]	**32**	**221**	26	220
Redeemed	**(36)**	**(228)**	(26)	(235)
(Gain) loss on mark to market revaluation[1]	**-**	**220**	-	(211)
December 31,	**71**	**667**	75	454

(1) Included in selling general and administrative expenses.

As at December 31, 2016 and 2015, the Company has several total return swaps as an economic hedge for the Company's DSUs (Note 29.6)

19.5. Share appreciation rights plan

The Company maintains a share appreciation rights ("SAR") plan as a component of overall compensation of certain directors, officers and employees. These SARs vest after a three year period, are exercisable for two years thereafter and will be settled in cash. The SARs terminate five years after their initial date of grant. During the vesting period, the SARs are revalued at each reporting period using the Black-Scholes option pricing model. The Company recognizes a liability to the extent that the fair value of the SARs has been earned by the holder, with the coinciding expense being recognized within selling, general and administrative expense.

In 2016, no SARS were granted (2015 – 673 thousand SARs with an exercise price of $8.82). As at December 31, 2016, 1,057 thousand SARs were outstanding (2015 – 1,146 thousand). As at December 31, 2016, the Company recognized a liability of $800 (2015 - $43) and an expense of $757 (2015 - $24).

The weighted average fair value of the SARs outstanding using the Black-Scholes option pricing model and assumptions used in their determination as at December 31 are as follows:

	2016	2015
Risk-free interest rate	**0.5%**	0.6%
Expected option life (years)	**2.1**	2.7
Expected volatility[1]	**29.8%**	27.6%
Expected annual dividend per share	**$0.46**	$0.46
Exercise price	**$9.67**	$9.74
Share price	**$9.69**	$6.24
Fair value	**$1.24**	$0.13

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

As at December 31, 2016 and 2015, the Company has several total return swaps as an economic hedge for the Company's SARs (Note 29.6).

19.6. Employee share ownership plan

During the year ended December 31, 2016, the Company recognized $1,163 in selling, general and administrative expenses with respect to Company matched ESOP contributions (2015 – $1,191).

20. Sales

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

	December 31, 2016 $	December 31, 2015 $
New equipment sales	**409,872**	449,997
Used equipment sales	**375,273**	377,482
Parts sales	**108,807**	107,509
Sale of goods	**893,952**	934,988
Service sales	**31,811**	35,865
Other sales	**4,672**	4,603
Rendering of services	**36,483**	40,468
Total sales	**930,435**	975,456

21. Selling, general and administrative

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

	December 31, 2016 $	December 31, 2015 $
Compensation and related expenses	**64,211**	67,273
Administrative expenses	**12,628**	18,216
Rent and other facility expenses	**13,240**	14,436
Depreciation and amortization expense	**7,755**	7,803
Equity-settled share-based payment expense	**136**	500
Total selling, general and administrative expenses	**97,970**	108,228

Included in compensation and related expenses for the year ended December 31, 2016 are variable sales commissions of $13,210 (2015 – $14,323).

Depreciation and amortization expense for year ended December 31, 2016 is comprised of depreciation of property and equipment of $7,591 (2015 - $7,652) and amortization of intangible assets of $164 (2015 - $151).

Administrative expenses consist of marketing, training, insurance, travel, professional fees and other miscellaneous expenses.

22. Restructuring costs

During the year ended December 31, 2016, the Company recognized $3,564 (2015 - $Nil), of costs associated with the amalgamation of the Company's Calgary and Red Deer industrial facilities into existing agriculture facilities in those areas. Included in these expenses are accruals associated with terminating the leases on these facilities, one of which is leased from a related party (see Note 28).

23. Finance costs

Finance costs include interest and other finance-related charges, including amortization of deferred finance costs. The Company's finance costs associated with its short- and long-term debt facilities for the respective years ended are as follows:

	December 31, 2016 $	December 31, 2015 $
Finance costs associated with short-term debt	**12,548**	12,747
Finance costs associated with long-term debt	**1,795**	2,060
Finance costs	**14,343**	14,807

24. Income taxes

24.1. Income tax recognized in net earnings

Income tax expense is comprised of current and deferred tax expense (recovery) for the respective years ended as follows:

	December 31, 2016 $	December 31, 2015 $
Current	**5,277**	5,334
Deferred	**678**	(1,229)
Income tax expense	**5,955**	4,105

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, 2016 $	December 31, 2015 $
Earnings before income taxes	**20,921**	15,398
Computed tax at statutory tax rate of 27% (2015 – 26%)	**5,649**	4,003
Non-deductible expenses	**500**	253
Income tax credits	**(102)**	(74)
Change in enacted rates	**-**	(55)
Adjustment from prior year income tax expenses	**(38)**	(49)
Other	**(54)**	27
	5,955	4,105

24.2. Deferred tax asset (liability)

	Share issue costs $	Cumulative eligible capital $	Property and equipment $	Intangible assets $	Cash settled share based payments $	Derivative financial instruments $	Total $
December 31, 2014	187	139	(147)	-	170	837	1,186
Added in acquisition (Note 5)	-	-	(370)	(222)	-	-	(592)
Recognized in net earnings	(98)	(23)	334	41	(47)	1,022	1,229
Recognized in equity (Note 29.6)	-	-	-	-	-	544	544
December 31, 2015	89	116	(183)	(181)	123	2,403	2,367
Added in acquisition (Note 5)	-	-	(21)	-	-	-	(21)
Recognized in net earnings	(62)	(29)	379	44	273	(1,283)	(678)
Recognized in equity (Note 29.6)	-	-	-	-	-	(458)	(458)
December 31, 2016	27	87	175	(137)	396	662	1,210

The Company has net allowable capital losses in the amount of $3,753 with no fixed expiry date for which no deferred tax asset has been recognized as the Company does not expect to have sufficient future taxable profit against which these losses can be utilised.

The Company also has non-capital losses of $1,671 which expire between 2033 and 2034 for which no deferred tax asset has been recognized as these non-capital losses are available within an entity that has no reasonable expectation of future taxable profit.

25. Earnings per share

During the year ended December 31, 2016, there were no dilutive and 904 anti-dilutive stock options outstanding (2015 – no dilutive and 1,165 anti-dilutive stock options outstanding). Net earnings and the weighted average number of ordinary shares used in the calculations of basic and diluted EPS for the respective periods were as follows:

Thousands	**December 31, 2016**	December 31, 2015
Net earnings used in the calculation of basic and diluted EPS ($)	**14,966**	11,293
Weighted average number of ordinary shares used in the calculation of basic and diluted EPS (thousands)	**19,384**	19,327
Basic and diluted EPS ($)	**0.77**	0.58

26. 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, 2016 $	December 31, 2015 $
Restricted cash	**879**	3,681
Trade receivables and other	**(2,352)**	9,828
Income taxes receivable	**(440)**	337
Inventory	**57,018**	69,830
Prepaid expenses	**(695)**	(35)
Assets held for sale	**(431)**	(2,070)
Trade payables, accruals and other	**14,741**	(3,809)
Income taxes payable	**-**	(6,661)
Floor plan payable	**(60,507)**	(58,295)
Liabilities associated with assets held for sale	**44**	1,562
Deferred revenue	**(1,200)**	(521)
	7,057	13,847

27. 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, 2016, the Company recognized $9,033 of operating lease payments as expenses (2015 – $9,397).

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

	December 31, 2016 $	December 31, 2015 $
Not later than one year	**8,169**	8,921
Later than one year and not later than five years	**17,214**	20,988
Later than five years	**6,442**	3,771
	31,825	33,680

28. Related party transactions

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

	December 31, 2016 $	December 31, 2015 $
Equipment and product support sales	**514**	1,394
Expenditures		
Rental payment on Company facilities	**5,832**	5,589
Equipment purchases	**271**	665
Flight costs	**74**	83
Contributions[1]	**157**	-
Other expenses	**33**	92

(1) Contributions include payments to Ag for Life and Alberta Prosperity Fund

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 Company's formerly-constituted Compensation, Governance and Nominating Committee (now its Compensation and Human Resources Committee) of the Board of Directors based on performance and is consistent with market trends. The remuneration of directors and senior officers of the Company identified as key management is as follows for the respective years ended:

	December 31, 2016 $	December 31, 2015 $
Salary and short-term benefits	**2,754**	1,897
Post-retirement benefits	**25**	25
Share-based compensation	**1,115**	290
	3,894	2,212

Key management personnel are comprised of the Company's senior officers and directors. As at December 31, 2016, there is a $1,528 commitment (2015 – $1,044) relating to the termination of employment of the key management personnel.

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

	December 31, 2016 $	December 31, 2015 $
Due from related parties	**45**	111
Due to related parties	**(766)**	(13)

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

The amount due to related parties includes a $724 accrual for net costs associated with vacating one of the industrial facilities which is currently leased from a related party. This accrual represents the Company's full remaining contractual obligation under the lease.

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

$ thousands	**Total**	2017	2018-2019	2020-2021	Thereafter
Operating lease obligations	**26,062**	5,535	7,511	6,574	6,442

29. 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, interest rate risk and equity price risk), and liquidity risk. The following analysis provides a measurement of these risks as at December 31, 2016 and 2015.

29.1. 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 7. 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 the customers.

29.2. Market risk

Market risk is the risk from changes in market prices, such as changes in foreign currency exchange rates, interest rates, and the Company's stock price which will affect the Company's earnings as well as the value of the financial instruments held and cash-settled share based instruments outstanding.

29.2.1. 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 a means of mitigating this risk.

The following table details the Company's exposure to currency risk at December 31, 2016 and 2015 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 %	**December 31, 2016** Denominated in CAD $	**December 31, 2016** Effect on net earnings year ended $	December 31, 2015 Denominated in CAD $	December 31, 2015 Effect on net earnings year ended $
Cash	5.0	**2,577**	**94**	1,764	65
Trade payables, accruals and other	5.0	**(289)**	**(11)**	(378)	(14)
Floor plan payable	10.0	**(2,014)**	**(148)**	(6,818)	(505)
		274	**(65)**	(5,432)	(454)

Included in selling, general and administrative expenses are net gains recognized due to foreign currency translation for transactions and balances aggregating $715 for the year ended December 31, 2016 (2015 – losses of $650).

29.2.2. 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, bank indebtedness 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, 2016 and 2015 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, as well as interest rate swaps themselves.

	Change in interest rates %	**December 31, 2016** Floating rate financial liabilities $	**December 31, 2016** Effect on net earnings year ended $	December 31, 2015 Floating rate financial liabilities $	December 31, 2015 Effect on net earnings year ended $
Floor plan payable[(1)]	0.5	**89,964**	**328**	144,618	528
Term Facility	0.5	**28,568**	**104**	20,885	76
Other long-term debt	0.5	**-**	**-**	76	-
		118,532	**432**	165,579	604

(1) 2016 and 2015 includes liabilities associated with assets held for sale

29.2.3. Equity price risk and sensitivity analysis

The Company's financial assets (liabilities) are exposed to fluctuations in its stock price with respect to the total return swaps.

The following table details the Company's exposure to equity price risk as at December 31, 2016 and 2015, including a sensitivity analysis measuring the impact on net earnings of a 5% decrease in the Company's share price. An increase of 5% would result in an equal and opposite effect on net earnings.

		December 31, 2016		December 31, 2015	
	Change in stock price %	**Total return swap financial asset $**	**Effect on net earnings year ended $**	Total return swap financial liability $	Effect on net earnings year ended $
Total return swaps	5.0	**869**	**(449)**	(3,606)	(288)

29.3. 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"), and to finance acquisitions, and real estate transactions (the "Term Facility"), (collectively the "Syndicated Facility").

The Syndicated Facility is a revolving facility secured in favour of the syndicate by a general security agreement. During both 2016 and 2015, 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 paid standby fees of between 0.4% and 0.7% per annum on any undrawn portion of the Syndicated Facility. The Syndicated Facility matures on September 24, 2019, 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, 2016 $	December 31, 2015 $
Operating Facility	**60,000**	70,000
Term Facility	**75,000**	75,000
Flooring Facility	**125,000**	125,000

In addition to the Flooring Facility, the Company has additional floor plan facilities of approximately $467,000 as at December 31, 2016 (2015 – $467,000).

Notes to the Consolidated Financial Statements
Years ended December 31, 2016 and 2015
Expressed in thousands of Canadian dollars except per share and per option amounts

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 date of the consolidated statement of financial position and includes both principal and interest cash flows.

As at December 31, 2016	**Interest and principal outstanding $**	**2017 $**	**2018-2019 $**	**2020-2021 $**	**Thereafter $**
Trade payables, accruals and other[1]	**46,528**	**46,528**	**-**	**-**	**-**
Floor plan payable[2]	**307,665**	**307,665**	**-**	**-**	**-**
Long-term debt	**53,066**	**8,206**	**15,794**	**14,987**	**14,079**
Obligations under finance leases	**987**	**458**	**523**	**6**	**-**
Derivative financial liabilities	**3,614**	**1,468**	**1,750**	**396**	**-**
	411,860	**364,325**	**18,067**	**15,389**	**14,079**

As at December 31, 2015	Interest and principal outstanding $	2016 $	2017-2018 $	2019-2020 $	Thereafter $
Trade payables, accruals and other[1]	33,466	33,466	-	-	-
Floor plan payable[2]	370,861	370,861	-	-	-
Long-term debt	49,869	6,145	14,784	14,031	14,909
Obligations under finance leases	237	77	146	14	-
Derivative financial liabilities	9,589	4,051	4,320	1,218	-
	464,022	414,600	19,250	15,263	14,909

(1) Trade payables, accruals and other excludes DSUs and SARs which are not financial instruments.

(2) Includes liabilities associated with assets held for sale

The Term Facility included in long-term debt is governed by a syndicate credit agreement which, if not renewed, will mature on September 24, 2019. The tables presented above assumes the agreement is renewed prior to maturity. 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, 2016 would be $42,643 in 2018-2019 and $Nil in subsequent periods (2015 – $41,908 for 2017-2018 and $Nil in subsequent periods).

29.4. 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 and SARs) 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 leases 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.

29.5. Fair value measurements recognized in the consolidated statement of financial position

The Company's financial instruments which are measured subsequent to initial recognition at fair value and are categorized as follows:

- Level 1 financial instruments are those whose fair value 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 derivative financial liabilities in the form of interest rate swaps and total return swaps, which had a net fair value of $2,452 at December 31, 2016 (2015 – $8,899).
- Level 3 financial instruments are those whose fair value is 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 2016 and 2015.

29.6. Derivative financial instruments and hedges

The Company has long and short-term debt raised at floating interest rates based on the prevailing Bankers' Acceptance rate and hedges a portion of this risk by using floating-to-fixed interest rate swaps. Under the interest rate swaps, the Company hedges interest rate risk by exchanging, at monthly intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. The interest rate swaps hedge the Company's exposure to interest rate fluctuations on portions of the Term and Flooring Facilities. The accumulated amounts recognized within accumulated other comprehensive loss will be reversed into net earnings over the remainder of the term of the derivatives. Future changes in fair value will be recognized within net earnings in the period in which they arise. For the year ended, December 31, 2016, the Company recognized a gain of $276 (2015 – loss of $50) associated with its interest rate swaps in the statement of net earnings and a gain of $1,238 (2015 – loss of $1,525) net of tax in other comprehensive income (loss).

Interest rate swaps outstanding for the years ended December 31 are as follows:

	December 31, 2016	December 31, 2015
Notional amount	**$ 129,250**	$ 134,115
Effective fixed interest rate	**4.9%**	4.8%
Effective floating interest rate	**3.6%**	3.5%
Maturity dates	**April 2017 – September 2022**	May 2016 – September 2022

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

As at December 31, 2016, the Company's total return swaps cover 1,270 thousand of the Company's underlying common shares (2015 – 1,270 thousand). For the year ended, December 31, 2016, the Company recognized a gain of $4,475 (2015 – loss of $3,498) associated with its total return swaps.

Derivative financial instruments recognized as (assets) liabilities are as follows:

	December 31, 2016 $	December 31, 2015 $
Current portion – total return swap	**(290)**	2,130
Current portion – interest rate swap	**1,449**	1,910
Long-term portion – total return swap	**(578)**	1,476
Long-term portion – interest rate swap	**1,871**	3,383
	2,452	8,899

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

	December 31, 2016 $	December 31, 2015 $
Opening net derivative financial liability	**8,899**	3,282
(Gain) loss recognized in net earnings	**(4,751)**	3,548
(Gain) loss recognized in other comprehensive income (loss) – net of tax	**(1,238)**	1,525
Tax on (gain) loss recognized in other comprehensive income (loss)	**(458)**	544
Ending net derivative financial liability	**2,452**	8,899

These accumulated losses will be continuously released to the consolidated statement of net earnings within finance costs and (gain) loss on derivative financial instruments 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.

30. 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), 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, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

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 0.2 and 0.4 to 1. As at December 31, 2016 and 2015, the Company was within its target range for this ratio. The debt to equity ratio target for the Company including floor plan payable is debt between 2.0 and 3.0 to 1.0. As at December 31, 2016 the Company was outside its target range for this ratio (2015, the Company was within its target range for this ratio).

The components of debt to equity ratios are as follows:

	December 31, 2016 $	December 31, 2015 $
Current portion of long-term debt	**6,825**	4,852
Current portion of obligations under finance leases	**440**	71
Long-term debt	**40,778**	40,080
Obligations under finance leases	**521**	154
Total debt excluding floor plan payable	**48,564**	45,157
Floor plan payable(1)	**297,667**	358,130
Total debt including floor plan payable	**346,231**	403,287
Shareholders' equity	**177,181**	169,758
Debt equity ratios		
- excluding floor plan payable	**0.27**	0.27
- including floor plan payable	**1.95**	2.38

(1) 2016 and 2015 Includes liabilities associated with assets held for sale

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

Each lender has its own definition of which account balances are to be included in these computations. As at December 31, 2016 and 2015, the Company was in compliance with all externally imposed capital requirements.

31. Economic dependence

The Company is a retail dealer of CNH Industrial N.V. ("CNH") equipment, and is therefore party to dealership and distribution contracts with various affiliates of CNH. These contracts grant the Company the right to act as an authorized dealer of CNH equipment brands including Case IH agriculture, Case Construction and New Holland. This also entitles the Company to use certain floor plan facilities as provided by CNH-affiliated entities. These dealership contracts, as well as the associated floor plan facilities, can be cancelled by CNH if the Company does not observe certain established guidelines and covenants. This is a common provision in the industry in which the Company operates.

32. Subsequent event

On February 28, 2017, the Company disposed of inventory that was classified as held for sale at December 31, 2016, in the amount of $2,501, along with floor plan associated with the inventory of $1,606 that was classified as a current liability at December 31, 2016.

ROCKY MOUNTAIN DEALERSHIPS INC.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

This Management's Discussion and Analysis ("MD&A") was prepared as of March 14, 2017, and is provided to assist readers in understanding Rocky Mountain Dealerships Inc.'s financial performance for the year ended December 31, 2016. It should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015 together with the notes thereto and the auditor's report thereon. The results reported herein have been derived from consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and are presented in Canadian dollars.

Unless the context otherwise requires, use in this MD&A of "Rocky", "the Company", "we", "us", or "our" means Rocky Mountain Dealerships Inc. and its wholly-owned subsidiaries including Rocky Mountain Equipment Canada Ltd. ("RME Canada") and Rocky Mountain Dealer Acquisition Corp. ("RMDAC").

Rocky's common shares trade on the Toronto Stock Exchange under the symbol 'RME'. Additional information relating to Rocky, including the Company's Annual Information Form, dated March 14, 2017 ("AIF"), is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

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

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

SUMMARY OF THE YEAR ENDED DECEMBER 31, 2016

- Adjusted Diluted Earnings per Share(1) increased by $0.12 or 16.9% to $0.83.
- Adjusted EBITDA(1) increased by $3.0 million or 10.5% to $31.6 million.
- Operating SG&A(1) declined by $11.4 million to $89.2 million (9.6% of sales, down from 10.3% in 2015)
- Equipment inventory declined by $57.1 million to $403.0 million, surpassing our targeted reduction for the year.
- Sales declined by 4.6% to $930.4 million.
- Gross profit declined by 6.0% to $133.4 million (14.3% of sales, down from 14.6% in 2015).
- Generated Operating Cash Flow before Changes in Floor Plan(1) of $87.6 million, down from $92.2 million in 2015.
- Amalgamated industrial distribution facilities in Calgary and Red Deer, Alberta into existing agriculture facilities, incurring one-time charges of $3.6 million.
- Completed the construction of our new, $10.3 million state-of-the-art facility in Yorkton, Saskatchewan.

SUMMARY OF THE QUARTER ENDED DECEMBER 31, 2016

- Adjusted Diluted Earnings per Share(1) declined by $0.02 or 8.0% to $0.23.
- Adjusted EBITDA(1) declined by $0.8 million or 8.8% to $8.2 million.
- Operating SG&A(1) declined by $2.2 million to $23.0 million (8.1% of sales, down from 8.8% in 2015)
- Inventory declined by $2.9 million to $442.7 million.
- Generated Operating Cash Flow before Changes in Floor Plan(1) of $14.5 million, up from $6.8 million in 2015.
- Sales of $285.7 million were in line with the fourth quarter of 2015.
- Gross profit declined by 9.1% to $34.1 million (11.9% of sales, down from 13.1% in 2015).

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

COMPANY OVERVIEW

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

Rocky is Canada's largest retail dealer of CNH Industrial N.V. ("CNH") equipment, which includes Case IH, New Holland, and Case Construction. We are also a major independent dealer of equipment from a number of other short-line agriculture and industrial manufacturers.

We offer our customers a one-stop solution for their equipment needs through new and used equipment sales, parts sales, repairs and maintenance services and third-party equipment financing and insurance services. In addition, we provide or arrange other ancillary services such as GPS signal subscriptions and geomatics services.

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

MARKET FUNDAMENTALS AND OUTLOOK

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

The Canadian Prairies were seeded corner-to-corner during 2016. Ideal growing conditions throughout the late spring and summer months improved yields relative to a year ago and, as a result, Agriculture and Agri-Food Canada is calling for a 7.5% increase in overall production of principal field crops in 2016, resulting in a level of production second only to 2013's bumper crop.

Rain and early snowfalls did, however, prolong the harvest in certain regions. Once harvesting activities had ceased for the winter, approximately 90 – 95% of the crop had been combined, with the remainder in swath or left standing to be picked-up or harvested in the spring. The grade of the harvested crop is expected to deteriorate to some extent as a result. Despite that, and given the overall yields and healthy commodity prices for key Western Canadian crops, farmers are expected to generate yet another year of strong earnings and cash flows and continue to build their balance sheet strength heading into 2017.

In recent years, agriculture equipment manufacturers have pulled back their production levels in response to changes in market demand. As our manufacturers curtailed production and drew down existing inventories, we, and our customers, experienced reduced lead-times on new equipment deliveries. With this incremental supply now largely absorbed by the market, we are beginning to see lead-times grow on certain products during peak demand times such as the third and fourth quarters, an indication that market supply and demand have largely realigned. While we do not expect these longer lead-times to have a material impact on our total sales activity ultimately realized, they have and are likely to continue to shift sales activity between quarters.

Agriculture, as a whole, exhibits cyclical surges in demand and profitability driven by the aforementioned macroeconomic factors, as well as other factors that can impact our industry. While weather continues to have a significant influence on overall demand, advances made in farming practices, seed technology and application techniques, have helped to mitigate this exposure to some extent and reinforce the agriculture industry fundamentals.

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

SELECTED ANNUAL FINANCIAL INFORMATION

$ thousands, except per share amounts	**2016**		2015		2014	
Sales	**930,435**	**100.0%**	975,456	100.0%	965,407	100.0%
Cost of sales	**797,028**	**85.7%**	833,475	85.4%	819,785	84.9%
Gross profit	**133,407**	**14.3%**	141,981	14.6%	145,622	15.1%
Selling, general and administrative	**97,970**	**10.5%**	108,228	11.1%	105,688	10.9%
(Gain) loss on derivative financial instruments	**(4,751)**	**(0.5%)**	3,548	0.4%	68	0.1%
Restructuring charges	**3,564**	**0.4%**	-	0.0%	-	0.0%
Impairment loss on vacant land	**1,360**	**0.1%**	-	0.0%	-	0.0%
Earnings before finance costs and income taxes	**35,264**	**3.8%**	30,205	3.1%	39,866	4.1%
Finance costs	**14,343**	**1.6%**	14,807	1.5%	13,665	1.4%
Earnings before income taxes	**20,921**	**2.2%**	15,398	1.6%	26,201	2.7%
Income taxes	**5,955**	**0.6%**	4,105	0.4%	7,276	0.7%
Net earnings	**14,966**	**1.6%**	11,293	1.2%	18,925	2.0%
Earnings per share						
Basic	**0.77**		0.58		0.98	
Diluted	**0.77**		0.58		0.98	
Dividends per share	**0.460**		0.460		0.445	
Book value per share – diluted (as at December 31)	**9.14**		8.78		8.72	
Adjusted Diluted Earnings per Share[(1)]	**0.83**		0.71		0.97	
Adjusted EBITDA[(1)]	**31,621**	**3.4%**	28,622	2.9%	35,303	3.7%
Operating SG&A[(1)]	**89,238**	**9.6%**	100,612	10.3%	98,836	10.2%
Operating Cash Flow before Changes in Floor Plan[(1)]	**87,626**	**9.4%**	92,193	9.5%	(22,993)	(2.4%)

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

Sales and Gross Profit

The Company uses the terms “acquired” versus “same store” in assessing its revenue. Each acquired store has an average historical level of sales prior to being acquired by Rocky. When the Company discusses “acquired” results, it is referring to these average historical levels. This base level of activity continues to be classified as acquired until such time as the acquired store has been included in our dealership network for twelve months after which point, all activity is classified as same store.

			Change		
$ thousands	**2016**	2015	Total	Acquired	Same Store
Sales					
New equipment	**409,872**	449,997	(40,125)	5,074	(45,199)
Used equipment	**375,273**	377,482	(2,209)	1,668	(3,877)
Parts	**108,807**	107,509	1,298	993	305
Service	**31,811**	35,865	(4,054)	225	(4,279)
Other	**4,672**	4,603	69	-	69
Total sales	**930,435**	975,456	(45,021)	7,960	(52,981)
Gross profit	**133,407**	141,981	(8,574)		
Gross margin	**14.3%**	14.6%	(0.3%)		

For the year ended December 31, 2016, total sales decreased by $45.0 million or 4.6% as compared to the same period in 2015. Excluding acquired sales of $8.0 million, total sales declined by $53.0 million or 5.4%. The decline in sales levels reflects the overall contraction in the Canadian agriculture equipment market during 2016, which experienced reductions in tractor and combine deliveries of 8.6% and 8.0%, respectively, according to the Association of Equipment Manufacturers. The reduction also reflects the impact of our recent facility consolidations as our sales functions worked to digest the changes.

Same store equipment sales declined by $49.1 million or 5.9% year-over-year. With the rebalancing of equipment supply throughout the industry, we are beginning to experience longer lead-times during periods of peak demand. As at December 31, 2016, these longer lead-times have increased our backlog of presold combine harvesters and high horsepower tractors as compared to 2015. We expect to deliver these presold units during the first half of 2017. As a result, our new equipment sales reported during 2016 declined.

Our sales efforts throughout 2016 included targeting used equipment inventory as well as reducing new equipment procured for, and sold out of stock. These efforts contributed positively to our used equipment sales during 2016, neutralizing the

impact of reduced overall market demand. The successful execution of these strategies allowed Rocky to surpass its inventory reduction target, drawing inventory down by $57.0 million or 11.4% during 2016.

For the year ended December 31, 2016, same store product support sales declined by $4.0 million, primarily on lower service revenues. As part of our cost reduction measures, we downsized our technician headcount during 2016, focusing on areas of underperformance. The reduction in headcount did have a dilutive effect on our service revenues for the year. Product support sales for the year ended December 31, 2016, also included $1.2 million of acquired sales.

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

$ thousands	**2016**	2015
Parts activity		
Total activity	**121,782**	121,690
Internal activity eliminated	**(12,975)**	(14,181)
Reported revenues	**108,807**	107,509
Service activity		
Total activity	**49,414**	57,451
Internal activity eliminated	**(17,603)**	(21,586)
Reported revenues	**31,811**	35,865

Gross profit for the year ended December 31, 2016, decreased by $8.6 million or 6.0%, due predominantly to reduced revenues. Gross margin for the year ended December 31, 2016, decreased by 0.3%, as we continued to focus our sales efforts on inventory reduction and the deleveraging of our statement of financial position. This sales activity resulted in some lower margin transactions. The effect of this margin reduction was most pronounced during the fourth quarter of 2016.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses include sales and marketing expenses, sales commissions, payroll and related benefit costs, insurance expenses, professional fees, rent and other facility costs and administration overhead including depreciation of property and equipment and amortization of intangible assets. Many of these costs are fixed. When we acquire new stores, these costs typically increase as we incur additional expenditures related to the direct selling, general and administrative functions. Over time, as these acquisitions are amalgamated into the business, the costs generally decrease as we incorporate their finance and other administrative functions into our centralized corporate resources. Similarly, our costs will increase as we add direct customer-related resources such as equipment specialists, but will normalize relative to sales volumes as those positions drive incremental revenue and increase our customer base.

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

The Company assesses its Operating SG&A relative to total sales in analyzing its results (see the definition and reconciliation of Operating SG&A in the "Non-IFRS Measures" and "Reconciliation of Non-IFRS Measures to IFRS" sections below). The Company targets a sub-10% Operating SG&A as a percentage of sales on an annual basis.

For the year ended December 31, 2016, Operating SG&A decreased by $11.4 million or 11.3% over 2015. The reduction in Operating SG&A reflects enhancement to the efficiency of our operating cost structure through a combination of facility and distribution consolidation as well as other cost containment measures aimed at realigning our cost structure with current market conditions. The decrease during 2016 comes despite an additional $1.9 million of expenses associated with stores acquired during 2015.

These cost reductions successfully realigned our cost structure with current industry demand, yielding an Operating SG&A of 9.6% of sales, down from 10.3% in 2015 and within our targeted range.

Other Expense (Income)

For the year ended December 31, 2016, the Company recognized a net gain on our derivative financial instruments of $4.8 million (2015 – net loss of $3.5 million) and an impairment loss on vacant land of $1.4 million (2015 – $Nil). The gains (losses) associated with the derivatives arose primarily as a result of fluctuations in the Company's common share price and the associated impact on its total return swap positions. The impairment loss on vacant land pertains to certain redundant real estate assets and reflects our assessment of the value of Western Canadian real estate in the current economic environment.

Pursuant to the amalgamation of our industrial distribution network, we recognized a $3.6 million non-recurring charge associated with vacating our Calgary and Red Deer industrial facilities. Included in this charge are the remaining contractual lease payments on these facilities amounting to $2.2 million. The Company continues to seek subtenants for these properties for the duration of the leases to offset these accrued costs. A portion of the accrued contractual lease payments are due to a related party in their capacity as a landlord (see the "Related Party Transactions" section below for additional details).

Finance Costs

During the year ended December 31, 2016, finance costs declined by approximately $0.5 million. Strong cash generation resulted in a decrease in the average balance of interest-bearing debt outstanding, decreasing overall finance costs year-over-year. The increase in the Company's hedged position with respect to its short-term floating-rate debt did, however, increase our effective cost of funds and serve to partially offset the aforementioned interest savings. We currently have 37.2% of our floor plan hedged and 40.4% of our long term debt (2015 – 30.8% and 53.7%, respectively).

Net Earnings

Net earnings for the year ended December 31, 2016, increased by $3.7 million (an increase of 32.5% or $0.19 per diluted share over 2015). Adjusted Diluted Earnings per Share increased by $0.12 to $0.83 over the same period. See the definition and reconciliation of Adjusted Diluted Earnings per Share in the "Non-IFRS Measures" and "Reconciliation of Non-IFRS Measures to IFRS" sections below. During the year, the reduction in gross profit was more than offset by reduced Operating SG&A resulting in increased Adjusted Diluted Earnings per Share. An increase in our effective tax rate during 2016 negatively impacted net earnings by $0.4 million.

SUMMARY OF QUARTERLY RESULTS

$ thousands, except per share amounts	**Q4 2016**	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Sales	**285,749**	222,647	232,575	189,464	285,587	255,986	213,460	220,423	294,092
Gross profit	**34,116**	36,861	34,147	28,283	37,538	40,042	32,941	31,460	39,469
Gross margin	**11.9%**	16.6%	14.7%	14.9%	13.1%	15.6%	15.4%	14.3%	13.4%
SG&A	**25,205**	23,855	24,693	24,217	27,175	26,896	26,960	27,197	27,471
Other (income) expense	**(605)**	(236)	762	252	274	3,438	(597)	433	77
Finance costs	**3,346**	3,700	3,751	3,546	3,813	3,795	3,830	3,369	3,480
Income taxes	**1,466**	2,910	1,575	4	1,696	1,561	719	129	2,220
Net earnings	**4,704**	6,632	3,366	264	4,580	4,352	2,029	332	6,221
Diluted earnings per share	**0.24**	0.34	0.17	0.01	0.24	0.23	0.10	0.02	0.32

Fluctuating seasonal revenue cycles are common in the agriculture industry as a result of weather conditions, the timing of crop receipts and farming cycles and the timing of equipment deliveries from manufacturers. As a result, our financial results typically vary between quarters. The first quarter is generally the weakest due to the lack of agriculture activity and winter shutdowns, while the fourth quarter is the strongest due to the post-harvest purchases that are typical in the agriculture sector.

Seeding activity typically commences between the latter part of the first quarter and the beginning part of the second quarter. Conversely, harvest typically begins towards the middle of the third quarter, and continues through into the fourth quarter. Our financial results vary between quarters accordingly.

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

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

STATEMENT OF FINANCIAL POSITION – SUMMARY

$ thousands	**December 31, 2016**	December 31, 2015	December 31, 2014
Assets			
Inventory	**442,742**	499,760	526,003
Other current assets	**65,532**	63,824	69,049
Total current assets	**508,274**	563,584	595,052
Property and equipment	**48,586**	39,888	32,886
Deferred tax asset	**1,210**	2,367	1,186
Derivative financial assets	**578**	-	-
Intangible assets	**507**	671	-
Goodwill	**18,776**	18,802	14,692
Total assets	**577,931**	625,312	643,816
Liabilities and equity			
Floor plan payable	**296,061**	356,568	382,081
Other current liabilities	**61,519**	53,893	57,261
Total current liabilities	**357,580**	410,461	439,342
Long-term debt	**40,778**	40,080	32,776
Obligations under finance leases	**521**	154	9
Derivative financial liabilities	**1,871**	4,859	3,282
Total liabilities	**400,750**	455,554	475,409
Shareholders' equity	**177,181**	169,758	168,407
Total liabilities and equity	**577,931**	625,312	643,816

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

$ thousands	**December 31, 2016**	December 31, 2015	December 31, 2014
New agriculture equipment	**77,642**	113,182	159,620
New industrial equipment	**35,875**	59,153	54,065
Total new equipment	**113,517**	172,335	213,685
Used agriculture equipment	**283,279**	282,868	267,922
Used industrial equipment	**6,206**	4,916	5,384
Total used equipment	**289,485**	287,784	273,306
Total equipment inventory	**403,002**	460,119	486,991

During the year ended December 31, 2016, total equipment inventory declined by $57.1 million or 12.4%, surpassing our targeted reduction for the year of $50.0 million. The reduction in overall equipment inventory reflects a two-fold strategy whereby presell arrangements comprise a larger proportion of our new sales business, reducing equipment procured for inventory as well as sales efforts focused on turning used equipment more frequently. As trades are often taken on the sale of used equipment as well as new, some proportion of the used equipment inventory reduction due to sale is replenished via the trade. Although the overall used equipment inventory level remained relatively flat year-over-year, the inventory turnover has improved with the incremental used sales activity.

Having realigned our overall investment in inventory with current market demand, our focus heading into 2017 will be to continue to optimize our inventory mix. Through stringent procurement procedures and targeted sales efforts, we aim to continue our recent trend of improving inventory turns.

Current liabilities are comprised predominantly of floor plan payable for financed equipment inventory of approximately $296.1 million as at December 31, 2016 (December 31, 2015 – $356.6 million). As a percentage of equipment inventory, floor plan payable was 73.5% as at December 31, 2016, down from 77.5% at December 31, 2015. The reduction in floor

plan payable as a percentage of equipment inventory reflects cash generation for the year, which was used to pay down floor plan and reduce the associated carrying cost.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Summary of Cash Inflows (Outflows)

$ thousands	**2016**	2015	2014
Net earnings	**14,966**	11,293	18,925
Effect of non-cash items in net earnings and changes in working capital	**12,197**	24,167	(2,201)
Cash flows from operating activities	**27,163**	35,460	16,724
Cash flows from financing activities	**(6,694)**	(12,788)	(17,589)
Cash flows from investing activities	**(8,617)**	(28,934)	(10,905)
Net increase (decrease) in cash	**11,852**	(6,262)	(11,770)
Cash, beginning of period	**16,690**	22,952	34,722
Cash, end of period	**28,542**	16,690	22,952
Operating Cash Flow before Changes in Floor Plan (1)	**87,626**	92,193	(22,993)

(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 Operating Cash Flow before Changes in Floor Plan in analyzing its cash flows from operating activities. See the definition and reconciliation of Operating Cash Flow before Changes in Floor Plan 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, 2016, Operating Cash Flow before Changes in Floor Plan decreased by $4.6 million or 5.0% as compared to the same period last year. As we rationalized our inventory levels over the past two years and realized the associated cash inflows, our cash investment in our inventory declined and the rate at which we were able to generate cash inflows moderated accordingly.

A period of strong sales leading up to 2015 also resulted in an elevated level of accounts receivable carried into 2015 which were realized as operating cash inflows during the comparative period.

Cash flows from operating activities for the year ended December 31, 2016, declined by $8.3 million to $27.2 million, down from $35.5 million in 2015. The decrease during the quarter is primarily the result of the aforementioned cash flows associated with changes in inventory and receivables in the comparative period, plus $3.7 million of additional cash outflows to floor plan providers. Strong cash flows enabled the Company to apply cash generated to its floor plan payables, reducing floor plan as a percentage of equipment inventory to 73.5% at December 31, 2016 from 77.5% a year ago, and in so doing, reduce the associated interest burden.

Cash Flows from Financing Activities

Cash flows from financing activities pertained primarily to debt and dividend payments as well as net proceeds associated with the financing of acquisitions and real estate assets. For the year ended December 31, 2016, cash outflows from financing activities declined by $6.1 million to $6.7 million, down from $12.8 million in 2015. During 2015, the Company restructured its Syndicated Facility, extending the amortization period of the Term Facility and providing an interest-only period thereon which extended through the first quarter of 2016. As a result, the repayments of long-term debt during 2016

include only three of the now reduced quarterly payments. As part of the 2015 restructuring, the Company also extinguished its former Fleet Facility with a draw on the Operating Facility, increasing cash outflows during the comparative period by $5.1 million.

Debt and dividend payments during 2016 were offset by a $7.8 million draw on the Term Facility used to finance our recently constructed facility in Yorkton, Saskatchewan. During 2015, cash flows from financing activities also included the settlement of debt assumed pursuant to business combinations, net of draws on the Term Facility to fund the acquisition purchase consideration.

Cash Flows from Investing Activities

Cash utilized for investing activities was the result of our normal capital expenditures, investment in new facility construction and the net cash consideration paid pursuant to business combinations, offset by proceeds on the disposition of property and equipment. During 2016, cash outflows from investing activities decreased by $20.3 million to $8.6 million, down from $28.9 million in 2015. The decrease during the year pertained largely to the purchase consideration paid on the acquisitions affected during 2015, inclusive of $7.1 million of bank indebtedness assumed.

ADEQUACY OF CAPITAL RESOURCES

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

Finance Facilities

The Company has a credit facility with a syndicate of lenders (the "Syndicated Facility"). The Syndicated Facility is a revolving facility, secured in favour of the syndicate by a general security agreement. Advances under the Syndicated Facility may be made based on our lenders' prime rate or the U.S. base rate plus 1.0% – 2.5% or based on the banker's acceptance ("BA") rate plus 2.0% – 3.5%. The Company pays standby fees of between 0.4% – 0.7% per annum on any undrawn portion of the Syndicated Facility. The standby fees and premiums on base interest rates within the respective ranges are determined based on the Company's ratio of debt to tangible net worth. During 2016, the Syndicated Facility was amended, extending the maturity date to September 24, 2019.

The Syndicated Facility consists of:

- The "Operating Facility" – which may be utilized to advance up to the lesser of the established borrowing base and $60.0 million. The borrowing base is supported by otherwise unencumbered assets including certain accounts receivable, inventory and items of property and equipment, less priority payables. This facility may be used to finance general corporate operating requirements.
- The "Flooring Facility" – which may be utilized to finance up to 75% of the value of eligible equipment inventory to a maximum of $125.0 million. Draws against the Flooring Facility are repayable over a term of 28 months, however they become due in full upon the sale of the associated equipment.
- The "Term Facility" – which may be utilized to finance up to 60% of the cost of acquisitions and 75% of the cost of real estate to a maximum of $75.0 million. Draws are repayable in quarterly installments with acquisition and real estate related draws amortized over periods of 7 and 15 years, respectively. The initial balance on the Term Facility had a seven year repayment period which commenced in April of 2016.

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

In addition to our available cash balance of $28.5 million as at December 31, 2016, we have approximately $380.9 million available on our various credit facilities.

$ millions	Facility limit	Amount drawn	**Available**
Operating Facility	60.0	-	**60.0**
Term Facility	75.0	47.8	**27.2**
Various floor plan facilities[(1)]			
OEM floor plan facilities	205.0	101.2	**103.8**
Syndicated Flooring Facility	125.0	64.0	**61.0**
Other floor plan facilities	262.0	133.1	**128.9**
Total	727.0	346.1	**380.9**

(1) – Inclusive of floor plan payable classified as liabilities associated with assets held for sale and presented on a gross basis before deferred financing costs.

In addition to the facility limits, the availability of funds under these credit facilities may be limited by the adequacy of the underlying assets available to securitize a proposed draw and/or otherwise constrained by customary negative covenants. These restrictions are not expected to affect the Company's access to required capital in the foreseeable future. The existing credit facilities are considered sufficient and appropriate for the Company's capital requirements.

During 2016, the net debt component of our capital structure, declined by $8.4 million or 29.7%. The net debt component of our capital structure as at December 31, was comprised of the following:

$ thousands	**2016**	2015
Long-term debt (including current portion)	**47,603**	44,932
Obligations under finance leases (including current portion)	**961**	225
Debt component of capital structure	**48,564**	45,157
Cash (net of bank indebtedness)	**(28,542)**	(16,690)
Net debt component of capital structure	**20,022**	28,467

Financial Covenants

Pursuant to agreements with lenders, the Company is required to monitor and report certain financial ratios on a quarterly basis. The Company's financial covenants and applicable compliance ranges are as follows:

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

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

As at December 31, 2016 and 2015, the Company was in compliance with all externally imposed capital requirements.

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

Derivative Financial Instruments

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

(Gains) losses recognized on derivative financial instruments are as follows:

$ thousands	**2016**	2015
(Gain) loss recognized in net earnings	**(4,751)**	3,548
(Gain) loss recognized in accumulated other comprehensive loss – net of tax	**(1,238)**	1,525
(Gain) loss recognized in deferred tax position	**(458)**	544

<u>Interest Rate Swaps</u>

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

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

			December 31, 2016		December 31, 2015	
	Maturity	Type	**Effective rate**	**Amount ($ thousands)**	Effective Rate	Amount ($ thousands)
Hedged position						
Current debt						
Floor plan facility #1	August, 2018	Non-amortizing	**4.2%**	**25,000**	4.2%	25,000
Floor plan facility #2	September, 2020	Non-amortizing	**5.1%**	**35,000**	5.1%	35,000
Floor plan facility #3	September, 2022	Non-amortizing	**5.4%**	**50,000**	5.4%	50,000
			5.0%	**110,000**	5.0%	110,000
Long-term debt						
Term Facility #1[1]	May, 2016	Amortizing	**-**	**-**	3.5%	1,365
Term Facility #2[2]	April, 2017	Amortizing	**4.1%**	**19,250**	4.1%	22,750
			4.1%	**19,250**	4.0%	24,115
Total			**4.9%**	**129,250**	4.8%	134,115
Position at risk – floating-rate debt				**247,783**		299,694
Position hedged				**52.2%**		44.8%

(1) – Formerly the Acquisition Facility.

(2) – Formerly the Debenture Repayment Facility.

At inception, these instruments were designated as hedges and were accounted for using hedge accounting. Subsequently, the interest rate swaps on the Term Facility failed their effectiveness testing and as such, hedge accounting was discontinued. The $21 thousand accumulated loss associated with the Term Facility #2 swap which has been recognized within accumulated other comprehensive loss will be reversed into net earnings over the remainder of the term of the derivative. Future changes in the fair value of this derivative will be recognized within net earnings in the period in which they arise.

The interest rate swaps on the various floor plan facilities continue to remain effective and as such, we continue to account for these cash flow hedges using hedge accounting. If we sell or terminate a hedged item, or it matures before the related hedging instrument is terminated, we recognize in income any realized or unrealized gain or loss on the derivative instrument. In accounting for these cash flow hedges, changes in fair value of the swaps are included in the consolidated statement of other comprehensive income to the extent the hedge continues to be effective. The related other comprehensive amounts are allocated to net earnings in the same period in which the hedged item affects net earnings. To the extent that changes in the fair value of these derivatives are not completely offset by changes in the fair value of the hedged items, the ineffective portions of the hedging relationships are recorded immediately in net earnings.

For the year ended December 31, 2016, we recognized in net earnings, a net mark-to-market gain of $0.3 million on our interest rate swaps (2015 – $0.1 million).

Total Return Swaps

The Company has several total return swap arrangements to hedge the exposure associated with increases in its share price on its outstanding Director Share Units ("DSUs") and Share Appreciation Rights ("SARs"). If not renewed by the Company, these arrangements mature between April 2017 and July 2018. It is the Company's intention to maintain a hedged position which matches the terms associated with the DSUs and SARs. The hedging relationship with the SARs is ineffective to the extent that the Company's share price falls below the strike price of the SARs.

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

The Company does not apply hedge accounting to these relationships and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise. For the year ended December 31, 2016, the Company recognized a mark-to-market gain of $4.5 million (2015 – loss of $3.5 million).

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

	December 31, 2016		December 31, 2015	
In thousands of shares/units except per share amounts	**Weighted average price/share $**	**Shares/ units**	Weighted average price/share $	Shares/ units
Hedged position				
DSUs	**10.54**	**100**	10.54	100
SARs	**9.21**	**1,170**	9.21	1,170
Total	**9.31**	**1,270**	9.31	1,270
Position at risk				
DSUs		**71**		75
SARs		**1,057**		1,146
Total		**1,128**		1,221
Position hedged		**112.6%**		104.0%

Dividends

On January 25, 2017, Rocky's Board of Directors (the "Board") approved a quarterly dividend of $0.115 per common share on its outstanding common shares. The common share dividend is payable on March 31, 2017, to shareholders of record at the close of business on February 28, 2017.

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

SHARE CAPITAL – OUTSTANDING SHARES

During the year ended December 31, 2016 and 2015, there were no changes in the issued and outstanding common shares of the Company. As at December 31, 2016 and 2015 as well as March 14, 2017, there were 19,384,086 shares outstanding.

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

Grant date	Options outstanding (thousands)	Options exercisable (thousands)	Weighted average exercise price ($)	Weighted average contractual life (years)
March 28, 2012	210	210	11.96	0.2
March 13, 2013	334	334	12.89	1.2
March 13, 2014	360	240	11.52	2.2
Total	904	784	12.13	1.4

As at March 14, 2017, there were 895,166 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, 2016, include long-term debt consisting predominantly of the Term Facility and operating lease commitments which relate primarily to the Company's facilities. Lease terms are between one and eleven years and most building leases contain renewal options for periods ranging from three to five years.

The Company assesses its liquidity based on the period in which cash flows are expected to occur. The following table summarizes the Company's expected undiscounted cash flows as at December 31, 2016, assuming the Syndicated Facility is renewed prior to maturity on September 24, 2019. The analysis is based on foreign exchange rates and interest rates in effect at the date of the consolidated statement of financial position, and includes both principal and interest cash flows.

$ thousands	**Total**	2017	2018-2019	2020-2021	Thereafter
Trade payables, accruals and other	**47,995**	47,995	-	-	-
Floor plan payable(1)	**307,665**	307,665	-	-	-
Long-term debt	**53,066**	8,206	15,794	14,987	14,079
Obligations under finance leases	**987**	458	523	6	-
Operating lease obligations	**31,825**	8,169	10,473	6,741	6,442
Derivative financial liabilities	**3,614**	1,468	1,750	396	-
Total contractual obligations	**445,152**	373,961	28,540	22,130	20,521

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

In the event that the Syndicated Facility is not renewed prior to its maturity, the cash outflow for long-term debt outstanding as at December 31, 2016, would be $42.6 million in 2018-2019 and $Nil thereafter.

The Company is also subject to various degrees of recourse, arising in the ordinary course of business, by assisting its customers in financing the purchase or rental of equipment. The Company is exposed to potential losses arising from the difference between the assessed value of the underlying security and the amounts guaranteed by the Company. Any resulting losses are recorded as soon as the amount of the loss can be reasonably estimated. As the assessed value of the underlying security generally exceeds the amount guaranteed by the Company, management believes that the net exposure is not significant. As at December 31, 2016, gross recourse amounted to $2.1 million ($2015 - $4.7 million), prior to any consideration of the value associated with the securitized assets. As at December 31, 2016, the Company has accrued $0.7 million (2015 - $0.7) for anticipated losses.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2016, the Company entered into the following transactions with related parties:

$ thousands	2016	2015
Equipment and product support sales	**514**	1,394
Expenditures		
Rental payments on Company facilities	**5,832**	5,589
Equipment purchases	**271**	665
Flight costs	**74**	83
Contributions[1]	**157**	-
Other expenses	**33**	92

(1) – Contributions include payments to Ag for Life and Alberta Prosperity Fund.

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

The remuneration of the directors and officers of the Company was determined for the years presented by the then-constituted Compensation, Governance and Nominating Committee of the Board of Directors of the Company, 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:

$ thousands	2016	2015
Salary and short-term benefits	**2,754**	1,897
Post-retirement benefits	**25**	25
Share-based compensation	**1,115**	290
Total	**3,894**	2,212

Key management personnel are comprised of the Company's senior officers and directors. As at December 31, 2016, there is a $1.5 million commitment (2015 – $1.0 million) relating to the termination of employment of the key management personnel.

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

$ thousands	2016	2015
Due from related parties	**45**	111
Due to related parties	**(766)**	(13)

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

The amount due to related parties includes a $0.8 million accrual for net costs associated with vacating one of the industrial facilities which is currently leased from a related party. This accrual represents the Company's full remaining contractual obligation under the lease.

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

$ thousands	Total	2017	2018-2019	2020-2021	Thereafter
Operating lease obligations	**26,062**	5,535	7,511	6,574	6,442

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 operating assets with lease terms of between one and eleven years. Most building leases contain renewal options for periods of three to five years. We have paid monthly amounts under these operating leases of up to $64.2 thousand. In some instances, the counterparty to the Company's operating lease obligations is a related party. Refer to the "Related Party Transactions" section of this MD&A for a discussion of the terms and amounts of such arrangements. The range of expiry dates on the current operating leases extend until August 2026.

SELECTED FOURTH QUARTER FINANCIAL INFORMATION

$ thousands, except per share amounts	2016		2015		2014	
Sales	**285,749**	**100.0%**	285,587	100.0%	294,092	100.0%
Cost of sales	**251,633**	**88.1%**	248,049	86.9%	254,623	86.6%
Gross profit	**34,116**	**11.9%**	37,538	13.1%	39,469	13.4%
Selling, general and administrative	**25,205**	**8.8%**	27,175	9.5%	27,471	9.3%
(Gain) loss on derivative financial instruments	**(605)**	**(0.2%)**	274	0.1%	77	0.0%
Earnings before finance costs and income taxes	**9,516**	**3.3%**	10,089	3.5%	11,921	4.1%
Finance costs	**3,346**	**1.1%**	3,813	1.3%	3,480	1.2%
Earnings before income taxes	**6,170**	**2.2%**	6,276	2.2%	8,441	2.9%
Income taxes	**1,466**	**0.6%**	1,696	0.6%	2,220	0.8%
Net earnings	**4,704**	**1.6%**	4,580	1.6%	6,221	2.1%
Earnings per share						
Basic	**0.24**		0.24		0.32	
Diluted	**0.24**		0.24		0.32	
Dividends per share	**0.1150**		0.1150		0.1150	
Adjusted Diluted Earnings per Share(1)	**0.23**		0.25		0.32	
Adjusted EBITDA(1)	**8,176**	**2.9%**	8,966	3.1%	10,746	3.7%
Operating SG&A(1)	**23,044**	**8.1%**	25,260	8.8%	25,767	8.8%
Operating Cash Flow before Changes in Floor Plan(1)	**14,542**	**5.1%**	6,844	2.4%	7,822	2.7%

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

Sales and Gross Profit

$ thousands	2016	2015	Change
Sales			
New equipment	**148,926**	162,424	(13,498)
Used equipment	**107,324**	92,676	14,648
Parts	**20,414**	20,614	(200)
Service	**7,806**	8,714	(908)
Other	**1,279**	1,159	120
Total sales	**285,749**	285,587	162
Gross profit	**34,116**	37,538	(3,422)
Gross margin	**11.9%**	13.1%	(1.2%)

For the quarter ended December 31, 2016, total sales were $285.7 million, flat as compared to the same period in 2015. Fourth quarter 2016 sales benefited from a drawn-out harvest in 2016 resulting in a carryover of activity from the third quarter. As was the case during the third quarter of 2016, extended lead-times impacted the timing of equipment deliveries from our manufacturers, which in turn delayed delivery to the end customer. The reduction in new sales quarter-over-quarter reflects these longer delivery horizons.

As previously alluded to, the consolidation of our industrial distribution network into our existing agriculture footprint also caused some interruption to our sales functions. Given that sales orders are often initiated months in advance, the effects of this interruption on our sales activity lingered into the fourth quarter of 2016.

Product support revenues declined by $1.1 million or 3.8% during the quarter ended December 31, 2016, as compared to the same period last year. The decline reflects a reduction in technician headcount quarter-over-quarter.

Gross profit for the quarter ended December 31, 2016, decreased by $3.4 million over 2015. Gross margin decreased to 11.9% from 13.1% in the fourth quarter of 2015. The decrease in gross profit and gross margin stem from the disposal of certain aged used agriculture units at liquidation values.

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 quarter ended December 31, 2016, Operating SG&A was $23.0 million (8.1% of sales), down from $25.3 million (8.8% of sales) in 2015. The reduction in Operating SG&A reflects cost reductions realized through the amalgamation of our distribution footprint earlier in 2016.

Finance Costs

During the quarter ended December 31, 2016, finance costs declined by approximately $0.5 million. Strong cash generation resulted in a decrease in the average balance of interest-bearing debt outstanding, decreasing overall interest expense as compared to the same period in 2015.

Net Earnings

For the quarter ended December 31, 2016, we generated net earnings of $4.7 million, relatively flat as compared to 2015. The Company’s Adjusted Diluted Earnings per Share for the quarter ended December 31, 2016, was $0.23 compared to $0.25 for the fourth quarter of 2015. During the fourth quarter of 2016, the benefit of our reduced cost structure was more than offset by weaker gross profit for the period.

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 items 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. Bad debt expenses are reported with SG&A expenses.

Inventory Valuation

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. Value is assigned to equipment inventory acquired through trade-in by using recent sales of the same or similar equipment inventory or market values as established by industry publications. 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. Impairment losses and reversals of impairment losses are recorded within cost of sales.

Net Recoverable Amount of Goodwill

For the purposes of impairment testing, goodwill is allocated to the Company’s cash-generating units (“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.

As at December 31, 2016 and 2015, the Company prepared cash flow forecasts derived from the most recent financial plans prepared by management 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, 2016, the rate used to discount the forecasted cash flows was 10.3% (2015 – 10.9%), 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 the 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 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 7.3% (2015 – 6.4%) higher than management's estimates or the estimated growth rate used in extrapolating forecasted results been 14.5% (2015 – 13.8%) lower, the recoverable amount of the CGU would equal its carrying amount for the respective periods. Any additional negative change in the assumption would cause goodwill to be impaired with such impairment loss recognized in net earnings.

Manufacturer Incentives

Certain manufacturers offer annual performance incentives which are linked to the Company's market share achievement and annual sales and settlement volumes. The Company uses estimated annual market share statistics derived from historical results which have been adjusted for any anticipated changes in the current year, as well as eligible sales and settlement volumes to date to accrue the proportion of these annual manufacturer incentives earned during the period. Manufacturer incentives are recorded as reductions in the cost of inventory or, if the underlying item has been sold, within cost of sales.

Derivative Financial Instruments

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

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

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 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 within SG&A expenses.

Business Combinations

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

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

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

KEY FINANCIAL STATEMENT COMPONENTS

Equipment Sales

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

Parts Sales

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

Service Revenue

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

Cost of Sales

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

Selling, General and Administrative Expenses

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

Finance Costs

Finance costs include interest and other finance-related expense, including amortization of deferred finance costs. These costs are primarily associated with the floor plan financing of our new and used equipment inventory. Finance costs were also incurred on the Company's Operating and Term facilities, as well as its former debenture repayment, acquisition, real estate and fleet facilities for the comparative period (refer to "Adequacy of Capital Resources – Finance Facilities" for facility terms).

CHANGES IN ACCOUNTING POLICIES

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

At the date of this MD&A, the International Accounting Standards Board ("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.

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, 2018.

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, 2018, IFRS 7 will also be amended to require additional disclosure in the year of transition.

IFRS 15, 'Revenue from contracts with customers'

IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This standard is effective for fiscal periods beginning on or after January 1, 2018.

IFRS 16, 'Leases'

IFRS 16 replaces IAS 17 and requires most leases to be recognized as assets and liabilities on the statement of financial position. This standard includes an optional exemption for certain short-term leases and leases of low-value assets and is effective for fiscal periods beginning on or after January 1, 2019.

RISKS AND UNCERTAINTIES

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

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

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

RISKS RELATED TO FINANCIAL INSTRUMENTS

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

Credit Risk

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

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

During 2016, the Company recognized a $0.1 million recovery of bad debts (2015 – expense of $0.5 million). Bad debt expense (recovery) is recognized within SG&A expenses.

Market Risk

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

Foreign Currency Exchange Risk

The OEMs we do business with are geographically diversified, requiring us to conduct business in two currencies: U.S. dollars and Canadian dollars. As a result, we have foreign currency exposure with respect to purchases of U.S. dollar denominated products (inventory) and we experience foreign currency gains and losses thereon. The nature of exposure to foreign exchange fluctuations differs between equipment manufacturers and the various dealer agreements with them.

A weakening of the U.S. dollar in comparison to the Canadian dollar will generally have a positive effect on our performance by lowering our cost of goods sold. However, as the markets in which we operate are highly competitive, a declining U.S. dollar also has the effect of reducing sales prices in Canadian dollars and, as a consequence, we cannot capture the entire potential benefit of a declining U.S. dollar environment. By contrast, a strengthening U.S. dollar will increase the cost of equipment purchases. If we are unable to fully offset the increase in cost of goods through price increases, our financial results will be negatively affected. We mitigate some of this risk by occasionally purchasing forward contracts for U.S. dollars on large transactions to cover the period from the time the equipment is ordered from the manufacturer to the payment date.

During 2016, the Company recognized a net foreign exchange gain of $0.7 million (2015 – loss of $0.6 million). Foreign exchange gains (losses) are recognized within SG&A expenses.

Interest Rate Risk

We finance our equipment inventory, certain capital expenditures, business acquisitions and occasionally, our other general working capital requirements, by way of various financing facilities under which we are charged interest at floating rates. As a result, rising interest rates have the effect of increasing our overall costs. To the extent that we cannot pass on such increased costs to our customers, our net earnings or cash flow may decrease. In addition, some of our customers finance the equipment they purchase from us. A customer's decision to purchase may be affected by interest rates available to finance the purchase.

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

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

Equity Price Risk

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

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

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

Liquidity Risk

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

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

SUBSEQUENT EVENT

Subsequent to year end, the Company completed the disposition of $2.5 million of short-line assets classified as held-for-sale as at December 31, 2016. Floor plan financing associated with these assets amounting to $1.6 million was also transferred to the purchaser pursuant to the sale.

NON-IFRS MEASURES

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

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

  The Company also adjusts for any non-recurring charges (recoveries) recognized in net earnings. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that the Company incurs outside of its common day-to-day operations. Adjusting for these items allows management to isolate and analyze diluted earnings per share from core business operations. For the periods presented, costs associated with amalgamating the industrial operations and impairment losses recognized on vacant land have been classified as non-recurring charges. The impairment losses are not expected to give rise to a reduction in our tax provision.

- **"EBITDA"** is a commonly used metric in the dealership industry. EBITDA is calculated by adding finance costs associated with long-term debt, income taxes and depreciation and amortization to net earnings. Adding back non-operating expenses allows management to consistently compare periods by removing changes in tax rates, long-term assets and financing costs related to the Company's capital structure. During 2016, the Company has revised the description of what has historically been presented as interest on long-term debt. These costs are now described as finance costs associated with long-term debt and are included within finance costs on the statement of net earnings. This change in description did not impact the composition of the underlying metric.

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

  The Company also adjusts for any non-recurring charges (recoveries) recognized in EBITDA. Management deems non-recurring charges (recoveries) to be unusual or infrequent items that the Company incurs outside of its common day-to-day operations. Adjusting for these items allows management to isolate and analyze EBITDA from core business operations. For the periods presented, costs associated with amalgamating the industrial operations and impairment losses recognized on vacant land have been classified as non-recurring charges.

- **"Operating SG&A"** is calculated by eliminating from SG&A, depreciation and amortization expense as well as the impact of the losses (gains) arising from the Company's DSUs and the expense (recovery) associated with its SARs. These items arise from changes in the Company's share price as well as fluctuations in interest rates and are not reflective of the Company's core operations. The assessment of Operating SG&A facilitates the evaluation of discretionary expenses from ongoing operations. We target a sub-10% Operating SG&A as a percentage of total sales on an annual basis.

  Historically, the Company eliminated the impact of unrealized losses (gains) arising from the revaluation of derivative financial instruments as well as non-recurring charges (recoveries) recognized within SG&A when calculating Operating SG&A. During 2016, the Company revised the presentation of certain items within its statement of net earnings. Among these revisions is the separate presentation of unrealized losses (gains) arising from the revaluation of derivative financial instruments as well as costs associated with amalgamating the industrial operations and impairment losses recognized on vacant land, all of which had been previously classified as non-recurring charges and eliminated from SG&A. As these items are no longer included within SG&A, they no longer require elimination in the calculation of Operating SG&A.

- **"Operating Cash Flow before Changes in Floor Plan"** is calculated by eliminating the impact of the change in floor plan payable (excluding floor plan assumed pursuant to business combinations) from cash flows from operating activities. Adjusting cash flows from operating activities for changes in the balance of floor plan payable allows management to isolate and analyze operating cash flows during a period, prior to any sources or uses of cash associated with equipment financing decisions. This measure was previously defined as Floor Plan Neutral Operating Cash Flow. Management believes that the new nomenclature is a more intuitive description of the metric.

RECONCILIATION OF NON-IFRS MEASURES TO IFRS

Adjusted Diluted Earnings per Share

	For the quarter ended December 31,			For the year ended December 31,		
$ thousands	**2016**	2015	2014	**2016**	2015	2014
Earnings used in the calculation of diluted earnings per share	**4,704**	4,580	6,221	**14,966**	11,293	18,925
(Gain) loss on derivative financial instruments	**(605)**	274	77	**(4,751)**	3,548	68
Loss (gain) on DSUs	**16**	(53)	(127)	**220**	(211)	(223)
SAR expense	**230**	6	18	**757**	24	18
Industrial restructuring charges	**-**	-	-	**3,564**	-	-
Impairment loss on vacant land – not tax deductible	**-**	-	-	**1,360**	-	-
Tax effect of adjustments (2016 & 2015 – 27%, 2014 – 25%)	**97**	(61)	8	**57**	(907)	34
Earnings used in the calculation of Adjusted Diluted Earnings per Share	**4,442**	4,746	6,197	**16,173**	13,747	18,822
Weighted average diluted shares used in the calculation of diluted earnings per share (in thousands)	**19,384**	19,272	19,272	**19,384**	19,327	19,309
Adjusted Diluted Earnings per Share	**0.23**	0.25	0.32	**0.83**	0.71	0.97

EBITDA and Adjusted EBITDA

	For the quarter ended December 31,			For the year ended December 31,		
$ thousands	**2016**	2015	2014	**2016**	2015	2014
Net earnings	**4,704**	4,580	6,221	**14,966**	11,293	18,925
Finance costs associated with long-term debt	**450**	501	524	**1,795**	2,060	2,182
Depreciation expense	**1,915**	1,962	1,813	**7,755**	7,803	7,057
Income taxes	**1,466**	1,696	2,220	**5,955**	4,105	7,276
EBITDA	**8,535**	8,739	10,778	**30,471**	25,261	35,440
(Gain) loss on derivative financial instruments	**(605)**	274	77	**(4,751)**	3,548	68
Loss (gain) on DSUs	**16**	(53)	(127)	**220**	(211)	(223)
SAR expense	**230**	6	18	**757**	24	18
Non-recurring industrial amalgamation charges	**-**	-	-	**3,564**	-	-
Impairment loss on vacant land	**-**	-	-	**1,360**	-	-
Adjusted EBITDA	**8,176**	8,966	10,746	**31,621**	28,622	35,303

Operating SG&A

	For the quarter ended December 31,			For the year ended December 31,		
$ thousands	**2016**	2015	2014	**2016**	2015	2014
SG&A	**25,205**	27,175	27,471	**97,970**	108,228	105,688
Depreciation expense	**(1,915)**	(1,962)	(1,813)	**(7,755)**	(7,803)	(7,057)
(Loss) gain on DSUs	**(16)**	53	127	**(220)**	211	223
SAR expense	**(230)**	(6)	(18)	**(757)**	(24)	(18)
Operating SG&A	**23,044**	25,260	25,767	**89,238**	100,612	98,836
Operating SG&A as a % of revenue	**8.1%**	8.8%	8.8%	**9.6%**	10.3%	10.2%

Operating Cash Flow before Changes in Floor Plan

$ thousands	For the quarter ended December 31, 2016	2015	2014	For the year ended December 31, 2016	2015	2014
Cash flow from operating activities	**12,917**	12,839	12,898	**27,163**	35,460	16,724
Net decrease (increase) in floor plan payable[(1)]	**1,625**	(5,995)	(5,076)	**60,463**	23,951	(39,717)
Floor plan assumed pursuant to business combinations	**-**	-	-	**-**	32,782	-
Operating Cash Flow before Changes in Floor Plan	**14,542**	6,844	7,822	**87,626**	92,193	(22,993)

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

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, 2016, pursuant to the requirements of National Instrument 52-109, and have concluded that:

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

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

Management has concluded that, as of December 31, 2016, the Company has sufficiently documented and tested the effectiveness of the ICFR for the Company and can conclude that these controls are working effectively. It should be noted that while the Company's management believes that the Company's ICFR and DC&P provide a reasonable level of assurance that they are effective, they do not expect these controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

CAUTION REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains FLS within the meaning of applicable securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Rocky or industry results, to be materially different from any future results, events, expectations, performance or achievements expressed or implied by such FLS. FLS typically contain words or phrases such as "may", "outlook", "objective", "intend", "estimate", "anticipate", "should", "could", "would", "will", "expect", "believe", "plan", "predict" and other similar terminology suggesting future outcomes or events. FLS involve numerous assumptions and should not be read as guarantees of future performance or results. Such statements will not necessarily be accurate indications of whether or not such future performance or results will be achieved. Readers of this MD&A should not unduly rely on FLS as a number of factors, many of which are beyond the control of Rocky, could cause actual performance or results to differ materially from the performance or results discussed in the FLS.

In particular, FLS in this MD&A include, but are not limited to, the following: (i) disclosure under the heading "Market Fundamentals and Outlook"; (ii) continuing demand for Rocky's products and services, and the cyclical nature of agriculture equipment demand and any revenue or inventory statements or forecasts attributed thereto; (iii) statements pertaining to the growth of Rocky's business and operations, including through acquisitions; (iv) statements pertaining to weather conditions and the anticipated effect of such conditions on crop quality and yield; (v) statements regarding the disparity between the Canadian and U.S. dollars and the impact such disparity may have on Rocky's business; (vi) any discussion on the anticipated mix of new and used equipment sales for 2017; (vii) discussion on the fundamentals of Rocky's business, including discussion regarding growth in GDP, farmers' crop receipts, and the future demand for agriculture equipment and commodities; (viii) statements regarding customer buying patterns, including the extent to which we are able to convert new equipment customers to used equipment customers and attract U.S. customers looking to capitalize on favorable U.S.-Canadian foreign exchange rates; (ix) statements pertaining to Rocky's ability to negotiate early terminations or sub-tenancies for its vacated Calgary and Red Deer properties; (x) any statements or discussions regarding Rocky's inventory

management and any expected increases or decreases in Rocky's inventory levels, and the timing and delivery thereof; (xi) statements that we believe cash flow from operations, along with existing credit facilities, will provide for our capital needs; (xii) discussion around SG&A expenses including the seasonal variances and expectations in operating SG&A; (xiii) discussion that our first quarter is generally the weakest financial quarter due to lack of agricultural activity and winter shutdowns, that the fourth quarter is generally our strongest quarter financially, and discussion that we expect our second and third quarter sales activity to increase as our installed equipment- and customer-base increases; (xiv) statements that as acquisitions are integrated into the business, the associated SG&A costs for Rocky will generally decrease; (xv) statements related to our per-location revenue expectations, any assessment of the economies of scale associated with any facility, and the effect the delivery of presold equipment during the first half of 2017 will have on new equipment sales; (xvi) statements that our installed base and customer relationships create an annuity of equipment sales and product support revenue, which help drive dependable earnings and cash flow; (xvii) statements that weather conditions may impact sales activity for any given period; (xviii) statements concerning the Company's ongoing compliance with, or potential breaches of, its covenants under its credit facilities, including the Syndicated Facility; (xix) statements concerning the Company’s expected undiscounted cash flows as at December 31, 2016; and, (xxii) statements regarding the ongoing quantitative significance of our industrial segment.

With respect to the FLS listed above and contained in this MD&A, Rocky has made assumptions regarding, among other things: (i) expectations that commodity prices will continue to remain above historical levels; (ii) increasing food demand, as well as increasing crop land dedicated to bio-fuel production, will cause producers to improve their productivity, and as a result invest in new equipment, (iii) expectations that increases in farmer liquidity would generally correlate to farmers making capital re-investments in their business, so as to increase their productivity and lower their input costs, which investments may include Rocky’s products and services, (iv) inventory levels will fluctuate during a year, both positively and negatively, based on timing of equipment deliveries, and volume of whole-good sales involving a unit taken in on trade, (v) the general GDP growth and/or relative economic stability in the markets we operate in, (vi) the trend towards larger farms in the agriculture sector will continue to benefit further farm equipment sales as larger farm operations tend to replace their equipment more frequently, (vii) the Company’s cash flow will remain sufficient to, in connection with its credit facilities, adequately finance its capital needs, (viii) as stores are consolidated, certain functions can be centralized thereby reducing SG&A costs as a result, (ix) the anticipated improvement in ongoing revenue and cash-flow, including parts and service revenue, as our installed base increases, (x) expectations that no material change will happen to our OEM relationships; (xi) expectations that customers who purchase their equipment from the Company will, generally, return to the Company for their product support needs; (xii) our realigned investment in inventory is consistent with current market demand; and, (xiii) the Company will remain in compliance with all of its debt covenants under the terms of the Syndicated Facility and will be able to renew its Syndicated Facility prior to maturity on September 24, 2019.

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