# 2016 ANNUAL REPORT

## CERVUS EQUIPMENT CORPORATION

*People. Power. Service.*™

# MESSAGE TO THE SHAREHOLDERS

I would first like to thank all of our customers, employees, original equipment manufacturers, and shareholders for their partnership during the past year. Our 2016 accomplishments have strengthened our business and advanced our vision: to be the leading full-service dealer of best-in-class, business-to-business equipment brands.

During the year, Cervus delivered on our key objectives by strengthening our balance sheet, improving service capabilities and margins, continuing to reduce costs and growing market share in our Transportation segment.

In 2016, we achieved our capital objectives and prepared our balance sheet for growth. We reduced inventory by $62.5 million through focused in-season sales and a disciplined approach to used inventory management. The sale and leaseback of 11 properties aligned Cervus' capital structure and entrusted the ownership of physical premises to a respected specialist and long-term partner. Finally, Cervus extended its $100 million syndicated committed credit facility, which now matures in December 2019. The achievement of these capital objectives enables Cervus to seize market opportunities as they arise, and supports our undivided focus on the core of our business: dealership operations.

During the year, Cervus' continued investment in Ontario produced tangible results. Our focus on making it easier for customers to do business with us was advanced, both in terms of the number of locations, and quality and efficiency of service. A critical factor for our customers in the transportation sector is proximity to and the availability of service technicians for their fleets. Since our acquisition of Peterbilt of Ontario, we have hired additional service technicians, increased the number of service bays by 29% and opened four new locations in the province. All of these investments are complemented by our service optimization initiative, which gained traction in 2016 and increased the profitability across our service departments in 2016. These efforts have generated increased market share in our Ontario dealerships, despite lower overall equipment demand in the transportation industry in 2016.

In 2015, we made a decision to reduce costs, anticipating a challenging market to persist into 2016. I am proud of the decisions made by our managers across all segments, who have demonstrated leadership in the business they operate, reducing year over year selling general and administrative costs by $15.2 million. This was a fundamental factor in continued operational profitability through 2016 while protecting our capacity to grow with market recoveries.

Our strategic footing entering 2017 is sound. Service departments will be the primary growth focus for Cervus as our managers continue to implement, monitor and adapt service optimization across the Company. Providing our customers with the repairs they require, at the cost they expect, and in a timely manner form the foundation of our customer relationships, are core to our dealership operations and will lead our success in 2017.

Sincerely,

Graham Drake
President & Chief Executive Officer
Cervus Equipment Corporation

# Q & A

## With Graham Drake, President & Chief Executive Officer

**Looking back on 2016, what was a significant achievement in the year?**

The acquisitions we made in late 2014 resulted in an immediate 60% growth in the number our Canadian wholly-owned dealerships. I see two significant achievements in 2016, both critical in the integration and optimization of this rapid growth. The first is significantly strengthening our balance sheet during the year. By achieving our inventory reduction goals and aligning our capital through the sale and leaseback of 11 physical premises, our debt decreased by $149 million. This resets our capital structure for future growth.

The second achievement is the focus and delivery of process, particularly around our service departments. In our experience, when we deliver products and service at a level which increases customer uptime, demonstrate our understanding of their business realities and constraints, and deliver our commitments on time, we become a trusted partner. Progress reviewing and aligning our process was a significant achievement in 2016, and a substantial undertaking.

**What was the motivation behind Cervus Equipment's sale and leaseback?**

The sale and leaseback is about re-aligning our capital with the roots of our business. Dealership operation is our expertise, and has always been our focus. As Cervus has grown over the years, the dealerships we've acquired often included the underlying real estate, particularly in our agricultural segment. By identifying a reputable, established and long-term partner in Skyline Commercial REIT, we retained many of the benefits of ownership while aligning our capital structure with our focus as a dealership operator, not a real estate aggregator. Deciding to sell and leaseback 11 of our dealerships, valued at $55.7 million, to Skyline Commercial REIT has not only freed up cash and reduced our debt, but brought us back to our core principle of dealership operations. In addition, we're very pleased to have gained a trusted partner.

**What do you see as the key focus for the company in 2017?**

In 2017, the focus around streamlined operational process will continue. Efficient internal process enables informed and timely decision making at our dealerships and drives both customer satisfaction and profitability. By instilling and expanding these initiatives across areas such as precision agriculture, service, parts, rentals and training, we are continuing to advance our customers' businesses by providing effective, and efficient solutions as a trusted partner.

**For Cervus, what is a risk going forward and what are you doing to mitigate it?**

Our customers operate in industries experiencing constant, and at many times, rapid change. Cervus must continue to offer solutions which reduce our customers' risk while enhancing their efficiency. In this regard, we are well positioned with our OEM partners, who lead the market in the innovation and development of equipment solutions. Cervus must continue to build our capacity for anticipating the business realities of our customers. Further, a strong balance sheet provides the operational flexibility required to both take and mitigate risks.

**What do you see as Cervus' opportunities going forward?**

We see opportunities for continued growth, particularly in the efficiency of our service departments. Accelerating these efficiencies comes through instilling consistent and repeatable processes, which in turn facilitate the optimization of acquisitive growth. This directly aligns with our core values of making decisions as close to the customer as possible, investing in our people, and partnering with our OEMs.

# Cervus Equipment Corporation MANAGEMENT'S DISCUSSION + ANALYSIS

## For the period from January 1, 2016 to December 31, 2016

The following Management's Discussion & Analysis ("MD&A") was prepared as of March 15, 2017 and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or the "Company") financial performance for the three and twelve month periods ended December 31, 2016 and significant trends that may affect the future performance of Cervus. This MD&A should be read in conjunction with the accompanying consolidated financial statements for the year ended December 31, 2016 and notes contained therein. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Cervus' functional and reporting currency is the Canadian dollar. Cervus' common shares trade on the Toronto Stock Exchange under the symbol "CERV".

Additional information relating to Cervus, including Cervus' current annual information form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site **at www.sedar.com**.

This MD&A contains forward-looking statements. Please see the section "Note Regarding Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to those statements. This MD&A also makes reference to certain non-IFRS financial measures to assist users in assessing Cervus' performance. Non-IFRS financial measures do not have any standard meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Non-IFRS Financial Measures."

### OVERVIEW OF CERVUS

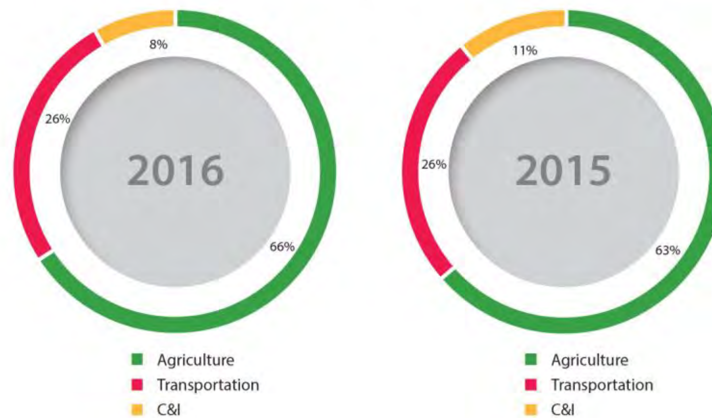
Cervus operates under three segments: Agriculture, Commercial and Industrial, and Transportation based on the industries which they serve. These segments are managed separately, and strategic decisions are made on the basis of their respective operating results.

The Agricultural equipment segment consists of interests in 35 John Deere dealership locations with 14 in Alberta, 5 in Saskatchewan, 1 in British Columbia, 9 in New Zealand and 6 in Australia.

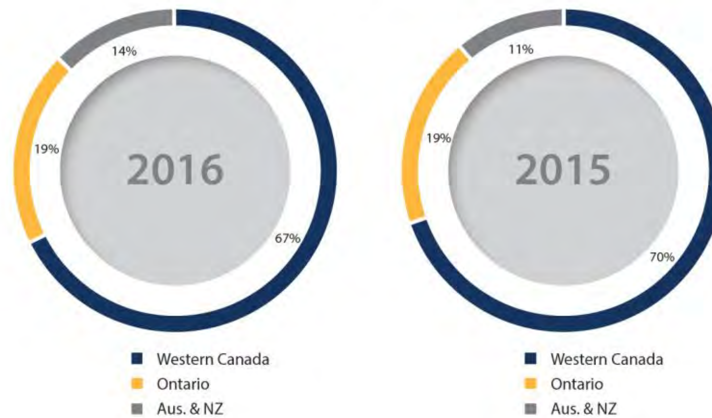
The Commercial and Industrial ("C&I") equipment segment consists of 11 dealership locations with 8 Bobcat/ JCB, Clark, Sellick, and Doosan material handling and forklift equipment dealerships operating in Alberta, 2 Clark, Sellick, and Doosan material handling and forklift equipment dealerships operating in Saskatchewan and 1 in Manitoba.

The Transportation segment consists of 18 dealership locations with 4 Peterbilt truck dealerships and 1 Collision Centre operating in Saskatchewan, 12 Peterbilt truck dealerships operating in Ontario, and 1 parts and service location operating in Ontario.

### Revenue by Segment




### Revenue by Geography




## NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute "forward-looking statements". These forward-looking statements may include words such as "anticipate", "believe", "could", "expect", "may", "objective", "outlook", "plan", "should", "target" and "will". All statements, other than statements of historical fact, that address activities, events, or developments that Cervus or a third party expects or anticipates will or may occur in the future, including our future growth, results of operations, performance and business prospects and opportunities, and the assumptions underlying any of the foregoing, are forward-looking statements. These forward-looking statements reflect our current beliefs and are based on information currently available to us and on assumptions we believe are reasonable. Actual results and developments may differ materially from the results and developments discussed in the forward-looking statements as they are subject to a number of significant risks and uncertainties, including those discussed under "Business Risks and Uncertainties" and elsewhere in this MD&A. Certain of these risks and uncertainties are beyond our control. Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, Cervus. These forward-looking statements are made as of the date of this MD&A, and we assume no obligation to update or revise them to reflect subsequent information, events, or circumstances unless otherwise required by applicable securities legislation.

The most recent quarterly dividend payment of $0.07 per share was made to the shareholders of record as of December 31, 2016 on January 15, 2017. See "Capital Resources - Cautionary note regarding dividends" section within.

## HIGHLIGHTS OF THE YEAR

- The Company generated income of $23.5 million in 2016, compared to a loss of $27.4 million in the prior year.
- The Company generated adjusted earnings[1] of $10.8 million for the year ended December 31, 2016, and adjusted basic earnings per share[1] of $0.69. For the comparable period in 2015, the Company generated adjusted earnings of $13.3 million and adjusted basic earnings per share of $0.86.
- The Company generated $1.1 billion of revenue in 2016, consistent with 2015, while targeted cost reduction initiatives achieved a $15.2 million reduction in selling general and administrative ("SG&A") expenses in the year.
- The service optimization initiatives that began in 2015, resulted in increased service gross profit margin of 1.1% compared to the year ended December 31, 2015, and a 6.6% increase in the fourth quarter of 2016 compared to the same period in 2015.
- The Company extended and amended its revolving credit facility for three years, extending maturity to December 2019. The facility provides stability for our existing operations and maintains capital flexibility for the future.
- The Company completed the long term sale and leaseback of eleven properties. The land and buildings were sold for net proceeds of $54.8 million for a gain on sale of $3.6 million. The Company has entered into operating leases for the eleven properties with initial terms ranging between 15-20 years.
- The Company sold its 21% interest in Maple Farms Partnership ("Maple") to the majority partner for gross proceeds of approximately $9.1 million resulting in a gain on sale of $4.1 million.
- The Company reduced term debt by $68.2 million (65%) compared to 2015.
- The Company achieved inventory reductions totaling $62.5 million (20%) and decreased floor plan payables by $82.6 million (49%) compared to 2015.
- Dividends of $0.28 per share were declared to shareholders during 2016.
- The Company climbed to #49 from #66 on the Alberta Venture's 2016 Venture 250 ranking.
- The Alberta John Deere dealerships were awarded John Deere's Leaders Club status for the second consecutive year, an award recognizing the top John Deere dealers in Canada.

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[1] Refer to Non-IFRS Measures herein

## ANNUAL CONSOLIDATED RESULTS

| ($ thousands, except per share amounts) | 2016 | % Change Compared to 2015 | 2015 |
|---|---|---|---|
| Revenue | **1,109,939** | (2%) | 1,133,878 |
| Cost of sales | **(918,874)** | (1%) | (926,937) |
| **Gross profit** | **191,065** | (8%) | 206,941 |
| Other income | **10,437** | 857% | 1,091 |
| Unrealized foreign exchange gain (loss) | **3,501** | 225% | (2,810) |
| Total other income (loss) | **13,938** | 911% | (1,719) |
| Selling, general and administrative expense | **(164,431)** | (8%) | (179,583) |
| **Income from operating activities** | **40,572** | 58% | 25,639 |
| Finance income | **169** | (13%) | 195 |
| Finance costs | **(10,664)** | (7%) | (11,428) |
| Share of profit of equity accounted investees, net of income tax | **489** | (10%) | 542 |
| **Income before income tax expense** | **30,566** | 104% | 14,948 |
| Income tax (expense)[1] | **(7,042)** | (83%) | (42,327) |
| **Income (loss) for the year** | **23,524** | 186% | (27,379) |
| **Income (loss) attributable to shareholders** | **23,712** | 186% | (27,421) |
| **EBITDA[2]** | **61,025** | 32% | 46,330 |
| **EBITDA margin[2]** | **5.5%** | | 4.1% |
| **Ratios as a percentage of revenue:** | | | |
| Gross profit margin | **17.2%** | | 18.3% |
| Selling, general and administrative | **14.8%** | | 15.8% |
| **Income (loss) per share** | | | |
| Basic - adjusted[2] | **0.69** | (20%) | 0.86 |
| Basic | **1.51** | 185% | (1.77) |
| Diluted | **1.44** | 181% | (1.77) |

[1] – 2015 includes the impact of $36.9 million non-cash settlement with the CRA.

[2] - Refer to Non-IFRS Measures herein

**Operating Summary:**

Net income before tax increased $15.6 million compared to 2015, including a $4.1 million gain on sale of minority interests, a $5.3 million gain on sale of real estate, and a $6.3 million increase in unrealized foreign exchange gains. EBITDA increased $14.7 million. Within the Agricultural segment, new equipment sales shifted to later in the year which decreased gross profit margins despite consistent overall equipment sales. In the Transportation segment, an increase in equipment sales in Saskatchewan and improved service gross profit margins in both Saskatchewan and Ontario increased profitability. In our C&I segment the broader western Canadian economy continued to impact the light construction sector resulting in lower year over year income before tax. Across the Company, SG&A expense reductions generated $15.2 million of savings in the year, resulting in consistent income before income tax compared to 2015 when excluding gains on sale and unrealized foreign exchange.

Income from operating activities increased $14.9 million compared to 2015, including a $4.1 million gain on the sale of minority interest, a $5.3 million gain on sale of real estate, and a $6.3 million increase in unrealized foreign exchange gains. Excluding the aforementioned gains and foreign exchange, income from operating activities decreased by $0.8 million compared to 2015. Within our Agricultural segment, income from operating activities was in line with 2015 when excluding gains on real estate, as cost reductions offset lower gross profit margin. Producers were ultimately successful in capturing the near record crop yield that materialized in 2016, despite a challenging and shortened harvest window. The difficult harvest increased late season sales of both equipment and parts, although equipment sales were lower in the first half of 2016 due to reserved farm sentiment prior to harvest. The timing of equipment sales shifting to the fourth quarter negatively impacted eligibility for 2016 Original Equipment Manufacturer ("OEM") incentives, while also increasing margin pressure around late season trades.

In our Transportation segment, sales volume decreased in our Ontario dealerships as North American class 8 truck demand tapered following high sales in 2015. However, our Ontario dealerships were successful in growing market share through focused sales efforts, increasing our share of the overall market. Equipment sales in our Saskatchewan dealerships increased related primarily to improved resource activity. Across the Transportation segment, service margins improved in both our Saskatchewan and Ontario dealerships due to our service optimization initiative. Within our C&I segment, activity in the Western Canadian light construction industry has not yet returned and continues to affect light construction equipment sales. Income from operating activities in our C&I segment decreased $1.1 million compared to 2015. Across all segments, the Company's cost reduction initiatives reduced SG&A by $15.2 million in the year compared to 2015.

## ANNUAL BUSINESS SEGMENT RESULTS

The Company has three reportable segments: Agricultural, Transportation, and Commercial and Industrial, each supported by a single shared resources function. The Company allocates the expenditures of shared resources to each individual segment according to specific identification and metrics to estimate use as outlined in Note 28 of the accompanying Consolidated Annual Financial Statements.

### Agricultural Segment Results

| ($ thousands, except per share amounts) | 2016 | % Change Compared to 2015 | 2015 |
|---|---|---|---|
| Equipment | | | |
| New equipment | **371,218** | 2% | 365,073 |
| Used equipment | **235,016** | 7% | 220,637 |
| Total equipment revenue | **606,234** | 4% | 585,710 |
| Parts | **89,022** | 9% | 82,045 |
| Service | **38,631** | (2%) | 39,260 |
| Rental and other | **5,142** | 19% | 4,328 |
| Total revenue | **739,029** | 4% | 711,343 |
| Cost of sales | **(623,860)** | 6% | (590,638) |
| Gross profit | **115,169** | (5%) | 120,705 |
| Other income | **9,693** | 236% | 2,885 |
| Selling, general and administrative expense | **(90,798)** | (7%) | (97,129) |
| Income from operating activities | **34,064** | 29% | 26,461 |
| Income before income tax expense | **28,414** | 36% | 20,824 |
| EBITDA | **44,658** | 22% | 36,491 |
| Ratios as a percentage of revenue: | | | |
| Gross profit margin | **15.6%** | | 17.0% |
| Selling, general and administrative | **12.3%** | | 13.7% |

**Operating Summary:**

Agriculture income before income tax expense increased $7.6 million to $28.4 million in 2016, and EBITDA increased $8.2 million. The increase in income before income tax and EBITDA includes a $4.1 million gain on sale of minority interest and a $3.4 million gain on the sale of real estate. Excluding these gains, income before income tax and EBITDA were comparable to 2015, as lower equipment gross profit margins were offset by SG&A reductions of $6.3 million.

Income from operating activities increased $7.6 million for the year ended December 31, 2016 when compared to 2015, including a $4.1 million gain on sale of minority interests, and a $3.4 million gain on sale of real estate. Farmer sentiment fluctuated significantly during the year, tempering pre-season new equipment sales. Annual sales in line with 2015 was ultimately realized through a busy fourth quarter, as near record yields materialized in the midst of a difficult harvest. Our focus on inventory reduction through 2016 increased used equipment revenue, while margin pressures combined with lower fourth quarter dealer incentives reduced gross profit margins. SG&A cost reductions of $6.3 million more than offset the $5.5 million decrease in gross profit.

## Transportation Segment Results

| ($ thousands, except per share amounts) | 2016 | % Change Compared to 2015 | 2015 |
|---|---|---|---|
| Equipment | | | |
| New equipment | **148,056** | (6%) | 157,836 |
| Used equipment | **6,563** | (47%) | 12,387 |
| Total equipment revenue | **154,619** | (9%) | 170,223 |
| Parts | **90,364** | (3%) | 93,048 |
| Service | **29,785** | 5% | 28,291 |
| Rental and other | **11,475** | 27% | 9,017 |
| Total revenue | **286,243** | (5%) | 300,579 |
| Cost of sales | **(233,089)** | (6%) | (246,930) |
| Gross profit | **53,154** | (1%) | 53,649 |
| Other (loss) | **(1,085)** | (55%) | (2,392) |
| Unrealized foreign exchange gain (loss) | **3,501** | 225% | (2,810) |
| Total other income (loss) | **2,416** | 146% | (5,202) |
| Selling, general and administrative expense | **(48,942)** | (3%) | (50,203) |
| Income (loss) from operating activities | **6,628** | 477% | (1,756) |
| Income (loss) before income tax expense | **3,256** | 160% | (5,422) |
| EBITDA | **13,321** | 166% | 5,000 |
| Ratios as a percentage of revenue: | | | |
| Gross profit margin | **18.6%** | | 17.8% |
| Selling, general and administrative | **17.1%** | | 16.7% |

**Operating Summary:**
Transportation income before income tax increased $8.7 million and EBITDA increased $8.3 million compared to 2015. The increase in income before income tax and EBITDA was due to higher profitability in both Saskatchewan and Ontario geographies, a $6.3 million increase in unrealized foreign exchange gains, and a $0.4 million gain on sale of real estate. Cost reductions decreased SG&A in the segment by $1.3 million compared to 2015, despite the initial cost increase associated with adding locations and related service capacity in Ontario.

For the year ended December 31, 2016, income from operating activities increased $8.4 million on improved profitability in both our Ontario and Saskatchewan geographies along with a $6.3 million increase in unrealized foreign exchange gains and a $0.4 million gain on sale of real estate. Excluding unrealized foreign exchange and gains on sale of real estate, income from operating activities increased $0.4 million in Ontario, and increased $1.3 million in our Saskatchewan dealerships.

Our Saskatchewan dealerships benefited from a slight recovery in market conditions as oil field activity accelerated, increasing equipment demand from near record lows. Cost reductions continues to be a key focus and was the main contributor to the improved income from operating activities in Saskatchewan. In our Ontario operations, we grew our equipment market share despite lower overall industry demand reducing the number of units sold in the market. Further, increased shop capacity and service optimization delivered improved service revenues and gross profit margin, leading to an overall increase in Ontario's income from operating activities in the year.

## Commercial and Industrial Segment Results

| ($ thousands, except per share amounts) | 2016 | % Change Compared to 2015 | 2015 |
|---|---|---|---|
| Equipment | | | |
| New equipment | **41,033** | (37%) | 65,191 |
| Used equipment | **6,775** | (23%) | 8,798 |
| Total equipment revenue | **47,808** | (35%) | 73,989 |
| Parts | **21,567** | (19%) | 26,767 |
| Service | **11,557** | (22%) | 14,737 |
| Rental and other | **3,735** | (42%) | 6,463 |
| Total revenue | **84,667** | (31%) | 121,956 |
| Cost of sales | **(61,925)** | (31%) | (89,369) |
| Gross profit | **22,742** | (30%) | 32,587 |
| Other income | **1,829** | 206% | 598 |
| Selling, general and administrative expense | **(24,691)** | (23%) | (32,251) |
| (Loss) income from operating activities | **(120)** | (113%) | 934 |
| Loss before income tax expense | **(1,104)** | 143% | (454) |
| EBITDA | **3,046** | (37%) | 4,839 |
| Ratios as a percentage of revenue: | | | |
| Gross profit margin | **26.9%** | | 26.7% |
| Selling, general and administrative | **29.2%** | | 26.4% |

**Operating Summary:**

The C&I segment loss before income tax increased $0.7 million for the year ended 2016, while EBITDA decreased $1.8 million compared to 2015. The effects of resource prices on the western Canadian light construction sector have not yet abated, and continued to dampen equipment sales within our C&I segment. SG&A cost reductions of $7.6 million and a $1.5 million gain on sale of real estate limited the impact of reduced sales year over year.

Income from operating activities decreased $1.1 million during the year, as the economic fallout of oil prices reduced segment revenues by $37.3 million (31%). Customers' reluctance to commit capital in light of continued uncertainty was most evident in equipment sales, which decreased 35% compared to 2015. A $7.6 million decrease in SG&A was achieved through continuous monitoring and action around costs as we navigate through the cycle. Despite economic pressures, the segment achieved improved gross profit margins on both sales mix and the impact of our service efficiency initiatives. Our focus on alignment of inventory levels during the year achieved inventory reductions of $15.7 million or 36% compared to 2015.

### Cash and cash equivalents – Year Ended December 31, 2016

Cervus' primary sources and uses of cash flow for the year ended December 31, 2016 are as follows:

#### Operating activities

Net cash provided by operating activities in 2016 decreased $7.5 million compared to 2015, primarily due to the additional retirement of floorplan during 2016 compared to 2015, as reflected in working capital changes. Net cash change in working capital items was primarily due to a $17.7 million use of cash for net inventory and floorplan reductions in 2016, compared to $7.9 million in 2015, as an increase in cash inflows from inventory were offset by a greater use of cash to reduce floorplans.

#### Investing activities

During the year ended December 31, 2016, the Company received $72.0 million of net cash from investing activities compared to a use of cash of $21.4 million for the same period in 2015, an increase of $93.4 million. The primary factor was proceeds from disposal of property and equipment of $70.1 million in 2016, compared to $7.4 million in 2015. The increase in 2016 was due to the disposal of two properties previously held for sale along with the sale of eleven properties through a long-term sale and leaseback. In addition, the Company also disposed of its minority interest in an equity held investee for $9.1 million in 2016.

#### Financing activities

During the year ended December 31, 2016, the Company used $86.0 million of cash for financing activities compared to $9.6 million in 2015, a change of $76.4 million. In 2016, $71.7 million of cash outflows were used to repay long term-debt, compared to cash provided from debt of $8.7 million in 2015.

## FOURTH QUARTER CONSOLIDATED RESULTS

| ($ thousands, except per share amounts) | 2016 | % Change Compared to 2015 | 2015 |
|---|---|---|---|
| Revenue | 271,943 | 6% | 257,726 |
| Cost of sales | (225,455) | 10% | (205,631) |
| **Gross profit** | 46,488 | (11%) | 52,095 |
| Other income | 7,832 | 5301% | 145 |
| Unrealized foreign exchange (loss) | 304 | 128% | (1,083) |
| Total other income (loss) | 8,136 | 967% | (938) |
| Selling, general and administrative expense | (41,945) | (1%) | (42,486) |
| **Income from operating activities** | 12,679 | 46% | 8,671 |
| Finance income | 93 | 94% | 48 |
| Finance costs | (2,375) | (16%) | (2,823) |
| Share of profit of equity accounted investees, net of income tax | 407 | 65% | 246 |
| **Income before income tax expense** | 10,804 | 76% | 6,142 |
| Income tax expense | (2,042) | (10%) | (2,267) |
| **Income for the period** | 8,762 | 126% | 3,875 |
| **Income attributable to shareholders** | 8,753 | 132% | 3,768 |
| **EBITDA** | 18,008 | 20% | 15,034 |
| **EBITDA margin** | 6.6% | | 5.8% |
| **Ratios as a percentage of revenue:** | | | |
| Gross profit margin | 17.1% | | 20.2% |
| Selling, general and administrative | 15.4% | | 16.5% |
| **Income per share** | | | |
| Basic - adjusted | 0.03 | | 0.32 |
| Basic | 0.55 | | 0.24 |
| Diluted | 0.52 | | 0.23 |

**Operating Summary:**

Income before income tax increased $4.7 million, and EBITDA increased $3.0 million compared to the three months ended December 31, 2015. These results include a $4.1 million gain on sale of a minority interest and a $3.9 million gain on sale of real estate. Excluding these gains, Agricultural segment income decreased due to the timing of equipment sales during the year which impacted fourth quarter dealer incentives as reflected in gross profit margins. Within the Transportation segment, increased equipment revenue in Saskatchewan combined with an overall improvement in service gross profit margins were offset by lower equipment sales in our Ontario geography. In our C&I segment, market uncertainty continues to affect demand, contributing to reduced income before income tax in the period.

For the three months ended December 31, 2016 income from operating activities increased $4.0 million including a $4.1 million gain on sale of minority interest, $3.9 million gains on the sale of real estate, and a $1.4 million increase in unrealized foreign exchange gains. Across all segments, impacts of our service optimization initiatives were evident in the quarter. Overall service gross margin percentage increased by 6.6% compared to the fourth quarter of 2015, translating to an additional $1.4 million (15% increase) in service gross profit margin, on a 1% increase in overall service revenue.

Within the Agricultural segment, accelerated fourth quarter equipment demand was negated by lower equipment gross profit margins, as the timing of equipment sales affected OEM incentives which comprised $2.6 million of the $3.2 million decrease in income from operating activities. In our Transportation segment, the timing of a large fleet sale late in Q4 2015 not replicated in 2016, resulted in lower year over year fourth quarter equipment revenue in Ontario, and was the primary factor in the $0.6 million decrease in income from operating activities for the segment. Within our C&I segment, improved resource prices have not translated to increased demand in the western Canadian light construction industry, resulting in a $0.9 million decrease in income from operating activities.

## FOURTH QUARTER SEGMENT RESULTS

### Agricultural Segment Results

| ($ thousands, except per share amounts) | 2016 | % Change Compared to 2015 | 2015 |
|---|---|---|---|
| Equipment | | | |
| New equipment | **99,155** | 29% | 76,615 |
| Used equipment | **47,455** | (5%) | 50,210 |
| Total equipment revenue | **146,610** | 16% | 126,825 |
| Parts | **20,292** | 28% | 15,853 |
| Service | **10,155** | 3% | 9,907 |
| Rental and other | **2,331** | 80% | 1,297 |
| Total revenue | **179,388** | 17% | 153,882 |
| Cost of sales | **(151,219)** | 23% | (122,540) |
| Gross profit | **28,169** | (10%) | 31,342 |
| Other income | **8,028** | 682% | 1,027 |
| Selling, general and administrative expense | **(22,902)** | (2%) | (23,308) |
| Income from operating activities | **13,295** | 47% | 9,061 |
| Income before income tax expense | **12,394** | 59% | 7,796 |
| EBITDA | **16,264** | 39% | 11,707 |
| Ratios as a percentage of revenue: | | | |
| Gross profit margin | **15.7%** | | 20.4% |
| Selling, general and administrative | **12.8%** | | 15.1% |

**Operating Summary:**

Agriculture segment income before income tax expense and EBITDA both increased by $4.6 million compared to the three months ended December 31, 2015, including a $4.1 million gain on sale of minority interests and $3.4 million gain on sale of real estate. Excluding these gains, income before income tax and EBITDA decreased $2.9 million. Reduced OEM incentives received in 2016 compared to 2015 represented $2.6 million of the $3.2 million decrease in gross profit for the fourth quarter.

Income from operating activities increased by $4.2 million when compared to the three months ended December 31, 2015 including a $4.1 million gain on sale of minority interest and a $3.4 million gain on sale of real estate. Excluding these gains, income from operating activities decreased by $3.3 million. Weather conditions in the fourth quarter provided a challenging landscape for producers, as wet conditions led to a difficult and shortened harvest window. Early season uncertainty delayed purchases and shifted new sales to the fourth quarter in 2016 as producers ultimately achieved near record yield. Further, the late harvest increased parts revenue as producers were working to keep equipment in the field under adverse conditions. The timing of equipment sales shifting to the fourth quarter impacted eligibility for 2016 OEM incentives, while also increasing margin pressure around late season trades. This translated to lower gross profit margins, and was the primary factor in the $3.3 million decrease in income from operating activities, excluding the gains on sale in the period.

## Transportation Segment Results

| ($ thousands, except per share amounts) | 2016 | % Change Compared to 2015 | 2015 |
|---|---|---|---|
| Equipment | | | |
| New equipment | **33,461** | (18%) | 40,897 |
| Used equipment | **2,012** | (36%) | 3,127 |
| Total equipment revenue | **35,473** | (19%) | 44,024 |
| Parts | **22,835** | 3% | 22,222 |
| Service | **7,148** | 6% | 6,753 |
| Rental and other | **3,537** | 18% | 3,004 |
| Total revenue | **68,993** | (9%) | 76,003 |
| Cost of sales | **(56,778)** | (9%) | (62,545) |
| Gross profit | **12,215** | (9%) | 13,458 |
| Other (loss) | **(126)** | (89%) | (1,192) |
| Unrealized foreign exchange gain (loss) | **304** | 128% | (1,083) |
| Total other income (loss) | **178** | (108%) | (2,275) |
| Selling, general and administrative expense | **(12,681)** | 5% | (12,117) |
| Loss from operating activities | **(288)** | (69%) | (934) |
| Loss before income tax expense | **(1,025)** | (45%) | (1,857) |
| EBITDA | **1,325** | (29%) | 1,865 |
| Ratios as a percentage of revenue: | | | |
| Gross profit margin | **17.7%** | | 17.7% |
| Selling, general and administrative | **18.4%** | | 15.9% |

**Operating Summary:**

Transportation loss before income tax improved by $0.8 million, while EBITDA improved by $0.5 million. An increase in equipment sales in our Saskatchewan dealerships, a $0.4 million gain on sale of real estate, and a $1.4 million increase in unrealized foreign exchange gains were offset by a decrease in equipment sales in our Ontario dealerships.

Income from operating activities improved $0.6 million during the three months ended December 31, 2016, including a $1.4 million increase in unrealized foreign exchange and a $0.4 million gain on sale of real estate. Excluding the gain and unrealized foreign exchange movement, income from operating activities decreased $1.2 million comprised of a $1.4 million decrease in income from operating activities in our Ontario dealerships, partially offset by a $0.2 million increase in Saskatchewan income from operating activities. The primary cause of lower income from operating activities in Ontario was the timing of a large fleet sale in the fourth quarter of 2015 not repeated in the fourth quarter of 2016, along with the initial expense associated with opening a new location in the quarter. Our Saskatchewan dealerships benefited from a slight recovery in resource activity which accelerated equipment sales in this geography and improved our income from operating activities in Saskatchewan .

## Commercial and Industrial Segment Results

| ($ thousands, except per share amounts) | 2016 | % Change Compared to 2015 | 2015 |
|---|---|---|---|
| Equipment | | | |
| New equipment | **12,573** | (13%) | 14,394 |
| Used equipment | **1,737** | (30%) | 2,464 |
| Total equipment revenue | **14,310** | (15%) | 16,858 |
| Parts | **5,534** | (15%) | 6,531 |
| Service | **2,810** | (14%) | 3,277 |
| Rental and other | **908** | (23%) | 1,175 |
| Total revenue | **23,562** | (15%) | 27,841 |
| Cost of sales | **(17,458)** | (15%) | (20,546) |
| Gross profit | **6,104** | (16%) | 7,295 |
| Other (loss) income | **(70)** | (123%) | 310 |
| Selling, general and administrative expense | **(6,362)** | (10%) | (7,061) |
| (Loss) income from operating activities | **(328)** | (160%) | 544 |
| (Loss) income before income tax expense | **(565)** | (378%) | 203 |
| EBITDA | **419** | (71%) | 1,462 |
| Ratios as a percentage of revenue: | | | |
| Gross profit margin | **25.9%** | | 26.2% |
| Selling, general and administrative | **27.0%** | | 25.4% |

**Operating Summary:**

C&I segment income before income tax decreased $0.8 million for the three months ended December 31, 2016 to a loss of $0.6 million compared to income of $0.2 million in 2015. EBITDA decreased $1.0 million. Customers' reluctance to deploy capital within the western Canadian light construction sector has continued to soften sales for the segment. Cost control achieved a $0.7 million reduction in SG&A.

Income from operating activities decreased $0.9 million for the three months ended December 31, 2016 compared to 2015. Optimism in the Western Canadian light construction industry has not yet returned, contributing to a decrease in overall revenue by $4.3 million in the three months ended December 31, 2016. Cost reductions initiated mid-2015 are almost fully realized, with a reduction of $0.7 million when compared to the three months ended December 31, 2015.

## FOURTH QUARTER CASH FLOWS

Cervus' primary sources and uses of cash flow for the three month period ended December 31, 2016 are as follows:

### Operating activities

Net cash used in operating activities was $0.4 million, compared to cash provided of $20.6 million for the same period of 2015, a decrease of $20.9 million. The primary reason for this use of cash is $8.8 million of net cash used from working capital items in the quarter, compared to $13.1 million provided in 2015. The $21.8 million net decrease in cash from working capital items primarily relates to applying cash generated from inventory reductions against outstanding inventory floor plans in the fourth quarter of 2016.

### Investing activities

The Company received $64.9 million in net cash from investing activities in the quarter, compared to a use of $3.4 million in 2015, a change of $68.3 million. The net change relates to fourth quarter 2016 proceeds of $57.8 million related to the sale and leaseback of properties, combined with proceeds from the disposition of a minority interest in an equity held investee for $9.1 million.

### Financing activities

Financing activities used $60.5 million in cash flows in the period compared to $11.1 million in 2015, primarily from $57.7 million of debt repayments compared to $5.8 million of repayments in 2015.

## CONSOLIDATED FINANCIAL POSITION

## LIQUIDITY

| ($ thousands, except ratio amounts) | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Current assets | **324,759** | 405,778 |
| Total assets | **476,852** | 629,785 |
| Current liabilities | **220,050** | 287,891 |
| Long-term financial liabilities | **32,355** | 136,953 |
| Shareholders' equity | **213,839** | 193,293 |
| Working capital[1] | **104,709** | 117,887 |
| Working capital ratio[1] | **1.48** | 1.41 |

[1] Refer to Non-IFRS Measures herein

### Working capital

Cervus' working capital decreased by $13.2 million to $104.7 million at December 31, 2016 when compared to $117.9 million at December 31, 2015. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at December 31, 2016, the Company had the ability to floor plan an additional $52.4 million of inventory, and $303.0 million of undrawn floor plan capacity.

The Company's ability to maintain sufficient liquidity is primarily driven by revenue, gross profit margins, and judicious allocation of resources. At this time, there are no known factors that management is aware of that would affect its short and long-term objectives of meeting the Company's obligations as they come due. Working capital may fluctuate from time to time based primarily on the use of cash and cash equivalents to fund future business acquisitions, as well as due to the seasonal nature of our business. Cash resources can normally be restored by accessing floor plan monies from unencumbered equipment inventories or accessing undrawn credit facilities. Also, the seasonality of our business requires greater use of cash resources in the first and fourth quarter of each year to fund general operations caused by the seasonal nature of our sales activity.

### Liquidity risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the ability to raise funds to meet purchase commitments, financial obligations, and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. The Company's contractual obligations at December 31, 2016 are described below.

The Company has bank credit facilities available for its current use as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| ($ thousands) | Total Limits | Borrowings | Total Limits | Borrowings |
| Operating and other bank credit facilities | **$ 100,000** | **$ 11,100** | $ 100,832 | $ 52,832 |
| Capital facilities | **58,809** | **15,543** | 64,131 | 42,800 |
| Floor plan facilities and rental equipment term loan financing | **463,883** | **97,220** | 479,243 | 182,959 |
| Total borrowing | **$ 622,692** | **$ 123,863** | $ 644,206 | $ 278,591 |

The Company has guaranteed the net residual value of certain customer leases, for leases between customers and John Deere Financial ("JDF") as set out in Note 29 to the consolidated financial statements. The Company regularly assesses the residual value of the JDF lease portfolio relative to wholesale values for comparable equipment. On the maturity of customer's leases, the equipment can be returned to the Company and if so, it is sold as used equipment. Upon the return of equipment, JDF will provide the Company floor planning based on John Deere's pricing guide. Of the lease portfolio at December 31, 2016, leases with a residual value of $36.9 million are scheduled to mature in 2017.

### Contractual obligations

The Company has certain contractual obligations including payments under long-term debt agreements, finance and operating lease commitments. A summary of the Company's principal contractual obligations are as follows:

| ($ thousands) | Total carrying value | Due 2017 | Due 2018 through 2019 | Due 2019 through 2020 | Due thereafter |
|---|---|---|---|---|---|
| Term debt payable | 37,772 | 15,720 | 3,692 | 16,987 | 1,373 |
| Finance lease obligation | 15,223 | 4,528 | 4,041 | 3,827 | 2,827 |
| Convertible debenture | 33,899 | 34,500 | - | - | - |
| Operating leases | - | 11,096 | 11,479 | 7,773 | 90,838 |
| Total | 86,894 | 65,844 | 19,212 | 28,587 | 95,038 |

### Inventories

The nature of the business has a significant impact on the amount of equipment that is owned by our various dealerships. The majority of our Agricultural equipment sales come with a trade-in, a limited portion of our Transportation sales come with a trade-in, and our Commercial and Industrial equipment sales usually do not have trade-ins. This results in a higher amount of used Agriculture equipment than used Transportation and Commercial and Industrial equipment. In addition, the majority of our new John Deere equipment is on consignment from John Deere, whereas we purchase the new equipment from our other manufacturers. These factors directly impact the amount of new and used equipment in inventory. The majority of our product lines, in all segments, are manufactured in the US with pricing based in U.S. dollars, but invoiced in Canadian dollars.

Inventory by segment for the period ended December 31, 2016 compared to December 31, 2015 is as follows:

| ($ thousands) | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Agricultural | **176,719** | 204,071 |
| Transportation | **50,256** | 69,708 |
| Commercial & Industrial | **28,256** | 43,947 |
| **Total** | **255,231** | 317,726 |

As at December 31, 2016, inventories decreased by $62.5 million when compared to $317.7 million at December 31, 2015. The $62.5 million decrease is comprised of a $61.2 million decrease in new equipment, and a $1.8 million decrease in parts.

The decrease in inventory in Transportation and Commercial and Industrial segments is due to continued focus on both reducing stock inventory and managing inventory levels to the current Western Canadian equipment demand in these sectors and on improved inventory management processes in our Ontario stores.

At December 31, 2016, the Company believes that the recoverable value of used equipment inventories exceeds its respective carrying value. During the 2016, the company recognized inventory valuation adjustments through cost of goods sold of $6.2 million (2015 - $4.7 million).

### Accounts receivable

For the year ended December 31, 2016 the average time to collect the Company's outstanding accounts receivable was approximately 18 days as compared to 19 days for the year ended December 31, 2015. At December 31, 2016 no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on account aging, combined with specific customers' credit risk, historical trends, and other economic information.

The Company's allowance for doubtful collections was $1.7 million (2015 - $2.0 million) at December 31, 2016, which represents 4.5% (2015 – 4.4%) of outstanding trade accounts receivable and 0.1% (2015 - 0.1%) of gross revenue on an annual basis. Bad debt expense for the year ended December 31, 2016 amounted to a $0.3 million (2015 - $0.8 million).

## CAPITAL RESOURCES

We use our capital to finance our current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize our shareholder value is to use a combination of equity and debt financing to leverage our operations. A summary of the Company's available credit facilities as at December 31, 2016 is as follows:

| ($ thousands) | Total Amount | Borrowings | Letters of Credit | Consigned Inventory | Amount Available |
|---|---|---|---|---|---|
| Operating and other bank credit facilities | 100,000 | 11,100 | 2,556 | - | 86,344 |
| Floor plan facilities and rental equipment floor plan facilities | 463,883 | 97,220 | - | 63,677 | 302,986 |
| Capital facilities | 58,809 | 15,543 | - | - | 43,266 |
| Total | 622,692 | 123,863 | 2,556 | 63,677 | 432,596 |

### Operating and other bank credit facilities

At December 31, 2016, the Company has a revolving credit facility with a syndicate of underwriters. The principal amount available under this facility is $100,000 thousand. The facility was amended and extended on December 19, 2016. The facility is committed for a three-year term, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an $80,000 thousand accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2016 there was $11,100 thousand drawn on the facility and $2,400 thousand had been utilized for outstanding letters of credit to John Deere.

We believe that the credit facilities available to the Company outlined above are sufficient to meet our market share targets and working capital requirements for 2017.

The Company must meet certain financial covenants as part of its current credit facilities, as at the date of this report, the Company is in compliance with all of its covenants as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Total liabilities to net worth ratio**[1] (not exceeding 4.0:1.0) | **1.99** | 2.96 |
| **Fixed charge coverage ratio**[2] (greater than or equal to 0.95:1.00 at December 31, 2015, increasing to 1.00:1 on December 31, 2016, and to 1.10:1.00 on March 31, 2017) | **1.43** | 1.12 |
| **Asset coverage ratio**[3] (greater than 3.0:1.0) | **21.03** | 4.23 |

**1** – Calculated using an adjusted liability value over an adjusted equity value. Full definitions of adjusted liabilities and adjusted equity are defined in the Syndicate Credit Agreement filed as a material document on Sedar.

**2** – Calculated as an adjusted EBITDA figure over the sum of interest expense, scheduled principal payments, operating lease payments and distributions paid to shareholders in the twelve months prior to the calculation date. Full definitions of this calculation are defined in the Syndicate Credit Agreement filed as a material document on Sedar.

**3** – Calculated as net tangible total assets less consolidated debt excluding floorplan plan liabilities, plus debt due under the credit facility over the amount due under the credit facility. Full definitions of this calculation are defined in the Syndicate Credit Agreement filed as a material document on Sedar.

### Capital facilities

Capital facilities consist of capital asset financing primarily through credit facilities with Farm Credit Canada and Affinity Credit Union. In June 2016, the Company renewed mortgages of $9.8 million under variable rates for a one-year term. Further, the Company's financial covenants under its mortgages with Farm Credit Canada were amended to align with certain of the Company's financial covenants under its committed operating facility, discussed above.

### Floor plan facilities

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Canada ULC, Wells Fargo Equipment Finance Company, De Lage Landen Financial Services Canada Inc., PACCAR Financial Ltd., US Bank, and Canadian Imperial Bank of Commerce. At December 31 2016, floor plan payables related to inventories were $86.1 million.

Floor plan payables at December 31, 2016 represented approximately 33.7% of our inventories (December 31, 2015 – 53.1%). Floor plan payables fluctuate significantly from quarter to quarter based on the timing between the receipt of equipment inventories and their actual repayment so that the Company may take advantage of any programs made available to the Company by its key suppliers.

Interest on floor plans at the contractual rate were largely offset by dealer rebates and interest-free periods. Total Agricultural segment interest otherwise payable on John Deere floor plans approximates $1.5 million for the year ended December 31, 2016. This amount was offset by rebates applied during the year ended December 31, 2016, of $1.2 million. At December 31, 2016, approximately 36% (2015 – 75%) of the C&I segment's and 8% (2015 – 6%) of the Transportation segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest free periods in place.

### Outstanding share data

As of the date of this MD&A, there are 15,763 thousand common shares and 748 thousand deferred shares outstanding. The Company also has convertible debentures with a face value of $34.5 million, convertible at the holder's option, into common shares prior to the maturity date at a conversion price of $26.15 per common share see "Contractual Obligations"). As at December 31, 2016 and 2015, the Company had the following weighted average shares outstanding:

| (thousands) | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Basic weighted average number of shares outstanding | **15,683** | 15,481 |
| Dilutive impact of deferred share plan | **745** | - |
| Diluted weighted average number of shares outstanding | **16,428** | 15,481 |

The above table excludes all deferred share units and options for the year ended December 31, 2015 (677 thousand) as they are considered anti-dilutive. Share issuable on the convertible debentures are anti-dilutive in 2016 and 2015.

### Dividends paid and declared to shareholders

The Company, at the discretion of the board of directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid for the year ended December 31, 2016:

| ($ thousands, except per share amounts)<br>Record Date | Dividend per Share | Dividend Payable | Dividends Reinvested | Net Dividend Paid |
|---|---|---|---|---|
| March 31, 2016 | 0.0700 | 1,094 | 226 | 868 |
| June 30, 2016 | 0.0700 | 1,097 | 216 | 881 |
| September 30, 2016 | 0.0700 | 1,100 | 211 | 889 |
| December 31, 2016 | 0.0700 | 1,103 | 195 | 908 |
| Total | **0.2800** | **4,394** | **848** | **3,546** |

As of the date of this MD&A, all dividends as described above were paid (see "Capital Resources – Cautionary note regarding dividends").

### Dividend reinvestment plan ("DRIP")

The DRIP was implemented to allow shareholders to reinvest quarterly dividends and receive Cervus shares. Shareholders who elect to participate will see their periodic cash dividends automatically reinvested in Cervus shares at a price equal to 95% of the volume-weighted average price of all shares for the ten trading days preceding the applicable record date. Eligible shareholders can participate in the DRIP by directing their broker, dealer, or investment advisor holding their shares to notify the plan administrator, Computershare Trust Company of Canada Ltd., through the Clearing and Depository Services Inc. ("CDS"), or directly where they hold the certificates personally.

During the year ended December 31, 2016, 79 thousand common shares were issued through the Company's dividend reinvestment plan.

### Taxation

Cervus' dividends declared and paid to December 31, 2016 are considered to be eligible dividends for tax purposes on the date paid.

On May 4, 2015, the Company announced an agreement with the Canada Revenue Agency (CRA) regarding their objection to the tax consequences of the conversion of the Company from a limited partnership structure into a corporation in October 2009. The agreement resulted in a non-cash charge of $33.4 million related to the write-off of a portion of the Company's deferred tax asset and $3.6 million of provincial cash taxes payable for the tax years ended December 31, 2013 and 2014. Under the agreement, the Company had $1.9 million of unused federal tax attributes which have been applied to reduce 2015 income taxes payable. Total expense recognized due to the CRA settlement was $36.9 million.

### Cautionary note regarding dividends (see "Note Regarding Forward-Looking Statements")

The payment of future dividends is not assured and may be reduced or suspended. Our ability to continue to declare and pay dividends will depend on our financial performance, debt covenant obligations and our ability to meet our debt obligations and capital requirements. In addition, the market value of the Company's common shares may decline if we are unable to meet our cash dividend targets in the future, and that decline may be significant. Under the terms of our credit facilities, we are restricted from declaring dividends or distributing cash if the Company is in breach of its debt covenants. As at the date of this report, the Company is not in violation of any of its covenants.

## SUMMARY OF RESULTS

### Annual Results Summary

| **($ thousands, except per share amounts)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Total Revenues | **1,109,939** | 1,133,878 | 979,609 |
| Income (loss) for the year | **23,524** | (27,379) | 18,496 |
| Income (loss) for the year attributable to shareholders | **23,712** | (27,421) | 18,362 |
| Net income (loss) per share - basic | **1.51** | (1.77) | 1.21 |
| Net income (loss) per share - diluted | **1.44** | (1.77) | 1.15 |
| Cash provided by operating activities | **16,164** | 23,674 | 61,577 |
| EBITDA | **61,025** | 46,330 | 50,811 |
| Total assets | **476,852** | 629,785 | 669,303 |
| Total long-term liabilities | **42,963** | 148,601 | 143,752 |
| Total liabilities | **263,013** | 436,492 | 439,812 |
| Shareholders' equity | **213,839** | 193,293 | 229,491 |
| Net book value per share - diluted | **13.02** | 12.49 | 14.43 |
| Dividends declared to shareholders | **4,394** | 13,202 | 12,583 |
| Dividends declared per share | **0.280** | 0.850 | 0.825 |
| Weighted average shares outstanding | | | |
| Basic | **15,683** | 15,481 | 15,147 |
| Diluted | **16,428** | 15,481 | 15,903 |
| Actual shares outstanding | **15,750** | 15,606 | 15,325 |

### Quarterly Results Summary

| ($ thousands, except per share amounts) | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 |
|---|---|---|---|---|
| Revenues | **271,943** | 334,682 | 294,772 | 208,542 |
| Income attributable to the shareholders | **8,753** | 10,741 | 2,485 | 1,733 |
| Gross profit | **46,488** | 57,571 | 47,788 | 39,218 |
| Gross profit margin | **17.1%** | 17.2% | 16.2% | 18.8% |
| EBITDA | **18,008** | 21,981 | 10,997 | 10,039 |
| Earnings per share: | | | | |
| Basic | **0.55** | 0.67 | 0.16 | 0.11 |
| Diluted | **0.52** | 0.64 | 0.15 | 0.11 |
| Adjusted earnings (loss) per share | | | | |
| Basic | **0.03** | 0.66 | 0.15 | (0.16) |
| Diluted | **0.02** | 0.63 | 0.14 | (0.16) |
| Weighted average shares outstanding | | | | |
| Basic | **15,996** | 15,991 | 15,994 | 15,622 |
| Diluted | **16,740** | 16,761 | 16,785 | 16,433 |

| ($ thousands, except per share amounts) | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 |
|---|---|---|---|---|
| Revenues | 257,726 | 334,742 | 302,988 | 238,422 |
| Income (loss) attributable to the shareholders | 3,768 | 3,910 | (32,203) | (2,896) |
| Gross profit | 52,095 | 55,278 | 55,256 | 44,312 |
| Gross profit margin | 20.2% | 16.5% | 18.2% | 18.6% |
| EBITDA | 15,034 | 14,863 | 12,305 | 4,128 |
| Earnings (loss) per share: | | | | |
| Basic | 0.24 | 0.25 | (2.08) | (0.19) |
| Diluted | 0.23 | 0.24 | (2.08) | (0.19) |
| Adjusted earnings (loss) per share | | | | |
| Basic | 0.32 | 0.43 | 0.19 | (0.08) |
| Diluted | 0.31 | 0.41 | 0.18 | (0.08) |
| Weighted average shares outstanding | | | | |
| Basic | 15,578 | 15,519 | 15,446 | 15,382 |
| Diluted | 16,255 | 16,222 | 15,446 | 15,382 |

Sales activity for the Agricultural segment is normally highest between April and September during growing seasons in Canada and the impact on the growing seasons for New Zealand and Australia has not materially impacted the above results. Activity in the Transportation sector generally increases in winter months, while the Commercial and Industrial sector generally slows in the winter months. As a result, income or losses may not accrue uniformly from quarter to quarter. The reason for the change in net profit for the four most recent quarters when compared to prior quarters, is primarily the impact of oil prices on Western Canadian Transportation and C&I operations, followed by our Ontario Peterbilt operations generating operating losses during integration activities in 2015. In Q2 2015, the Company reached an agreement with Canada Revenue Agency, resulting in a non-cash charge of $33.4 million related to the write-off of a portion of the Company's deferred tax asset.

## MARKET OUTLOOK (see "Note Regarding Forward-Looking Statements")

The Company's three operational segments are subject to broad market forces in addition to the underlying economic factors specific to the industries they serve. Further, the geographical diversity of the Company's operations may temper or accelerate broader market forces in their significance region to region. The following provides an overview of Management's market outlook as it relates to the Company's operations at the time of writing.

### Alberta & Saskatchewan

Agriculture remains the driving variable in the Company's Western Canadian operations. The 2016 crop year ended with near record production, increasing 7% above 2015 yield, and second only to the record yield of 2013.[2] Both these values exclude a potential 3-7% of the 2016 crop that has been left in the field over the winter, as a wet and cool fall resulted in a substantially shortened harvest window.[3] Although a difficult fall harvest in Western Canada is not particularly unusual, the alignment of an excellent crop going into fall combined with significant difficulty in harvesting it will be memorable for producers, some of whom could only watch as quality deteriorated on otherwise near record yields. However, farm net cash income remained at near record levels with the 2016 crop year expected to be the second best on record,[4] as despite in-season difficulty, the crop was ultimately harvested.

For producers who experienced a constraint around equipment availability during the narrow 2016 harvest window, this may drive some additional equipment demand in 2017, while the continuation of near record farm cash positions remains positive for the equipment replacement cycle overall. For 2017, Agriculture and Agri-Food Canada ("AAFC") anticipates a 7% overall reduction in 2017 net farm cash income compared to 2016, although this would still result in the fourth best year on record.[5] The retreat of livestock prices in 2016 from record highs is expected to moderate but continue through 2017, and is the main driver of the overall anticipated decrease in 2017 net farm cash income. Of note, AAFC anticipates crop receipts to increase 1% in 2017, and farm operating expenses to decrease by 2%, both positive for crop producers. Looking forward into 2017, the outlook remains generally positive, particularly around equipment solutions which enhance available equipment hours in production windows, and service support offerings which enhance operability of equipment during the use window.

In our Commercial and Industrial segment, and to a lesser extent our Saskatchewan Transportation dealerships, the economic fallout of oil prices continues to suppress demand. While TD Economics is forecasting Alberta to return to its past position as the provincial real GDP leader in 2017[6], the impact of any potential recovery on equipment demand remains uncertain. In this market, we continue to focus on managing our cost structure. Cost reductions initiated in 2015 have been instrumental in mitigating the impact of reduced demand in our C&I segment and Saskatchewan transportation operations. Our Saskatchewan transportation dealerships are generally more directly integrated with oilfield activity than our C&I dealerships, and the mild recovery in oil prices has begun to positively impact truck demand in our Saskatchewan transportation dealerships. We expect oil prices will require additional sustained strength before translating to significant incremental demand in our C&I segment, as underlying demand in this segment is based on broader factors than oil prices alone.

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[2] Agriculture and Agri-Food Canada, Outlook for Principal Field Crops, December 21, 2016, www.agr.gc.ca
[3] Agriculture and Agri-Food Canada, Outlook for Principal Field Crops, December 21, 2016, www.agr.gc.ca
[4] Agriculture and Agri-Food Canada, 2017 Canadian Agriculture Outlook, February 17, 2017, www.agr.gc.ca
[5] Agriculture and Agri-Food Canada, 2017 Canadian Agriculture Outlook, February 17, 2017, www.agr.gc.ca
6 TD Economics, Provincial Economic Forecast, December 20, www.td.com/economics

### Ontario

The North American trucking market ended 2016 with total class 8 truck sales of 216,000 units, a 22% decrease compared to the 278,000[7] in 2015 as overall transportation demand slowed. For 2017, PACCAR is forecasting truck demand to remain flat with 2016 ranging between 190,000 and 220,000 trucks. Within this market, our focus is delivering efficient, available, and convenient service delivery, evidenced by two new locations and a 13% increase in service bays during the year, totaling 4 new locations and a 30% increase in service bays since acquisition. We view this as key to accelerating our market share in Canada's largest class 8 truck market at any given level of industry truck demand, with progress reflected in the market share growth achieved in 2016.

### New Zealand & Australia

New Zealand Agriculture outlook is positive, with dairy prices the strongest since 2013/2014 season. Horticulture remains supported by positive fruit and wine demand, while livestock has softened slightly. With a few exceptions, precipitation has been average or above average, and producers have reason to expect good growth heading into autumn. Based on these factors, optimism is returning to producers after a very difficult period of record low dairy prices. The latest rural confidence survey conducted by Rabobank is showing high confidence levels, with farmer investment intentions at their highest level since 2014.[8]

In our Australian geography, the 2016 crop year will likely be one of the more memorable as weather and market conditions aligned for Australian farmers. Unexpectedly strong growing conditions generated strong crop yields, and aligned with improved livestock prices. These factors contributed to a gross value of agriculture production 16% above the previous five-year average.[9] Looking into 2016, winter and spring rains has resulted in farmers' water catchments near capacity, and the strong crop and hay production has replenished farmers' fodder supplies, resulting in lower input costs for the 2017 year. Farmers cash reserves reached all-time highs in December 2016, which indicates producers are well positioned leading into 2017.

## OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we enter into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants, and service agreements. We have also agreed to indemnify our directors, officers, and employees and those of our subsidiaries, in accordance with our governing legislation, our constating documents and other agreements. Certain agreements do not contain any limits on our liability and, therefore, it is not possible to estimate our potential liability under these indemnities. In certain cases, we have recourse against third parties with respect to these indemnities. Further, we also maintain insurance policies that may provide coverage against certain claims under these indemnities.

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2016, payments in arrears by such customers aggregated $456 thousand (2015 - $376 thousand). In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2016, the net residual value of such leases aggregated $235.0 million of which the Company believes all are recoverable.

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that

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7 PACCAR, 2016 Year end Press Release, January 31, 2016, www.paccar.com/news
8 Rabobank, Media Release: New Zealand Farmers Look to 2017 with Optimism, December 5, 2016, www.rabobank.co.nz
9 Australian Farm Institute, What Does 2017 hold for Australian Agriculture?, January 23, 2017, www.farminstitute.org.au

the Company owes Deere Credit under this obligation. The deposits are capped at between 1% and 3% of the total dollar amount of the lease and finance contracts outstanding. The maximum liability that can arise related to these arrangements is limited to the deposits of $2.7 million at December 31, 2016. Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

The Company has issued irrevocable standby Letters of Credit to Deere Credit and another supplier in the aggregate amount of $2.6 million. The Letters of Credit were issued in accordance with the dealership arrangements with the suppliers that would allow the supplier to draw upon the letter of credit if the Company was in default of any of its obligations.

## TRANSACTIONS WITH RELATED PARTIES

### Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to its directors and executive officers. The Company contributes to the deferred share plan on behalf of directors and executive officers, and to the employee share purchase plan on behalf of executive officers, if enrolled, in accordance with the terms of the plans. The Company has no retirement or post-employment benefits available to its directors and executive officers, aside from permitting unvested deferred share units earned during employment to continue vesting upon retirement.

Total remuneration of key management personnel and directors during the year ended December 31, 2016 and 2015 was:

| **($ thousands)** | **2016** | **2015** |
|---|---|---|
| Short-term benefits | **2,292** | 3,096 |
| Share-based payments | **529** | 387 |
| Total | **2,821** | 3,483 |

### *Other related party transactions*

Certain officers and dealer managers of the Company have provided guarantees to John Deere as required by John Deere aggregating $6.4 million. The guarantees are kept in place until released by John Deere. During the year ended December 31, 2016 and 2015, the Company paid those individuals $175 thousand and $195 thousand, respectively, for providing these guarantees which represents a similar amount to guarantee fees otherwise paid to financial institutions. These transactions were recorded at the amount agreed to between the Company and the guarantors and are included in selling, general and administrative expenses.

# BUSINESS RISKS AND UNCERTAINTIES

## Risk management framework

The Board of Directors ("Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board, together with the Audit Committee are responsible for monitoring and oversight of the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost-effectiveness and to avoid control procedures that restrict innovation and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk.

The following are considered the primary categories of business risks and uncertainties faced by the business:

## Market risk

Market risk is the risk that changes in the marketplace such as foreign exchange rates, interest rates and commodity prices that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return.

### *Commodity price*

The Company is primarily a business to business equipment retailer. Many of our customers' businesses are very capital intensive, and can be significantly affected by swift changes to external market factors beyond their control. Commodity prices can be one of the most significant factors to our customers' businesses, as rapid changes in food input pricing, cattle pricing, or petroleum product pricing including carbon taxes can have a material adverse effect on a large number of our customers. The Company's financial success can be largely impacted by changes in these business cycle factors in its customer base. These factors would potentially impact the Company's operating results through eroding margins on the products it sells, and valuation concerns over the inventory it holds.

Monitoring inventory levels, periodic review of inventory valuation across segments, and increasing the geographic distribution and industry alignments of our dealer network assist in reducing the impact of a significant market downturn in one particular region or industry. However, the majority of sales continue to be derived from the Agricultural sector. Consequently, market factors affecting the liquidity and outlook for our Agriculture customers can significantly impact demand for equipment sales, parts & service. Ongoing focus on internal efficiencies and excellence in after-market service to our customers assist in maintaining gross margin in periods where our customers are not focused on capital investment.

*Foreign currency exposure*

Many of our products, including equipment and parts, are based on a U.S. dollar price as they are supplied primarily by U.S. manufacturers but are settled in Canadian dollars as they are received. This may cause fluctuations in the sales values assigned to equipment and parts inventories, as inventory is recorded based on Canadian dollar cost at the time of receipt, but is sold to the customer based on market pricing prevailing at the time of sale. Both sales revenues and gross profit margins may fluctuate based on differences in foreign exchange rates between the purchase of inventory and sale of inventory. Certain of the Company's manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on the Company's new equipment inventory purchases.

Further, a portion of the Company's owned inventory is floor planned in U.S. dollars. As such, U.S. dollar denominated floor plan payables are exposed to fluctuations in the U.S. dollar exchange rate until the unit is sold and the floorplan is repaid. At the time of sale, the Company determines a margin based on the replacement cost of the inventory at the time of sale, not the initial cost of the inventory at the time of purchase. In so doing, the Company's objective is to obtain a target margin on the sale of inventory, by calculating the sale margin based on the cost of repaying the U.S. dollar floorplan as at the sale date. If the Company was unable to recapture fluctuations in the U.S./CAD dollar in the sales price for equipment floor planned in U.S. dollars, a $0.01 change in the U.S. exchange rate would have increased (decreased) profit or loss by $80 thousand (2015 - $264 thousand), based on the U.S. dollar floor plan balances at December 31, 2016. From time to time the Company also enters into foreign exchange forward contracts to manage exposure on timing difference between the payout of floorplan and receipt of funds from a customer.

In addition, the Company is exposed to foreign currency fluctuation related to translation adjustments upon consolidation of its Australian and New Zealand operations. These foreign subsidiaries report operating results in Australia and New Zealand dollars, respectively. Movements in these currencies relative to the Canadian dollar will impact the consolidated results of these operations. Based on the Company's results reported from its foreign subsidiaries, a strengthening or weakening of the Canadian dollar by 5% against the New Zealand dollar at December 31, 2016 would have increased (decreased) comprehensive income by $612 thousand (2015 - $559 thousand). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2016 would have increased (decreased) comprehensive income by $215 thousand (2015 -$172 thousand).

*Interest rate risk*

The Company's cash flow is exposed to changes in interest rates on its floor plan arrangements and certain term debt which bear interest at variable rates. The cash flows required to service these financial liabilities will fluctuate as a result of changes in market interest rates. The Company mitigates its exposure to interest rate risk by utilizing excess cash resources to buy-down or pay-off interest bearing contracts, and by managing its floor plan payables and inventory levels (turnover) to maximize the benefit of interest-free periods, where available.

Based on the Company's outstanding long-term debt at December 31, 2016, a one percent increase or decrease in market interest rates would impact the Company's annual interest expense by approximately $1.2 million (2015- $2.6 million).

### Reliance on our key manufacturers and dealership arrangements

Cervus' primary source of income is from the sale of agricultural, transportation, and commercial and industrial equipment and products and services pursuant to agreements to act as an authorized dealer. The agreement with John Deere Limited ("JDL") provides a framework under which JDL can terminate a John Deere dealership if such dealership fails to maintain certain performance and equity covenants. Each contract also provides a one-year remedy period whereby the Company has one year to restore any deficiencies.

The dealership agreements with John Deere obligate the Company to assume leased equipment at residual value upon the maturity of Customer's leases with John Deere. This equipment is then sold by Cervus as used equipment. In the unlikely event of a severe market shock, residual values set at the beginning of a 5-year lease term may exceed market value of the equipment upon lease maturity. Cervus routinely reviews the residual values and maturity of customers' leases with John Deere, and is satisfied with the residual values reflected in the leases and the Company's ability to profitably market the equipment as leases mature. At December 31, 2016, customer equipment leases with John Deere represented residual values of $235,025 thousand, maturing over the next five years.

The Company also has dealership agreements in place with Peterbilt, Bobcat, JCB, CMI, Clark, Sellick, and Doosan. These agreements are one to three-year agreements and are normally renewed annually, except for unusual situations such as bankruptcy or fraud.

The success of our dealerships depends on the timely supply of equipment and parts from our manufacturers to ensure the timely delivery of products and services to our customers. We also depend on our suppliers to provide competitive prices and quality products. Currently, all of our dealership contracts are in good standing with our suppliers. There can be no guarantee that: (i) circumstances will not arise which give these equipment manufacturers the right to terminate their dealership agreements or (ii) one or more of the equipment manufacturers will decide not to renew their dealership agreements with us upon expiry.

### Industry competitive factors

Authorized John Deere agricultural dealerships sell John Deere agricultural, turf, and sport products and equipment. The majority of sales are derived from the Agricultural sector. The retail agricultural equipment industry is very competitive. The Company faces a number of competitors, including other "in-line" John Deere dealerships and other competitors including authorized Agco, Case, Kubota and New Holland dealerships that may be located in and around communities in which the Company's dealerships are located. Deere & Company has a reputation for the manufacture and delivery of high quality, competitively priced products. John Deere has the largest market share of manufacturing and sales of farm equipment in North America. There can be no assurance that John Deere will continue to maintain its market share in the future.

The Transportation equipment group primarily sells transport equipment through PACCAR, which manufacturers Peterbilt and Kenworth trucks. The major competitors to Peterbilt are Kenworth, International, Freightliner, Volvo, and Mack trucks. The segment is highly dependent on consumer and commercial transportation of goods, as well as service-based industries including oil and gas in western Canada, and manufacturing in eastern Canada. This diverse customer base does mitigate the risks inherent in any one of those customer segments.

The Commercial and Industrial segment sells light and medium construction equipment and is comprised of several lines of commercial equipment from major manufacturers, Bobcat and JCB. The major competitors are Caterpillar, Komatsu, CNH (Case), John Deere Industrial, Volvo, Hitachi and Liebherr. The light and medium commercial equipment market is very much dependent upon residential and commercial construction. The segment also sells industrial equipment from several manufacturers, Clark, Sellick, and Doosan being the major suppliers. Their major competitors are Toyota, Hyster, Crown, and Caterpillar. Industrial equipment is primarily sold to building supply

companies, warehousing, food processors, oilfield supply companies, and the grocery industry. This customer diversity mitigates to some degree the risks inherent in any one of these customer segments.

Presently the majority of the Transportation, and Commercial and Industrial equipment segment revenues are derived from the sale of Peterbilt, Bobcat, JCB, Sellick, and Doosan equipment and products. All these equipment manufacturers have established themselves as industry leaders in our markets for the manufacture and delivery of on-highway, vocational and medium duty Transportation equipment and light Commercial and Industrial equipment. There can be no assurance however that these suppliers will continue to manufacture high quality, competitively priced products or maintain its market share in the future.

### Seasonality and Cyclicality

Weather has a direct impact on our customers' earnings, particularly in the agricultural segment, which in turn affects their need and ability to purchase equipment. The transportation and commercial and industrial sectors are not as seasonal when compared to the agricultural business on an annual basis, but can fluctuate based on equipment replacement cycles and market factors beyond our control.

### Human resources

The ability to provide high-quality services to our customers depends on our ability to attract and retain well-trained, experienced employees. Certain of the geographic areas in which we operate are experiencing a very high demand for and corresponding shortage of quality employees. We need to attract and retain quality employees, or our long-term success and ability to take advantage of growth opportunities could be threatened. We have established a number of human resource initiatives and compensation strategies to address this risk.

### Legislative

The Company is subject to comply with a broad range of legislation, regulation and government policies. A change in existing legislation could negatively impact operations.

Increased political pressure on carbon emissions has led to the institution of provincial and federal carbon taxes. The impact to our most immediate business is the cash flow implications for our customers. While the full impact of carbon pricing cannot yet be determined, the Company is managing this risk by increased focus on emissions control features in the products we sell and being knowledgeable regarding recent developments in new techniques for reducing carbon emissions for our farm customers.

Political changes in the U.S. may have an impact on duties charged for goods sold to the U.S. At this point, the Company is an importer of goods from the U.S. and does not anticipate significant risks relating to trade negotiations between Canada and the U.S.

### Environmental risks

Our dealerships routinely handle hazardous and non-hazardous waste as part of their day-to-day operations and though the Company believes it is in full compliance with applicable laws, from time-to-time, the Company may be involved in, and subject to, incidents and conditions that render us in non-compliance with environmental laws and regulations. The Company has established safety programs to help reduce these risks. The Company is not aware of any material environmental liabilities at this time.

### Acquisition and integration risks

Strategic acquisitions have been an important element of Cervus' business strategy, and Cervus expects to continue to pursue such acquisitions in the future. Although Cervus engages in discussions with, and submits proposals to acquisition candidates, suitable acquisitions may not be available in the future on reasonable terms. If Cervus does identify an appropriate acquisition candidate, Cervus may not be able to successfully negotiate the terms of the acquisition, finance the acquisition or, if the acquisition occurs, effectively integrate the acquired business into Cervus' existing business. In addition, the negotiation of a potential acquisition and the integration of an acquired business may require a disproportionate amount of management's attention and resources.

Cervus' inability to successfully identify, execute, or effectively integrate future or previous acquisitions may negatively affect its results of operations. Even though Cervus performs a due diligence review of the businesses it acquires that it believes is consistent with industry practices, such reviews are inherently incomplete. Even an in-depth due diligence review of a business may not necessarily reveal existing or potential problems or permit Cervus to become familiar enough with the business to fully assess its deficiencies and potential. Even when problems are identified, Cervus may assume certain risks and liabilities in connection with the acquired business.

### Credit risk

By granting credit sales to customers, it is possible these customers may experience financial difficulty and be unable to fulfill their repayment obligations. The Company's revenue is generated from customers in the farming, construction, industrial, and transportation industries, resulting in a concentration of credit risk from customers in these industries. The strength of our Agricultural segment is influenced by the prices of crop inputs, commodity prices, as well as local and global weather patterns in a growing season. Our Commercial and Industrial equipment sector is influenced by general economic and construction activity, and due to location, oil prices for Western Canadian crude oil. Our Transportation segment is influenced by regional, national, and North American economic activity, particularly factors impacting oil and gas activity, manufacturing and the demand for, and transportation of, consumer and industrial goods.

A significant decline in economic conditions within these industries would increase the risk that customers will experience financial difficulty and be unable to fulfill their obligations to the Company. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable, and deposits and guarantees with John Deere. The Company's revenues are normally invoiced with payment terms of net, 30 days. The average time to collect the Company's outstanding accounts receivable was approximately 18 days for the year ended December 31, 2016 (19 days for the year ended December 31, 2015) and no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on specific customers' credit risk, historical trends, and other economic information.

### Capital risk management

The Company's objective when managing its capital is to safeguard its ability to continue as a going concern, so that it generates returns for Shareholders, expands business relationships with stakeholders, and identifies risk and allocates its capital accordingly. In the management of capital, the Company considers its capital to comprise long-term debt, the current portion of long-term debt, convertible debentures, and all components of equity.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares to facilitate business combinations, raise or retire term debt, and/or adjust the amount of distributions paid to the Shareholders.

The Company uses the following ratios in determining its appropriate capital levels; a) Debt to Total Capital ratio (long-term debt plus current portion of long term debt divided by long-term debt plus current portion of long-term debt plus book value of equity); b) Return on Invested Capital ratio (net income before tax plus interest on short-term debt divided by total capital); c) a debt to tangible assets ratio (calculated as total debt divided by total assets less goodwill and intangibles); and, d) a fixed charge coverage ratio (calculated as adjusted earnings divided by contractual principle, interest, dividend, and operating lease payments). There were no changes in the Company's approach to capital management in the period.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of unaudited and audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the unaudited and audited consolidated financial statements. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results.

### Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

### Fair value of assets and liabilities acquired in business combinations

The value of acquired assets and liabilities on the acquisition date require the use of estimates to determine the purchase price allocation. Estimates are made as to the valuations of property, plant, and equipment, intangible assets, and goodwill, among other items. These estimates have been discussed further below.

***Property, plant and equipment***

The fair value of property, plant and equipment recognised as a result of a business combination or when determined in an impairment test is the estimated amount for which a property could be exchanged on the measurement date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

### *Intangible assets*

The fair value of dealership distribution agreements and trade names acquired in a business combination is based on the incremental discounted estimated cash flows realized post-acquisition, or expenditures avoided, as a result of owning the intangible assets. The fair value of customer lists acquired in a business combination is determined using income based approaches, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of other intangible assets including non-competition agreements is based on the discounted cash flows expected to be derived from the use and any residual value of the assets.

### *Inventories*

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

### *Trade and other receivables*

The fair value of trade and other receivables is estimated at the present value of the future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes or when such assets are acquired in a business combination.

### *Other non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

### *Derivative financial instruments*

The fair value of foreign currency derivative financial instruments is calculated based on a market comparison technique. The fair value is based on similar contracts in an active market and based on quotes using the prevailing foreign exchange translation rate from the Bank of Canada or similar sources.

## Taxation matters

Income tax provisions, including current and future income tax assets and liabilities, require estimates and interpretations of federal and provincial income tax rules and regulations, and judgements as to their interpretation and application to our specific situation. Estimates are also made as to the availability of future taxable profit against which carryforward tax losses can be used.

## Lease arrangements

In determining classification of leases as an operating or finance lease, the Company applies judgement to determine whether substantially all of the significant risks and rewards of ownership are transferred to the customer or remain with the Company; or where the Company is the lessee, whether substantially all the significant risks and rewards of ownership are transferred to the Company or remain with the lessor. These judgements can be significant as to how the Company classifies amounts related to the arrangements as rental equipment, net investment in finance lease, or lease obligation of these arrangements.

### Net realizable value of inventories

Inventories are recorded at the lower of cost and net realizable value. The most significant area of accounting estimate involves our evaluation of used equipment inventory net realizable value. We perform ongoing quarterly reviews of our used equipment inventories based upon local market conditions and the changes in the U.S. currency exchange rates to determine whether any adjustments are required to our carrying cost of inventory balances to ensure they are properly stated.

### Asset impairment

We assess the carrying value of long-lived assets, which include property, plant, and equipment and intangible assets, for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Judgement is used in identifying impairment triggers and the cash generating unit or group of cash generating units at which goodwill, intangible assets, and property and equipment are monitored for internal management purposes and identifying an appropriate discount rate for these calculations.

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the Cash Generating Unit ("CGU") to its estimated recoverable amount to ensure that the recoverable amount is greater than the carrying value. The recoverable amount of an asset or cash-generating unit 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. These valuation methods employ a variety of assumptions, including future revenue growth, expected profit, and profit multiples. Estimating the recoverable amount of a CGU is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an impairment loss in future periods.

## FUTURE ACCOUNTING STANDARDS

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are required to be adopted in the future periods. The new standards, amendments to existing standards effective for annual periods beginning on or after January 1, 2017 and which have not been applied in preparing these consolidated financial statements are:

On January 17, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt to amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

Effective January 1, 2018, the Company will be required to adopt IFRS 15 related to revenue from contracts with customers. Revenue from Contracts with Customers, was issued in May 2014 and replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The extent of the impact of adoption of the standard has not yet been determined.

The IASB has released updates to IFRS 9, related to the accounting and presentation of financial instruments and applies a principal-based approach to the classification and measurement of financial assets and financial liabilities, including an expected credit loss model for calculating impairment, and includes new requirements for hedge accounting. The mandatory effective date is January 1, 2018; however, early adoption is permitted. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

The Company will implement a project commencing in the first half of 2017 to review its various revenue streams and underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure. In addition, the Company will review the impact of IFRS 9 on the classification and measurement of its financial instruments. Currently, hedge accounting is not applied to any outstanding derivative contracts and it is not anticipated that hedge accounting will be applied upon the adoption of IFRS 9. As the Company does not apply hedge accounting the impact of adopting IFRS 9 will be reduced and will predominately relate to the assessing the impairment of financial assets under the expected credit loss model.

# RESPONSIBILITITY OF MANAGEMENT AND BOARD

### Disclosure controls

The CEO and the CFO are also responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P"). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and includes controls and procedures designed to ensure that information required to be disclosed in documents filed or submitted under securities legislation is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The CEO and the CFO evaluated, or caused to be evaluated under their supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and the CFO concluded that, as of December 31, 2016, Cervus' disclosure controls and procedures are effective.

### Internal controls over financial reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Cervus are responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and the CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and the CFO evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2016, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), (2013). Based on this assessment, the CEO and the CFO concluded that, as of December 31, 2016, Cervus' internal control over financial reporting are effective.

It should be noted a control system, including the Company's DC&P and ICFR, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system will be met, and it should not be expected that DC&P and ICFR will prevent all errors or fraud.

## Additional IFRS Financial Measures

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by IFRS. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. These measures are identified and defined below:

### Gross profit

Gross profit refers to the Company's total revenue less costs directly attributed to generating the related sales revenue. This additional IFRS measure is identified in our interim consolidated financial statements on the statement of comprehensive income. Gross profit provides a measure to assess the Company's profitability and efficiency of revenue generated, prior to considering selling, general and administrative expenses.

Gross profit margin is the percentage resulting from dividing Gross Profit from a transaction by the revenue generated by the same transaction.

### Income (loss) from operating activities

Income from operating activities refers to income (loss) excluding: general interest expense recognized outside of cost of goods sold, interest income, share of profit (loss) from equity investees, and income tax. This additional IFRS measure is identified in our interim consolidated financial statements on the statement of comprehensive income. Income from operating activities is a useful supplemental earnings measure as it provides an indication of the financial results generated by our principal business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions and the effects of earnings from equity investees.

## Non-IFRS Financial Measures

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by IFRS. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that these measures should not be construed as an alternative to profit or to cash flow from operating, investing, and financing activities determined in accordance with IFRS as indicators of our performance. These measures are provided to assist investors in determining our ability to generate profit and cash flow from operations and to provide additional information on how these cash resources are used. These financial measures are identified and defined below:

### Adjusted earnings (loss)

Adjusted earnings is provided to aid in the comparison of the Company's results from one period, to the Company's results from another period. The Company calculates Adjusted Earnings as follows:

| | Three months period ended December 31 | | Year ended December 31 | |
|---|---|---|---|---|
| **($ thousands, except per share amounts)** | **2016** | **2015** | **2016** | **2015** |
| Income (loss) attributed to shareholders | **8,753** | 3,768 | **23,712** | (27,421) |
| Adjustments: | | | | |
| CRA settlement | - | - | - | 36,948 |
| Unrealized foreign currency (gain) loss | **(304)** | 1,083 | **(3,501)** | 2,810 |
| Acquisition and integration costs | - | 170 | - | 998 |
| Loss (gain) on sale of equity accounted investees | **(4,146)** | | **(4,146)** | |
| Loss (gain) on sale of land and building | **(3,887)** | - | **(5,262)** | - |
| Adjusted earnings attributed to shareholders | **416** | 5,021 | **10,803** | 13,335 |
| Adjusted earnings per share: | | | | |
| Basic | **0.03** | 0.32 | **0.69** | 0.86 |
| Diluted | **0.02** | 0.31 | **0.66** | 0.83 |

**[1]** –Unrealized foreign exchange gains and losses are due to changes in fair value of our derivative financial asset and from period close translation of floorplan payables and cash denominated in U.S. dollars. The unrealized foreign exchange contracts and losses are treated as an adjustment to the Company's adjusted income calculation as these foreign currency gains and losses are not realized until settlement. Until settlement occurs, there may be large fluctuations period to period on movement of the foreign exchange rate, making comparison of operating performance period over period difficult.

## EBITDA

Throughout the MD&A, reference is made to EBITDA, which Cervus' management defines as earnings before interest, income taxes and depreciation and amortization. Management believes that EBITDA is a key performance measure in evaluating the Company's operations and is important in enhancing investors' understanding of the Company's operating performance. As EBITDA does not have a standardized meaning prescribed by IFRS, it may not be comparable to similar measures presented by other companies. As a result, we have reconciled profit as determined in accordance with IFRS to EBITDA, as follows:

| EBITDA ($ thousands)<br>Three months ended December 31, 2016 | Total | Agricultural | Transportation | Commercial & Industrial |
|---|---|---|---|---|
| Net income (loss) | **8,753** | 9,894 | (693) | (448) |
| Add: | | | | |
| Interest | **2,800** | 1,516 | 1,009 | 275 |
| Income taxes | **2,042** | 2,491 | (332) | (117) |
| Depreciation and Amortization | **4,413** | 2,363 | 1,341 | 709 |
| EBITDA | **18,008** | 16,264 | 1,325 | 419 |

| EBITDA ($ thousands)<br>Three months ended December 31, 2015 | Total | Agricultural | Transportation | Commercial & Industrial |
|---|---|---|---|---|
| Net income (loss) | **3,768** | 4,800 | (1,165) | 133 |
| Add: | | | | |
| Interest | **4,400** | 1,670 | 2,345 | 385 |
| Income taxes | **2,267** | 2,889 | (692) | 70 |
| Depreciation and Amortization | **4,599** | 2,348 | 1,377 | 874 |
| EBITDA | **15,034** | 11,707 | 1,865 | 1,462 |

| EBITDA ($ thousands)<br>Year ended December 31, 2016 | Total | Agricultural | Transportation | Commercial & Industrial |
|---|---|---|---|---|
| Net income (loss) | **23,712** | 22,057 | 2,505 | (850) |
| Add: | | | | |
| Interest | **12,537** | 6,738 | 4,620 | 1,179 |
| Income taxes | **7,042** | 6,545 | 751 | (254) |
| Depreciation and Amortization | **17,734** | 9,318 | 5,445 | 2,971 |
| EBITDA | **61,025** | 44,658 | 13,321 | 3,046 |

| EBITDA ($ thousands)<br>Year ended December 31, 2015 | Total | Agricultural | Transportation | Commercial & Industrial | Other[1] |
|---|---|---|---|---|---|
| Net income (loss) | **(27,421)** | 13,288 | (3,470) | (291) | (36,948) |
| Add: | | | | | |
| Interest | **13,571** | 6,758 | 5,172 | 1,641 | - |
| Income taxes | **42,327** | 7,494 | (1,952) | (163) | 36,948 |
| Depreciation and Amortization | **17,853** | 8,951 | 5,250 | 3,652 | - |
| EBITDA | **46,330** | 36,491 | 5,000 | 4,839 | - |

EBITDA is defined as profit before interest, taxes, depreciation, and amortization. We believe, in addition to net income (loss), EBITDA is a useful supplemental earnings measure as it provides an indication of the financial results generated by our principal business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions and before non-cash amortization expense.

**[1]** – The impact of the CRA tax settlement has not been allocated to the business segments.

### EBITDA Margin

EBITDA margin is calculated as EBITDA divided by gross revenue.

### Working Capital and Working Capital Ratio

Working capital is calculated as current assets less current liabilities. Working capital ratio is calculated as current assets divided by current liabilities.

# Consolidated Financial Statements of

# CERVUS EQUIPMENT CORPORATION

For the years ended December 31, 2016 and 2015

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cervus Equipment Corporation

We have audited the accompanying consolidated financial statements of Cervus Equipment Corporation, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income and loss, changes in equity and cash flows for the years then ended, and notes, comprising 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.

*Auditors' 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 our 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, we consider 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 consolidated financial position of Cervus Equipment Corporation as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 14, 2017
Calgary, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

**CERVUS EQUIPMENT CORPORATION**

Consolidated Statements of Financial Position

As at December 31, 2016 and 2015

| ($ thousands) | Note | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $ 14,542 | $ 11,955 |
| Trade and other accounts receivable | 5 | 54,986 | 66,850 |
| Inventories | 6 | 255,231 | 317,726 |
| Assets held for sale | 8 | - | 9,247 |
| **Total current assets** | | 324,759 | 405,778 |
| **Non-current assets** | | | |
| Other long-term assets | 9 | 9,537 | 10,584 |
| Property and equipment | 12 | 75,498 | 141,799 |
| Intangible assets | 14 | 46,514 | 51,008 |
| Goodwill | 14 | 20,544 | 20,616 |
| **Total non-current assets** | | 152,093 | 224,007 |
| **Total assets** | | $ 476,852 | $ 629,785 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other liabilities | 15 | $ 84,340 | $ 97,294 |
| Floor plan payables | 16 | 86,091 | 168,643 |
| Current portion of term debt | 16 | 15,720 | 17,917 |
| Debenture payable | 16 | 33,899 | - |
| Liabilities associated with assets held for sale | 8 | - | 4,037 |
| **Total current liabilities** | | 220,050 | 287,891 |
| **Non-current liabilities** | | | |
| Term debt | 16 | 21,660 | 87,661 |
| Finance lease obligation | 7 | 10,695 | 16,351 |
| Debenture payable | 16 | - | 32,941 |
| Deferred income tax liability | 13 | 10,608 | 11,648 |
| **Total non-current liabilities** | | 42,963 | 148,601 |
| **Total liabilities** | | 263,013 | 436,492 |
| **Equity** | | | |
| Shareholders' capital | 18 | 89,863 | 88,270 |
| Deferred share plan | | 7,520 | 7,098 |
| Other reserves | | 5,195 | 5,182 |
| Accumulated other comprehensive income | | 1,219 | 1,831 |
| Retained earnings | | 108,731 | 89,413 |
| **Total equity attributable to equity holders of the Company** | | 212,528 | 191,794 |
| **Non-controlling interest** | | 1,311 | 1,499 |
| **Total equity** | | 213,839 | 193,293 |
| **Total liabilities and equity** | | $ 476,852 | $ 629,785 |

Approved by the Board:

"Peter Lacey" Director "Angela Lekatsas" Director

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

**CERVUS EQUIPMENT CORPORATION**
Consolidated Statements of Comprehensive Income (Loss)
For the year ended December 31, 2016 and 2015

| ($ thousands) | Note | 2016 | 2015 |
|---|---|---|---|
| **Revenue** | | | |
| Equipment sales | | $ 808,661 | $ 829,922 |
| Parts | | 200,953 | 201,860 |
| Service | | 79,973 | 82,288 |
| Rentals | | 20,352 | 19,808 |
| Total revenue | | 1,109,939 | 1,133,878 |
| Cost of sales | | (918,874) | (926,937) |
| **Gross profit** | | 191,065 | 206,941 |
| Other income (loss) | 20 | 13,938 | (1,719) |
| Selling, general and administrative expense | 21 | (164,431) | (179,583) |
| **Income from operating activities** | | 40,572 | 25,639 |
| Net finance costs | 23 | (10,495) | (11,233) |
| Share of profit of equity accounted investees, net of income tax | 10 | 489 | 542 |
| **Income before income tax expense** | | 30,566 | 14,948 |
| Income tax expense | 13 | (7,042) | (42,327) |
| **Income (loss) for the year** | | 23,524 | (27,379) |
| **Other comprehensive income:** | | | |
| Foreign currency translation differences for foreign operations, net of tax | | (612) | 1,639 |
| **Total comprehensive income (loss) for the year** | | 22,912 | (25,740) |
| **Income (loss) attributable to:** | | | |
| Shareholders of the Company | | 23,712 | (27,421) |
| Non-controlling interest | | (188) | 42 |
| **Income (loss) for the year** | | 23,524 | (27,379) |
| **Total comprehensive income (loss) attributable to:** | | | |
| Shareholders of the Company | | 23,100 | (25,782) |
| Non-controlling interest | | (188) | 42 |
| **Total comprehensive income (loss) for the year** | | $ 22,912 | $ (25,740) |
| **Net income (loss) per share attributable to shareholders of the Company:** | | | |
| Basic | 24 | $ 1.51 | $ (1.77) |
| Diluted | 24 | $ 1.44 | $ (1.77) |

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

## CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2016 and 2015

| Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ($ thousands) | Note | Share capital | Deferred share plan | Other reserves | Cumulative translation account | Retained earnings | Total | Non-controlling interest | Total equity |
| **Balance December 31, 2014** | | **$ 83,814** | **$ 7,559** | **$ 6,433** | **$ 192** | **$ 130,036** | **$ 228,034** | **$ 1,457** | **$ 229,491** |
| **Comprehensive loss for the period** | | | | | | | | | |
| (Loss) | | - | - | - | - | (27,421) | (27,421) | 42 | (27,379) |
| **Other comprehensive income** | | | | | | | | | |
| Foreign currency translation adjustments, net of tax | | - | - | - | 1,639 | - | 1,639 | - | 1,639 |
| Total comprehensive loss for the period | | - | - | - | 1,639 | (27,421) | (25,782) | 42 | (25,740) |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| Dividends to equity holders | | - | - | - | - | (13,202) | (13,202) | - | (13,202) |
| Shares issued through reserve | | 1,524 | - | (1,524) | - | - | - | - | - |
| Shares issued through DRIP | | 1,133 | - | - | - | - | 1,133 | - | 1,133 |
| Shares issued through deferred share plan | | 1,226 | (1,226) | - | - | - | - | - | - |
| Shares issued through option plan | | 573 | - | (202) | - | - | 371 | - | 371 |
| Share-based payment transactions | | - | 765 | 475 | - | - | 1,240 | - | 1,240 |
| Transactions with owners | | 4,456 | (461) | (1,251) | - | (13,202) | (10,458) | - | (10,458) |
| **Balance December 31, 2015** | | **$ 88,270** | **$ 7,098** | **$ 5,182** | **$ 1,831** | **$ 89,413** | **$ 191,794** | **$ 1,499** | **$ 193,293** |
| **Comprehensive income for the period** | | | | | | | | | |
| Profit | | - | - | - | - | 23,712 | 23,712 | (188) | 23,524 |
| **Other comprehensive income** | | | | | | | | | |
| Foreign currency translation adjustments, net of tax | | - | - | - | (612) | - | (612) | - | (612) |
| Total comprehensive income for the period | | - | - | - | (612) | 23,712 | 23,100 | (188) | 22,912 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| Dividends to equity holders | 18 | - | - | - | - | (4,394) | (4,394) | - | (4,394) |
| Shares issued through DRIP | 18 | 883 | - | - | - | - | 883 | - | 883 |
| Shares issued through deferred share plan | 18 | 710 | (710) | - | - | - | - | - | - |
| Share-based payment transactions | 18 | - | 1,132 | 13 | - | - | 1,145 | - | 1,145 |
| Transactions with owners | | 1,593 | 422 | 13 | - | (4,394) | (2,366) | - | (2,366) |
| **Balance December 31, 2016** | | **$ 89,863** | **$ 7,520** | **$ 5,195** | **$ 1,219** | **$ 108,731** | **$ 212,528** | **$ 1,311** | **$ 213,839** |

**CERVUS EQUIPMENT CORPORATION**
Consolidated Statement of Cash Flows
For the years ended December 31, 2016 and 2015

| ($ thousands) | Note | 2016 | 2015 |
|---|---|---|---|
| **Income (loss) for the period** | | $ 23,524 | $ (27,379) |
| Adjustments for: | | | |
| Income tax expense | 13 | 7,042 | 42,327 |
| Depreciation | 12 | 12,487 | 13,033 |
| Amortization of intangibles | 14 | 5,247 | 4,820 |
| Equity-settled share-based payment transactions | | 1,145 | 1,077 |
| Net finance costs | 23 | 12,368 | 13,376 |
| Unrealized foreign exchange (gain) loss | 20 | (3,501) | 2,810 |
| Non-cash write-down of inventories | 6 | 6,158 | 4,661 |
| (Gain) on sale of property and equipment | | (4,206) | (1,358) |
| (Gain) on sale of asset held for sale | | (1,373) | - |
| (Gain) on sale of equity accounted investees | 10 | (4,146) | - |
| (Share of profit) of equity accounted investees, net of tax | 10 | (489) | (542) |
| Distributions from equity investments | 10 | 761 | - |
| Change in non-cash working capital | 26 | (22,368) | (7,993) |
| Cash generated from operating activities | | 32,649 | 44,832 |
| Cash taxes paid | | (4,978) | (7,760) |
| Interest paid | | (11,507) | (13,398) |
| **Net cash provided from operating activities** | | 16,164 | 23,674 |
| **Cash flows from investing activities** | | | |
| Interest received | | 169 | 195 |
| Purchase of property and equipment | 12 | (6,410) | (19,539) |
| Payments for intangible assets | 14 | (954) | (1,479) |
| Final working capital payments on business combination | | - | (7,997) |
| Proceeds from disposal of property and equipment | 12 | 62,295 | 7,255 |
| Proceeds from asset held for sale | 8 | 7,765 | 150 |
| Proceeds from disposal of equity accounted investee | 10 | 9,131 | - |
| **Net cash provided from/(used in) investing activities** | | 71,996 | (21,415) |
| **Cash flows from financing activities** | | | |
| Net (repayments)/proceeds from term debt | | (71,744) | 8,696 |
| Proceeds from exercise of share options | | - | 371 |
| Cash dividends paid | 18 | (5,725) | (11,987) |
| Payment of finance lease liabilities | | (8,385) | (7,472) |
| (Payment)/Receipt of deposits with manufacturers | | (101) | 838 |
| **Net cash used in from financing activities** | | (85,955) | (9,554) |
| Net increase (decrease) in cash and cash equivalents | | 2,205 | (7,295) |
| Effect of foreign currency translation on cash | | 382 | 463 |
| Cash and cash equivalents, beginning of year | | 11,955 | 18,787 |
| Cash and cash equivalents, end of year | | $ 14,542 | $ 11,955 |

## 1. Reporting Entity

Cervus Equipment Corporation ("Cervus" or the "Company") is an incorporated entity under the Canada Business Corporations Act and is domiciled in Canada. The registered office of the Company is situated at 5201 – 333, 96th Avenue N.E., Calgary, Alberta, Canada, T3K 0S3. The consolidated financial statements of the Company as at and for the year ended December 31, 2016 comprise of the Company and its subsidiaries ("the Group"). The Company is primarily involved in the sale, after-sale service and maintenance of agricultural, transportation, construction and industrial ("C&I") equipment. The Company also provides equipment rental, primarily in the transportation, construction and industrial equipment segments. The Company wholly owns and operates 64 dealerships in Canada, New Zealand, and Australia, employing more than 1,500 people. The primary equipment brands represented by Cervus include John Deere agricultural equipment; Bobcat and JCB construction equipment; Clark, Sellick and Doosan material handling equipment; and Peterbilt transportation equipment. The common shares of Cervus are listed on the Toronto Stock Exchange and trade under the symbol "CERV".

## 2. Basis of Preparation

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors authorized the issue of these consolidated financial statements on March 14, 2017.

### Basis of measurement

The consolidated financial statements have been prepared under a going concern assumption on a historical cost basis, with the exception of items that IFRS requires to be measured at fair value.

### Presentation currency

These consolidated financial statements are presented in Canadian dollars. All financial information has been rounded to the nearest thousand except for per share amounts.

### Basis of consolidation

These consolidated financial statements include the accounts of the parent company Cervus Equipment Corporation and its subsidiaries, the majority of which are wholly owned.

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Non-controlling interests in subsidiaries are identified separately from the Company's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquirees' identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## 2. Basis of Preparation (continued)

Details of the Company's subsidiaries at December 31, 2016 and December 31, 2015 are as follows:

| Proportion of ownership interest and voting power held | 2016 | 2015 |
|---|---|---|
| Cervus AG Equipment LP | **100%** | 100% |
| Cervus AG Equipment Ltd | **100%** | 100% |
| Cervus Collision Center LP | **100%** | 100% |
| Cervus Contractors Equipment LP | **100%** | 100% |
| Cervus Contractors Equipment Ltd | **100%** | 100% |
| Cervus Equipment NZ Ltd. | **100%** | 100% |
| Cervus Rental & Leasing NZ Ltd., a wholly-owned subsidiary of Cervus NZ Equipment Ltd. | **100%** | 100% |
| DeerStar Systems Inc. | **57.1%** | 57.1% |
| 101169185 Saskatchewan Ltd | **100%** | 100% |
| 520781 Alberta Ltd | **100%** | 100% |
| Cervus Equipment Holdings Australia Pty Ltd. | **100%** | 100% |
| Cervus Equipment Australia Pty Ltd. | **100%** | 100% |

### Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, revenues and expenses. By their very nature, estimates may differ from actual future results and the impact of such changes could be material.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions to accounting estimates recognized prospectively.

***Judgements***

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in these consolidated financial statements are:

- Classification of a lease arrangement as an operating or finance lease; judgement is required to determine whether substantially all of the significant risks and rewards of ownership are transferred to the customer or remain with the Company; or where the Company is the lessee, whether substantially all the significant risks and rewards of ownership are transferred to the Company or remain with the lessor. (Note 7 & 25)
- Impairment tests; judgement is used in identifying impairment triggers and the cash generating unit or group of cash generating units at which goodwill, intangible assets, and property and equipment are monitored for internal management purposes and identifying an appropriate discount rate for these calculations. (Note 14)

***Assumptions and estimation uncertainties***

Information about assumptions and estimation uncertainties which could have a significant effect on the carrying amounts of assets and liabilities within the next fiscal year are included in the following notes:

- Recoverability of inventories and key assumptions regarding the net realizable value of inventory (Note 6)
- Impairment tests (including intangible assets and goodwill); estimates on key assumptions related to the future operating results and cash generating ability of the assets. (Notes 14);
- Depreciation and amortization expense; assumptions on the useful lives of property and equipment and intangible assets (Note 12 and 14)

**2. Basis of Preparation (continued)**

**Determination of fair values**

A number of the groups accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods outlined below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

***Property, plant and equipment***

The fair value of property, plant and equipment recognized as a result of a business combination or when determined in an impairment test is the estimated amount for which a property could be exchanged on the measurement date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

***Intangible assets***

The fair value of dealership distribution agreements and trade names acquired in a business combination is based on the incremental discounted estimated cash flows realized post acquisition, or expenditures avoided, as a result of owning the intangible assets. The fair value of customer lists acquired in a business combination is determined using income based approaches, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of other intangible assets including non-competition agreements is based on the discounted cash flows expected to be derived from the use and any residual value of the assets.

***Inventories***

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

***Trade and other receivables***

The fair value of trade and other receivables is estimated at the present value of the future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes or when such assets are acquired in a business combination.

***Other non-derivative financial liabilities***

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

***Derivative financial instruments***

The fair value of foreign currency derivative financial instruments is calculated based on a market comparison technique. The fair value is based on similar contracts in an active market and based on quotes using the prevailing foreign exchange translation rate from the Bank of Canada or similar sources.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently by all the Group's entities and to all years presented in these consolidated financial statements.

### Business segments

The Company operates three distinct business segments, agricultural, transportation and commercial and industrial segments based on the industry which they serve. These segments are managed separately and strategic decisions are made on the basis of their respective operating results.

The Agricultural equipment segment consists of John Deere dealership locations in Alberta, Saskatchewan, British Columbia, New Zealand, and Australia. The Transportation equipment segment consists of Peterbilt dealership locations in Saskatchewan and Ontario. The Commercial and Industrial equipment segment consists of Bobcat, JCB, Clark, Sellick, and Doosan dealership locations in Alberta, Saskatchewan, and Manitoba.

Each of these business segment operations are supported by a single corporate head office. Certain corporate head office expenses are allocated to the business segments according to both specific identification and metrics to estimate usage. The corporate head office also incurs certain costs which are not considered directly related to store level operations, such as interest cost on general corporate borrowings, corporate personnel costs, and public company costs. These corporate costs are allocated to the segments based on the gross profit of the segments.

### Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities and contingent liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Transaction costs are expensed as incurred. Goodwill arising on acquisitions is recognized as an asset and initially measured at cost, being the excess of the consideration of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

### Foreign currency translation

#### *Foreign currency transactions*

The individual financial statements of each subsidiary are stated in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than companies' functional currency are recorded at the rate of exchange at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in a currency other than subsidiaries' functional currency, are translated into the subsidiaries' functional currency at the rates of exchange prevailing at that date. Foreign currency differences are recognized in profit or loss.

#### *Foreign operations*

For the purpose of presenting consolidated financial statements, the results of entities and equity components denominated in currencies other than Canadian dollars are translated at the average rate of exchange for the period and their assets and liabilities at the rates in effect at the balance sheet date. Foreign exchange differences are recognized in other comprehensive income and accumulated in the cumulative translation account.

**3. Significant Accounting Policies (continued)**

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances with banks, and short-term deposits with original maturities of three months or less.

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific identification method for new and used equipment, average cost for parts and a specific job basis for work-in-progress. Net realizable value approximates the estimated selling price less all estimated cost of completion and necessary cost to complete the sale. Previous write-downs of inventory are reversed when economic changes support an increased value. The amount of the write-down is reversed, and the reversal is limited to the amount of the original write-down, so that the new carrying amount is the lower of the cost and the revised net realizable value.

**Property and equipment**

Items of property and equipment are recorded at cost, less any accumulated depreciation and accumulated impairment losses. Properties under construction are measured at cost less any accumulated impairment. Assets are moved from the construction phase and begin depreciation when the asset is available for use. Assets under finance leases are measured initially at an amount equal to the lower of their fair value and the present value of minimum lease payments.

Any gain or loss arising on the disposal or retirement of an item of property and equipment is recognized in profit or loss.

Depreciation is provided for using both the declining balance and straight-line methods at annual rates intended to depreciate the cost of each significant component of an asset, less its residual values over its estimated useful lives. Assets under finance leases are depreciated on the same basis as owned assets, or where shorter, the term of the lease. Land is not depreciated.

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following methods and rates are used in the calculation of depreciation:

| Assets | Method | Estimated useful life |
|---|---|---|
| Buildings | Straight-line | 15 to 40 years |
| Leasehold improvements | Straight-line | Over period of lease |
| Short-term rental equipment | Straight-line | 5 to 10 years |
| Automotive and trucks and computers | Declining balance | 30% |
| Furniture and fixtures, parts and shop equipment | Declining balance | 20% |

**3. Significant Accounting Policies (continued)**

**Intangible assets**

***Intangible assets***

Intangible assets includes software, dealership distribution agreements, customer lists and non-competition agreements and are recorded at cost less accumulated amortization and any accumulated impairment losses. Software costs under development are measured at cost less any accumulated impairment, software moves from the development phase and amortization commences when the asset is available for use.

Costs of internally generated intangible assets are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to complete development to use the asset. Otherwise, it is recognized in profit or loss as incurred.

The estimated useful life and amortization method are reviewed at the end of each period, with the effect of any changes in estimate being accounted for on a prospective basis.

The following are the typical useful lives that are used in the calculation of amortization for each intangible asset.

| | |
|---|---|
| Dealership distribution agreements | 20 years |
| Customer lists and non-competition agreements | 5 years |
| Software costs | 5 years |

***Goodwill***

Goodwill is the excess of the consideration of a business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. Goodwill is measured at cost less accumulated impairment.

**Investments in associates**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Company’s share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company’s interest in that associate (which includes any long-term interests that, in substance, form part of the Company’s net investment in the associate) are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Company’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company transacts with an associate of the Company, profit and losses are eliminated to the extent of the Company’s interest on the relevant associate.

3. **Significant Accounting Policies (continued)**

**Assets held for sale**

Non-current assets are classified as held for sale when it is highly probable that an asset in its present condition will be recovered principally through sale instead of its continued use. Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell. Once classified as held-for-sale plant and equipment are no longer depreciated.

**Lease arrangements**

At the inception of an arrangement, the Company considers whether the arrangement, is or contains, a lease. The Company must determine whether the fulfilment of the arrangement is dependent on the use of a specific asset and if the arrangement conveys the right to use the asset. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either an operating or finance lease dependent on whether substantially all of the risks or rewards of ownership of the asset have been transferred.

a) The Company as the lessee

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

At the inception of a finance lease, the asset and finance lease liability is recorded at the lower of its fair value and the present value of minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

b) The Company as the lessor

An operating lease effectively establishes that the lessor shall retain the rewards and associated risks of ownership of that asset for a period of time or use. Where the Company's equipment rentals and leases to customers are classified as operating leases, the payments received are included in revenue on a straight-line basis over the term of the lease.

Revenue related to lease arrangements accounted for as finance leases are recognized using an approach for a constant rate of return on the net investment in the lease. The net investment in the finance lease is the aggregate of net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net income over the lease term.

**3. Significant Accounting Policies (continued)**

**Impairment**

***Financial assets (including receivables)***

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**3. Significant Accounting Policies (continued)**

***Non-financial assets***

Property and equipment, intangible assets and goodwill are reviewed at each reporting period to identify if there are indicators of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The carrying values of intangible assets and goodwill with indefinite lives must be tested at least annually. We have selected December 31st as our annual impairment test date, although impairment tests are conducted more frequently if indicators of impairment are present at dates other than December 31st.

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The CGU corresponds to the smallest identifiable group of assets whose continuing use generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company has determined that its CGUs comprise groups of stores which provide the same or similar product within a geographic market.

Goodwill acquired in a business combination is allocated to the CGU which it relates. Intangible assets with indefinite useful lives and assets held at the parent level are allocated to the CGU to which they relate.

Impairment losses are recognized in profit or loss. Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata based on the carrying amount of each asset in the CGU. An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which it belongs, exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit 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.

***Reversals of previously recognized impairments***

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**3. Significant Accounting Policies (continued)**

**Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax. Current income taxes are recorded based on the estimated income taxes payable on taxable income for the year and any adjustment to tax payable in respect of previous years. The Company's liability for current tax is calculated using tax rates that have been substantively enacted by the end of the reporting period.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized if it is more likely than not to be realized. The effect of a change in tax rates on deferred income tax assets and liabilities is recorded in the period in which the change occurs.

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and measured reliably.

**Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value and for the purpose of subsequent measurement; they are allocated into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. Derivative instruments are categorized as held for trading unless they are designated as hedges. The Company's financial assets and liabilities consist primarily of cash and cash equivalents, trade and other accounts receivable, trade and other accrued liabilities, dividends payable, floor plan payables, foreign currency hedging instruments, debenture payable, finance leases, and term debt and notes payable. The designated financial instruments are recognized and measured as follows:

- Financial assets at fair value through profit or loss, or held-for-trading instruments, are financial assets and liabilities typically acquired with the intention of generating revenues in the short-term. However, an entity is allowed to designate any financial instrument as held-for-trading on initial recognition even if it would otherwise not satisfy the definition. Financial assets and financial liabilities required to be classified or designated as held for-trading are measured at fair value, with gains and losses recorded in profit or loss for the period in which the change occurs. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred.

- Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost.

**3. Significant Accounting Policies (continued)**

- Loans and receivables are measured at amortized cost using the effective interest method. Loans and receivables include trade and other accounts receivable, and deposits with manufacturers.
- Available-for-sale financial assets are non-derivative assets that are designated as available-for sale or that are not classified as loans and receivables, held-to-maturity investments or held for-trading. Available-for-sale financial assets are initially recognized at fair value plus any directly attributable transaction costs, and are carried at fair value with unrealized gains and losses included in other comprehensive income (OCI) until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Available-for-sale assets are measured at fair value, except for assets that do not have a readily determinable fair value which are recorded at cost and assessed for impairment when indicators for impairment exist.
- Other financial liabilities are measured at amortized cost using the effective interest method. The Company's other financial liabilities include trade and other accrued liabilities, dividends payable, floor plan payables, term debt, debenture payable, finance lease obligation and notes payable.

Derivative financial instruments are used to manage the Company's foreign currency exposure, utilizing forward currency contracts to lock the profit margin on certain customer orders where the customer has agreed to a price in Canadian dollars, and the Company will be invoiced in U.S Dollars. Derivatives are initially recognized at fair value, any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition derivatives are measured at fair value and changes therein are generally recognized in profit or loss.

**Revenue recognition**

Revenue is recognized when it is probable that future economic benefits will flow to the Company, and the amount of revenue can be reliably measured. Revenue is recorded based on the fair value of the consideration received or receivable. Revenue is not recognized before there is persuasive evidence that an arrangement exists, such as, delivery has occurred, the rate is fixed and determinable, and the collection of outstanding amounts is considered probable. The Company considers persuasive evidence to exist when a formal contract or purchase order is signed and required deposits have been received. Sales terms do not include provision for post service obligations.

Parts revenue is recognized when the customer receives the part. Service revenue is recognized at the time the service is provided. Rentals and operating lease revenue are recorded at the time the service is provided, recognized evenly over the term of the rental or lease agreement with the customer.

**Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and gains on the disposal of available-for-sale financial assets.

Finance costs comprise interest expense on borrowings and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the construction, acquisition or production of a qualifying asset are recognized in profit or loss as incurred.

Changes in the fair value of financial assets at fair value through profit or loss are included in Other Income or Loss.

### 3. Significant Accounting Policies (continued)

#### Per share amounts

Basic per share amounts are computed by dividing earnings (loss) by the weighted average number of shares outstanding for the period. Diluted earnings per share are calculated giving effect to the potential dilution that would occur if share options or other dilutive instruments were exercised or converted to shares. The treasury stock method is used to determine the dilutive effect of share options and other similar dilutive instruments. This method assumes that any proceeds upon the exercise or conversion of dilutive instruments, for which market prices exceed exercise price, would be used to purchase shares at the average market price of the shares during the period. Diluted earnings per share includes the number of shares that are issuable on conversion of convertible debentures. The net earnings are adjusted for the after-tax interest expense that would not have been incurred had the debentures been converted at the beginning of the period.

#### Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### Share-based payment transactions

The grant date fair value as determined by the Black-Scholes model for share option awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. Amounts for share option payment transactions are recognized in contributed surplus as they vest, which is captured in other reserves.

## 4. Standards issued but not yet effective

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are required to be adopted in the future periods. The new standards, amendments to existing standards effective for annual periods beginning on or after January 1, 2017 and which have not been applied in preparing these consolidated financial statements are:

On January 17, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt to amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

Effective January 1, 2018, the Company will be required to adopt IFRS 15 related to revenue from contracts with customers. Revenue from Contracts with Customers, was issued in May 2014 and replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The extent of the impact of adoption of the standard has not yet been determined.

The IASB has released updates to IFRS 9, related to the accounting and presentation of financial instruments and applies a principal-based approach to the classification and measurement of financial assets and financial liabilities, including an expected credit loss model for calculating impairment, and includes new requirements for hedge accounting. The mandatory effective date is January 1, 2018; however, early adoption is permitted. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 5. Trade and Other Accounts Receivable

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Trade receivables | $ 47,620 | $ 54,383 |
| Current portion of long-term finance contracts | 534 | 608 |
| Volume bonus | 128 | 125 |
| Trade receivables | 48,282 | 55,116 |
| Allowance for doubtful debts[a] | (1,710) | (1,987) |
| Trade receivables, net | 46,572 | 53,129 |
| Prepaid expenses | 7,398 | 5,942 |
| Current portion finance lease receivables (Note 7) | 399 | 584 |
| Foreign exchange contracts[b] | 617 | 7,195 |
| | $ 54,986 | $ 66,850 |

(a) Movement in allowance for doubtful debts during the year has been recorded in selling, general and administrative expense, the details of which are disclosed in Note 27.

(b) Derivative financial instruments are used to manage the Company's foreign currency exposure, utilizing forward currency contracts to lock the profit margin on certain customer orders where the customer has agreed to a price in Canadian dollars, and the Company will be invoiced in U.S Dollars.

## 6. Inventories

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| New equipment | $ 104,424 | $ 165,660 |
| Used equipment | 101,073 | 100,412 |
| Parts and accessories | 48,398 | 50,195 |
| Work-in-progress | 1,336 | 1,459 |
| | $ 255,231 | $ 317,726 |

During the year ended December 31, 2016, included in costs of sales are amounts related to inventories of $858,667 thousand (2015 - $874,097 thousand). The total inventory write-downs recorded during the year ended December 31, 2016 and included in cost of goods sold was $6,158 thousand (2015 - $4,661 thousand). The Company's inventory has been pledged as security for floor plan payables under terms of the floorplan agreements and for long-term debt under general security agreements.

## 7. Finance Leases

### a) As Lessor - Finance Lease Receivables

The Company has entered into fixed term contractual arrangements to allow customers to have dedicated use of certain heavy trucks and equipment owned by the Company, where substantially all the risks and rewards of ownership are held by the customer. These arrangements are accounted for as finance leases.

The Company's net investment in finance lease receivables as at December 31, 2016 and 2015 are as follows:

| | Gross investment in finance lease receivables | | Future finance income | | Present value of minimum lease payments receivable | |
|---|---|---|---|---|---|---|
| **($ thousands)** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Less than one year | $ **419** | $ 610 | $ **(20)** | $ (26) | $ **399** | $ 584 |
| Between one and five years | **736** | 1,135 | **(163)** | (268) | **573** | 867 |
| More than five years | **-** | 20 | **-** | (9) | **-** | 11 |
| **Total** | $ **1,155** | $ 1,765 | $ **(183)** | $ (303) | $ **972** | $ 1,462 |

### b) As Lessee - Finance Lease Liabilities

Finance lease liabilities reflect the total future payments on leases for heavy trucks and equipment, including final payments or buyouts. The finance lease assets are subsequently leased to customers, primarily under operating lease agreements. Based on the effective interest rate implicit in each lease these future payments are discounted to determine the net scheduled lease payments on each lease. The leases have terms typically between 1 and 7 years. On the maturity of the lease, the Company will sell the equipment. The difference between the Company's proceeds and the residual value per the lease agreement remains with the Company.

Finance lease liabilities as at December 31, 2016 and 2015 are payable as follows:

| | Future minimum lease payments | | Interest | | Present value of minimum lease payments | |
|---|---|---|---|---|---|---|
| **($ thousands)** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Less than one year | $ **4,677** | $ 5,900 | $ **(149)** | $ (187) | $ **4,528** | $ 5,713 |
| Between one and five years | **11,562** | 17,902 | **(1,558)** | (2,711) | **10,004** | 15,191 |
| More than five years | **918** | 1,544 | **(227)** | (384) | **691** | 1,160 |
| **Total** | $ **17,157** | $ 25,346 | $ **(1,934)** | $ (3,282) | $ **15,223** | $ 22,064 |

## 8. Assets Held for Sale

In 2015, the Company committed to a plan to sell three buildings and land within Agricultural and C&I segments. Accordingly, these properties and related term debt were classified as held for sale. In 2016, the Company sold two of the properties for net proceeds of approximately $7,765 thousand and a net gain of $1,373 was recognized in other income on the sale. In 2016, one of the properties and related term debt previously held-for-sale was reclassified as held-for-use.

## 9. Other Long-Term Assets

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Long-term receivables | $ 1,298 | $ 2,165 |
| Investments in associates, at equity (Note 10) | 505 | 5,762 |
| Deposits with manufacturers (Note 11) | 2,734 | 2,657 |
| Other investments[a] | 5,000 | - |
| | $ 9,537 | $ 10,584 |

(a) In 2016, the Company purchased units in Skyline Commercial REIT as a deposit on long-term leases. The units have been classified as available for sale.

## 10. Equity Accounted Associates

| ($ thousands) | Ownership % | 2016 | 2015 |
|---|---|---|---|
| Prairie Precision Network Inc. | 22.2% | $ 29 | $ 29 |
| JD Integrated Solutions Inc. (a) | 35.5% | 476 | 812 |
| Maple Farm Equipment Partnership (b) | - | - | 4,921 |
| | | $ 505 | $ 5,762 |

The Company's share of profit net of tax in its equity accounted investees for the year ended December 31, 2016 was $489 thousand (2015 - $542 thousand). All of the Company's investments in associates are measured under the equity method. During the year ended December 31, 2016, the Company received $761 thousand of repayments from its investees (2015 - nil).

(a) In 2016, the Company increased its investment in JD Integrated Solutions from 26.9% to 35.48%.

(b) In 2016, the Company sold its 21.4% investment in Maple for net proceeds of $9,131 thousand resulting in a gain on sale of $4,146 thousand which has been recognized in Other Income (Note 20).

Summary financial information for the Company's equity accounted investees, had the Company owned 100% of investees, is as follows:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Current Assets | $ 196 | $ 60,772 |
| Long-term assets | 2,265 | 26,655 |
| Current liabilities | 213 | 34,136 |
| Long-term liabilities | 1,664 | 3,969 |
| Revenue and other income | 2,096 | 190,472 |
| Expenses | 651 | 189,299 |

## 11. Deposits with Manufacturers

John Deere Credit Inc. ("Deere Credit") provides and administers financing for retail purchases and leases of new and used equipment. Under the financing and lease plans, Deere Credit retains the security interest in the financed equipment. The Company is liable for a portion of the deficiency in the event that the customer defaults on their lease obligation. Deere Credit retains 1% to 2% of the face amount of the finance or lease contract for amounts that the Company may have to pay Deere Credit under this arrangement. The deposits are capped at 3% of the total dollar amount of the lease finance contracts outstanding.

The maximum liability that may arise related to these arrangements is limited to the deposits of $2,734 thousand (December 31, 2015 - $2,657 thousand). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

## 12. Property and Equipment

| ($ thousands) Cost | Land and Buildings | Short-term Rental Equipment | Automotive and Trucks | Furniture and Fixtures | Parts and Shop Equipment | Computers and Software | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2015** | 88,932 | 50,039 | 19,381 | 5,358 | 8,814 | 4,655 | 3,256 | 180,435 |
| Additions | 9,161 | 5,452 | 2,604 | 636 | 586 | 571 | 529 | 19,539 |
| Additions for finance lease | - | 5,026 | - | - | - | - | - | 5,026 |
| Disposals | (2,668) | (5,152) | (1,555) | (109) | (53) | (76) | (98) | (9,711) |
| Assets held for sale | (10,361) | - | - | - | - | - | - | (10,361) |
| Transfers | - | (4,831) | - | 1,120 | (1,120) | - | - | (4,831) |
| Effect of movements in exchange rates | 108 | 455 | 264 | 28 | 81 | 37 | 37 | 1,010 |
| **Balance at December 31, 2015** | 85,172 | 50,989 | 20,694 | 7,033 | 8,308 | 5,187 | 3,724 | 181,107 |
| Additions | **201** | **2,647** | **1,723** | **388** | **579** | **630** | **242** | **6,410** |
| Additions for finance lease | - | **1,544** | - | - | - | - | - | **1,544** |
| Disposals | **(59,411)** | **(4,045)** | **(1,312)** | **(167)** | **(484)** | **(2,736)** | **(44)** | **(68,199)** |
| Assets held for sale | **3,187** | - | - | - | - | - | - | **3,187** |
| Transfers | - | **(7,434)** | - | - | - | - | - | **(7,434)** |
| Effect of movements in exchange rates | **(155)** | **(126)** | **(129)** | **(26)** | **(36)** | **(10)** | **(4)** | **(486)** |
| **Balance at December 31, 2016** | **28,994** | **43,575** | **20,976** | **7,228** | **8,367** | **3,071** | **3,918** | **$ 116,129** |

## 12. Property and Equipment (continued)

| ($ thousands) Accumulated Depreciation and Impairment | Land and Buildings | Short-term Rental Equipment | Automotive and Trucks | Furniture and Fixtures | Parts and Shop Equipment | Computers and Software | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2015** | 4,790 | 6,926 | 8,583 | 3,000 | 4,112 | 2,973 | 1,103 | 31,487 |
| Depreciation expense | 2,033 | 4,990 | 3,080 | 901 | 868 | 757 | 404 | 13,033 |
| Disposals | (28) | (2,435) | (1,035) | (148) | (29) | (41) | (98) | (3,814) |
| Assets held for sale | (1,114) | - | - | - | - | - | - | (1,114) |
| Transfers | - | (456) | - | - | - | - | - | (456) |
| Effects of movements in exchange rates | 34 | (1) | 36 | 58 | 11 | 24 | 10 | 172 |
| **Balance at December 31, 2015** | 5,715 | 9,024 | 10,664 | 3,811 | 4,962 | 3,713 | 1,419 | 39,308 |
| Depreciation expense | **2,103** | **4,830** | **2,749** | **807** | **900** | **665** | **433** | **12,487** |
| Disposals | **(4,828)** | **(1,725)** | **(722)** | **(81)** | **(428)** | **(2,297)** | **(29)** | **(10,110)** |
| Assets held for sale | **324** | - | - | - | - | - | - | **324** |
| Transfers | - | **(1,272)** | - | - | - | - | - | **(1,272)** |
| Effects of movements in exchange rates | **(5)** | **(9)** | **(51)** | **(12)** | **(20)** | **(9)** | - | **(106)** |
| **Balance at December 31, 2016** | **3,309** | **10,848** | **12,640** | **4,525** | **5,414** | **2,072** | **1,823** | **$ 40,631** |

| ($ thousands) Carrying Value | Land and Buildings | Short-term Rental Equipment | Automotive and Trucks | Furniture and Fixtures | Parts and Shop Equipment | Computers and Software | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2015** | 79,457 | 41,965 | 10,030 | 3,222 | 3,346 | 1,474 | 2,305 | $ 141,799 |
| **Balance at December 31, 2016** | **25,685** | **32,727** | **8,336** | **2,703** | **2,953** | **999** | **2,095** | **$ 75,498** |

Depreciation expense has been recorded in cost of sales in the amount of $4,901 thousand (2015 - $4,900 thousand) and selling, general and administrative expenses of $7,586 thousand (2015 - $8,133 thousand). Included in total additions were amounts for short-term rental equipment relating to additions for lease arrangements classified as finance lease of $1,544 thousand (2015 – $5,026 thousand). The Company's property and equipment has been pledged as security for its long-term debt.

During 2016 the Company completed the sale and leaseback of eleven properties. The land and buildings were sold for net proceeds of $54,816 thousand for a gain on sale of $3,587 thousand. The Company has entered into operating leases for the eleven properties, the details of which are as disclosed in Note 25.

## 13. Income Taxes

*Tax expense*

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Current income tax expense | $ (8,082) | $ (3,807) |
| Deferred income tax recovery (expense) | 1,040 | (1,572) |
| Derecognition of deferred tax asset due to CRA settlement[1] | - | (33,395) |
| Provincial taxes payable due to CRA settlement[1] | - | (3,553) |
| **Income tax expense** | $ (7,042) | $ (42,327) |

Using federal and provincial statutory rates of 26.9% (2015 – 26.4%), the income tax expense for the year can be reconciled to the statement of profit (loss) as follows:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Profit before income tax expense | $ 30,566 | $ 14,948 |
| Expected income tax expense | (8,222) | (3,946) |
| Derecognition of deferred tax asset due to CRA settlement[1] | - | (33,395) |
| Provincial taxes payable due to CRA settlement[1] | - | (3,553) |
| Non-deductible costs and other | 1,180 | (1,433) |
| **Income tax expense** | $ (7,042) | $ (42,327) |

[1] On May 4, 2015, the Company announced that it had entered into an agreement with the Canada Revenue Agency (CRA) regarding their objection to the tax consequences of the conversion of the Company from a limited partnership structure into a corporation in October 2009. The agreement resulted in a non-cash charge of $33.4 million related to the write-off of a portion of the Company's deferred tax asset and recognition of $3.6 million of provincial cash taxes payable for the tax years ended December 31, 2013 and 2014. Under the agreement, the Company had $1.9 million of unused federal tax attributes which have been applied to reduce 2015 income taxes payable. Total expense recognized due to the CRA settlement was $36.9 million.

## 13. Income Taxes (continued)

***Deferred tax assets and liabilities***

Continuity of the Company's tax balances in during the year are as follows:

| ($ thousands) | 2015 | Recognized in Comprehensive Income | 2016 |
|---|---|---|---|
| Carrying value over the tax value of tangible assets | $ (9,514) | $ 1,718 | **$ (7,796)** |
| Tax value over carrying value of convertible debenture liability | (327) | 291 | **(36)** |
| Carrying value over the tax value of intangible assets | (7,049) | 890 | **(6,159)** |
| Carrying value over the tax value of finance lease obligation | 5,906 | (1,813) | **4,093** |
| Federal investment tax credits | (522) | 522 | **-** |
| Unrealized foreign exchange and other | (142) | (568) | **(710)** |
| **Deferred tax asset (liability)** | (11,648) | 1,040 | **(10,608)** |
| **Reflected in the statement of financial position** | | | |
| Deferred tax asset | - | - | **-** |
| Deferred tax liability | (11,648) | 1,040 | **(10,608)** |
| **Deferred tax asset (liability)** | $ (11,648) | $ 1,040 | **(10,608)** |

The Company has not recognized the benefits associated with net capital losses of $36,586 thousand (2015 - $39,690 thousand) and non-capital losses of $941 thousand (2015 - $941 thousand), as the timing and ultimate application of these tax loss carryforwards are uncertain.

## 14. Intangible Assets and Goodwill

Intangible assets are comprised of the following:

| Cost | Dealership Distribution Agreements | Trade Name | Customer Lists | Non-Competition Agreements | Software Costs | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2015** | 51,942 | 4,715 | 15,924 | 3,502 | 882 | 76,965 |
| Additions | - | - | - | - | 1,479 | 1,479 |
| Derecognized | - | (4,715) | - | - | - | (4,715) |
| Effect of movements in exchange rates | 298 | - | 35 | 7 | - | 340 |
| **Balance at December 31, 2015** | 52,240 | - | 15,959 | 3,509 | 2,361 | 74,069 |
| Additions | - | - | - | - | **954** | **954** |
| Effect of movements in exchange rates | **(178)** | - | **(19)** | **(4)** | - | **(201)** |
| **Balance at December 31, 2016** | **52,062** | - | **15,940** | **3,505** | **3,315 $** | **74,822** |

| Accumulated Depreciation and Impairment | Dealership Distribution Agreements | Trade Name | Customer Lists | Non-Competition Agreements | Software Costs | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2015** | 7,393 | 4,597 | 8,934 | 2,032 | - | 22,956 |
| Amortization expense | 2,673 | 118 | 1,635 | 322 | 72 | 4,820 |
| Derecognized | - | (4,715) | - | - | - | (4,715) |
| **Balance at December 31, 2015** | 10,066 | - | 10,569 | 2,354 | 72 | 23,061 |
| Amortization expense | **2,650** | - | **1,669** | **323** | **605** | **5,247** |
| **Balance at December 31, 2016** | **12,716** | - | **12,238** | **2,677** | **677 $** | **28,308** |

| Carrying Value | Dealership Distribution Agreements | Trade Name | Customer Lists | Non-Competition Agreements | Software Costs | Total |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2015** | 42,174 | - | 5,390 | 1,155 | 2,289 $ | 51,008 |
| **Balance at December 31, 2016** | **39,346** | - | **3,702** | **828** | **2,638 $** | **46,514** |

Amortization expense of $5,247 thousand (2015 - $4,820 thousand) has been recorded in selling, general and administrative expense.

**14. Intangible Assets and Goodwill (continued)**

The continuity of the Company`s goodwill is as follows:

| ($ thousands) | |
|---|---|
| **Balance at January 1, 2015** | $ 19,732 |
| Valuation adjustment on business combination | 480 |
| Impact of translation of goodwill held in foreign currencies | 404 |
| **Balance at December 31, 2015** | $ 20,616 |
| Impact of translation of goodwill held in foreign currencies | **(72)** |
| **Balance at December 31, 2016** | **$ 20,544** |

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| **Agricultural Segment** | | |
| Agricultural - Alberta | **$ 11,988** | $ 11,988 |
| Agricultural - Saskatchewan | **327** | 327 |
| Agricultural - New Zealand | **2,248** | 2,274 |
| Agricultural - Australia | **1,241** | 1,287 |
| **Commercial and Industrial Segment** | | |
| Commercial | **1,527** | 1,527 |
| Industrial | **666** | 666 |
| **Transportation Segment** | | |
| Transportation - Ontario | **2,547** | 2,547 |
| | **$ 20,544** | $ 20,616 |

The Company conducted the annual impairment test of goodwill at December 31, 2016 and 2015. The recoverable amount of the cash-generating units (CGUs) was determined using value in use calculations. Value in use was determined by discounting the future cash flow forecasts for a five-year period and applying after-tax discount rates ranging from 11.3% to 12.1% (2015 – 11.0% to 11.8%) based on the Company's post-tax weighted average cost of capital and risks specific to particular CGUs (pre-tax discount rate of 15.7% to 16.8% in 2016 (2015 – 15.3% to 16.4%)). Future cash flow estimates began with 2016 revenue, gross profit margin, and expenses, which were then adjusted through the forecast period for the outlook of the CGU at the date of impairment testing. In situations where 2016 performance diverged from demonstrated historical mid cycle performance, revenue in the five-year forecast period were based on mean convergence with historical mid cycle actual results for the CGU.

CGU revenue expectations within the forecast period were also assessed for reasonability against third party market expectations at the time of impairment testing. Further, forecasts were assessed for reasonability against the demonstrated historical performance of the CGUs. Revenues used in the forecast period did not exceed prior historical revenue levels of the CGU, other than the impact of assumed inflation. A growth rate was not applied in extrapolating the resulting cash flows beyond the fifth year of the forecast period.

**14. Intangible Assets and Goodwill (continued)**

CGU historical gross profit margin has generally increased in periods of increased revenue, and decreased in periods of lower revenue. Therefore, gross profit margin in the forecast period was based on the CGU's historical gross profit at historical revenue levels corresponding with the annual revenues used in the forecast period. The expense forecasts for each CGU were set based on historical expenses as a percent of revenue. Cash requirements for working capital were benchmarked by CGU based on historical actual working capital requirements as a percent of annual historical revenue.

Sensitivity testing was conducted as part of the impairment test. Had the estimated cost of capital used in determining the post-tax discount rate been 1% higher than management's estimates the recoverable amount of the CGUs would continue to exceed their carrying amount. Holding the post-tax discount rate unchanged from that utilized in the annual impairment tests, had the annual estimated cash flows of each CGU in the forecast and terminal period decreased by 8%, the recoverable amounts of each CGU would continue to exceed their carrying amounts. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any CGU or group of CGUs to exceed its recoverable amount.

The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets. Judgment is also used in identifying the CGUs or group of CGUs at which goodwill, intangible assets and property and equipment are monitored for internal management purposes and identifying an appropriate discount rate for these calculations.

## 15. Trade and Other Liabilities

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Trade and other payables | $ 40,689 | $ 48,980 |
| Non-trade payables and accrued expenses | 25,742 | 28,958 |
| Customer deposits | 8,362 | 3,004 |
| Dividends payable | 1,103 | 3,317 |
| Income taxes payable | 3,301 | 142 |
| Foreign exchange contracts | 615 | 7,180 |
| Current portion of finance lease obligation (Note 7) | 4,528 | 5,713 |
| | $ 84,340 | $ 97,294 |

## 16. Loans and Borrowings

***Bank indebtedness***

At December 31, 2016, the Company has a revolving credit facility with a syndicate of underwriters. The principal amount available under this facility is $100,000 thousand. The facility was amended and extended on December 19, 2016. The facility is committed for a three year term, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an $80,000 thousand accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2016 there was $11,100 thousand drawn on the facility and $2,400 thousand had been utilized for outstanding letters of credit to John Deere. The Company's credit facility bears interest at the lender's prime rate plus the Applicable Margin (currently 0.50%). Applicable Margin can range from 0% to 2.00% (2015 – 0.25% to 2.00%) and is based on a liabilities to income ratio.

## 16. Loans and Borrowings (continued)

### *Term Debt*

The Canadian facility is secured by a general security agreement, a priority agreement; trade accounts receivable, unencumbered inventories, assignment of fire insurance and guarantees from the Company's subsidiaries. As terms under the Canadian credit facility, the Company must maintain certain leverage, income coverage, and asset coverage ratios, which the Company has complied with throughout 2016, see note 27 for further discussion on covenants. Costs directly attributable to the completion of the syndicated facility have been deferred and will be amortized over the three year term.

| ($ thousands) | Year of Maturity | 2016 | 2015 |
|---|---|---|---|
| **Operating and other bank credit facilities** | | | |
| Revolving credit facility, lenders prime rate plus the Applicable Margin (currently 0.50%). Applicable Margin can range from 0% to 2.00% and is based on a liabilities to income ratio | 2019 | $ 11,100 | $ 52,000 |
| **Capital facilities** | | | |
| Farm Credit Corporation, mortgages payable in monthly instalments of $23 thousand including interest at a rate of lenders prime plus 1% per annum | 2022 | 2,005 | 23,707 |
| Farm Credit Corporation, mortgages payable in monthly instalments of $36 thousand including interest at a rate of lenders prime plus 1% per annum | 2019 | 4,730 | 4,962 |
| Affinity Credit Union, mortgages payable in monthly installments of $35 thousand, including interest at lenders prime plus 1.5% per annum | 2017 | 6,008 | 9,979 |
| ANZ National Bank Ltd., New Zealand, mortgage payable, interest only at the rate of 6.88% per annum | | - | 1,545 |
| National Australian Bank, Australia, mortgage, payable monthly payments of $25 thousand and a floating interest rate (December 31, 2016 and 2015 - 6.44%) | 2017 | 2,800 | 3,211 |
| **Rental equipment term loans** | | | |
| Finance contracts, payable in monthly interest instalments ranging up to $4 thousand including interest of 90 day bankers acceptance plus 3.7%, secured by short-term rental equipment | Various | 1,291 | 2,509 |
| John Deere finance contracts, New Zealand, payable in monthly instalments including interest at the rate of 5.5% per annum, secured by related equipment | Various | 7,693 | 8,757 |
| Hire purchase contracts, Australia, finance contracts payable in monthly installments ranging up to AU$5 thousand including interest at a rate of 5.85% to 9.75%, secured by related equipment | Various | 1,223 | 1,340 |
| Finance contracts, various, repayable in monthly instalments ranging per month including interest from 4.00% to 9.09% | Various | 922 | 1,938 |
| | | 37,772 | 109,948 |
| Less current portion | | (15,720) | (17,917) |
| Less liabilities held for sale | | - | (4,037) |
| Less deferred debt issuance costs | | (392) | (333) |
| | | $ 21,660 | $ 87,661 |

## 16. Loans and Borrowings (continued)

### *Floor Plan Payables*

The Company utilizes floor plan financing arrangements with various suppliers for inventory purchases. The terms of these arrangements may include an interest-free period followed by a term during which interest is charged at rates ranging from 2.45% to 8.82% at December 31, 2016. Settlement of the floor plan liability occurs at the earlier of sale of the inventory, in accordance with terms of the financing arrangement, or based on management's discretion. Floor plan payables are secured by specific new and used equipment inventories.

| ($ thousands) | Interest Rate | 2016 | 2015 |
|---|---|---|---|
| John Deere Financial, Canada | 3.95% | $ 42,302 | $ 75,367 |
| GE Capital Vendor Finance | 3.00% - 8.82% | 5,556 | 23,113 |
| John Deere Financial, New Zealand and Australia | 6.50% - 7.25% | 10,716 | 11,835 |
| PACCAR Financial | 2.75% | 21,762 | 47,600 |
| CIBC Floor Plan Facility | 2.45% | 4,019 | 6,901 |
| Other Floor Plan Facilities | 3.00% - 5.75% | 1,736 | 3,827 |
| Total Floor Plan Payable | | $ 86,091 | $ 168,643 |

### *Convertible Debenture*

On July 24, 2012, the Company issued $34,500 thousand of convertible unsecured subordinated debentures with a face value of $1,000 per debenture that mature on July 31, 2017 and bear interest at 6.0% per annum paid semi-annually on January 31 and July 31 of each year. The debentures are convertible at the option of the holder into shares of the Company at any time prior to the maturity date at a rate of $26.15 (the "conversion price") per share. The Company may redeem the debentures at its option after July 31, 2015 if the current market price of the shares on the date of the notice of redemption exceeds 125% of the conversion price.

The convertible debentures are considered a compound financial instrument as they can be converted to a fixed number of common shares at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option, and subsequently accounted for under the effective interest rate method. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Changes in the debenture liability are as follows:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Face value of convertible debenture | $ 34,500 | $ 34,500 |
| Discount to face value at issuance under effective interest method | (4,251) | (4,251) |
| Cumulative amortization of discount through December 31 | 3,650 | 2,692 |
| **Carrying value of debenture payable at December 31** | $ 33,899 | $ 32,941 |

### 16. Loans and Borrowings (continued)

For these credit facilities, the amount available under which are limited to the lesser of pre-approved credit limits or the available unencumbered assets. A summary of the Company's maximum pre-approved credit limits on available credit facilities as at December 31, 2016 are as follows:

| ($ thousands) | 2016 Total Limits | 2016 Borrowings | 2015 Total Limits | 2015 Borrowings |
|---|---|---|---|---|
| Operating and other bank credit facilities | $ 100,000 | $ 11,100 | $ 100,832 | $ 52,832 |
| Capital facilities | 58,809 | 15,543 | 64,131 | 42,800 |
| Floor plan facilities and rental equipment term loan financing | 463,883 | 97,220 | 479,243 | 182,959 |
| Total borrowing | $ 622,692 | $ 123,863 | $ 644,206 | $ 278,591 |
| Total current portion long term debt | | (15,720) | | (17,917) |
| Total liabilities held for sale | | - | | (4,037) |
| Total inventory floor plan facilities | | (86,091) | | (168,643) |
| Deferred debt issuance costs | | (392) | | (333) |
| Total long term debt | $ 622,692 | $ 21,660 | $ 644,206 | $ 87,661 |

### 17. Financial Instruments

Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities.

Financial instruments recorded or disclosed at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:
Level 1: Reflects valuation based on quoted prices observed in active markets for identical assets or liabilities;
Level 2: Reflects valuation techniques based on inputs other than quoted prices included in level 1 that are observable either directly or indirectly;
Level 3: Reflects valuation techniques with significant unobservable market inputs, there were no level 3 instruments in current or prior year.

**17. Financial Instruments (continued)**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|---|
| | | | Fair Value | | | Fair Value | |
| ($ thousands) | Category | Carrying value | Level 1 | Level 2 | Carrying value | Level 1 | Level 2 |
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents [a] | Loans and receivable | **$ 14,542** | | | $ 11,955 | | |
| Trade and other accounts receivable [a] | Loans and receivable | **53,970** | | | 59,071 | | |
| Derivative financial instruments | Held-for-trading | **617** | | 617 | 7,195 | | 7,195 |
| Other investments | Available for sale | **5,000** | | 5,000 | - | | |
| Long term receivables [a] | Loans and receivable | **725** | | | 1,287 | | |
| Finance lease receivables | Loans and receivable | **972** | | 977 | 1,462 | | 1,469 |
| Deposits with manufacturers [a] | Loans and receivable | **2,734** | | | 2,657 | | |
| **Financial Liabilities** | | | | | | | |
| Trade and other accrued liabilities [a] | Other liabilities | **84,340** | | | 77,938 | | |
| Customer deposits [a] | Other liabilities | **8,362** | | | 3,004 | | |
| Floor plan payables [a] | Other liabilities | **86,091** | | | 168,643 | | |
| Dividends payable [a] | Other liabilities | **1,103** | | | 3,317 | | |
| Term debt [b] | Other liabilities | **37,380** | | 37,380 | 105,578 | | 105,578 |
| Derivative financial liability | Held-for-trading | **615** | | 615 | 7,180 | | 7,180 |
| Finance lease obligation | Other liabilities | **15,223** | | 15,469 | 22,064 | | 22,606 |
| Debenture payable [c] | Other liabilities | **33,899** | 34,328 | | 32,941 | 34,500 | |

(a) The carrying value approximates fair value due to the immediate or short-term maturity.

(b) The carrying values of the current and long-term portions of term debt and notes payable approximate fair value because the applicable interest rates on these liabilities are at rates similar to prevailing market rates.

(c) Debenture payable is measured at amortized cost using the effective interest method. The fair value of debenture payable at December 31, 2016 and 2015 is the quoted market trading price for the debentures.

For other financial liabilities where the carrying value does not approximate the fair value a discounted cash flows approach was used to determine the fair value. For derivative financial instruments, or forward exchange contracts, fair value is based on market comparison technique based on quoted prices.

## 18. Capital and Other Components of Equity

The Company has unlimited authorized share capital without par value for all common shares. All issued common shares have been fully paid.

*Share capital*

| (thousands) | Number of common shares | Total carrying amount |
|---|---|---|
| **Balance at January 1, 2015** | 15,325 | $ 83,814 |
| Issued under the DRIP plan | 71 | 1,133 |
| Issued under the deferred share plan | 113 | 1,226 |
| Issued under the share option plan | 30 | 573 |
| Issued from reserve | 67 | 1,524 |
| **Balance at December 31, 2015** | 15,606 | 88,270 |
| Issued under the DRIP plan | **79** | **883** |
| Issued under the deferred share plan | **65** | **710** |
| **Balance at December 31, 2016** | **15,750** | **$ 89,863** |

*Common shares*

Shareholders are entitled to: (i) dividends if, as and when declared by the Board of Directors of the Company; (ii) to one vote per share at meetings of the holders of Common Shares; and (iii) upon liquidation, dissolution or winding up of Cervus to receive pro rata the remaining property and assets of the Company, subject to the rights of shares having priority over the Common Shares.

*Dividends declared*

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| $0.28 per qualifying common share (2015 - $0.85) | **$ 4,394** | $ 13,202 |

Total dividends paid in cash during the year were $5,725 thousand (2015 - $11,987 thousand). Dividends payable as at December 31, 2015 was $1,103 thousand (2015 - $3,317 thousand), which includes amounts for DRIP of $195 thousand (2015 - $230 thousand).

*Dividend reinvestment plan*

The Company has a Dividend Reinvestment Plan ("DRIP") entitling shareholders to reinvest cash dividends in additional common shares. The DRIP allows shareholders to reinvest dividends into new shares at 95 percent of the average share price of the previous 10 trading days prior to distribution. As at December 31, 2016, the company has 87 thousand shares reserved for issuance under this plan.

*Accumulated and Other Comprehensive Income*

Accumulated and Other Comprehensive Income is comprised of a cumulative translation account that comprises all foreign currency differences that arise on the translation of the financial statements of the Company's investment in its foreign operations, Cervus New Zealand Equipment Ltd. and Cervus Equipment Australia Pty Ltd.

## 19. Cost of Sales

The following amounts have been included in cost of sales for the years ended December 31, 2016 and 2015:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Depreciation of rental equipment | $ 4,901 | $ 4,900 |
| Interest paid on rental equipment financing | 1,873 | 2,143 |
| | $ 6,774 | $ 7,043 |

## 20. Other Income

Other income for the years ended December 31, 2016 and 2015 are comprised of the following:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Net gain on sale of property and equipment | $ 5,579 | $ 1,358 |
| Gain on sale of equity accounted investees (Note 10) | 4,146 | - |
| Extended warranty commission | 144 | 172 |
| Financial compensation and consignment commissions | 1,343 | 1,446 |
| Unrealized foreign exchange gain (loss) (a) | 3,501 | (2,810) |
| Other (loss) income | (775) | (1,885) |
| | $ 13,938 | $ (1,719) |

(a) Unrealized foreign exchange gain (loss) is due to changes in fair value of our foreign exchange derivative and from period close translation of floorplan payables denominated in U.S. dollars.

## 21. Selling, General and Administrative Expenses By Nature

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Wages and benefits | 98,216 | 106,731 |
| Depreciation and amortization | 12,833 | 12,953 |
| Occupancy costs including rent and maintenance | 16,481 | 15,701 |
| Operating and administrative expenses including marketing | 36,901 | 44,198 |
| **Total selling, general and administrative expenses** | $ 164,431 | $ 179,583 |

## 22. Wages and Benefits

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Included in cost of sales: | | |
| Wages and benefits | $ 36,038 | $ 38,464 |
| Included in selling, general and administrative expenses: | | |
| Wages and benefits | 97,071 | 105,654 |
| Share-based payments | 1,145 | 1,077 |
| | 98,216 | 106,731 |
| | $ 134,254 | $ 145,195 |

## 22. Wages and Benefits (continued)

### *Employee share purchase plan*

The Company has an employee share purchase plan available to all employees on a voluntary basis. Under the plan, employees are able to contribute 2% to 4% of their annual salaries, based on years of service. The Company contributes between 15% and 150% on a matching basis to a maximum of $5,000 per year, per employee. The shares are purchased on the open market through a trustee; therefore, there is no dilutive effect to existing shareholders. Included in selling, general and administrative wages and benefits expense are $919 thousand (2015 - $1,337 thousand) of expenses incurred by the Company to match the employee contributions.

### *Mid-term management incentive plan*

The Company offers a mid-term incentive plan (the "MTIP") to certain senior key employees. Under the MTIP, participants receive annual grants of performance share units ("PSUs") which are settled in cash based on the achievement of performance targets at the end of a three year performance period. A liability for MTIP obligation is recognized at its fair value of cash payable, and is re-measured each reporting period until the liability is settled on the third anniversary of initial grant. Any changes in the liability are recognized in the statement of comprehensive income. For the year ended December 31, 2016 MTIP liability for executives was $257 thousand (2015 – $467 thousand).

### *Deferred share plan*

The Company has a deferred share plan available to officers, directors and employees whereby, if elected, certain payments to these individuals can be deferred, ranging in amounts up to $50 thousand per individual, where the Company also matches the deferred portion. The deferred shares are granted as approved by the board of directors based on 95% of the 10-day average share price prior to the date of grant. The matched component of the plan vests over a period of 5 years (50% after 3 years, 25% after 4 years and 25% after 5 years) and is recorded as selling, general and administrative expense as it vests. As at December 31, 2016, the Company has 1,003 thousand shares reserved for issuance under this plan. As at December 31, 2016, 745 thousand (2015 – 677 thousand) deferred shares have been issued under the deferred share plan and remain outstanding. The total deferred share plan balance as at December 31, 2016, was $7,520 thousand (2015 - $7,098 thousand). Of the outstanding deferred shares, 622 thousand (2015 – 572 thousand) can be converted to common shares.

## 23. Finance income and Finance Costs

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| **Finance Income** | **$ 169** | $ 195 |
| Interest expense on convertible debenture | **(3,029)** | (2,946) |
| Interest expense on mortgage and term debt obligations | **(3,657)** | (3,897) |
| Interest expense on financial liabilities | **(5,851)** | (6,728) |
| **Finance Costs** | **$ (12,537)** | $ (13,571) |
| Net finance costs recognized separately | **(10,495)** | (11,233) |
| Net finance costs recognized in cost of sales | **(1,873)** | (2,143) |
| **Total Net Finance Costs** | **$ (12,368)** | $ (13,376) |

## 24. Earnings per Share

*Per share amounts*

Both basic and diluted earnings (loss) per share have been calculated using the net earnings (loss) attributable to the shareholders of the Company as the numerator. No adjustments to net earnings (loss) were necessary for the years ended December 31, 2016 and 2015. The weighted average number of shares for the purposes of diluted earnings per share can be reconciled to the weighted average number of basic shares as follows:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Issued common shares opening | 15,606 | 15,325 |
| Effect of shares issued under the DRIP plan | 46 | 39 |
| Effect of shares issued under the deferred share plan | 31 | 57 |
| Effect of shares issued under the share option plan | - | 22 |
| Effect of shares issued through reserve | - | 38 |
| **Weighted average number of common shares** | 15,683 | 15,481 |

***Diluted earnings (loss) per share***

The calculation of diluted earnings (loss) per share at December 31, 2016 and 2015 was based on the profit (loss) attributable to common shareholders and the weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares which consist of the following:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Weighted average number of common shares (basic) | 15,683 | 15,481 |
| Effect of dilutive securities: | | |
| Deferred share plan | 745 | - |
| **Weighted average number of shares (diluted)** | 16,428 | 15,481 |

The above tables includes all dilutive instruments held by the Company, however, for 2015, all deferred share units and options (677 thousand) have been excluded as they are considered anti-dilutive. In addition, the above per share amounts do not include amounts associated with the Company's convertible debenture in 2016 and 2015 as they are also considered anti-dilutive.

## 25. Operating Leases

### a) As Lessee

The Company leases a number of lands and building facilities, office equipment and vehicles. The leases typically run for a period of between 3 to 20 years (2015 - 3 and 10 years) with options to renew the leases on the lands and buildings after that date. The land and building leases do not include any provisions for transfer of title. It was determined that substantially all the risks and rewards of ownership of the land and buildings remains with the landlord. As such, the Company has determined that the leases are operating leases.

In 2016, the company completed the sale and leaseback of eleven properties. The properties were entered into long-term leases ranging from 15-20 years with an option to renew for two ten year periods at market terms at the time of renewal. The lease cost escalates a rate of 1% per year.

The Company is committed to the following minimum payments under operating leases for land and buildings, equipment and vehicles:

| | |
|---|---|
| Less than 1 year | **$ 11,096** |
| Between 1 and 5 years | **31,572** |
| More than 5 years | **78,518** |
| | **$ 121,186** |

### b) As Lessor

The Company has entered into fixed term contractual arrangements to allow customers to have dedicated use of certain heavy trucks and equipment owned by the Company. The minimum payments for the non-cancellable operating leases for rental fleet is as follows:

| | |
|---|---|
| Less than 1 year | **$ 3,308** |
| Between 1 and 5 years | **8,058** |
| More than 5 years | **933** |
| | **$ 12,299** |

## 26. Supplemental Cash Flow Information

| **($ thousands)** | **2016** | **2015** |
|---|---|---|
| Changes in non-cash working capital: | | |
| Net inventory and floorplan | **(17,699)** | (7,946) |
| Trade and other receivables | **932** | 1,599 |
| Trade and other liabilities | **(5,601)** | (1,646) |
| **Change in non-cash working capital** | **(22,368)** | (7,993) |

## 27. Financial Risk Management

### *Overview*

The Company has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

### *Risk management framework*

The Board of Directors ("Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board, together with the Audit Committee are responsible for monitoring and oversight of the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### *Credit risk*

#### Trade and other receivables

By granting credit sales to customers, it is possible these entities, to which the Company provides services, may experience financial difficulty and be unable to fulfill their obligations. A substantial amount of the Company's revenue is generated from customers in the farming, construction and industrial, and transportation equipment industries. This results in a concentration of credit risk from customers in these industries. A significant decline in economic conditions within these industries would increase the risk customers will experience financial difficulty and be unable to fulfill their obligations to the Company. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable, finance lease receivables, long-term receivables and deposits with manufacturers (see Note 5).

Goods are sold subject to retention of title clauses so that in the event of non-payment, the Company may have a secured claim. The Company will also register liens in respect to trade and other long-term receivables as deemed necessary and dependent on the value of the receivable.

## 27. Financial Risk Management (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates was:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Trade and other accounts receivables | $ 48,282 | $ 55,116 |
| Long term receivables | 725 | 1,287 |
| Long term lease receivables | 972 | 1,462 |
| Derivative financial asset | 617 | 7,195 |
| Deposits with manufacturers | 2,734 | 2,657 |
| | $ 53,330 | $ 67,717 |

The maximum exposure to credit risk at the reporting date by geographic region was:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Domestic | $ 40,736 | $ 46,819 |
| New Zealand | 2,362 | 5,030 |
| Australia | 5,184 | 3,267 |
| | $ 48,282 | $ 55,116 |

The aging of trade and other receivables at the reporting date was:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Current - 60 days | $ 42,344 | $ 46,964 |
| Past due – 61-90 days | 2,033 | 3,772 |
| Past due – 91 to 120 days | 2,796 | 3,132 |
| Past due more than 120 days | 1,109 | 1,248 |
| | $ 48,282 | $ 55,116 |

The Company recorded the following activity in its allowance for impairment of loans and receivables:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Balance at January 1 | $ 1,987 | $ 1,386 |
| Additional allowance recorded | 316 | 835 |
| Amounts written-off as uncollectible | (593) | (234) |
| **Balance at December 31** | $ 1,710 | $ 1,987 |

In our industries, customers typically pay invoices within 30 to 60 days. No single outstanding customer balance represented more than 10% of total accounts receivable.

**27. Financial Risk Management (continued)**

The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding and establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information.

***Guarantees***

The Company has irrevocable standby letters of credit to John Deere in the amount of $2,400 thousand (2015 - $2,400 thousand). The letter of credit agreements allow for John Deere to draw upon it in whole or in part in the event of any default by the Company of any or all obligations.

In addition to these guarantees, the Company has also guaranteed the residual value of certain equipment leases which have been entered into between our Customers and John Deere. For these leases, Cervus is responsible to purchase the equipment from John Deere upon the maturity of the lease between the customer and John Deere. The Company's purchase price for the equipment is the residual value agreed to at the inception of the lease between John Deere, the Customer, and Cervus. Upon purchasing this equipment it is included in the Company's used inventory. Cervus regularly assesses residual values of customer equipment under lease with John Deere, to assess its carrying value and if any allowance is necessary. At December 31, 2016, total residual values maturing over the next 12 months was $36,884 thousand (2015 – $14,310 thousand) and the total residual values maturing in the next five years is $235,025 thousand (2015 - $194,987 thousand). The Company has not recorded a provision in the twelve months ended December 31, 2016 and 2015 as residual values as set under the leases are anticipated to result in profit above cost when ultimately sold by the Company as used equipment.

***Liquidity risk***

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the ability to raise funds to meet purchase commitments and financial obligations and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. As described in Note 16, the Company has available for its current use, $100,000 thousand less $2,400 thousand for irrevocable letters of credit issued to John Deere.

The Company believes that it has sufficient operating funds available to meet expected operational expenses, including the service of financial obligations. The following are the contractual maturities of financial liabilities existing as at December 31, 2016.

| ($ thousands) | Carrying amount | Contractual principal maturities | 12 months or less | 1 – 2 Years | 2 – 5 Years | 5+ Years |
|---|---|---|---|---|---|---|
| Trade and other accrued liabilities | $ 83,725 | 83,725 | 83,725 | - | - | - |
| Floor plans payable | 86,091 | 86,091 | 86,091 | - | - | - |
| Dividends payable | 1,103 | 1,103 | 1,103 | - | - | - |
| Term debt payable | 37,380 | 37,772 | 15,720 | 3,692 | 17,455 | 905 |
| Derivative financial liability | 615 | 615 | 615 | | | |
| Finance lease obligation | 15,223 | 15,223 | 4,528 | 4,013 | 5,991 | 691 |
| Debenture payable | 33,899 | 34,500 | 34,500 | | - | - |
| | $ 258,036 | 259,029 | 226,282 | 7,705 | 23,446 | 1,596 |

**27. Financial Risk Management (continued)**

**Market risk**

Market risk is the risk that changes in the marketplace such as foreign exchange rates, interest rates and commodity prices that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return. The Company's primary approach to market risk is managing the quantity, type, and applicability of its inventory, to facilitate regular inventory turnover in line with market demand.

***Currency risk***

Many of our products, including equipment and parts, are based on a U.S. dollar price as they are supplied primarily by U.S. manufacturers but are settled in Canadian dollars as they are received. This may cause fluctuations in the sales values assigned to equipment and parts inventories, as inventory is recorded based on Canadian dollar cost at the time of receipt, but is sold to the customer based on market pricing prevailing at the time of sale. Both sales revenues and gross profit margins may fluctuate based on differences in foreign exchange rates between the purchase of inventory and sale of inventory. Certain of the Company's manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on the Company's new equipment inventory purchases.

Further, a portion of the Company's owned inventory is floor planned in U.S. dollars. As such, U.S. dollar denominated floor plan payables are exposed to fluctuations in the U.S. dollar exchange rate until the unit is sold and the floorplan is repaid. The fluctuation in the U.S. Dollar floorplan payable is recorded in unrealized gain/loss on foreign exchange within other income. When the equipment is sold, equipment is priced based on the prevailing spot USD/CAD exchange rate at the time of sale, plus applicable margin. In so doing, the Company's proceeds on sale directly offset the prevailing U.S. Dollar floorplanned cost of the equipment. If the Company was unable to recapture fluctuations in the US/CAD dollar in the sales price for equipment floor planned in U.S. dollars, a $0.01 change in the U.S. exchange rate would have increased (decreased) comprehensive income by $80 thousand (2015 - $264 thousand), based on the U.S. dollar floor plan balances at December 31, 2016. From time to time the Company also enters into foreign exchange forward contracts to manage exposure on timing difference between the payout of floorplan and receipt of funds from a customer.

In addition, the Company is exposed to foreign currency fluctuation related to translation adjustments upon consolidation of its Australian and New Zealand operations. These foreign subsidiaries report operating results in Australia and New Zealand dollars, respectively. Movements in these currencies relative to the Canadian dollar will impact the results of these operations upon consolidation. Based on the Company's results reported from its foreign subsidiaries, a strengthening or weakening of the Canadian dollar by 5% against the New Zealand dollar at December 31, 2016 would have increased (decreased) comprehensive income by $612 thousand (2015 - $559 thousand). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2016 would have increased (decreased) comprehensive income by $215 thousand (2015 -$172 thousand).

**27. Financial Risk Management (continued)**

***Interest rate risk***

The Company's cash flow is exposed to changes in interest rates on its floor plan arrangements and certain term debt which bear interest at variable rates. The cash flows required to service these financial liabilities will fluctuate as a result of changes in market interest rates. The Company mitigates its exposure to interest rate risk by utilizing excess cash resources to buy-down or pay-off interest bearing contracts and by managing its floor plan payables by maximizing interest-free periods as may be provided by OEM's. At the reporting dates, the Company's interest bearing financial instruments were:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| **Fixed Rate** | | |
| Debenture payable | $ 33,899 | $ 32,941 |
| Finance lease obligation | 15,223 | 22,064 |
| **Variable Rate** | | |
| Floor plan payables | | |
| Floor plan payables - interest bearing | 80,980 | 149,750 |
| Floor plan payables - interest free period [a] | 5,111 | 18,893 |
| Term debt | 37,772 | 109,948 |
| | $ 172,985 | $ 333,596 |

(a) Various floor plan facilities include an interest free period, further certain incentives and rebates may be available to reduce interest expense otherwise due on interest bearing portions of floor plans.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. A change in 100 basis points in interest rates would have increased or decreased equity for the year ended December 31, 2016 by approximately $1,239 thousand (2015 -$2,590 thousand).

**27. Financial Risk Management (continued)**

***Capital risk management***

The Company's objective when managing its capital is to safeguard its ability to continue as a going concern, so that it generates returns for shareholders, expands business relationships with stakeholders, and identifies risk and allocates its capital accordingly. In the management of capital, the Company considers its capital to comprise long term debt, the current portion of long term debt, convertible debentures, and all components of equity.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares to facilitate business combinations, raise or retire term debt, and/or adjust the amount of distributions paid to the shareholders.

The Company uses the following ratios in determining its appropriate capital levels; a) Debt to Total Capital ratio (long term debt plus current portion of long term debt divided by: long term debt plus current portion of long term debt plus book value of equity); b) Return on Invested Capital ratio (net income before tax plus interest on short term debt divided by total capital); c) a debt to tangible assets ratio (calculated as total debt divided by: total assets less goodwill and intangibles); and, d) a fixed charge coverage ratio (calculated as adjusted earnings divided by contractual principle, interest, dividend, and operating lease payments). There were no changes in the Company's approach to capital management in the period. Neither the Company, nor any of its other subsidiaries are subject to externally imposed capital requirements, other than as identified in Note 16.

***Covenant compliance***

The Company must meet certain financial covenants as part of its current Canadian syndicated credit facility, all of which the Company was in compliance as at December 31, 2016. The covenants under the Syndicated Credit Facility are consistent in principle with the internal ratios used by the Company in determining appropriate capital levels, however calculations are not directly comparable, as the Company's internal ratios are broader to consider all stakeholders, while the Syndicate Covenants are specifically tailored by the Syndicate for their specific security position. The three core covenants under the Syndicated Credit Facility, as contained in the Syndicated Credit agreement requires:

- Maintaining a "total liabilities to tangible net worth ratio" not exceeding 4.0:1.0 calculated from adjusted total liabilities over adjusted equity.
- Maintaining a "fixed charge coverage ratio" greater to or equal to 1.0:1.0, until March 30, 2017, and to 1.10:1 for the period from March 31, 2017 onwards.
- Maintaining an "asset coverage ratio" greater than 3.0:1.0.

The specific calculations of the covenants under the Syndicated lending agreement include numerous lender, and agreement specific, non-GAAP measures. The specific calculations and defined terms thereof are available for retrieval at www.SEDI.ca. The Company's compliance as at December 31, 2016 with the covenants contained in the Syndicated Credit Agreement is set out below:

| | As at December 31, 2016 | | As at December 31, 2015 | |
|---|---|---|---|---|
| **Syndicated Credit Facility Core Covenant** | **Covenant** | **Result** | Covenant | Result |
| Total Liabilities to Tangible Net Worth* | Less than 4.0:1.0 | **1.99** | Less than 4.0:1.0 | 2.96 |
| Fixed Charge Coverage Ratio* | Greater than 1.0:1.0 | **1.43** | Greater than 0.95:1.0 | 1.12 |
| Asset Coverage Ratio* | Greater than 3.0:1.0 | **21.03** | Greater than 3.0:1.0 | 4.23 |

** These are non-IFRS measures, stating the title of the covenant as defined in the Syndicated Credit Agreement, for reference purposes.*

## 28. Segment Information

The Company operates under three segments: Agriculture, Commercial and Industrial, and Transportation based on the industries which they serve. These segments are managed separately, and strategic decisions are made on the basis of their respective operating results. These three business segments are described in Note 3 and are considered to be the Company's three strategic business units. The three business segments offer different products and services and are managed separately as they operate in different markets and require separate strategies. For each of the strategic business units, the Company's key decision makers review internal management reports on a monthly basis.

Each of these business segment operations are supported by a single shared corporate head office. Certain corporate head office expenses are allocated to the business segments under either specific identification approach or a usage based metric. The corporate head office also incurs certain costs which are considered as public company costs, which are allocated to the segments based on the gross margin of the Canadian operations. Total corporate related expenditures, excluding income taxes, that have been allocated for the year ended December 31, 2016 are $7,070 thousand (2015 - $7,001 thousand).

The following is a summary of financial information for each of the reportable segments.

| ($ thousands) | Agricultural Equipment | Transportation Equipment | Commercial and Industrial Equipment | Total |
|---|---|---|---|---|
| **Segmented income figures** | | | | |
| **Year ended December 31, 2016** | | | | |
| Revenue | $ 739,029 | $ 286,243 | $ 84,667 | **$ 1,109,939** |
| Income (loss) for the year before income tax | 28,414 | 3,256 | (1,104) | **30,566** |
| Share of profit of equity accounted investees | 489 | - | - | **489** |
| Depreciation and amortization | 9,318 | 5,445 | 2,971 | **17,734** |
| Finance income | 164 | 4 | 1 | **169** |
| Finance expense including amounts in costs of sales | (6,738) | (4,620) | (1,179) | **(12,537)** |
| Capital additions, including finance leases | 4,820 | 2,570 | 564 | **7,954** |
| **Segmented assets as at December 31, 2016** | | | | |
| Reportable segment assets | $ 304,563 | $ 120,673 | $ 51,616 | **$ 476,852** |
| Reportable segment liabilities | 166,975 | 69,900 | 26,138 | **263,013** |
| Investment in associates | 505 | - | - | **505** |
| Intangible assets | 26,215 | 13,469 | 6,830 | **46,514** |
| Goodwill | 15,804 | 2,547 | 2,193 | **20,544** |

## 28. Segment Information (continued)

| ($ thousands) | Agricultural Equipment | Transportation Equipment | Commercial and Industrial Equipment | Total |
|---|---|---|---|---|
| **Segmented income figures** | | | | |
| **Year ended December 31, 2015** | | | | |
| Revenue | $ 711,343 | $ 300,579 | $ 121,956 | $ 1,133,878 |
| Income (loss) for the year before income tax | 20,824 | (5,422) | (454) | 14,948 |
| Share of profit of equity accounted investees | 542 | - | - | 542 |
| Depreciation and amortization | 8,951 | 5,250 | 3,652 | 17,853 |
| Finance income | 179 | 14 | 2 | 195 |
| Finance expense including amounts in costs of sales | (6,758) | (5,172) | (1,641) | (13,571) |
| Capital additions, including finance leases | 12,998 | 9,749 | 1,818 | 24,565 |
| **Segmented assets as at December 31, 2015** | | | | |
| Reportable segment assets | $ 380,131 | $ 165,342 | $ 84,312 | $ 629,785 |
| Reportable segment liabilities | 254,510 | 120,447 | 61,535 | 436,492 |
| Investment in associates | 5,762 | - | - | 5,762 |
| Intangible assets | 28,767 | 14,985 | 7,256 | 51,008 |
| Goodwill | 15,876 | 2,547 | 2,193 | 20,616 |

The Company primarily operates in Canada but includes subsidiaries in Australia (Cervus Australia PTY Ltd.) and, in New Zealand (Cervus NZ Equipment Ltd.) which operate 15 agricultural equipment dealerships. Gross revenue and non-current assets for the geographic territories of New Zealand and Australia were $157,117 thousand (2015 - $133,736 thousand) and $26,763 thousand (2015 - $29,140 thousand) respectively. The Australia and New Zealand operations are included in the Agricultural Segment.

## 29. Commitments and Contingencies

### Financing Arrangements

John Deere Credit Inc. ("Deere Credit") and other financing companies provide financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2016 payments in arrears by such customers aggregated $456 thousand (2015 - $376 thousand).

In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit and other financing companies through recourse arrangements for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2016, the net residual value of such leases aggregated $235,025 thousand (2015 - $194,987 thousand). Management believes that the potential liability in relation to the amounts outstanding is negligible and consequently, no accrual has been made in these financial statements in relation to any potential loss on assumed lease obligations.

## 30. Related Party Transactions

### *Key management personnel compensation*

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers, and contributes to the deferred share plan and the employee share purchase plan, if enrolled, in accordance with the terms of the plans. The Company has no retirement or post-employment benefits available to its directors and executive officers. In addition, no directors or executive officers are part of the share option plan.

The remuneration of key management personnel and directors during the year ended December 31 was:

| ($ thousands) | 2016 | 2015 |
|---|---|---|
| Short-term benefits | $ 2,292 | $ 3,096 |
| Share-based payments | 529 | 387 |
| | $ 2,821 | $ 3,483 |

### *Other related party transactions*

Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating $6,500 thousand. During the year ended December 31, 2016 and 2015, the Company paid those individuals $175 thousand (2015 - $195 thousand) for providing these guarantees. These transactions were recorded at the amount agreed to between the Company and the guarantors, are included in selling, general and administrative expense and have been fully paid during the year.