

Annual Report 2018

CERVUS EQUIPMENT CORPORATION

People. Power. Service.™



MESSAGE TO THE SHAREHOLDERS

Each year I am reminded of the privileged trust our Customers place in us to deliver the equipment, service and support their businesses rely on. I am also humbled by the commitment our employees and employee shareholders demonstrate in delivering on our customers' expectations each day. We are fortunate to meet this challenge while representing our market leading Original Equipment Manufacturers ("OEMs"), who are key partners in the solutions we deliver.

Reflecting on 2018, I am pleased with the financial results of the year. We end the year with a 32% increase in adjusted net income before tax and a strong balance sheet prepared for growth. At the beginning of the year we also set out to deliver efficiencies in our business. I am pleased to report our absorption, a measure of the ability to cover all dealership expenses, increased two percent. This reflects the efficiencies found in streamlining processes, reducing rework, and controlling expenses. Service optimization is one of these processes: improving our customer's experience while also increasing our efficiency. It has also been profitable, with service gross profit margin increasing six percent since we started service optimization in 2015.

The changes we have made and continue to refine are culturally significant for Cervus, as we tie our actions to what our customers value today and will require in the future. It's also satisfying to see these efforts translating directly into improved financial results. At this time last year, we committed to profitability in Ontario for 2018. This was achieved, with Ontario net income before tax increasing \$7.0 million compared to 2017.

As we look forward, we see opportunities to grow the customer solutions area of our business. To me, customer solutions are about the services we provide before and after the equipment sale. Today our customer solutions are parts, service, training, rentals, and most recently storage solutions. It is in the delivery of these solutions that our people are most excited and highly engaged in solving the issues that matter to our customers. Building on the foundational systems and platforms in place, we see opportunities to refine and develop innovative processes, better use of technology, and new product service offerings, all guided by our customers' needs and expectations.

In terms of growth, our strong balance sheet provides a solid foundation. Organic growth will occur as we deepen relationships with customers and extend additional services into our markets. Growth by acquisition continues to be a long-term focus for Cervus. To this end, the process and system work we have undertaken enhances our ability to integrate acquisitions efficiently and effectively. I am confident that our progress in 2018 has positioned Cervus well as we enter 2019.

Sincerely,



Graham Drake
President & Chief Executive Officer
Cervus Equipment Corporation

This page contains certain forward-looking statements. Please read the "Note Regarding Forward-Looking Information" contained in the Management Discussion and Analysis of Cervus for the year ended December 31, 2018 available on SEDAR at www.sedar.com under Cervus' issuer profile.

Cervus Equipment Corporation Management's Discussion + Analysis

For the period from January 1, 2018 to December 31, 2018

The following Management's Discussion & Analysis ("MD&A") was prepared as of March 14, 2019 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, 2018, and significant trends that may affect the future performance of Cervus. This MD&A should be read in conjunction with the accompanying Audited Consolidated Financial Statements for the year ended December 31, 2018, and notes contained therein. The accompanying Audited 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

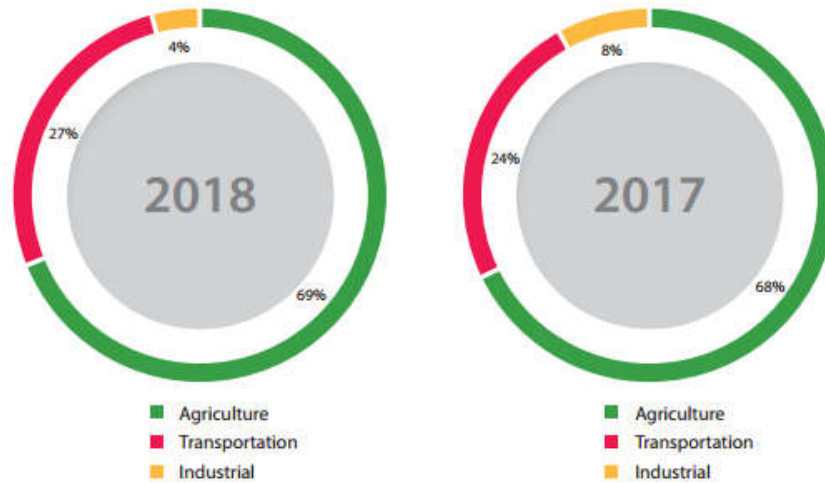
For the year ended December 31, 2018, Cervus operated under three segments: Agriculture, Transportation, and Commercial and Industrial, based on the industries which they serve. These segments are managed separately, and strategic decisions are made on the basis of their respective operating results. On February 26, 2018, the Company announced it had entered into a definitive agreement to sell its Commercial operations, composed of four dealership locations in Calgary, Red Deer, Edmonton and Fort McMurray, Alberta. The dealerships represent the construction brands Bobcat, CMI and JCB. In 2018, Cervus will continue to report under three operating segments: Agriculture, Transportation, and Industrial.

The Agricultural equipment segment consists of interests in 36 John Deere dealership locations with 15 in Alberta, 5 in Saskatchewan, 1 in British Columbia, 9 in New Zealand and 6 in Australia.

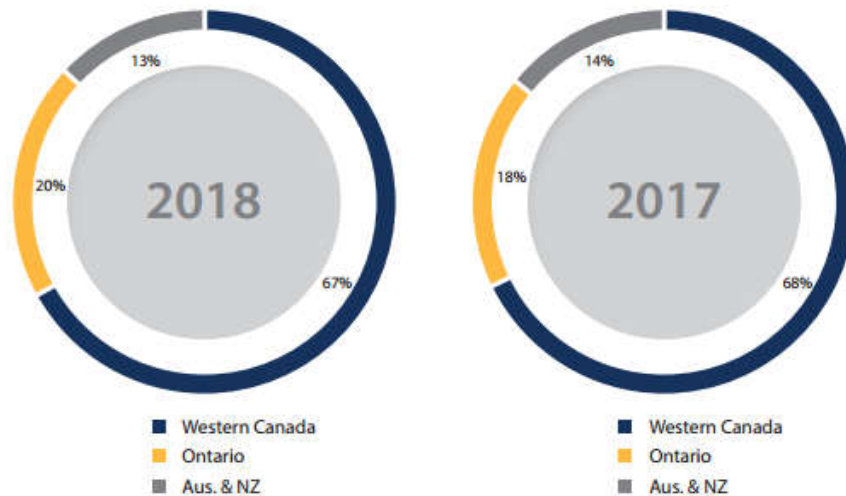
The Transportation segment consists of 19 dealership locations with 4 Peterbilt truck dealerships and 1 Collision Centre operating in Saskatchewan, 12 Peterbilt truck dealerships operating in Ontario, and 2 parts and service locations operating in Ontario.

For the year ended December 31, 2018, the Industrial equipment segment consisted of 8 dealership locations with 5 Clark, Sellick, Doosan, JLG, Baumann material handling and forklift equipment dealerships operating in Alberta, 2 Clark, Sellick, Doosan, JLG, Baumann dealerships operating in Saskatchewan and 1 Clark, Sellick, JLG, Baumann dealership in Manitoba.

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 \$0.10 per share was made to the shareholders of record as of December 31, 2018, on January 15, 2019. See “Capital Resources - Cautionary note regarding dividends” for a cautionary note regarding future dividends.

Highlights of the Year

- The Company generated adjusted income before income tax expense ⁽¹⁾ of \$36.5 million, an \$8.8 million increase compared to \$27.7 million of adjusted income before income tax expense ⁽¹⁾ in 2017.
- The Company generated income of \$26.6 million in 2018, a \$6.7 million increase compared to income of \$19.9 million in 2017.
- The Company reported income per basic share of \$1.70 in 2018, a \$0.43 per share increase compared to income of \$1.27 per basic share in 2017.
- The Transportation segment achieved a \$9.4 million increase in adjusted income before income tax expense⁽¹⁾ compared to 2017, largely due to the performance of our Ontario dealerships.
- Cervus achieved record new equipment revenue in our Agriculture segment, increasing 10% over the prior year, while marketing associated used equipment trades in season decreased used equipment margins by 2% in the year.
- Total service gross profit margin percentage increased by 3.4% compared to 2017, due to continued service optimization improvement.
- Selling, general, and administrative (“SG&A”) expenses decreased \$3.2 million in the year, despite a \$128.8 million increase in revenue, decreasing to 12.8% as a percentage of revenue compared to 14.4% in 2017.
- Dividends of \$0.40 per share were declared to shareholders of record during 2018.
- Cervus completed the acquisition of an adjacent John Deere dealership located in Red Deer, Alberta.
- Cervus’ Saskatchewan John Deere dealerships were awarded John Deere’s Leaders Club status, an award recognizing the top John Deere dealers in Canada.

ANNUAL CONSOLIDATED RESULTS

(\$ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Revenue	1,350,037	11%	1,221,285
Cost of sales	(1,138,517)	13%	(1,011,857)
Gross profit	211,520	1%	209,428
Other income	4,642		222
Unrealized foreign exchange (loss) gain	(1,199)	(235%)	890
Total other income	3,443	210%	1,112
Selling, general and administrative expense	(173,045)	(2%)	(176,199)
Income from operating activities	41,918	22%	34,341
Finance income	854	76%	484
Finance costs	(6,352)	8%	(5,863)
Share of profit (loss) of equity accounted investees, net of income tax	124		(4)
Income before income tax expense	36,544	26%	28,958
Income tax expense	(9,965)	10%	(9,046)
Income for the year	26,579	33%	19,912
Income attributable to shareholders	26,579	33%	19,917
EBITDA⁽¹⁾	59,170	10%	53,840
EBITDA margin⁽¹⁾	4.4%		4.4%
Ratios as a percentage of revenue:			
Gross profit margin	15.7%		17.1%
Selling, general and administrative	12.8%		14.4%
Income per share			
Basic	1.70	34%	1.27
Diluted	1.62	35%	1.20
Basic - adjusted ⁽¹⁾	1.70	40%	1.21
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	36,544	26%	28,958
Adjustments:			
Unrealized foreign exchange loss (gain)	1,199	(235%)	(890)
Gain on sale of Commercial operations	(480)	100%	-
Gain on sale of land and building	-	(100%)	(417)
Insurance proceeds received in excess of building cost	(765)	100%	-
Adjusted income before income tax expense⁽¹⁾	36,498	32%	27,651

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Year Ended December 31, 2018

Adjusted income before income tax expense⁽¹⁾ increased \$8.8 million to \$36.5 million compared to \$27.7 million in 2017. This was achieved due to a \$9.4 million increase in our Transportation segment, a \$1.4 million increase in our Agriculture segment, partially offset by a \$2.0 million decrease in the Industrial segment due to non-continuance of four construction dealerships. Income before income tax expense increased \$7.6 million compared to 2017, comprised of a \$7.6 million increase in our Transportation segment, and a \$1.7 million increase in our Agriculture segment, partially offset by a \$1.7 million decrease in our Industrial segment.

In analyzing financial results, Cervus considers adjusted income before income tax expense as a relevant supplementary non-IFRS measure of financial performance. Year over year fluctuations in unrealized foreign exchange gains and losses reduced income in 2018 by \$2.1 million compared to 2017, while gains on insurance recoveries increased \$0.8 million in 2018 compared to the year ended 2017. Adjusted income before income tax expense excludes gains and losses from the sale of real estate and insurance recoveries, as well as unrealized gains and losses on foreign exchange. It is our view that this non-IFRS measure is useful for comparing the period to period financial performance of our underlying dealership operations.

Adjusted income before income tax expense increased by \$8.8 million in 2018, compared to 2017. The principal factor in this performance was the substantial increase in our Ontario transportation dealership profitability compared to 2017, increasing \$8.2 million. The results of our Agriculture segment also improved, achieving record new equipment sales partially offset by a 2% reduction in used equipment gross margin percentage. Our Industrial segment also generated \$0.6 million of additional adjusted income before income tax on a same store basis.

Within our Agriculture segment, adjusted income before income tax expense increased \$1.4 million. This performance reflects the record agricultural equipment sales achieved in 2018, with new and used equipment increasing 13% overall compared to 2017. The overall results were comprised of a 10% increase in new equipment sales which accelerated the amount of used equipment taken on trade. In turn, focused sales efforts achieved a 19% increase in used equipment sales, compared to 2017, while marketing this increased used inventory in-season reduced used gross profit margin compared to 2017. Organic growth in parts and service revenue, along with improved gross profit, also positively contributed to the financial performance of the year. Income before income tax expense increased \$1.7 million for the segment compared to 2017.

Our Transportation segment delivered a \$9.4 million increase in adjusted income before income tax expense, with our Ontario dealerships generating \$8.2 million of the increase. The Ontario reorganization undertaken in 2017 provided the framework to support a 23% increase in overall revenue, while growing gross margin and reducing SG&A expenses. Income before income tax expense mirrored these trends, increasing \$7.6 million compared to 2017, of which \$3.5 million related to non-recurring reorganization costs incurred in 2017, and includes a \$1.8 million decrease in unrealized foreign exchange gains compared to 2017.

Within our Industrial segment, same store adjusted income before income tax expense improved \$0.6 million, while overall segment results decreased \$2.0 million, due to the non-continuance of the Construction dealerships, which had generated \$2.6 million of adjusted income in 2017. On a same store basis, a 15% increase in revenue reflected improving market sentiment, while internal efficiencies delivered increased gross profit. Same store income before income tax expense also increased \$0.4 million, while overall segment results decreased \$1.7 million, of which \$2.1 million related to prior year income from the Construction dealerships.

⁽¹⁾ Refer to Non-IFRS measures herein

ANNUAL BUSINESS SEGMENT RESULTS

For the year ended December 31, 2018 the Company had three reportable segments: Agricultural, Transportation, 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 27 of the accompanying Audited Consolidated Annual Financial Statements.

Agricultural Segment Results

(\$ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	490,524	10%	447,268
Used equipment	293,264	19%	246,784
Total equipment revenue	783,788	13%	694,052
Parts	95,925	2%	93,627
Service	42,724	5%	40,839
Rental and other	4,449	(14%)	5,159
Total revenue	926,886	11%	833,677
Cost of sales	(792,691)	13%	(703,484)
Gross profit	134,195	3%	130,193
Other income	1,857	62%	1,143
Selling, general and administrative expense	(102,367)	3%	(98,915)
Income from operating activities	33,685	4%	32,421
Income before income tax expense	31,188	6%	29,479
EBITDA ⁽¹⁾	42,040	5%	40,106
Ratios as a percentage of revenue:			
Gross profit margin	14.5%		15.6%
Selling, general and administrative	11.0%		11.9%
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	31,188	6%	29,479
Adjustments:			
Gain on sale of land and building	-	(100%)	(417)
Insurance proceeds received in excess of building cost	(765)	100%	-
Adjusted income before income tax expense⁽¹⁾	30,423	5%	29,062

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Year Ended December 31, 2018

Within our Agriculture segment, adjusted income before income tax expense increased \$1.4 million in 2018, as focused sales efforts drove record equipment sales in the year. This increase in new equipment sales accelerated the amount of used equipment taken on trade, which was successfully reconditioned and sold in the year, as indicated by the 19% increase in used equipment sales. Income before income tax expense increased \$1.7 million, driven by a gross profit increase of \$4.0 million, partially offset by SG&A expenses increasing \$3.5 million.

Income before income tax expense increased \$1.7 million, driven by the \$89.7 million increase in equipment sales. Record new equipment sales resulted in the achievement of additional manufacturer incentives, which supported overall new equipment gross profit margin in the year. This new equipment sales activity increased the used equipment taken on trade. The late seeding and difficult harvest in 2018 compressed producers' field time and increased demand for used equipment capacity, particularly in the third and fourth quarters. This provided an opportunity to successfully market the additional used inventory in season, although at lower profit margins. As a result, used equipment gross profit margin percentage decreased 2% in the year, partially offsetting increased new and used equipment revenue. Parts and service sales experienced modest growth, while service department efficiencies increased service gross profit margin by 3.9%. The increased equipment sales, combined with parts and service margin growth, generated the \$4.0 million increase in gross profit partially offset by \$3.5 million of increased SG&A expenses.

Within our two agriculture geographies, the \$1.4 million increase in adjusted income before income tax expense was comprised of a \$0.7 million increase in our Canadian dealerships, and a \$0.7 million increase in our Australia and New Zealand dealerships.

Transportation Segment Results

(\$ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	215,674	39%	155,480
Used equipment	12,895	43%	9,005
Total equipment revenue	228,569	39%	164,485
Parts	96,118	4%	92,559
Service	31,078	6%	29,367
Rental and other	6,391	(8%)	6,958
Total revenue	362,156	23%	293,369
Cost of sales	(302,846)	26%	(240,885)
Gross profit	59,310	13%	52,484
Other income (loss)	1,591	199%	(1,604)
Unrealized foreign exchange (loss) gain	(1,070)	(256%)	685
Total other income (loss)	521	157%	(919)
Selling, general and administrative expense	(52,989)	(0%)	(53,065)
Income (loss) from operating activities	6,842	556%	(1,500)
Income (loss) before income tax expense	4,064	214%	(3,562)
EBITDA ⁽¹⁾	13,768	85%	7,442
Ratios as a percentage of revenue:			
Gross profit margin	16.4%		17.9%
Selling, general and administrative	14.6%		18.1%
Reconciliation of adjusted income (loss) before income tax expense:			
Income (loss) before income tax expense	4,064	214%	(3,562)
Adjustments:			
Unrealized foreign exchange loss (gain)	1,070	(256%)	(685)
Adjusted income (loss) before income tax expense⁽¹⁾	5,134	221%	(4,247)

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Year Ended December 31, 2018

Within our Transportation segment, adjusted income before income tax expense increased \$9.4 million year over year, facilitated by the reorganization efforts initiated in 2017. Of this \$9.4 million improvement, \$3.5 million relates to the non-recurrence of the reorganization costs incurred in 2017. Income before income tax expense mirrored these trends, increasing \$7.6 million compared to 2017, including a \$1.8 million decrease in unrealized foreign exchange gains in the year.

The reorganization efforts initiated in 2017 facilitated accelerated process efficiency, disciplined cost management and revenue growth throughout 2018. The actions delivered the capacity and processes required to profitably capture the significant increase in market activity experienced in 2018. This enabled the Ontario dealerships' \$8.2 million increase in adjusted net income before income tax expense in 2018, while Saskatchewan dealerships also increased \$1.2 million. Further, the process and discipline groundwork started in 2017 facilitated a reduction in 2018 SG&A expenses, while overall revenue increased 23%.

Increased North American market demand for trucks facilitated overall revenue growth, particularly in our Ontario dealerships. Equipment sales increased 39%, while parts and service sales increased 4% and 6%, respectively. Increased gross profit margin percentage in both equipment sales and service departments, accelerated the impact of revenue growth, and together generated the \$6.8 million increase in total gross profit dollars. Overall gross margin percentage decreased despite increased profitability across revenues streams, due to the sales mix impact of additional equipment sales.

Within our two transportation geographies, income before income tax expense increased \$7.6 million, of which \$7.0 million related to our Ontario and \$0.6 million related to our Saskatchewan operations.

Industrial Segment Results

(\$ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	25,485	(43%)	44,398
Used equipment	3,993	(55%)	8,846
Total equipment revenue	29,478	(45%)	53,244
Parts	14,085	(38%)	22,677
Service	12,700	(11%)	14,258
Rental and other	4,732	17%	4,060
Total revenue	60,995	(35%)	94,239
Cost of sales	(42,980)	(36%)	(67,488)
Gross profit	18,015	(33%)	26,751
Other income	1,194	75%	683
Unrealized foreign exchange (loss) gain	(129)	(163%)	205
Total other income	1,065	20%	888
Selling, general and administrative expense	(17,689)	(27%)	(24,219)
Income from operating activities	1,391	(59%)	3,420
Income before income tax expense	1,292	(58%)	3,041
EBITDA ⁽¹⁾	3,362	(47%)	6,292
Ratios as a percentage of revenue:			
Gross profit margin	29.5%		28.4%
Selling, general and administrative	29.0%		25.7%
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	1,292	(58%)	3,041
Adjustments:			
Unrealized foreign exchange loss (gain)	129	(163%)	(205)
Gain on sale of Commercial operations	(480)	100%	-
Adjusted income before income tax expense⁽¹⁾	941	(67%)	2,836

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Year Ended December 31, 2018

Within our Industrial segment, same store adjusted income before income tax expense improved \$0.6 million. Due to the disposition of the four Construction dealerships in the first quarter of 2018, segment results for 2018 are not directly comparable to 2017. To aid in comparability of the ongoing Industrial segment, a same store analysis is presented on the following page.

On an overall basis, segment results decreased \$2.0 million, due to the non-continuance of the Construction dealerships, which generated \$2.6 million of prior year income, partially offset by a \$0.6 million improvement in the ongoing Industrial operations.

Industrial Segment Same Store Highlights

(\$ thousands, except per share amounts)	2018	% Change Compared to 2017	2017 Same Store
Equipment			
New equipment	18,062	28%	14,135
Used equipment	2,841	7%	2,662
Total equipment revenue	20,903	24%	16,797
Parts	11,251	1%	11,120
Service	11,877	14%	10,376
Rental and other	4,732	17%	4,060
Total revenue	48,763	15%	42,353
Cost of sales	(32,493)	17%	(27,768)
Gross profit	16,270	12%	14,585
Other income	557	(14%)	644
Unrealized foreign exchange (loss) gain	(97)	(199%)	98
Total other income	460	(38%)	742
Selling, general and administrative expense	(15,773)	8%	(14,672)
Income from operating activities	957	46%	655
Income before income tax expense	889	75%	509
EBITDA ⁽¹⁾	2,942	5%	2,813
Ratios as a percentage of revenue:			
Gross profit margin	33.4%		34.4%
Selling, general and administrative	32.3%		34.6%
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	889	75%	509
Adjustments:			
Unrealized foreign exchange loss (gain)	97	(199%)	(98)
Adjusted income before income tax expense⁽¹⁾	986	140%	411

(1) - Refer to Non-IFRS Measures herein

On a same store basis, our Industrial segment's adjusted net income before income tax expense and net income before income tax expense increased \$0.6 million and \$0.4 million, respectively. Equipment sales increased 24%, while parts, service and rental and other (which includes training, storage solutions) increased 9%. The revenue increase did not directly translate to increased margin, as \$4.0 million of equipment withheld from the Construction sale was liquidated, compressing margins. SG&A expenses increased 8%, due to administrative expenses incurred to establish the storage and racking solutions business line, and retention of key senior personnel previously shared between the Construction and Industrial dealerships.

Annual Cash Flows

Cash and Cash Equivalents – Year Ended December 31, 2018

Cervus' primary sources and uses of cash flow for the year ended December 31, 2018, are as follows:

Operating Activities

Net cash provided from operating activities was \$12.7 million for the year ended December 31, 2018, compared to \$33.6 million in 2017, a decrease of \$20.9 million. The decrease in net cash from operating activities primarily resulted from a \$32.6 million increase in net cash used in working capital items. The \$32.6 million increase in net cash used in working capital items was primarily driven by the \$42.5 million increase in inventory.

Investing Activities

During the year ended December 31, 2018, the Company's net cash used in investing activities was \$4.1 million, compared to a source of cash of \$3.6 million in 2017, a decrease of \$7.7 million. This decrease is primarily due to the significant \$12.6 million outflow of cash related to the acquisition of Deermart Equipment Sales Ltd., as well as a \$4.7 million increase in cash used to purchase property and equipment and a \$5.7 million decrease in cash received for disposal of property and equipment. This was partially offset by proceeds received from the sale of the Company's Commercial operations of \$14.2 million in 2018.

Financing Activities

During the year ended December 31, 2018, the Company used \$17.8 million of cash related to financing activities compared to \$37.5 million in 2017, a net reduction in use of cash for financing activities of \$19.7 million. This decrease is primarily due to the significant 2017 cash outflow of \$34.5 million related to the Company's repayment and extinguishment of the convertible debenture; partially offset by a \$12.0 million increase in net repayment on the Company's term debt in 2018.

Fourth Quarter Consolidated Performance

	2018	% Change Compared to 2017	2017
(\$ thousands, except per share amounts)			
Revenue	300,248	10%	272,726
Cost of sales	(248,249)	13%	(218,996)
Gross profit	51,999	(3%)	53,730
Other income (loss)	1,674	197%	(1,728)
Unrealized foreign exchange loss	(1,256)	568%	(188)
Total other income (loss)	418	122%	(1,916)
Selling, general and administrative expense	(43,534)	(3%)	(45,094)
Income from operating activities	8,883	32%	6,720
Finance income	443	603%	63
Finance costs	(1,684)	57%	(1,070)
Share of loss of equity accounted investees, net of income tax	-	(100%)	(4)
Income before income tax expense	7,642	34%	5,709
Income tax expense	(2,611)	32%	(1,982)
Income for the period	5,031	35%	3,727
Income attributable to shareholders	5,031	35%	3,727
EBITDA⁽¹⁾	13,367	(2%)	13,622
EBITDA margin⁽¹⁾	4.5%		5.0%
Ratios as a percentage of revenue:			
Gross profit margin	17.3%		19.7%
Selling, general and administrative	14.5%		16.5%
Income per share			
Basic	0.32	33%	0.24
Diluted	0.31	35%	0.23
Basic - adjusted ⁽¹⁾	0.35	40%	0.25
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	7,642	34%	5,709
Adjustments:			
Unrealized foreign exchange loss	1,256	568%	188
Insurance proceeds received in excess of building cost	(765)	100%	-
Adjusted income before income tax expense⁽¹⁾	8,133	38%	5,897

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Three Months Ended December 31, 2018

For the fourth quarter of 2018, adjusted income before income tax expense increased \$2.2 million compared to the same period in 2017. This was achieved through a \$3.7 million increase in our Transportation segment, partially offset by a \$1.1 million decrease in our Agriculture segment, and a \$0.4 million decrease in our Industrial segment. Income before income tax expense increased \$1.9 million, which includes a \$0.8 million gain on insurance recoveries recognized in the fourth quarter of 2018, and a \$1.1 million increase in unrealized foreign exchange losses in the year.

Within our Agriculture segment, adjusted income before income tax expense decreased \$1.1 million, of which \$1.4 million relates to the timing of manufacturer incentive recognition within the year. Due to heightened new equipment sales earlier in 2018, the Company was able to estimate and recognize a portion of annual manufacturer incentives earlier in the year, resulting in a \$1.4 million decrease in OEM incentives recognized in the fourth quarter. Focused sales efforts on marketing the additional used equipment taken on trade resulted in used equipment sales increasing by 34% over the fourth quarter of 2017, although used gross profit margin decreased 2.9%. The later 2018 harvest was positive for parts and service opportunities, with associated revenue increasing 16% and 9%, respectively. Income before income tax expense decreased \$0.4 million, which includes \$0.8 million in gain on insurance recoveries recognized in the fourth quarter of 2018.

In our Transportation segment, adjusted income before income tax expense increased \$3.7 million compared to the three months ended December 31, 2017. This includes the non-recurrence of \$2.9 million of prior period reorganization costs and lease fleet valuation adjustments. The 51% increase in equipment sales and 3% increase in service sales resulted in a \$1.1 million increase in gross profit, while SG&A expenses were limited to a 1% increase during the quarter. Loss before income tax expense improved \$3.0 million compared to the fourth quarter of 2017, which includes the reorganization and lease valuation adjustments in 2017 noted above.

Within our Industrial segment, same store adjusted income before income tax expense increased \$0.3 million, while overall segment results decreased \$0.4 million, due to the non-continuance of the Construction dealerships, which generated \$0.7 million of income in the fourth quarter of 2017. Same store loss before income tax expense also improved \$0.1 million, while overall segment results decreased \$0.7 million, of which \$0.8 million related 2017 fourth quarter income from the Construction dealerships.

Fourth Quarter Business Segment Performance

Agricultural Segment Results

(\$ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	95,835	(3%)	98,393
Used equipment	73,713	34%	55,060
Total equipment revenue	169,548	10%	153,453
Parts	22,694	16%	19,511
Service	11,452	9%	10,520
Rental and other	1,525	(18%)	1,851
Total revenue	205,219	11%	185,335
Cost of sales	(171,125)	13%	(151,018)
Gross profit	34,094	(1%)	34,317
Other income	632	48%	426
Selling, general and administrative expense	(25,864)	1%	(25,541)
Income from operating activities	8,862	(4%)	9,202
Income before income tax expense	8,283	(4%)	8,635
EBITDA ⁽¹⁾	11,260	1%	11,131
Ratios as a percentage of revenue:			
Gross profit margin	16.6%		18.5%
Selling, general and administrative	12.6%		13.8%
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	8,283	(4%)	8,635
Adjustments:			
Insurance proceeds received in excess of building cost	(765)	100%	-
Adjusted income before income tax expense ⁽¹⁾	7,518	(13%)	8,635

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Three Months Ended December 31, 2018

Within our Agriculture segment, adjusted income before income tax expense decreased \$1.1 million in the quarter. Record new equipment sales in the year provided greater visibility regarding the achievement of performance incentives, and therefore a portion of these incentives were recognized earlier in 2018 compared to 2017, with \$1.4 million fewer incentives recognized in the fourth quarter. Income before income tax expense decreased \$0.4 million, which includes a \$0.8 million gain on insurance recoveries recognized in the fourth quarter of 2018.

During 2018, the Company achieved record new equipment sales, heavily weighted to the first three quarters of the year, providing additional visibility into attaining certain manufacturer incentives. As a result, a portion of the annual incentives were quantifiable and recognized prior to the fourth quarter, resulting in fewer incentives recognized in the fourth quarter of 2018, compared to 2017. The record new equipment sales increased the amount of used equipment taken on trade during the year, and maintaining used equipment inventory turns was a focus throughout the year. The challenging 2018 harvest created producer demand for additional machine

hours in a compressed harvest window, evidenced by the 34% increase in fourth quarter used equipment sales. The ability to refurbish and remarket the used inventory in season was an achievement, although placed pressure on used gross profit margin which decreased 2.9%.

The difficult harvest also provided additional opportunities to support our customers equipment uptime, evident in the 16% and 9% increase in our fourth quarter parts and service revenue respectively, while SG&A expense increases were limited to 1% or \$0.3 million. Within our two agriculture geographies, the \$1.1 million decrease in adjusted income before income tax expense for the quarter was comprised of a \$2.1 million decrease in our Canada dealerships, partially offset by a \$1.0 million increase in our Australia and New Zealand dealerships.

Transportation Segment Results

(\$ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	44,564	51%	29,416
Used equipment	3,522	39%	2,533
Total equipment revenue	48,086	51%	31,949
Parts	24,303	7%	22,654
Service	7,677	3%	7,489
Rental and other	1,472	2%	1,446
Total revenue	81,538	28%	63,538
Cost of sales	(67,708)	33%	(50,755)
Gross profit	13,830	8%	12,783
Other income (loss)	709	130%	(2,381)
Unrealized foreign exchange loss	(940)	408%	(185)
Total other loss	(231)	(91%)	(2,566)
Selling, general and administrative expense	(13,397)	1%	(13,209)
Income (loss) from operating activities	202	107%	(2,992)
Loss before income tax expense	(420)	(88%)	(3,418)
EBITDA ⁽¹⁾	1,834	52%	1,205
Ratios as a percentage of revenue:			
Gross profit margin	17.0%		20.1%
Selling, general and administrative	16.4%		20.8%
Reconciliation of adjusted income (loss) before income tax expense:			
Loss before income tax expense	(420)	(88%)	(3,418)
Adjustments:			
Unrealized foreign exchange loss	940	408%	185
Adjusted income (loss) before income tax expense⁽¹⁾	520	116%	(3,233)

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Three Months Ended December 31, 2018

Within our Transportation segment, adjusted income before income tax expense increased \$3.7 million. A 28% increase in total revenue, combined with limiting SG&A increases to 1%, were significant factors in the performance of the quarter. Loss before income tax expense improved \$3.0 million compared to the fourth quarter of 2017, reflecting the \$2.9 million of reorganization costs and lease fleet valuation adjustments incurred in 2017.

The \$3.7 million increase in adjusted income before income tax expense includes a \$1.1 million increase in gross profit, due to increased equipment and service sales in the quarter. Other income increased by \$3.1 million, as \$2.9 million of 2017 reorganizing costs were non-recurring. The \$3.0 million increase in income before income tax expense, includes the reorganization and revaluation expenses in 2017, and also includes the \$0.8 million increase in unrealized foreign exchange losses quarter over quarter.

Industrial Segment Results

(\$ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	5,493	(50%)	10,980
Used equipment	945	(66%)	2,763
Total equipment revenue	6,438	(53%)	13,743
Parts	2,840	(48%)	5,501
Service	3,061	(15%)	3,591
Rental and other	1,152	13%	1,018
Total revenue	13,491	(43%)	23,853
Cost of sales	(9,416)	(45%)	(17,223)
Gross profit	4,075	(39%)	6,630
Other income	333	47%	227
Unrealized foreign exchange loss	(316)		(3)
Total other income	17	(92%)	224
Selling, general and administrative expense	(4,273)	(33%)	(6,344)
(Loss) income from operating activities	(181)	(135%)	510
(Loss) income before income tax expense	(221)	(145%)	492
EBITDA ⁽¹⁾	273	(79%)	1,286
Ratios as a percentage of revenue:			
Gross profit margin	30.2%		27.8%
Selling, general and administrative	31.7%		26.6%
Reconciliation of adjusted income before income tax expense:			
(Loss) income before income tax expense	(221)	(145%)	492
Adjustments:			
Unrealized foreign exchange loss	316		3
Adjusted income before income tax expense⁽¹⁾	95	(81%)	495

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Three Months Ended December 31, 2018

Within our Industrial segment, same store adjusted income before income tax expense improved \$0.3 million in the quarter. Due to the inclusion of the four Construction dealerships in the fourth quarter of 2017, overall segment results for the fourth quarter of 2018 are not comparable to the prior period on an overall basis. To aid in comparability of the ongoing Industrial segment, a same store analysis is presented on the following page.

On an overall basis, segment adjusted net income before income tax decreased \$0.4 million, due to the non-continuance of the Construction dealerships, which generated \$0.7 million of prior year income, partially offset by the \$0.3 million improvement in the ongoing Industrial operations.

Industrial Segment Same Store Highlights

(\$ thousands, except per share amounts)	2018	% Change Compared to 2017	2017 Same Store
Equipment			
New equipment	5,493	50%	3,668
Used equipment	945	15%	822
Total equipment revenue	6,438	43%	4,490
Parts	2,840	4%	2,733
Service	3,061	15%	2,655
Rental and other	1,152	13%	1,018
Total revenue	13,491	24%	10,896
Cost of sales	(9,416)	28%	(7,344)
Gross profit	4,075	15%	3,552
Other income	333	45%	229
Unrealized foreign exchange loss	(316)		(1)
Total other income	17	(93%)	228
Selling, general and administrative expense	(4,273)	6%	(4,023)
Loss from operating activities	(181)	(26%)	(243)
Loss before income tax expense	(221)	(6%)	(236)
EBITDA ⁽¹⁾	273	(14%)	316
Ratios as a percentage of revenue:			
Gross profit margin	30.2%		32.6%
Selling, general and administrative	31.7%		36.9%
Reconciliation of adjusted income (loss) before income tax expense:			
Loss before income tax expense	(221)	(6%)	(236)
Adjustments:			
Unrealized foreign exchange loss	316		1
Adjusted income (loss) before income tax expense⁽¹⁾	95	140%	(235)

(1) - Refer to Non-IFRS Measures herein

On a same store basis, the Industrial segment's adjusted net income before income tax expense increased \$0.3 million, and loss before income tax expense also improved \$0.1 million, when compared to the fourth quarter of 2017. Equipment sales increased 43%, while parts, service and rental and other (which includes training, storage solutions) increased 10%, increasing gross profit margin by \$0.5 million. Continued expense diligence resulted in a 5.2% decrease in SG&A expenses as a percentage of revenue quarter over quarter.

Fourth Quarter Cash Flows

Cash and Cash Equivalents – Three Months Ended December 31, 2018

Cervus' primary sources and uses of cash flow for the three months ended December 31, 2018, are as follows:

Operating Activities

Net cash provided from operating activities was \$25.9 million, compared to net cash provided of \$21.6 million for the same period of 2017, an increase of \$4.3 million. The primary reason for the increase is \$14.8 million of net cash provided from working capital items in the quarter, compared to \$8.7 million of net cash provided in 2017. This \$6.1 million change in net cash from working capital items primarily relates to a decrease in inventory in the fourth quarter, related to increased new and used equipment sales in the year.

Investing Activities

The Company used \$14.8 million of cash in investing activities in the quarter, compared to cash used of \$0.2 million in 2017, a change of \$14.6 million. The net change relates primarily to the \$12.6 million cash outflow used to acquire Deermart Equipment Sales Ltd. in the fourth quarter of 2018, and a \$2.9 million increase in cash used to purchase property and equipment.

Financing Activities

Financing activities used \$13.5 million of cash in the period, compared to a use of \$10.1 million of cash in 2017. The difference is primarily due to a \$1.9 million increase in common shares repurchased through the Company's Normal Course Issuer Bid in the fourth quarter of 2018 compared to same period in 2017.

Consolidated Financial Position & Liquidity

(\$ thousands, except ratio amounts)	December 31, 2018	December 31, 2017
Current assets	408,702	384,835
Total assets	540,669	514,055
Current liabilities	253,701	236,262
Long-term financial liabilities	32,624	42,586
Shareholders' equity	245,501	225,253
Working capital ⁽¹⁾	155,001	148,573
Working capital ratio ⁽¹⁾	1.61	1.63

(1) - Refer to Non-IFRS Measures herein

Working Capital

Cervus' working capital increased by \$6.4 million to \$155.0 million at December 31, 2018, when compared to \$148.6 million at December 31, 2017. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at December 31, 2018, the Company had the ability to floor plan an additional \$33.5 million of inventory and held \$418.4 million of undrawn floor plan capacity.

The Company's ability to maintain sufficient liquidity is driven by revenue, gross profit, 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 on the use of cash and cash equivalents related to the seasonal nature of our business, and funding potential future business acquisitions. Cash resources can typically 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 and availability of borrowing facilities at December 31, 2018 are described further in the sections below.

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 28 to the Audited Consolidated Financial Statements for the year ended December 31, 2018. 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, 2018, leases with a residual value of \$32.1 million are scheduled to mature in 2019.

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	Contractual principle repayments	12 months or less	1 - 2 years	2 - 5 years	5+ Years
Term debt payable	39,087	39,617	13,964	2,532	23,121	-
Finance lease obligation	11,271	11,271	3,770	2,253	5,248	-
Operating leases	-	-	12,087	11,925	24,379	82,192
Total	50,358	50,888	29,821	16,710	52,748	82,192

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 Industrial equipment sales usually do not have trade-ins. This results in a higher amount of used Agriculture equipment than used Transportation 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 US dollars, but invoiced in Canadian dollars. Inventory by segment for the year ended December 31, 2018 compared to December 31, 2017 is as follows:

(\$ thousands)	December 31, 2018	December 31, 2017
Agricultural	257,698	226,664
Transportation	63,459	56,211
Industrial	9,470	7,649
Total	330,627	290,524

As at December 31, 2018, inventories increased by \$40.1 million when compared to \$290.5 million at December 31, 2017. The \$40.1 million increase is primarily comprised of a \$36.0 million increase in used equipment, and a \$5.1 million increase in parts inventory. New inventory decreased by \$1.4 million, and work in progress inventory increased by \$0.4 million.

Used inventory levels within the Agriculture segment increased \$32.5 million, as record new equipment sales in the 2018 came with used equipment taken on trade. The \$7.2 million increase in inventory in the Transportation segment is due to increased customer orders in the period.

At December 31, 2018, the Company believes that the recoverable value of new and used equipment inventories exceeds its respective carrying value. For the year ended December 31, 2018, the Company recognized inventory valuation adjustments through cost of goods sold of \$11.5 million (2017 - \$5.6 million).

Accounts Receivable

For the years ended December 31, 2018 and 2017, the average time to collect the Company's outstanding accounts receivable was approximately 13 days. At December 31, 2018 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 \$1.1 million at December 31, 2018 (2017 - \$1.6 million), which represents 2.9% (2017 - 5.1%) of outstanding trade accounts receivable and 0.1% (2017 - 0.1%) of gross revenue on an annual basis. Bad debt expense for the year ended December 31, 2018 amounted to a \$0.2 million recovery (2017 - \$0.9 million expense).

Capital Resources

We use our capital to finance current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize 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, 2018 are as follows:

(\$ thousands)	December 31, 2018				December 31, 2017			
	Total Limits	Borrowings	Letters of Credit	Amount Available	Total Limits	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	122,867	21,071	2,400	99,396	101,925	25,589	2,400	73,936
Capital facilities ^(a)		9,942				12,082		
Floor plan facilities and rental equipment term loan financing ^(b)		166,219				133,119		
Total borrowing		197,232				170,790		

- (a) For capital facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of \$9.9 million (2017 - \$55.8 million) or the available unencumbered assets which is estimated at \$2.4 million as at December 31, 2018 (2017 - \$1.5 million).
- (b) For floorplan facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of \$418.4 million (2017 - \$453.0 million) or the available unencumbered assets which is estimated at \$33.5 million as at December 31, 2018 (2017 - \$28.9 million).

Operating and Other Bank Credit Facilities

At December 31, 2018, the Company has a revolving credit facility with a syndicate of underwriters. The principal amount available under this facility is \$120 million. The facility was amended and extended on December 18, 2018. The facility is committed for a four-year term, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an \$80.0 million accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2018 there was \$20.5 million drawn on the facility and \$2.4 million 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 sales targets and working capital requirements for 2019.

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 its covenants as follows:

	December 31, 2018	December 31, 2017
Total liabilities to net worth ratio⁽¹⁾ (not exceeding 4.0:1.0)	2.39	2.55
Fixed charge coverage ratio⁽²⁾ (greater than or equal to 1.10:1.00)	2.39	1.69
Asset coverage ratio⁽³⁾ (greater than 3.0:1.0)	11.82	10.01

(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. 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, ECN Capital Corp., PACCAR Financial Ltd., US Bank, and Canadian Imperial Bank of Commerce. At December 31, 2018, floor plan payables related to inventories were \$157.6 million.

Floor plan payables at December 31, 2018 represented approximately 47.7% of our inventories (December 31, 2017 – 43.2%). 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 \$3.1 million for the year ended December 31, 2018. This amount was offset by rebates applied during the year ended December 31, 2018, of \$2.6 million. At December 31, 2018, approximately 27% (2017 – 59%) of the Industrial segment's and 3% (2017 – 12%) 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 15,536 thousand common shares and 807 thousand deferred share units outstanding.

On August 21, 2017, the Company announced a Normal Course Issuer Bid (the "August 2017 Bid"), which commenced on August 23, 2017, to purchase up to a maximum of 806 thousand common shares (the "Shares") for cancellation before August 22, 2018. Cervus appointed Raymond James Ltd. as its broker, who conducted the Bid on behalf of the Company. All purchases were made in accordance with the August 2017 Bid at the prevailing market price of the Shares at the time of purchase. This normal course issuer bid expired on August 22, 2018. Prior to expiry, Cervus repurchased and cancelled 292 thousand common shares through the bid at a weighted average price of \$13.44 per share.

On September 10, 2018, the Company announced a Normal Course Issuer Bid (the "September 2018 Bid"), which commenced on September 13, 2018 to purchase up to a maximum of 1,031 thousand common shares (the "Shares") for cancellation before September 12, 2019. Cervus appointed Raymond James Ltd. as its broker, who will conduct the Bid on behalf of the Company. All purchases are to be made in accordance with the September 2018 Bid at the prevailing market price of the Shares at the time of purchase. As at December 31, 2018, the Company had repurchased 52 thousand common shares at a weighted average price of \$13.48 per share under the August 2017 Bid, and 146 thousand common shares at a weighted average price of \$13.03 per share under the September 2018 NCIB.

As at December 31, 2018 and 2017, the Company had the following weighted average shares outstanding:

(thousands)	December 31, 2018	December 31, 2017
Basic weighted average number of shares outstanding	15,656	15,744
Dilutive impact of deferred share plan	801	696
Dilutive impact of convertible debenture	-	1,319
Diluted weighted average number of shares outstanding	16,457	17,759

The above table includes all dilutive instruments held by the Company.

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 period ended December 31, 2018:

(\$ thousands, except per share amounts)				
Record Date	Dividend per Share	Dividend Payable	Dividends Reinvested	Net Dividend Paid
March 30, 2018	0.1000	1,570	217	1,353
June 30, 2018	0.1000	1,567	229	1,338
September 28, 2018	0.1000	1,568	103	1,465
December 31, 2018	0.1000	1,556	222	1,334
Total	0.4000	6,261	771	5,490

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. For shareholders who elect to participate, their periodic cash dividends are 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, 2018, 52 thousand common shares were issued through the Company’s dividend reinvestment plan.

Taxation

Cervus’ 2018 dividends declared and paid through December 31, 2018 are considered to be eligible dividends for tax purposes on the date paid.

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)	2018	2017	2016
Total revenues	1,350,037	1,221,285	1,109,939
Income for the year	26,579	19,912	23,524
Income for the year attributable to shareholders	26,579	19,917	23,712
Net income per share - basic	1.70	1.27	1.51
Net income per share - diluted	1.62	1.20	1.44
Cash provided by operating activities	31,655	33,593	16,164
EBITDA ⁽¹⁾	59,170	53,840	61,025
Total assets	540,669	514,055	476,852
Total long-term liabilities	41,467	52,540	42,963
Total liabilities	295,168	288,802	263,013
Shareholders' equity	245,501	225,253	213,839
Net book value per share - diluted	14.92	12.68	13.02
Dividends declared to shareholders	6,261	4,399	4,394
Dividends declared per share	0.400	0.280	0.280
Weighted average shares outstanding			
Basic	15,656	15,744	15,683
Diluted	16,457	17,759	16,428
Actual shares outstanding	15,559	15,675	15,750

(1) - Refer to Non-IFRS Measures herein

Summary of Quarterly Results

(\$ thousands, except per share amounts)	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenues	300,248	392,499	408,584	248,706
Income (loss) attributable to the shareholders	5,031	12,180	9,514	(145)
Gross profit	51,999	59,882	57,846	41,793
Gross profit margin	17.3%	15.3%	14.2%	16.8%
EBITDA ⁽¹⁾	13,367	21,285	19,383	5,136
Income (loss) per share:				
Basic	0.32	0.78	0.61	(0.01)
Diluted	0.31	0.74	0.58	(0.01)
Adjusted income (loss) per share ⁽¹⁾				
Basic	0.35	0.74	0.61	(0.00)
Diluted	0.33	0.71	0.58	(0.00)
Weighted average shares outstanding				
Basic	15,593	15,679	15,672	15,686
Diluted	16,393	16,498	16,483	15,686

(\$ thousands, except per share amounts)	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Revenues	272,726	360,087	357,361	231,110
Income (loss) attributable to the shareholders	3,727	9,453	8,365	(1,628)
Gross profit	53,730	58,552	56,759	40,387
Gross profit margin	19.7%	16.3%	15.9%	17.5%
EBITDA ⁽¹⁾	13,622	18,688	17,478	4,052
Income (loss) per share:				
Basic	0.24	0.60	0.53	(0.10)
Diluted	0.23	0.57	0.50	(0.10)
Adjusted income (loss) per share ⁽¹⁾				
Basic	0.25	0.58	0.46	(0.12)
Diluted	0.24	0.55	0.44	(0.12)
Weighted average shares outstanding				
Basic	15,638	15,792	15,792	15,762
Diluted	16,335	16,614	16,619	15,762

(1) - Refer to Non-IFRS Measures herein

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.

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 time of writing.

Alberta & Saskatchewan

Agriculture remains the driving variable in the Company’s Western Canadian operations. Canadian producers manage complex, capital intensive businesses, and yet remain heavily influenced by seasonal weather conditions. In this environment, the availability of capital is critical for producers to invest in the equipment, systems, and capacity to optimize yields while minimizing costs. In turn, capital availability is generally determined by cumulative annual farm profitability. In this respect, Canadian agriculture is well positioned. The 2018 growing season was characterized by a delayed crop harvest, however this timing did not significantly reduce yields or crop quality.⁽²⁾ Final calculations for 2018 Canadian net cash farm income show a slight decrease from prior year as a result of commodity price volatility, higher operating costs, and the weather-related challenges experienced across the country. Net cash farm income is expected to plateau in 2019,⁽³⁾ which could result in a decline or delay in farmer purchasing decisions for new equipment. However, Agriculture and Agri-Food Canada (“AAFC”) forecasts continued growth for the Canadian agriculture sector in the medium term, and anticipates this growth being steadier than it has been in the past decade.⁽⁴⁾

This tempered growth of Canadian net cash farm income, combined with a weaker Canadian dollar, and pricing pressures on new equipment due to rising manufacturing costs are likely to soften demand for new agricultural equipment sales into 2019.⁽⁵⁾ Additionally, international tensions resulting in tariffs and trade barriers continue to persist into the new year, which could impact demand for Canadian agriculture products,⁽³⁾ and in turn reduce farmer sentiment towards capital reinvestment in new equipment. With these factors materializing, Canadian producers are generally well positioned with the balance sheet strength to make required equipment replacements. Further, these factors could increase demand for the significant Canadian supply of late model used equipment. Cervus is focused on continuing to deliver our OEM’s market leading equipment, while also providing compelling used equipment solutions as producers plan equipment needs for the 2019 growing season.

The Saskatchewan component of our Transportation segment continues its stable performance, despite persistent uncertainty in the resource sector. In this market, we are focused on expanding Peterbilt’s presence in on highway markets, while leveraging our standing as a trusted provider of equipment and solutions for the Saskatchewan transportation market. Turning to our Industrial segment, our current dealerships offer a wide breadth of value-added services to customers, from initial equipment sales through to operator and safety training. We have also established and began operating our new storage and racking solutions. This is a complimentary business line to our Industrial and Transportation divisions, which leverages our existing customer base while expanding our breadth of service to new customer markets, providing storage, shelving and warehouse organization solutions. We look to long term opportunities to leverage the high customer interaction of the material handling markets, while focusing on maintaining internal efficiencies in the near term.

Ontario

The North American trucking market ended 2018 with total class 8 truck sales of 285,000 units, a 30% increase compared to the 218,000 class 8 trucks sold in 2017. This is consistent with the 39% increase in new truck sales within our Transportation segment for the twelve months ended December 31, 2018, compared to the same period in 2017. For 2019, PACCAR’s fourth quarter outlook is anticipating North American class 8 truck demand to range between 285,000 and 310,000 units sold.⁽⁶⁾ Existing market strength is a favorable tailwind for our transportation dealerships, while our focus remains on continuing to implement the internal efficiencies and discipline to translate sales activity into efficient and mutually beneficial long-term customer relationships. The

⁽²⁾ Agriweek, StatsCan Says 2018 Harvest Matched 2017, February 2019, www.agriweek.com

⁽³⁾ Farm Credit Canada, FCC Watching five top economic trends in 2019, January 2019, www.fcc-fac.ca

⁽⁴⁾ Agriculture and Agri-Food Canada, Medium Term Outlook for Canadian Agriculture 2018, September 2018, www.agr.gc.ca

⁽⁵⁾ Farm Credit Canada, Canadian farm equipment market expected to be softer in second half of 2018, August 2018, www.fcc-fac.ca

⁽⁶⁾ PACCAR, PACCAR Achieves Record Annual Revenues and Net Income, January 29, 2019, www.paccar.com

continued profitable growth of our Ontario dealership group is our primary short-term objective, building on the accomplishments of 2018.

New Zealand & Australia

In New Zealand, agriculture outlook remains stable. Dairy prices are profitable for producers, and concerns over drier conditions mid year have eased with good precipitation received entering the corn harvest window. Sheep producers' confidence has softened due to uncertainty surrounding distribution of sheep meat to the United Kingdom and Europe pending Brexit,⁽⁷⁾ while prices for fruit and vegetable producers are positive, supporting capital investment in this sector. Overall, dairy prices above the cost of the production and favorable weather conditions are positive for producers, as well as the underlying capital equipment replacement and maintenance requirements.

In Australia, record drought across much of the country has resulted in many areas of the East coast not producing a crop due to these dry conditions.⁽⁸⁾ However, where Cervus is located in south east Australia, moisture has been adequate, and many farms in our area enjoyed strong crop yields. Further, dairy prices are profitable for producers, supporting capital investment. The Australian Department of Agriculture and Water Resources⁽⁹⁾ is forecasting average precipitation in our region, and notes that overall farm cash income remains above the long term average. Producers in our region remain cautious, but profitable, and we see continued opportunities to deliver the equipment and uptime required to support their businesses.

⁽⁷⁾ Rabobank, Agribusiness Monthly November 2018 New Zealand, November 2018, www.rabobank.co.nz

⁽⁸⁾ Rabobank, Agricultural sector confidence showing early signs of recovery, but drought concerns linger, December 2018, www.rabobank.com.au

⁽⁹⁾ ABARES, Agriculture Commodities Commodity Forecasts and Outlook, March 2019, www.agriculture.gov.au/abares/research-topics/agricultural-commodities/mar-2019

Off-Balance Sheet Arrangements

In the normal course of business, we enter 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, 2018, payments in arrears by such customers aggregated \$829 thousand (2017 - \$226 thousand). In addition, the Company is responsible for assuming the net residual value of all customer lease obligations held with Deere Credit, at the maturity of the contract, should the customer not elect to buy out the equipment at maturity. At December 31, 2018, the net residual value of such leases aggregated \$320.6 million (2017 - \$269.1 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 the Company may owe 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 \$2.9 million at December 31, 2018 (2017 - \$2.2 million). 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 \$2.4 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, 2018 and 2017 was:

(\$ thousands)	2018	2017
Short-term benefits	3,050	2,895
Share-based payments	1,184	694
Total	4,234	3,589

Other Related Party Transactions

Certain officers and dealer managers of the Company have provided guarantees to John Deere as required by John Deere aggregating \$6.8 million (2017 - \$5.4 million). During the year ended December 31, 2018 and 2017, the Company paid those individuals \$190 thousand and \$170 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 objective is to manage operational risk in order 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. 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.

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, as examples, 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, and to a lesser extent, 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) comprehensive income by \$141 thousand (2017 - \$108 thousand), based on the U.S. dollar floor plan balances at December 31, 2018. From time to time the Company also enters into foreign exchange forward contracts to provide the Company Canadian dollar cost certainty for equipment ordered for the Customer from the manufacturer in U.S. dollars, having quoted the customer a fixed Canadian dollar price at the time the order was placed.

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, 2018 would have increased (decreased) comprehensive income by \$427 thousand (2017 - \$768 thousand). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2018 would have increased (decreased) comprehensive income by \$377 thousand (2017 - \$302 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 variable rate debt at December 31, 2018, a change in 100 basis points in interest rates would impact the Company's annual interest expense by approximately \$2.0 million (2017 - \$1.7 million).

Reliance on our Key Manufacturers and Dealership Arrangements

Cervus' primary source of income is from the sale of agricultural, transportation, 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, 2018, customer equipment leases with John Deere represented residual values of \$320,617 thousand, maturing over the next five years.

The Company also has dealership agreements in place with Peterbilt, Clark, Sellick, Doosan, JLG, and a distribution agreement with Baumann. These agreements are generally 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.

Inventory Risk

The Company's inventory consists primarily of new and used equipment related to our Agriculture, Transportation and Industrial segments. We acquire new inventory from our OEMs for retail sale. Used inventory, particularly in our Agriculture Segment, is primarily acquired in the form of trade-ins on the sale of existing inventory. While the Company believes it has appropriate inventory management systems in place, variations in market demand for the products we sell, as well as external market conditions beyond our control, can result in certain items in our inventory becoming obsolete, or otherwise requiring a write-down of our inventory balance.

Industry Competitive Factors

Authorized John Deere agricultural dealerships sell John Deere agricultural, turf, and sport products and equipment. The majority of the Company's 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, CLAAS, 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 manufactures 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 a portion of the risks inherent in any one of those customer segments.

The Industrial segment sells industrial equipment from several manufacturers, with 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 Industrial equipment segment revenues are derived from the sale of Peterbilt, 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 Industrial equipment. There can be no assurance however that these suppliers will continue to manufacture high quality, competitively priced products or maintain their market share in the future.

Seasonality and Cyclicity

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 Industrial segments 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 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 the overall impact of tariffs has not been significant, although it could become so depending on the legislative actions of national governments.

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, 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 Industrial equipment segment is influenced by general economic and warehouse 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 13 days for the years ended December 31, 2018 and 2017 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 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 or repurchase shares, 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 (income before income tax expense plus interest on long-term debt divided by total capital);
- c) Debt to Tangible Assets ratio (calculated as total debt divided by total assets less goodwill and intangibles); and,
- d) Fixed Charge Coverage ratio (calculated as adjusted earnings divided by contractual principle, interest, shareholder distributions, and lease payments).

There were no changes in the Company's approach to capital management in the period.

Debt Financing

The ability of the Company to pay dividends or make other payments or advances, will be subject to applicable laws and contractual restrictions contained in the instruments governing the Company's indebtedness. The degree to which the Company is leveraged could have important consequences to the holders of the Common Shares, including:

- The Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;
- A significant portion of the Company's cash flow from operations may be dedicated to the payment of the principal and interest on its indebtedness, thereby reducing funds available for future operations and distributions; and
- Certain of the Company' borrowings may be at variable rates of interest, which exposes it to the risk of increased interest rates; and that the Company may be vulnerable to economic downturns including the Company's ability to retain and attract customers.

Also, there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet required interest and principal payments. Further, the Company is subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such financing may not be as favourable as the terms of its existing indebtedness. These factors may adversely affect the frequency or amounts of dividends paid by the Company.

The Company's various credit facilities provide first charge security interests on all of its assets to its various lenders. These credit facilities contain numerous terms and covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to create liens or other encumbrances, to pay dividends on its securities or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facilities contain a number of financial covenants that require the Company to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, could result in a reduction or termination of the Company's dividends, and may permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of the Company would be sufficient to repay in full that indebtedness.

Although the Company intends to pay quarterly dividends to the holders of the Company's Common Shares, these dividends are not assured and may be reduced or suspended in order to comply with the credit facilities of the Company. The market value of the Common Shares may decline if the Company is unable to meet its dividend targets in the future, and that decline may be significant.

Cyber Security and Terrorism

The Company may be threatened by problems such as cyber-attacks, computer viruses, or terrorism that may disrupt operations and harm operating results. The Company's business requires the continued operation of information technology systems and network infrastructure. Despite the implementation of security measures, technology systems are vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism, and other causes. If the Company's information technology systems were to fail and the Company was unable to recover in a timely way, the Company might be unable to fulfill critical business functions or be exposed to legal claims and liabilities, which could have a material adverse effect on its business, reputation, financial condition, and results of operations.

The Company maintains cyber risk insurance, but this insurance may not be sufficient to cover all of our losses from any breaches of our information technology systems and network infrastructure.

Critical Accounting Estimates and Judgments

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 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.

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 and amendments to existing standards, which have not been applied in preparing the Audited Consolidated Financial Statements as at December 31, 2018, are:

IFRS 16 Leases

The Company is required to adopt IFRS 16 *Leases* from January 1, 2019 onwards. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on January 1, 2019, may change because:

- The new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.
- New leases may be entered into or lease terms modified after the date in which the assessment was completed for year-end disclosure, and before the date of the first interim financial statements that report under the new standard.
- Actual foreign currency translation on Australia and New Zealand leases will vary from what was calculated using forecasted rates at the time of assessment.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e., lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing lease guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

i. Leases in which the Company is Lessee

The Company will recognize new assets and liabilities for its operating leases of buildings, vehicles, and office equipment. The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

No significant impact is expected for the Company's existing finance leases.

Based on the information available, the Company estimates that it will recognize additional lease liabilities and additional lease assets of approximately \$82 million, on initial adoption of IFRS 16 as at January 1, 2019.

The Company does not expect the adoption of IFRS 16 to impact its ability to comply with its bank covenants described in Note 26 of the accompanying Audited Consolidated Annual Financial Statements.

II. Leases in which the Company is Lessor

The Company will reassess the classification of sub-leases in which the Company is lessor. Based on the information currently available, the Company expects that it will reclassify certain sub-leases as finance leases, resulting in the recognition of a finance lease receivable of approximately \$6 million, the derecognition of approximately \$5 million in lease assets, with the difference recorded as an adjustment to opening retained earnings. No significant impact is expected for other leases in which the Company is lessor.

III. Transition

The Company plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings on January 1, 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Responsibility 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, 2018, 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, 2018, 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, 2018, Cervus’ internal control over financial reporting are effective. There was no change to the Company’s ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect the Company’s ICFR.

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 Audited 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 Audited 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 Income

Adjusted income 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 Income as follows:

Adjusted Income Attributed to Shareholders

(\$ thousands, except per share amounts)	Three month periods ended December 31		Year ended December 31	
	2018	2017	2018	2017
Income attributed to shareholders	5,031	3,727	26,579	19,917
Adjustments:				
Unrealized foreign exchange loss (gain) ⁽¹⁾	1,256	188	1,199	(890)
Gain on sale of Commercial operations	-	-	(480)	-
Gain on sale of land and building	-	-	-	(417)
Insurance proceeds received in excess of building cost	(765)	-	(765)	-
Tax impact of adjustments	(132)	(50)	12	365
Adjusted income attributed to shareholders	5,390	3,865	26,545	18,975
Adjusted income per share:				
Basic	0.35	0.25	1.70	1.21
Diluted	0.33	0.24	1.61	1.14

Adjusted Income Before Income Tax Expense

Three Months Ended December 31, 2018

Reconciliation of Adjusted Income Before Income Tax Expense (\$ thousands)				
Three months ended December 31, 2018	Total	Agricultural	Transportation	Industrial
Income (loss) before income tax expense	7,642	8,283	(420)	(221)
Adjustments:				
Unrealized foreign exchange loss ⁽¹⁾	1,256	-	940	316
Insurance proceeds received in excess of building cost	(765)	(765)	-	-
Adjusted income before income tax expense	8,133	7,518	520	95

Year Ended December 31, 2018

Reconciliation of Adjusted Income Before Income Tax Expense (\$ thousands)				
Year ended December 31, 2018	Total	Agricultural	Transportation	Industrial
Income before income tax expense	36,544	31,188	4,064	1,292
Adjustments:				
Unrealized foreign exchange loss ⁽¹⁾	1,199	-	1,070	129
Gain on sale of Commercial operations	(480)	-	-	(480)
Insurance proceeds received in excess of building cost	(765)	(765)	-	-
Adjusted income before income tax expense	36,498	30,423	5,134	941

Three Months Ended December 31, 2017

Reconciliation of Adjusted Income (Loss) Before Income Tax Expense (\$ thousands)				
Three months ended December 31, 2017	Total	Agricultural	Transportation	Industrial
Income (loss) before income tax expense	5,709	8,635	(3,418)	492
Adjustments:				
Unrealized foreign exchange loss ⁽¹⁾	188	-	185	3
Adjusted income (loss) before income tax expense	5,897	8,635	(3,233)	495

Year Ended December 31, 2017

Reconciliation of Adjusted Income (Loss) Before Income Tax Expense (\$ thousands)				
Year ended December 31, 2017	Total	Agricultural	Transportation	Industrial
Income (loss) before income tax expense	28,958	29,479	(3,562)	3,041
Adjustments:				
Unrealized foreign exchange gain ⁽¹⁾	(890)	-	(685)	(205)
Gain on sale of land and building	(417)	(417)	-	-
Adjusted income (loss) before income tax expense	27,651	29,062	(4,247)	2,836

(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 US dollars. The unrealized foreign currency gains 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:

Three Months Ended December 31, 2018

EBITDA (\$ thousands)				
Three months ended December 31, 2018	Total	Agricultural	Transportation	Industrial
Net income (loss) attributable to shareholders	5,031	5,607	(388)	(188)
Add:				
Interest	1,956	1,045	836	75
Income taxes	2,611	2,676	(32)	(33)
Depreciation and Amortization	3,769	1,932	1,418	419
EBITDA⁽¹⁾	13,367	11,260	1,834	273
Reconciliation of adjusted EBITDA⁽¹⁾:				
EBITDA⁽¹⁾	13,367	11,260	1,834	273
Adjustments:				
Unrealized foreign exchange loss	1,256	-	940	316
Insurance proceeds received in excess of building cost	(765)	(765)	-	-
Adjusted EBITDA⁽¹⁾	13,858	10,495	2,774	589

Year Ended December 31, 2018

EBITDA (\$ thousands)				
Year ended December 31, 2018	Total	Agricultural	Transportation	Industrial
Net income attributable to shareholders	26,579	22,684	2,955	940
Add:				
Interest	7,515	3,557	3,735	223
Income taxes	9,965	8,504	1,109	352
Depreciation and Amortization	15,111	7,295	5,969	1,847
EBITDA⁽¹⁾	59,170	42,040	13,768	3,362
Reconciliation of adjusted EBITDA⁽¹⁾:				
EBITDA⁽¹⁾	59,170	42,040	13,768	3,362
Adjustments:				
Unrealized foreign exchange loss	1,199	-	1,070	129
Gain on sale of Commercial operations	(480)	-	-	(480)
Insurance proceeds received in excess of building cost	(765)	(765)	-	-
Adjusted EBITDA⁽¹⁾	59,124	41,275	14,838	3,011

Three Months Ended December 31, 2017

EBITDA (\$ thousands)				
Three months ended December 31, 2017	Total	Agricultural	Transportation	Industrial
Net income (loss) attributable to shareholders	3,727	5,760	(2,349)	316
Add:				
Interest	1,392	652	679	61
Income taxes	1,982	2,875	(1,070)	177
Depreciation and Amortization	6,521	1,844	3,945	732
EBITDA⁽¹⁾	13,622	11,131	1,205	1,286
Reconciliation of adjusted EBITDA⁽¹⁾:				
EBITDA ⁽¹⁾	13,622	11,131	1,205	1,286
Adjustments:				
Unrealized foreign exchange loss	188	-	185	3
Adjusted EBITDA⁽¹⁾	13,810	11,131	1,390	1,289

Year Ended December 31, 2017

EBITDA (\$ thousands)				
Year ended December 31, 2017	Total	Agricultural	Transportation	Industrial
Net income (loss) attributable to shareholders	19,917	20,276	(2,449)	2,090
Add:				
Interest	7,289	3,593	3,152	544
Income taxes	9,046	9,208	(1,113)	951
Depreciation and Amortization	17,588	7,029	7,852	2,707
EBITDA⁽¹⁾	53,840	40,106	7,442	6,292
Reconciliation of adjusted EBITDA⁽¹⁾:				
EBITDA ⁽¹⁾	53,840	40,106	7,442	6,292
Adjustments:				
Unrealized foreign exchange gain	(890)	-	(685)	(205)
Gain on sale of land and building	(417)	(417)	-	-
Adjusted EBITDA⁽¹⁾	52,533	39,689	6,757	6,087

(1) – EBITDA is defined as profit before interest, taxes, depreciation, and amortization. We believe, in addition to 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.

Adjusted EBITDA is defined as profit before interest, taxes, depreciation, and amortization, adjusted for unrealized (gains) losses from foreign currency, (gains) losses from sale of minority interests and real estate, and insurance proceeds received in excess of building cost.

EBITDA Margin

EBITDA margin is calculated as EBITDA divided by gross revenue.

Working Capital

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, 2018 and 2017



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cervus Equipment Corporation

Opinion

We have audited the consolidated financial statements of Cervus Equipment Corporation, (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “*Auditors’ Responsibilities for the Audit of the Financial Statements*” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:



- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled “2018 Annual Report”.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management’s Discussion and Analysis as at the date of this auditors’ report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report. We have nothing to report in this regard.

Information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled “2018 Annual Report” is expected to be made available to us after the date of this auditors’ report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Shane Doig.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 14, 2019

CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

(\$ thousands)	Note	December 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		\$ 6,106	\$ 14,502
Trade and other accounts receivable	6	71,969	53,529
Inventories	7	330,627	290,524
Assets held for sale	8	-	26,280
Total current assets		408,702	384,835
Non-current assets			
Other long-term assets	9	9,375	8,423
Property and equipment	10	58,328	62,175
Intangible assets	11	42,640	39,742
Goodwill	11	21,624	18,880
Total non-current assets		131,967	129,220
Total assets		\$ 540,669	\$ 514,055
Liabilities			
Current liabilities			
Trade and other liabilities	12	\$ 82,122	\$ 87,317
Floor plan payables	13	157,615	125,573
Current portion of term debt	13	13,964	11,122
Liabilities directly associated with assets held for sale	8	-	12,250
Total current liabilities		253,701	236,262
Non-current liabilities			
Term debt	13	25,123	32,170
Finance lease obligation	14	7,501	10,416
Deferred income tax liability	15	8,843	9,954
Total non-current liabilities		41,467	52,540
Total liabilities		295,168	288,802
Equity			
Shareholders' capital	17	86,540	88,163
Deferred share plan	21	8,693	7,455
Other reserves		5,195	5,195
Accumulated other comprehensive (loss) income		506	191
Retained earnings		144,567	124,249
Total equity		245,501	225,253
Total liabilities and equity		\$ 540,669	\$ 514,055

Approved by the Board:

"Peter Lacey" Director

"Angela Lekatsas" Director

CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017

(\$ thousands)	Note	2018	2017
Revenue			
Equipment sales		\$ 1,041,835	\$ 911,781
Parts		206,128	208,863
Service		86,502	84,464
Rentals		15,572	16,177
Total revenue		1,350,037	1,221,285
Cost of sales		(1,138,517)	(1,011,857)
Gross profit			
Other income	19	3,443	1,112
Selling, general and administrative expense	20	(173,045)	(176,199)
Income from operating activities			
Finance income		854	484
Finance costs		(6,352)	(5,863)
Net finance costs	22	(5,498)	(5,379)
Share of profit of equity accounted investees, net of income tax		124	(4)
Income before income tax expense			
Income tax expense	15	(9,965)	(9,046)
Income for the year			
Other comprehensive income:			
Foreign currency translation differences for foreign operations, net of tax		315	(1,028)
Total comprehensive income for the year			
Income attributable to:			
Shareholders of the Company		26,579	19,917
Non-controlling interest		-	(5)
Income for the year			
Total comprehensive income attributable to:			
Shareholders of the Company		26,894	18,889
Non-controlling interest		-	(5)
Total comprehensive income for the year			
Net income per share attributable to shareholders of the Company:			
Basic	23	\$ 1.70	\$ 1.27
Diluted	23	\$ 1.62	\$ 1.20

CERVUS EQUIPMENT CORPORATION
Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2018 and 2017

Attributable to Equity Holders of the Company									
	Note	Share capital	Deferred share plan	Other reserves	Cumulative translation account	Retained earnings	Total	Non-controlling interest	Total equity
(\$ thousands)									
Balance December 31, 2016		\$ 89,863	\$ 7,520	\$ 5,195	\$ 1,219	\$ 108,731	\$ 212,528	\$ 1,311	\$ 213,839
Comprehensive income for the year									
Profit		-	-	-	-	19,917	19,917	(5)	19,912
Other comprehensive income									
Foreign currency translation adjustments, net of tax		-	-	-	(1,028)	-	(1,028)	-	(1,028)
Total comprehensive income for the year		-	-	-	(1,028)	19,917	18,889	(5)	18,884
Transactions with owners, recorded directly in equity									
Dividends to equity holders		-	-	-	-	(4,399)	(4,399)	(1,306)	(5,705)
Shares issued through DRIP		778	-	-	-	-	778	-	778
Shares issued through deferred share plan		757	(757)	-	-	-	-	-	-
Share-based payment transactions		-	692	-	-	-	692	-	692
Common shares repurchased		(3,235)	-	-	-	-	(3,235)	-	(3,235)
Transactions with owners		(1,700)	(65)	-	-	(4,399)	(6,164)	(1,306)	(7,470)
Balance December 31, 2017		\$ 88,163	\$ 7,455	\$ 5,195	\$ 191	\$ 124,249	\$ 225,253	\$ -	\$ 225,253
Comprehensive income for the year									
Profit		-	-	-	-	26,579	26,579	-	26,579
Other comprehensive income									
Foreign currency translation adjustments, net of tax		-	-	-	315	-	315	-	315
Total comprehensive income for the year		-	-	-	315	26,579	26,894	-	26,894
Transactions with owners, recorded directly in equity									
Dividends to equity holders	17	-	-	-	-	(6,261)	(6,261)	-	(6,261)
Shares issued through DRIP	17	710	-	-	-	-	710	-	710
Shares issued through deferred share plan	17	276	(276)	-	-	-	-	-	-
Share-based payment transactions	21	-	1,514	-	-	-	1,514	-	1,514
Common shares repurchased	17	(2,609)	-	-	-	-	(2,609)	-	(2,609)
Transactions with owners		(1,623)	1,238	-	-	(6,261)	(6,646)	-	(6,646)
Balance December 31, 2018		\$ 86,540	\$ 8,693	\$ 5,195	\$ 506	\$ 144,567	\$ 245,501	\$ -	\$ 245,501

CERVUS EQUIPMENT CORPORATION

Consolidated Statement of Cash Flows

For the years ended December 31, 2018 and 2017

(\$ thousands)	Note	2018	2017
Income for the year		\$ 26,579	\$ 19,912
Adjustments for:			
Income tax expense	15	9,965	9,046
Depreciation	10	10,856	12,355
Amortization of intangibles	11	4,255	5,302
Equity-settled share-based payment transactions		1,514	692
Net finance costs	22	6,661	6,805
Unrealized foreign exchange loss (gain)	19	1,199	(890)
Non-cash write-down of inventories	7	11,513	5,624
(Gain) on sale of property and equipment	19	(644)	(1,680)
(Gain) on sale of Commercial operations	8	(480)	-
(Gain) on de-recognition of Rosthern capital assets	19	(765)	-
Share of (profit) of equity accounted investees, net of tax		(124)	4
Distributions from equity investments		-	148
Change in non-cash working capital	25	(38,874)	(6,264)
Cash generated from operating activities		31,655	51,054
Cash taxes paid		(11,454)	(10,593)
Interest paid		(7,512)	(6,868)
Net cash provided from operating activities		12,689	33,593
Cash flows from investing activities			
Interest received		854	484
Business acquisitions (net of cash received)	5	(12,595)	-
Purchase of property and equipment	10	(12,854)	(8,181)
Payments for intangible assets	11	(622)	(451)
Insurance proceeds for property and equipment		1,971	-
Proceeds from disposal of property and equipment		4,911	10,604
Proceeds from sale of Commercial operations	8	14,218	-
Proceeds from dissolution of Deerstar Systems Inc.		-	1,179
Net cash (used in) provided from investing activities		(4,117)	3,635
Cash flows from financing activities			
Net (repayments) proceeds of term debt		(4,355)	7,692
Dividends paid	17	(5,093)	(3,626)
Payment of finance lease liabilities		(5,249)	(4,373)
(Payment) receipt of deposits with manufacturers		(447)	521
Repayment of debenture payable		-	(34,500)
Purchase of common shares	17	(2,609)	(3,235)
Net cash (used in) financing activities		(17,753)	(37,521)
Net decrease in cash and cash equivalents		(9,181)	(293)
Effect of foreign currency translation on cash		785	253
Cash and cash equivalents, beginning of year		14,502	14,542
Cash and cash equivalents, end of year		\$ 6,106	\$ 14,502

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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, 2018, comprise the Company and its subsidiaries ("the Group"). The Company is primarily involved in the sale, after-sale service and maintenance of agricultural, transportation, and industrial equipment. The Company also provides equipment rental, primarily in the transportation, and industrial equipment segments. The Company wholly owns and operates 63 dealerships in Canada, New Zealand, and Australia. The primary equipment brands represented by Cervus include John Deere agricultural equipment; Peterbilt transportation equipment; and Clark, Sellick, Doosan, JLG, and Baumann material handling 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, 2019.

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, all 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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

2. Basis of Preparation (continued)

Details of the Company's subsidiaries at December 31, 2018 and December 31, 2017 are as follows:

Proportion of Ownership Interest and Voting Power Held	2018	2017
Cervus AG Equipment LP	100%	100%
Cervus AG Equipment Ltd	100%	100%
Evergreen 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%
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 14 & 24)
- 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 11)

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 7)
Impairment tests (including intangible assets and goodwill); estimates on key assumptions related to the future operating results and cash generating ability of the assets. (Note 11)

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

2. Basis of Preparation (continued)

- Depreciation and amortization expense; assumptions on the useful lives of property and equipment and intangible assets. (Note 10 and 11)

Determination of Fair Values

A number of the group'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 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 costs related to sale of 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.

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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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 Industrial, 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 Industrial equipment segment consists of Clark, Sellick, Doosan, and JLG 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 statement of financial position 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 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 statement of financial position date. Foreign exchange differences are recognized in other comprehensive income and accumulated in the cumulative translation account.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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. Where a previous write-down is reversed, 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%

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies (continued)

Intangible Assets

Intangible Assets

Intangible assets include 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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies (continued)

Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale when it is highly probable that an asset or disposal group 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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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.

The Company adopted IFRS 9 Financial Instruments effective January 1, 2018. IFRS 9 relates 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 adoption of IFRS 9 has not had a significant impact on the amounts reported in the financial statements.

Classification and Measurement of Financial Assets and Financial Liabilities

A financial asset is classified and is measured at: amortised cost; fair value through other comprehensive income (OCI); or fair value through profit or loss. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies (continued)

Classification and Measurement of Financial Assets and Financial Liabilities (continued)

Trade receivables without a significant financing component are initially measured at the transaction price.

Otherwise, a financial asset is initially measured at:

- Fair value; or
- Fair value, plus transaction costs that are directly attributable to its acquisition, for items not at fair value through profit or loss.

Subsequent measurement of financial assets is described below.

Financial assets at fair value through profit or loss	These assets are subsequently measured at fair value. Gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at fair value through OCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at fair value through OCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

For the Company, the effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements, as described further below.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies (continued)

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at January 1, 2018. There are no changes in the carrying amounts under IAS 39 and IFRS 9.

(\$ thousands)	Original Classification Under IAS 39	New Classification Under IFRS 9
Financial Assets		
Cash and cash equivalents	Loans and receivable	Amortised cost
Trade and other accounts receivable	Loans and receivable	Amortised cost
Derivative financial instruments	Held-for-trading	Fair value through profit and loss
Other investments	Available for sale	Fair value through profit and loss
Other long-term assets	Loans and receivable	Amortised cost
Finance lease receivables	Loans and receivable	Amortised cost
Financial Liabilities		
Trade and other liabilities	Other liabilities	Other liabilities
Floor plan payables	Other liabilities	Other liabilities
Term debt	Other liabilities	Other liabilities
Derivative financial liability	Held-for-trading	Held-for-trading
Finance lease obligation	Other liabilities	Other liabilities

Impairment

Financial Assets (Including Receivables)

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

ECLs are a probability weighted estimate of credit losses the Company expects to incur. Under the expected credit loss model, the Company calculates the allowance for credit losses by determining, on a discounted basis, the cash shortfalls it would incur in various probability-weighted default scenarios for prescribed future periods and multiplying these shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes.

Under IFRS 9, loss allowances are measured on either of the following bases:

- a) *12-month expected credit losses:* These are expected credit losses that could result from possible default events within the 12 months after the reporting date; and
- b) *Lifetime expected credit losses:* These are expected credit losses that could result from all possible default events over the expected life of a financial instrument.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies (continued) Impairment (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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies (continued)

Revenue Recognition

The Company adopted IFRS 15 Revenue from Contracts with Customers effective January 1, 2018. 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 Company has adopted IFRS 15 using the cumulative effective method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (i.e. January 1, 2018). Accordingly, the information presented for 2017 has not been restated.

The application of IFRS 15 has not had any significant impact on the recognition of revenue in 2018.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, whether at a point in time or over time, requires judgment.

Type of product/ service	Nature, timing and satisfaction of performance obligations, significant payment terms
Equipment Revenue	<p>Revenue is recognized when the customer obtains control of the equipment product. Revenue is not recognized before there are indicators that control has passed, including the customer having: a present obligation to pay, physical possession or legal title, risks and rewards of ownership and accepted the asset. The Company considers a customer has accepted the asset and risks and rewards of ownership when delivery has occurred, required deposits have been received, and a formal contract is signed.</p> <p>For bill-and-hold arrangements, revenue is recognized before delivery when the customer obtains control of the equipment, and Cervus has received payment. Control is transferred to the customer when the reason for the bill-and-hold arrangement is substantive, the Company cannot sell the equipment to another customer, the equipment can be identified separately and is ready for physical transfer to the customer.</p> <p>Invoices are usually payable when financing has been agreed upon along with the signed bill of sale, or within 30 days from the invoice date.</p>
Parts Revenue	Parts revenue is recognized when the customer receives the part. Payment is due upon receipt of the invoice, or net 30 days from the invoice date for the Industrial segment.
Service Revenue	Service revenue is recognized upon completion of the service work. Payment is due upon receipt of the invoice, or net 30 days from the invoice date for the Industrial segment.
Rentals and Operating Lease Revenue	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. Payment is due when the rental contract is signed at the beginning of each month, and within 30 days for the Industrial segment.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies (continued)

Finance Income and Finance Costs

Finance income comprises interest income on funds invested.

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.

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 may include the number of shares that were issuable on conversion of the debentures, if determined to be dilutive. 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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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 and amendments to existing standards which have not been applied in preparing these consolidated financial statements are:

IFRS 16 Leases

The Company is required to adopt IFRS 16 *Leases* from January 1, 2019, onwards. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on January 1, 2019, may change because:

- The new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.
- New leases may be entered into or lease terms modified after the date in which the assessment was completed for year-end disclosure, and before the date of the first interim financial statements that report under the new standard.
- Actual foreign currency translation on Australia and New Zealand leases will vary from what was calculated using year-end spot rates at the time of assessment.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e., lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing lease guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

i. Leases in which the Company is Lessee

Currently treated as Operating Leases

The Company will recognize new assets and liabilities for its operating leases of buildings, vehicles, and office equipment. The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

Based on the information available, the Company estimates that it will recognize additional lease liabilities and additional lease assets of approximately \$82 million, on initial adoption of IFRS 16 as at January 1, 2019.

Currently treated as Finance leases

No significant impact is expected for the Company's existing finance leases.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

4. Standards Issued But Not Yet Effective (continued)

II. Leases in which the Company is Lessor

The Company will reassess the classification of sub-leases in which the Company is lessor. Based on the information currently available, the Company expects that it will reclassify certain sub-leases as finance leases, resulting in the recognition of a finance lease receivable of approximately \$6 million, the derecognition of approximately \$5 million in lease assets, with the difference recorded as an adjustment to opening retained earnings.

No significant impact is expected for other leases in which the Company is lessor.

III. Transition

The Company plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings on January 1, 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019, and previously identified as leases in accordance with IAS 17 and IFRIC 4.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

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5. Business Combinations

Deermart Equipment Sales Ltd.

Effective December 3, 2018, the Company acquired certain business assets and assumed certain business liabilities of Deermart Equipment Sales Ltd. ("Deermart") for consideration of \$12,595 thousand. The consideration on closing was \$12,595 thousand, paid in cash drawn from the Company's existing credit facilities.

Deermart owns and operates one John Deere dealership located in Red Deer, Alberta which sells new and used John Deere agricultural equipment and offers equipment parts and servicing. The addition of the Deermart location represents a strategic opportunity to expand in geography adjacent to existing Cervus locations in Western Canada. The following table summarizes the preliminary purchase price paid for the net assets of Deermart.

(\$ thousands)	
Recognized amounts of acquired assets and liabilities:	
Inventory	\$ 10,175
Property and equipment	289
Accounts receivable	6
Identifiable intangible assets	6,620
Goodwill	2,722
Deposits with manufacturers	282
Accounts payable and accrued liabilities	(7,350)
Term debt	(149)
Purchase Price	\$ 12,595
Considerations:	
Cash	\$ 12,595
Total consideration	\$ 12,595

The Company incurred acquisition-related costs of \$87 thousand in the year-ended December 31, 2018, which have been recorded to selling, general and administrative expense.

The Company's preliminary estimates of the fair value of acquired intangible assets is based on significant management judgments and as in a business combination, it generally takes time to obtain the information necessary to measure the fair values of assets acquired and liabilities assumed and the resulting goodwill, if any. Changes to the provisional measurements of assets and liabilities acquired and resulting goodwill may be retrospectively adjusted when new information is obtained until the final measurements are determined.

CERVUS EQUIPMENT CORPORATION

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6. Trade and Other Accounts Receivable

(\$ thousands)	2018	2017
Trade receivables	\$ 54,939	\$ 41,454
Allowance for doubtful debts ^(a)	(1,078)	(1,579)
Trade receivables, net	53,861	39,875
Prepaid expenses	17,576	12,959
Other receivables	532	695
Total trade and other accounts receivable	\$ 71,969	\$ 53,529

(a) Changes 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 26.

7. Inventories

(\$ thousands)	2018	2017
New equipment	\$ 114,667	\$ 116,016
Used equipment	164,144	128,188
Parts and accessories	50,285	45,188
Work-in-progress	1,531	1,132
Total inventories	\$ 330,627	\$ 290,524

During the year ended December 31, 2018, inventories included in costs of sales were \$1,078 million (2017 - \$955 million). The total inventory write-downs recorded during the year ended December 31, 2018, and included in cost of goods sold was \$11,513 thousand (2017 - \$5,624 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.

8. Disposal of Assets Held for Sale

At December 31, 2017, the Company had entered into a definitive agreement to sell its four construction dealerships within the Commercial and Industrial segment, along with the land and building of one dealership location. The Commercial disposal group was classified as held for sale and stated at carrying value at December 31, 2017.

The sale of the Commercial group closed on March 16, 2018, with gross proceeds of \$14,218 thousand resulting in a gain on sale of \$480 thousand.

The Company reclassified \$2,883 thousand of inventory, originally included in assets held for sale at December 31, 2017, to inventory at March 31, 2018, as a result of an amending agreement where certain inventories were retained by the Company.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

9. Other Long-Term Assets

(\$ thousands)	2018	2017
Long-term receivables	\$ 748	\$ 746
Deposits with manufacturers	2,913	2,201
Other investments ^(a)	5,714	5,476
Other long-term assets	\$ 9,375	\$ 8,423

(a) In 2016, the Company purchased units in Skyline Commercial REIT as a deposit on long-term leases. The units have been classified as other investments measured at fair value through profit and loss.

Deposits with Manufacturers

John Deere Credit Inc. ("Deere Credit") provides and administers customer financing for retail purchases and customer 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% 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 \$2,913 thousand (December 31, 2017 - \$2,201 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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

10. 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, 2017	28,994	43,575	20,976	7,228	8,367	3,071	3,918	116,129
Additions	696	2,623	2,440	282	499	1,166	475	8,181
Additions for finance lease	-	4,925	-	-	-	-	-	4,925
Disposals	(4,014)	(7,471)	(1,516)	(381)	(599)	(21)	(211)	(14,213)
Assets held for sale (Note 8)	(3,187)	(910)	(1,239)	(280)	(539)	(108)	(751)	(7,014)
Transfers	-	(1,821)	-	-	112	-	-	(1,709)
Effect of movements in exchange rates	193	(468)	(29)	(18)	(45)	(43)	(11)	(421)
Balance at December 31, 2017	22,682	40,453	20,632	6,831	7,795	4,065	3,420	105,878
Additions	878	4,855	4,015	447	776	1,347	536	12,854
Additions for finance lease	-	742	-	-	-	-	-	742
Disposals ^(a)	(2,254)	(5,326)	(1,937)	(157)	(313)	(142)	(5)	(10,134)
Transfers	-	(3,805)	27	1	194	-	-	(3,583)
Effect of movements in exchange rates	-	254	25	-	18	32	9	338
Balance at December 31, 2018	21,306	37,173	22,762	7,122	8,470	5,302	3,960	\$ 106,095

(\$ 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, 2017	3,309	10,848	12,640	4,525	5,414	2,072	1,823	40,631
Depreciation expense	648	6,890	2,326	690	805	521	475	12,355
Disposals	(189)	(3,028)	(1,077)	(333)	(502)	(17)	(143)	(5,289)
Assets held for sale (Note 8)	(517)	(336)	(1,003)	(250)	(451)	(75)	(689)	(3,321)
Transfers	-	(329)	-	-	-	(1)	-	(330)
Effects of movements in exchange rates	3	(187)	(71)	(10)	(39)	(36)	(3)	(343)
Balance at December 31, 2017	3,254	13,858	12,815	4,622	5,227	2,464	1,463	43,703
Depreciation expense	516	5,179	2,530	644	825	741	421	10,856
Disposals ^(a)	(227)	(2,414)	(1,500)	(118)	(269)	(96)	(3)	(4,627)
Transfers	-	(2,271)	11	-	-	-	-	(2,260)
Effects of movements in exchange rates	-	37	13	1	17	25	2	95
Balance at December 31, 2018	3,543	14,389	13,869	5,149	5,800	3,134	1,883	\$ 47,767

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

10. Property and Equipment (continued)

(\$ 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, 2017	19,428	26,595	7,817	2,209	2,568	1,601	1,957	\$ 62,175
Balance at December 31, 2018	17,763	22,784	8,893	1,973	2,670	2,168	2,077	\$ 58,328

- (a) Included in total disposals for the year ended December 31, 2018 were capital assets damaged by the fire in the Company's agriculture dealership in Rosthern, for a total net book value of \$1.2 million.

Depreciation expense related to rental and lease fleets have been recorded in cost of sales in the amount of \$5,227 thousand (2017 - \$4,388 thousand) and selling, general and administrative expenses of \$5,629 thousand (2017 - \$5,435 thousand). Prior year depreciation expense includes amounts related to certain assets in the Transportation segment in the amount of \$2,532 thousand, which have been recorded in 2017 other expenses (Note 19). Included in total additions were amounts for short-term rental equipment relating to additions for lease arrangements classified as finance lease of \$742 thousand (2017 - \$4,925 thousand). The Company's property and equipment has been pledged as security for its long-term debt.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

11. Intangible Assets and Goodwill

Intangible Assets

Intangible assets are comprised of the following:

Cost	Dealership Distribution Agreements	Customer Lists	Non- Competition Agreements	Software Costs	Total
Balance at January 1, 2017	52,062	15,940	3,505	3,315	74,822
Additions	-	-	-	451	451
Effect of movements in exchange rates	39	17	3	-	59
Assets held for sale (Note 8)	(5,200)	(1,100)	(900)	-	(7,200)
Balance at December 31, 2017	46,901	14,857	2,608	3,766	68,132
Additions	-	-	-	622	622
Additions through business acquisition (Note 5)	4,470	1,840	310	-	6,620
Effect of movements in exchange rates	(108)	16	3	-	(89)
Balance at December 31, 2018	51,263	16,713	2,921	4,388	\$ 75,285

Accumulated Depreciation	Dealership Distribution Agreements	Customer Lists	Non- Competition Agreements	Software Costs	Total
Balance at January 1, 2017	12,716	12,238	2,677	677	28,308
Amortization expense	2,055	2,005	345	828	5,233
Assets held for sale (Note 8)	(3,151)	(1,100)	(900)	-	(5,151)
Balance at December 31, 2017	11,620	13,143	2,122	1,505	28,390
Amortization expense	2,381	971	284	619	4,255
Balance at December 31, 2018	14,001	14,114	2,406	2,124	\$ 32,645

Carrying Value	Dealership Distribution Agreements	Customer Lists	Non- Competition Agreements	Software Costs	Total
Balance at December 31, 2017	35,281	1,714	486	2,261	\$ 39,742
Balance at December 31, 2018	37,262	2,599	515	2,264	\$ 42,640

Amortization expense of \$4,255 thousand (2017 - \$5,233 thousand) has been recorded in selling, general and administrative expense.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

11. Intangible Assets and Goodwill (continued)

Goodwill

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

(\$ thousands)	
Balance at January 1, 2017	\$ 20,544
Impact of translation of goodwill held in foreign currencies	(68)
Disposal of goodwill	(69)
Assets held for sale (Note 8)	(1,527)
Balance at December 31, 2017	\$ 18,880
Additions through business acquisition (Note 5)	2,722
Impact of translation of goodwill held in foreign currencies	22
Balance at December 31, 2018	\$ 21,624

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

(\$ thousands)	2018	2017
Agricultural Segment		
Agricultural - Alberta	\$ 14,710	\$ 11,988
Agricultural - Saskatchewan	327	327
Agricultural - New Zealand	2,144	2,098
Agricultural - Australia	1,230	1,254
Industrial Segment		
Industrial	666	666
Transportation Segment		
Transportation - Ontario	2,547	2,547
Carrying value of goodwill	\$ 21,624	\$ 18,880

Annual Impairment Test

The Company conducted the annual impairment test of goodwill at December 31, 2018 and 2017. 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 11.9% to 12.8% (2017 – 11.1% to 12.0%) based on the Company's post-tax weighted average cost of capital and risks specific to particular CGUs (pre-tax discount rate of 16.3% to 18.3% in 2018 (2017 – 15.2% to 17.1%)). Future cash flow estimates began with 2018 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 2018 performance diverged from demonstrated historical mid cycle performance, revenue in the five-year forecast period was based on mean convergence with historical mid cycle actual results for the CGU.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

11. Intangible Assets and Goodwill (continued)

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.

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. Alternatively, 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 19%, the recoverable amounts of each CGU would continue to exceed their carrying amounts. Any additional negative changes in the cash flow assumption would cause goodwill to be impaired, with such impairment loss recognized in net earnings.

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.

12. Trade and Other Liabilities

(\$ thousands)	2018	2017
Trade and other payables	\$ 39,548	\$ 49,290
Non-trade payables and accrued expenses	28,982	25,672
Customer deposits	6,159	3,086
Dividends payable (Note 17)	1,556	1,098
Income taxes payable	2,031	2,408
Foreign exchange contracts	76	402
Current portion of finance lease obligation (Note 14)	3,770	5,361
Total trade and other liabilities	\$ 82,122	\$ 87,317

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

13. Loans and Borrowings

Bank Indebtedness

At December 31, 2018, the Company has a revolving credit facility (the "Syndicated Facility"), with a syndicate of lenders. The principal amount available under this facility is \$120 million. The facility was amended and extended on December 18, 2018. The facility is committed for a four year term, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an \$80 million accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2018, there was \$20.5 million drawn on the facility and \$2.4 million 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%). Applicable Margin can range from 0% to 1.75% (2017 – 0% to 2.00%) and is based on a liabilities to income ratio.

Term Debt Borrowings

The Syndicated 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 Syndicated Facility, the Company must maintain certain leverage, income coverage, and asset coverage ratios, which the Company has complied with throughout 2018, see Note 26 for further discussion on covenants. Costs directly attributable to the completion of the Syndicated Facility have been deferred and will be amortized over the four year term.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

13. Loans and Borrowings (continued)

Outstanding Borrowings

(\$ thousands)	Year of Maturity	2018	2017
Operating and Other Bank Credit Facilities			
Revolving credit facility, lenders prime rate plus the Applicable Margin (currently 0.0%). Applicable Margin can range from 0% to 1.75% and is based on a liabilities to income ratio	2022	\$ 20,494	\$ 25,000
National Australian Bank, Australia, revolving credit facility, interest at 6.48%	2019	577	589
Capital Facilities			
Farm Credit Corporation, mortgages payable in monthly instalments of \$22 thousand including interest at 5.21%, a rate of lenders prime plus 1% per annum (December 31, 2017 - 4.46%)	2019	109	1,792
Farm Credit Corporation, mortgages payable in monthly instalments of \$38 thousand including interest at 4.95%, a rate of lenders prime plus 1% per annum (December 31, 2017 - 4.20%)	2019	4,210	4,468
Affinity Credit Union, mortgages payable in monthly installments of \$16 thousand, including interest at 3.69% per annum (December 31, 2017 - 3.24%)	2019	5,623	5,822
Rental Equipment Term Loans			
John Deere finance contracts, New Zealand, payable in monthly instalments including interest at the rate of 4.88% to 6.45% per annum, secured by related equipment	Various	7,332	5,586
Hire purchase contracts, Australia, finance contracts payable in monthly installments ranging up to AUD \$4 thousand including interest at a rate of 4.56% to 5.68%, secured by related equipment	Various	1,191	1,312
Finance contracts, various, repayable in monthly instalments ranging per month including interest from 4.18% to 4.98%	Various	81	648
		39,617	45,217
Less current portion		(13,964)	(11,122)
Less liabilities held for sale (Note 8)		-	(1,530)
Less deferred debt issuance costs		(530)	(395)
Carrying value of term debt at December 31		\$ 25,123	\$ 32,170

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

13. 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 3.90% to 8.95% at December 31, 2018. 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	2018	2017
John Deere Financial, Canada	5.20% - 8.95%	\$ 95,907	\$ 72,165
Wells Fargo Vendor Finance	6.73%	2,223	3,412
John Deere Financial, New Zealand and Australia	6.25% - 6.50%	19,297	13,640
PACCAR Financial	4.91% - 5.10%	36,531	33,806
CIBC Floor Plan Facility	4.59%	-	908
Other Floor Plan Facilities	3.90% - 5.75%	3,657	1,642
Total floor plan payable		\$ 157,615	\$ 125,573

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

13. Loans and Borrowings (continued)

Pre-Approved Credit Limits and Available Credit Facilities

A summary of the Company's maximum pre-approved credit limits on available credit facilities as at December 31, 2018, are as follows:

(\$ thousands)	December 31, 2018				December 31, 2017			
	Total Limits	Borrowings	Letters of Credit	Amount Available	Total Limits	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	122,867	21,071	2,400	99,396	101,925	25,589	2,400	73,936
Capital facilities ^(a)		9,942				12,082		
Floor plan facilities and rental equipment term loan financing ^(b)		166,219				133,119		
Total borrowing		197,232				170,790		
Total current portion long term debt		(13,964)				(11,122)		
Total inventory floor plan facilities		(157,615)				(125,573)		
Term debt held for sale		-				(1,530)		
Deferred debt issuance costs		(530)				(395)		
Total long term debt		25,123				32,170		

(a) For capital facilities, the additional amount available under the facilities is limited to the lesser of the pre-approved credit limit of \$9.9 million (2017-\$55.8 million) or the available unencumbered assets which is estimated at \$2.4 million as at December 31, 2018 (2017- \$1.5 million).

(b) For floorplan facilities, the additional amount available under the facilities is limited to the lesser of the pre-approved credit limit of \$418.4 million (2017-\$453.0 million) or the available unencumbered assets which is estimated at \$33.5 million as at December 31, 2018 (2017- \$28.9 million).

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

13. Loans and Borrowings (continued)

Reconciliation of Movements of Liabilities to Cash Flows Arising from Financing Activities

(\$ thousands)	Financial Liabilities				Total
	Dividend payable	Debenture payable	Finance lease obligation	Term debt	
Balance at January 1, 2017	1,103	33,899	15,223	37,380	87,605
Changes from financing cash (outflows) inflows					
Cash dividends paid	(3,626)	-	-	-	(3,626)
Repayment of debenture payable	-	(34,500)	-	-	(34,500)
Payment of finance lease liabilities	-	-	(4,373)	-	(4,373)
Advance of term debt	-	-	-	7,692	7,692
Total (outflows) inflows from financing cash flows	(3,626)	(34,500)	(4,373)	7,692	(34,807)
Effect of changes in foreign exchange rates	-	-	-	(250)	(250)
Liabilities held for sale	-	-	-	(1,530)	(1,530)
Liability related changes					
Dividends issued through DRIP	(778)	-	-	-	(778)
Dividends declared	4,399	-	-	-	4,399
New finance leases	-	-	4,927	-	4,927
Interest expense	-	1,808	-	-	1,808
Interest paid	-	(1,207)	-	-	(1,207)
Total liability related other increase (decrease)	3,621	601	4,927	-	9,149
Balance at December 31, 2017	1,098	-	15,777	43,292	60,167
Changes from financing cash (outflows) inflows					
Cash dividends paid	(5,093)	-	-	-	(5,093)
Payment of finance lease liabilities	-	-	(5,249)	-	(5,249)
Repayment of term debt	-	-	-	(4,205)	(4,205)
Total (outflows) from financing cash flows	(5,093)	-	(5,249)	(4,205)	(14,547)
Effect of changes in foreign exchange rates	-	-	-	-	-
Liability related changes					
Dividends issued through DRIP	(710)	-	-	-	(710)
Dividends declared	6,261	-	-	-	6,261
New finance leases	-	-	743	-	743
Interest expense	-	-	-	-	-
Interest paid	-	-	-	-	-
Total liability related other increase (decrease)	5,551	-	743	-	6,294
Balance at December 31, 2018	1,556	-	11,271	39,087	51,914

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

14. Finance Leases

As Lessee - Finance Lease Liabilities

Finance lease liabilities reflect the Company's 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, 2018 and 2017 are payable as follows:

(\$ thousands)	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2018	2017	2018	2017	2018	2017
Less than one year	\$ 4,324	\$ 5,535	\$ (554)	\$ (174)	\$ 3,770	\$ 5,361
Between one and five years	8,197	11,260	(696)	(1,474)	7,501	9,786
More than five years	-	965	-	(335)	-	630
Total	\$ 12,521	\$ 17,760	\$ (1,250)	\$ (1,983)	\$ 11,271	\$ 15,777

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

15. Income Taxes

Tax Expense

(\$ thousands)	2018	2017
Current income tax expense	\$ 11,076	\$ 9,700
Deferred income tax (recovery) expense	(1,111)	(654)
Income tax expense	\$ 9,965	\$ 9,046

Using federal and provincial statutory rates of 26.9% (2017 – 26.8%), the income tax expense for the year can be reconciled to the statement of comprehensive income as follows:

(\$ thousands)	2018	2017
Income before income tax expense	\$ 36,544	\$ 28,958
Expected income tax expense	9,823	7,761
Non-deductible costs and other	142	1,285
Income tax (recovery) expense	\$ 9,965	\$ 9,046

Deferred Tax Assets and Liabilities

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

(\$ thousands)	2017	Recognized in Comprehensive Income	2018
Tangible assets	\$ 7,654	\$ (982)	\$ 6,672
Intangible assets	6,013	(1,869)	4,144
Finance lease obligation	(4,242)	1,213	(3,029)
Unrealized foreign exchange and other	529	527	1,056
Net deferred tax liability	\$ 9,954	\$ (1,111)	\$ 8,843

The Company has not recognized the benefits associated with net capital losses of \$35,183 thousand (2017 - \$36,302 thousand) and non-capital losses of \$933 thousand (2017 - \$936 thousand), as the timing and ultimate application of these tax loss carryforwards are uncertain.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

16. 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.

Carrying Value and Fair Value of Financial Assets and Liabilities

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.

(\$ thousands)	Category	2018		2017		
		Carrying value	Fair Value Level 1 Level 2	Carrying value	Fair Value Level 1 Level 2	
Financial Assets						
Cash and cash equivalents ^(a)	Amortised cost	\$ 6,106		\$ 14,502		
Trade and other accounts receivable ^(a)	Amortised cost	71,700		52,834		
Derivative financial instruments	Fair value through profit and loss	77	77	397		397
Other investments	Fair value through profit and loss	5,238	5,238	5,119		5,119
Other long-term assets	Amortised cost	3,504		2,605		
Finance lease receivables	Amortised cost	349	396	640		636
Financial Liabilities						
Trade and other liabilities ^(a)	Other liabilities	82,046		86,915		
Floor plan payables ^(a)	Other liabilities	157,615		125,573		
Term debt ^(b)	Other liabilities	39,087	39,087	43,292		43,292
Derivative financial liability	Held-for-trading	76	76	402		402
Finance lease obligation	Other liabilities	11,271	11,986	15,777		15,716

(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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

16. Financial Instruments (continued)

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.

17. 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, 2017	15,750	\$ 89,863
Issued under the DRIP plan	62	778
Issued under the deferred share plan	103	757
Repurchased under the NCIB	(240)	(3,235)
Balance at December 31, 2017	15,675	88,163
Issued under the DRIP plan	52	710
Issued under the deferred share plan	30	276
Repurchased under the NCIB	(198)	(2,609)
Balance at December 31, 2018	15,559	\$ 86,540

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.

Normal Course Issuer Bid

On August 21, 2017, the Company announced a Normal Course Issuer Bid (the "August 2017 Bid"), which commenced on August 23, 2017, to purchase up to a maximum of 806 thousand common shares (the "Shares") for cancellation before August 22, 2018. Cervus appointed Raymond James Ltd. as its broker, who conducted the Bid on behalf of the Company. All purchases were made in accordance with the August 2017 Bid at the prevailing market price of the Shares at the time of purchase. This normal course issuer bid expired on August 22, 2018. Prior to expiry, Cervus repurchased and cancelled 292 thousand common shares through the bid at a weighted average price of \$13.44 per share.

On September 10, 2018, the Company announced a Normal Course Issuer Bid (the "September 2018 Bid"), which commenced on September 13, 2018 to purchase up to a maximum of 1,031 thousand common shares (the "Shares") for cancellation before September 12, 2019. Cervus appointed Raymond James Ltd. as its broker, who will conduct the Bid on behalf of the Company. All purchases are to be made in accordance with the September 2018 Bid at the prevailing market price of the Shares at the time of purchase.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

17. Capital and Other Components of Equity (continued)

For the year ended December 31, 2018, the Company had repurchased and cancelled 52 thousand common shares at a weighted average price of \$13.48 per share under the August 2017 Bid, and 146 thousand common shares at a weighted average price of \$13.03 per share under the September 2018 Bid.

Dividends Declared

(\$ thousands)	2018	2017
\$0.40 per qualifying common share (2017 - \$0.28)	\$ 6,261	\$ 4,399

Total dividends paid in cash during the year were \$5,093 thousand (2017 - \$3,626 thousand). Dividends payable as at December 31, 2018, was \$1,556 thousand (2017 - \$1,098 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.

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., Cervus Equipment Holdings Australia Pty Ltd. and Cervus Equipment Australia Pty Ltd.

18. Revenue

The Company's contract liabilities primarily relate to advance consideration received from customers for wholegoods equipment, parts and services. The amount of \$107 thousand recognized in contract liabilities at the beginning of the period has been recognized as revenue for the year ended December 31, 2018.

The amount of revenue recognized for the year ended December 31, 2018 from performance obligations satisfied (or partially satisfied) in previous periods was \$88 thousand.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

19. Other Income

Other income for the years ended December 31, 2018 and 2017 are comprised of the following:

(\$ thousands)	2018	2017
Net gain on sale of property and equipment ^(a)	\$ 1,409	\$ 1,680
Gain on sale of Commercial operations	480	-
Reorganization costs ^(b)	-	(2,532)
Unrealized foreign exchange (loss) gain ^(c)	(1,199)	890
Extended warranty commission	(217)	(214)
Financial compensation and consignment commissions	877	315
Other income	2,093	973
Total other income	\$ 3,443	\$ 1,112

- (a) Net gain on sale of property and equipment includes a \$0.8 million gain on insurance recoveries, related to the derecognition of capital assets for damage caused the by fire.
- (b) Relates to a valuation adjustment to the Ontario lease fleet, incurred in connection with reorganizing the Company's Ontario operations during the year.
- (c) Unrealized foreign exchange gain (loss) is due to changes in fair value of our foreign exchange derivative and from period close translation of accounts payable and floorplan payables denominated in U.S. dollars.

20. Selling, General and Administrative Expenses By Nature

(\$ thousands)	2018	2017
Wages and benefits	102,204	101,530
Depreciation and amortization	9,884	10,668
Occupancy costs including maintenance	21,607	21,609
Operating and administrative expenses	39,350	42,392
Total selling, general and administrative expenses	\$ 173,045	\$ 176,199

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

21. Wages and Benefits

(\$ thousands)	2018	2017
Included in cost of sales:		
Wages and benefits	\$ 35,439	\$ 36,285
Included in selling, general and administrative expenses:		
Wages and benefits	100,690	100,838
Share-based payments	1,514	692
Total wages and benefits included in selling, general and administrative expenses	102,204	101,530
Total wages and benefits	\$ 137,643	\$ 137,815

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%, depending on the Company's annual financial performance, 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 \$894 thousand (2017 - \$837 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, 2018, MTIP expense recognized during the year amounted to \$471 thousand (2017 - \$137 thousand).

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

21. Wages and Benefits (continued)

Deferred Share Plan

The Company has a deferred share plan (the “Deferred Share Plan”) available to officers, directors and executives 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.

The Company also has a deferred share plan (the “Management Deferred Share Plan”) available to management whereby, if elected, certain payments to these individuals can be deferred, ranging in amounts up to \$10 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 and is redeemable on December 1st of the 3rd year following the year for which the deferred shares were issued, and is recorded as selling, general and administrative expense upon vesting.

As at December 31, 2018, the Company has 870 thousand shares reserved for issuance under these plans. As at December 31, 2018, 801 thousand (2017 – 696 thousand) deferred shares have been issued under these plans and remain outstanding. Of the outstanding deferred shares, 640 thousand (2017 – 570 thousand) can be converted to common shares. Total deferred shares payable as of December 31, 2018 was \$8.7 million (2017 - \$7.5 million).

	2018	2017
	Number of units	Number of Units
Balance, January 1	696	745
Units granted	180	129
Units redeemed	(36)	(162)
Units forfeited	(39)	(16)
Balance, end of year	801	696

22. Finance Income and Finance Costs

(\$ thousands)	2018	2017
Finance income	\$ 854	\$ 484
Interest expense on convertible debenture	-	(1,808)
Interest expense on mortgage and term debt obligations	(1,900)	(1,373)
Interest expense on financial liabilities	(5,615)	(4,108)
Finance costs	\$ (7,515)	\$ (7,289)
Net finance costs recognized separately	(5,498)	(5,379)
Net finance costs recognized in cost of sales	(1,163)	(1,426)
Total net finance costs	\$ (6,661)	\$ (6,805)

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

23. Earnings per Share

Per Share Amounts

Both basic and diluted earnings per share have been calculated using the net earnings attributable to the shareholders of the Company as the numerator. No adjustments to net earnings were necessary for the years ended December 31, 2018 and 2017.

Weighted Average Number of Common Shares

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)	2018	2017
Issued common shares opening	15,675	15,750
Effect of shares issued under the DRIP plan	31	36
Effect of shares issued under the deferred share plan	12	27
Effect of shares repurchased from NCIB	(62)	(69)
Weighted average number of common shares	15,656	15,744

Diluted Earnings per Share

The calculation of diluted earnings per share at December 31, 2018 was based on the profit attributable to common shareholders. The calculation of diluted earnings per share at December 31, 2017 was based on profit attributable to common shareholders, including interest expense on convertible debentures, net of tax, given its dilutive impact on the Company's earnings per share.

(\$ thousands)	2018	2017
Profit attributable to common shareholders (basic)	\$ 26,579	\$ 19,917
Interest expense on convertible debentures, net of tax	-	1,331
Profit attributable to common shareholders (diluted)	\$ 26,579	\$ 21,248

Weighted Average Number of Shares (Diluted)

The weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares which consist of the following:

(\$ thousands)	2018	2017
Weighted average number of common shares (basic)	15,656	15,744
Effect of dilutive securities:		
Deferred share plan	801	696
Convertible debenture	-	1,319
Weighted average number of shares (diluted)	16,457	17,759

The above table includes all dilutive instruments held by the Company.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

24. 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 1 to 20 years (2017 - 1 and 20 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.

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

(\$ thousands)	2018	2017
Less than 1 year	\$ 12,087	11,775
Between 1 and 5 years	36,305	34,168
More than 5 years	82,192	83,407
	\$ 130,584	129,350

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:

(\$ thousands)	2018	2017
Less than 1 year	\$ 3,101	3,780
Between 1 and 5 years	5,326	7,102
More than 5 years	-	547
	\$ 8,427	11,429

25. Supplemental Cash Flow Information

(\$ thousands)	2018	2017
Changes in non-cash working capital:		
Inventory	(42,486)	(58,343)
Floorplan	23,703	49,221
Trade and other receivables	(18,758)	(1,686)
Trade and other liabilities	(1,333)	4,544
Total change in non-cash working capital	(38,874)	(6,264)

The change in non-cash working capital takes into consideration the assets and liabilities held for sale (Note 8) and acquired through business combinations (Note 5).

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

26. 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.

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, 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 6).

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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

26. 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)	2018	2017
Trade receivables ^(a)	\$ 54,939	\$ 43,285
Other receivables	3,930	3,642
	\$ 58,869	\$ 46,927

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

(\$ thousands)	2018	2017
Domestic ^(a)	\$ 46,267	\$ 36,140
New Zealand	4,198	4,395
Australia	4,474	2,750
	\$ 54,939	\$ 43,285

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

(\$ thousands)	2018	2017
Current - 60 days ^(a)	\$ 50,976	\$ 38,047
Past due – 61-90 days	2,191	2,900
Past due – 91 to 120 days	962	1,242
Past due more than 120 days	810	1,096
	\$ 54,939	\$ 43,285

(a) Included in the balances for 2017 are receivables held for sale, as the Company was exposed to the credit risk as at December 31, 2017 (Note 8).

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

(\$ thousands)	2018	2017
Balance at January 1	\$ 1,579	\$ 1,710
Additional allowance recorded	(213)	903
Amounts written-off as uncollectible	(288)	(1,034)
Balance at December 31	\$ 1,078	\$ 1,579

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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

26. 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 \$2.4 million (2017 - \$2.4 million). 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. On lease maturity, the equipment is purchased by the Company and 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, 2018, total residual values maturing over the next 12 months was \$32,052 thousand (2017 - \$29,031 thousand) and the total residual values maturing in the next five years is \$320,617 thousand (2017 - \$269,146 thousand). The Company has not recorded a provision in the twelve months ended December 31, 2018 and 2017 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 13, the Company has available for its current use, \$120 million less \$20.5 million drawn on the facility and \$2.4 million 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, 2018.

(\$ thousands)	Contractual					
	Carrying amount	principal maturities	12 months or less	1 - 2 Years	2 - 5 Years	5+ Years
Trade and other accrued liabilities	\$ 76,720	76,720	76,720	-	-	-
Floor plans payable	157,615	157,615	157,615	-	-	-
Dividends payable	1,556	1,556	1,556	-	-	-
Term debt payable	39,087	39,617	13,964	2,532	23,121	-
Derivative financial liability	76	76	76	-	-	-
Finance lease obligation	11,271	11,271	3,770	2,253	5,248	-
Total contractual maturities of financial liabilities	\$ 286,325	286,855	253,701	4,785	28,369	-

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

26. 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 \$141 thousand (2017 - \$108 thousand), based on the U.S. dollar floor plan balances at December 31, 2018. 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.

CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

26. 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 also 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 Original Equipment Manufacturers ("OEM").

Interest Bearing Financial Instruments

At the reporting dates, the Company's interest bearing financial instruments were:

(\$ thousands)	2018	2017
Fixed Rate		
Finance lease obligation	11,271	15,777
Variable Rate		
Floor plan payables		
Floor plan payables - interest bearing	155,705	119,426
Floor plan payables - interest free period ^(a)	1,910	6,147
Term debt	39,617	45,217
Total interest bearing financial instruments	\$ 208,503	\$ 186,567

(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 interest costs for the year ended December 31, 2018 by approximately \$1,972 thousand (2017 -\$1,708 thousand).

Capital Risk Management

The Company's objective when managing its capital is to safeguard its ability to continue as a going concern, in order to generate returns for shareholders, expand business relationships with stakeholders, and identify risk and allocate its capital accordingly. In the management of capital, the Company considers its capital to comprise term debt, the current portion of term debt, 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 or repurchase shares, raise or retire term debt, and/or adjust the amount of distributions paid to the shareholders.

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26. Financial Risk Management (continued)

The Company uses the following ratios in determining its appropriate capital levels:

- Debt to Total Capital ratio (term debt plus current portion of term debt divided by: term debt plus current portion of term debt plus book value of equity);
- Return on Invested Capital ratio (net income before tax plus interest on long term debt divided by total long-term capital);
- A debt to tangible assets ratio (calculated as total debt divided by: total assets less goodwill and intangibles); and;
- A fixed charge coverage ratio (calculated as adjusted net income divided by contractual principle, interest, shareholder distributions, and lease payments).

There were no changes in the Company's approach to capital management in the year. Neither the Company, nor any of its other subsidiaries are subject to externally imposed capital requirements.

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, 2018. 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 1.10:1
- 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-IFRS measures. The specific calculations and defined terms thereof are available for retrieval at www.SEDAR.ca. The Company's compliance as at December 31, 2018 with the covenants contained in the Syndicated Credit Agreement is set out below:

	As at December 31, 2018		As at December 31, 2017	
	Covenant	Result	Covenant	Result
Total Liabilities to Tangible Net Worth*	Less than 4.0:1.0	2.39	Less than 4.0:1.0	2.55
Fixed Charge Coverage Ratio*	Greater than 1.1:1.0	2.39	Greater than 1.1:1.0	1.69
Asset Coverage Ratio*	Greater than 3.0:1.0	11.82	Greater than 3.0:1.0	10.01

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

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27. Segment Information

The Company operates under three segments: Agriculture, Transportation, and Industrial 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, 2018 are \$3,241 thousand (2017 - \$4,476 thousand).

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

(\$ thousands)	Agricultural Equipment	Transportation Equipment	Industrial Equipment	Total
Segmented income figures				
Year ended December 31, 2018				
Revenue				
Equipment sales	\$ 783,788	\$ 228,569	\$ 29,478	1,041,835
Parts	95,925	96,118	14,085	206,128
Service	42,724	31,078	12,700	86,502
Rentals	4,449	6,391	4,732	15,572
Total revenue	\$ 926,886	\$ 362,156	\$ 60,995	1,350,037
Depreciation and amortization	7,295	5,969	1,847	15,111
Finance income	662	154	38	854
Finance expense including amounts in costs of sales	(3,557)	(3,735)	(223)	(7,515)
Income for the period before income tax	31,188	4,064	1,292	36,544
Capital additions, including finance leases	10,439	2,341	815	13,595
Segmented assets and liabilities as at December 31, 2018				
Reportable segment assets	\$ 378,080	\$ 129,466	\$ 33,123	\$ 540,669
Intangible assets	27,614	10,975	4,051	42,640
Goodwill	18,411	2,546	667	21,624
Reportable segment liabilities	197,763	82,618	14,787	295,168

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27. Segment Information (continued)

(\$ thousands)	Agricultural Equipment	Transportation Equipment	Industrial Equipment	Total
Segmented income figures				
Year ended December 31, 2017				
Revenue				
Equipment sales	\$ 694,052	\$ 164,485	\$ 53,244	911,781
Parts	93,627	92,559	22,677	208,863
Service	40,839	29,367	14,258	84,464
Rentals	5,159	6,958	4,060	16,177
Total revenue	\$ 833,677	\$ 293,369	\$ 94,239	\$ 1,221,285
Depreciation and amortization	7,029	7,852	2,707	17,588
Finance income	319	115	50	484
Finance expense including amounts in costs of sales	(3,593)	(3,152)	(544)	(7,289)
Income for the period before income tax	29,479	(3,562)	3,041	28,958
Capital additions, including finance leases	6,838	5,825	443	13,106
Segmented assets and liabilities as at December 31, 2017				
Reportable segment assets	\$ 337,442	\$ 122,687	\$ 53,926	\$ 514,055
Intangible assets	23,673	11,867	4,202	39,742
Goodwill	15,667	2,547	666	18,880
Reportable segment liabilities	185,443	77,956	25,403	288,802

The Company primarily operates in Canada but includes subsidiaries in Australia (Cervus Australia Pty Ltd.) and in New Zealand (Cervus NZ Equipment Ltd.), which together operate 15 agricultural equipment dealerships. Gross revenue and non-current assets for the geographic territories of New Zealand and Australia were \$190,719 thousand (2017 - \$168,398 thousand) and \$21,748 thousand (2017 - \$20,431 thousand) respectively. The Australia and New Zealand operations are included in the Agricultural Segment.

28. Commitments and Contingencies

The Company is a defendant and plaintiff in various other legal actions that arise in the normal course of business. The Company believes that any liabilities that might arise pertaining to such matters would not have a material effect on its consolidated financial position.

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, 2018 payments in arrears by such customers aggregated \$829 thousand (2017 - \$226 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, 2018, the net residual value of such leases aggregated \$320,617 thousand (2017 - \$269,146 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.

CERVUS EQUIPMENT CORPORATION

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29. 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.

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

(\$ thousands)	2018	2017
Short-term benefits	\$ 3,050	\$ 2,895
Share-based payments	1,184	694
Total	\$ 4,234	\$ 3,589

Other Related Party Transactions

Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating \$6,800 thousand (2017 – \$5,400 thousand). During the year ended December 31, 2018 and 2017, the Company paid those individuals \$190 thousand (2017 - \$170 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.



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