# CONSOLIDATED FINANCIAL STATEMENTS OF CERVUS EQUIPMENT CORPORATION

FOR THE YEARS ENDED DECEMBER 31, 2012 & 2011

## TO THE SHAREHOLDERS OF CERVUS EQUIPMENT CORPORATION

We have audited the accompanying consolidated financial statements of Cervus Equipment Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.
Management's Responsibility for the consolidated Financial Statements

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

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cervus Equipment Corporation as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
Calgary, Canada - March 13, 2013

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2012 & 2011

| ($ thousands) | Note | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 12 | 8,156 | 6,536 |
| Deposit for business acquisition | | - | 2,000 |
| Asset held for sale | | - | 1,447 |
| Trade and other accounts receivable | 13 | 38,810 | 50,189 |
| Inventories | 14 | 172,857 | 106,776 |
| **Total current assets** | | **219,823** | **166,948** |
| **Non-current assets** | | | |
| Long-term receivables | 15 | 1,665 | - |
| Investments in associates, at equity | 16 | 9,797 | 5,146 |
| Other long-term assets | | - | 112 |
| Deposits with manufacturers | 17 | 1,855 | 1,459 |
| Property and equipment | 18 | 92,091 | 29,185 |
| Deferred tax asset | 10 | 44,197 | 53,546 |
| Intangible assets | 19 | 26,717 | 19,905 |
| Goodwill | 20 | 5,812 | 5,154 |
| **Total non-current assets** | | **182,134** | **114,507** |
| **Total assets** | | **$ 401,957** | **$ 281,455** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other accrued liabilities | 21 | $ 37,655 | $ 22,514 |
| Customer deposits | | 8,188 | 5,269 |
| Floor plan payables | 22 | 73,626 | 51,944 |
| Dividends payable | | 2,831 | 2,647 |
| Current portion of term debt | 22 | 4,658 | 2,957 |
| Current portion of notes payable | 22 | 2,652 | 2,477 |
| **Total current liabilities** | | **129,610** | **87,808** |
| **Non-current liabilities** | | | |
| Term debt | 22 | 39,028 | 7,276 |
| Notes payable | 22 | - | 2,652 |
| Debenture payable | 22 | 30,534 | - |
| **Total non-current liabilities** | | **69,562** | **9,928** |
| **Total liabilities** | | **199,172** | **97,736** |
| **Equity** | | | |
| Shareholders' capital | 23 | 76,503 | 72,925 |
| Deferred share plan | 25 | 5,133 | 3,785 |
| Other reserves | | 5,136 | 3,036 |
| Accumulated other comprehensive income | | 221 | 150 |
| Retained earnings | | 115,792 | 102,084 |
| **Total equity attributable to equity holders of the Company** | | 202,785 | 181,980 |
| **Non-controlling interest** | | - | 1,739 |
| **Total equity** | | **202,785** | **183,719** |
| **Total liabilities and equity** | | **$ 401,957** | **$ 281,455** |

Approved by the Board:

Peter Lacey, Director

Gary Harris, Director

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED DECEMBER 31, 2012 & 2011

| ($ thousands) | Notes | 2012 | 2011 |
|---|---|---|---|
| **Revenue** | | | |
| Equipment sales | | $ 554,349 | $ 429,442 |
| Parts | | 104,225 | 73,172 |
| Service | | 62,824 | 45,852 |
| Rentals | | 12,847 | 11,132 |
| Total revenue | | 734,245 | 559,598 |
| Cost of sales | 6, 8 | (594,067) | (453,263) |
| **Gross profit** | | 140,178 | 106,335 |
| Other income | 7 | 2,984 | 1,839 |
| Selling, general and administrative expense | 8 | (108,667) | (82,601) |
| **Results from operating activities** | | 34,495 | 25,573 |
| Finance income | | 1,271 | 372 |
| Finance costs | | (4,536) | (1,265) |
| **Net finance costs** | 9 | (3,265) | (893) |
| Share of profit of equity accounted investees, net of income tax | 16 | 2,457 | 1,346 |
| **Profit before income tax expense** | | 33,687 | 26,026 |
| Income tax expense | 10 | (9,105) | (7,900) |
| **Profit for the year** | | 24,582 | 18,126 |
| **Other comprehensive income** | | | |
| Foreign currency translation differences for foreign operations | | 71 | 213 |
| **Total comprehensive income for the year** | | $ 24,653 | $ 18,339 |
| **Profit (loss) attributable to:** | | | |
| Shareholders of the Company | | $ 24,394 | $ 18,444 |
| Non-controlling interest | | 188 | (318) |
| **Profit for the year** | | $ 24,582 | $ 18,126 |
| **Total comprehensive income (loss) attributable to:** | | | |
| Shareholders of the Company | | $ 24,465 | $ 18,437 |
| Non-controlling interest | | 188 | (98) |
| **Total comprehensive income for the year** | | $ 24,653 | $ 18,339 |
| **Net income per share attributable to shareholders of the Company:** | | | |
| Basic | 24 | $ 1.65 | $ 1.27 |
| Diluted | 24 | $ 1.58 | $ 1.22 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2012 & 2011

**Attributable to equity holders of the Company**

| (In $ thousands) | Note | Share capital | Preferred shares | Deferred share plan | Other reserves | Cumulative translation account | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2011 | | $ 66,280 | $ 5,361 | $ 2,823 | $ 2,927 | $ 157 | $ 94,202 | $ 171,750 | $ 1,837 | $ 173,587 |
| **Comprehensive income for the year** | | | | | | | | | | |
| Profit or loss | | - | - | - | - | - | 18,444 | 18,444 | (318) | 18,126 |
| **Other comprehensive income** | | | | | | | | | | |
| Foreign currency translation adjustments | | - | - | - | - | (7) | - | (7) | 220 | 213 |
| Total comprehensive income for the year | | - | - | - | - | (7) | 18,444 | 18,437 | (98) | 18,339 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | | |
| Dividends to equity holders | 23 | - | - | - | - | - | (10,562) | (10,562) | - | (10,562) |
| Conversion of shares and cumulative dividends to share capital | 23 | 5,439 | (5,361) | - | - | - | - | 78 | - | 78 |
| Shares issued through DRIP | 23 | 674 | - | - | - | - | - | 674 | - | 674 |
| Shares issued through deferred share plan | 23 | 80 | - | (80) | - | - | - | - | - | - |
| Share-based payment transactions | 25 | - | - | 1,042 | 109 | - | - | 1,151 | - | 1,151 |
| Shares issued for land purchase | 23 | 382 | - | - | - | - | - | 382 | - | 382 |
| Employee loans forgiven | | 70 | - | - | - | - | - | 70 | - | 70 |
| Total transactions with owners | | 6,645 | (5,361) | 962 | 109 | - | (10,562) | (8,207) | - | (8,207) |
| **Balance December 31, 2011** | | **72,925** | **-** | **3,785** | **3,036** | **150** | **102,084** | **181,980** | **1,739** | **183,719** |
| **Comprehensive income for the year** | | | | | | | | | | |
| Profit or loss | | - | - | - | - | - | 24,394 | 24,394 | 188 | 24,582 |
| **Other comprehensive income** | | | | | | | | | | |
| Foreign currency translation adjustments | | - | - | - | - | 71 | - | 71 | - | 71 |
| Total comprehensive income for the year | | - | - | - | - | 71 | 24,394 | 24,465 | 188 | 24,653 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | | |
| Dividends to equity holders | 23 | - | - | - | - | - | (11,031) | (11,031) | - | (11,031) |
| Shares issued for the purchase of minority interest | 23 | 1,582 | - | - | - | - | 345 | 1,927 | (1,927) | - |
| Shares issued for business acquisitions | 11 | 1,027 | - | - | - | - | - | 1,027 | - | 1,027 |
| Shares issued through DRIP | 23 | 945 | - | - | - | - | - | 945 | - | 945 |
| Shares issued through deferred share plan | 23 | 3 | - | (3) | - | - | - | - | - | - |
| Share-based payment transactions | 25 | 21 | - | 1,351 | 151 | - | - | 1,523 | - | 1,523 |
| Conversion feature of convertible debenture issued | 22 | - | - | - | 1,949 | - | - | 1,949 | - | 1,949 |
| Total transactions with owners | | 3,578 | - | 1,348 | 2,100 | - | (10,686) | (3,660) | (1,927) | (5,587) |
| **Balance December 31, 2012** | | **$ 76,503** | **-** | **$ 5,133** | **$ 5,136** | **$ 221** | **$ 115,792** | **$ 202,785** | **-** | **$ 202,785** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| ($ thousands) | Notes | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | $ 24,582 | $ 18,126 |
| Depreciation | 18 | 7,253 | 5,505 |
| Amortization of intangibles | 19 | 2,677 | 2,447 |
| Forgiveness of employee purchase loans | | - | 70 |
| Equity-settled share-based payment transactions | 25 | 1,506 | 1,150 |
| Net finance costs | 9 | 3,524 | 1,292 |
| Gain on sale of property and equipment | | (775) | (193) |
| Share of profit of equity accounted investees, net of tax | 16 | (2,457) | (1,346) |
| Income tax expense | 10 | 9,105 | 7,900 |
| Change in non-cash working capital | | (21,720) | (7,437) |
| | | 23,695 | 27,514 |
| Interest paid | | (4,744) | (1,665) |
| **Net cash from operating activities** | | 18,951 | 25,849 |
| **Cash flows from investing activities** | | | |
| Interest received | 9 | 1,271 | 372 |
| Business acquisitions | 11 | (22,260) | (2,000) |
| Advances to related party | 13 | 15,354 | (14,684) |
| Purchase of property and equipment | | (42,832) | (11,455) |
| Proceeds from disposal of property and equipment | | 4,888 | 1,965 |
| Proceeds from investments, at equity, net of purchases | 16 | (2,193) | 905 |
| Proceeds from asset held for sale | | 1,501 | - |
| Increase in other investments, at cost | | 112 | (1,545) |
| **Net cash used in investing activities** | | (44,159) | (26,442) |
| **Cash flows from financing activities** | | | |
| Proceeds from (repayment of) term debt | | 6,680 | (121) |
| Proceeds from exercise of share options | 25 | 17 | - |
| Advance from debenture offering, net of costs | 22 | 33,159 | - |
| Dividends paid | 23 | (9,902) | (9,797) |
| Decrease in deposits with John Deere | 17 | (289) | 250 |
| Repayment of notes payable | 22 | (2,837) | (2,808) |
| **Net cash used in financing activities** | | 26,828 | (12,476) |
| Net decrease in cash and cash equivalents | | 1,620 | (13,069) |
| Cash and cash equivalents, beginning of year | | 6,536 | 19,605 |
| Cash and cash equivalents, end of year | 12 | $ 8,156 | $ 6,536 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

## 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, 2012 comprise of the Company and its subsidiaries ("the Group"). The Company is primarily involved in the sale, after-sale service and maintenance of agricultural, construction and industrial equipment. The Company also provides equipment rental, primarily in the construction and industrial equipment segment. The Company operates 46 John Deere agricultural equipment, Bobcat and JCB construction equipment and Clark, Sellick, Nissan and Doosan material handling equipment and Peterbilt truck dealerships in 43 locations with 33 locations in Western Canada and 10 locations on the north island of New Zealand. The Company's shares are listed on the Toronto Stock Exchange ("TSX") and trade under the symbol "CVL".

## 2. Basis of Preparation

### Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The Board of Directors authorized the issue of these consolidated financial statements on March 13, 2013.

### Basis of Measurement

The consolidated financial statements have been prepared on a going concern and historical cost basis.

### Functional Currency

These consolidated financial statements are presented in Canadian dollars which is the Company's functional currency. All financial information has been rounded to the nearest thousand except for per share amounts.

### Critical Accounting Judgements & Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Use of Estimates & Judgements in Applying Accounting Policies

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

#### ESTIMATES

- Recoverability of inventories (note 14)
- Valuation allowance for trade accounts receivable (note 27);
- Impairment of goodwill (notes 19 and 20); and
- Fair value of business combinations (note 5).

#### JUDGEMENTS

- Recognition of deferred tax assets (note 10)

## 3. Significant Accounting Policies

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

### Basis of Consolidation

These consolidated financial statements include the accounts of the parent company Cervus Equipment Corporation and its wholly-owned subsidiaries, Cervus LP, Cervus Contractors Equipment LP and Cervus AG Equipment LP and their respective general partners, Cervus GP Ltd., Cervus Contractors Equipment Ltd. and Cervus AG Equipment Ltd. Cervus NZ Equipment Ltd., Cervus Rental & Leasing NZ Ltd. and Cervus Equipment Australia Pty Ltd.

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 statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Non-controlling interests in subsidiaries are identified separately from the Company's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquirees' identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

### Business Segments

The Company has historically operated two distinct business segments, an agricultural equipment segment and a commercial and industrial equipment segment. These segments are managed separately and strategic decisions are made on the basis of their respective operating results. All business segments' operating results are reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The agricultural equipment segment consists primarily of John Deere dealership locations in Alberta, Saskatchewan, British Columbia and New Zealand and the commercial and industrial equipment segment consists primarily of Bobcat, JCB, Clark, Sellick, Doosan, Nissan, and Peterbilt dealership locations in Alberta, Saskatchewan and Manitoba.

### Cash & 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.

### Foreign Currency Translation

The individual financial statements of each Company are stated in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are recorded at the rates of exchange prevailing at that date. Any resulting gains and losses are included in net profit or loss for the period.

For the purpose of presenting consolidated financial statements the results of entities denominated in currencies other than Canadian dollars are translated at the rate of exchange at the date of the transactions and their assets and liabilities at the rates ruling at the balance sheet date. Exchange differences arising on retranslation at the closing rate of the opening net assets and results of entities denominated in currencies other than Canadian dollars are recognized in other comprehensive income in the cumulative translation account.

### 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.

### Property & Equipment

Buildings, equipment, automotive and trucks, furniture and fixtures, computers, and parts and shop equipment are recorded at cost, less any accumulated depreciation and accumulated impairment losses.

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

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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

| Assets | Method | Rate |
|---|---:|---:|
| Buildings | Straight-line | 15 to 40 years |
| Leasehold improvements | Straight-line | Over period of lease |
| Short-term rental equipment | Straight-line | 12% to 20% |
| Automotive and trucks and computers | Declining balance | 30% |
| Furniture and fixtures, parts and shop equipment | Declining balance | 20% |

### Intangible Assets

Intangible assets include dealership distribution agreements, trade names, customer lists and non-competition agreements and are recorded at cost and are amortized on a straight-line basis. Dealership distribution agreements and non-competition agreements are amortized over the expected term of the agreements. Customer lists and computer software are amortized over the estimated useful lives of the lists and software. The estimated useful life and amortisation method are reviewed at the end of each period, with the effect of any changes in estimate being accounted for on a prospective basis. At each period end, the Company reviews the carrying amounts of the intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exits, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

| | |
|---|---|
| Dealership distribution agreements and trade name | 20 years |
| Customer lists and non-competition agreements | 5 years |

### Investments in Associates

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted

for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

### 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 assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. 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 future income tax assets and liabilities is recorded in the period in which the change occurs.

### Earnings Per Share

Basic earnings per share are computed by dividing earnings 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, convertible preferred shares and other 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.

### Revenue Recognition

Revenue is recorded based on the fair value of the consideration received or receivable. Revenue on agricultural equipment is recorded once all financial obligations have been received and settled. This includes, but is not limited to, the receipt of required equipment deposits, approval of debt loan arrangements, if required, and substantial completion of all required presale work orders and delivery of equipment to customers. Revenue on construction equipment is recorded upon the customer receiving receipt of the related equipment. Rental and service revenue are recognized at the time the service is provided.

Revenue is not recognized before there is persuasive evidence that an arrangement exists, delivery has occurred, the rate is fixed and determinable, and the collection of outstanding amounts is considered probable. The Company considers persuasive evidence to exist when a formal contract or purchase order is signed and required deposits have been received. Sales terms do not include provision for post service obligations.

### 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 acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

### Financial Instruments

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

Held-for-trading instruments are financial assets and liabilities typically acquired with the intention of generating revenues in the short-term. However, an entity is allowed to designate any financial instrument as held-for-trading on initial recognition even if it would otherwise not satisfy the definition. Financial assets and financial liabilities required to be classified or designated as held for-trading are measured at fair value, with gains and losses recorded in net earnings for the period in which the change occurs. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. As at December 31, 2012 and 2011, the Company does not have any financial assets classified as held-for-trading.

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method. Loans and receivables include trade and other accounts receivable, employee housing loan, loans to related parties both of which are part of other long-term assets.

Available-for-sale financial assets are non-derivative assets that are designated as available-for sale or that are not classified as loans and receivables, held-to-maturity investments or held for-trading. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in other comprehensive income (OCI) until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Available-for-sale assets are measured at fair value, except for assets that do not have a readily determinable fair value which are recorded at cost and assessed for impairment when indicators for impairment exist. As at December 31, 2012, the Company did not have available-for-sale assets. Initially, available-for-sale assets are recognized at fair value plus any directly attributable transaction costs.

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

Other financial liabilities are measured at amortized cost using the effective interest method. The Company's other financial liabilities include trade and other accrued liabilities, dividend payable, floor plan payables, term debt and notes payable.

The Company does not currently have any derivative financial instruments.

### 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.

### Finance Income & Finance Costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss.

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

### Lease Payments

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. 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.

### Share Capital

#### COMMON SHARES

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

#### PREFERENCE SHARE CAPITAL

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends of preference share capital classified as equity are recognized as distributions within equity.

### Impairment

#### FINANCIAL ASSETS (INCLUDING RECEIVABLES)

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

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

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

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

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

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

#### NON-FINANCIAL ASSETS

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time, or when an indication of impairment exists.

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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

### 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 of share-based payment 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. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

## 4. Recent Accounting Pronouncements

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

## 5. Determination of fair values

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

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition 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 discounted estimated cash flows that have been avoided as a result of these assets being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, 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 is based on the discounted cash flows expected to be derived from the use and eventual sale 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 & 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.

### Share Based Payment Transactions

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments, (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transaction are not taken into account in determining fair value.

## 6. Cost of Sales

The following amounts have been included in cost of sales for the periods ended December 31, 2012 and 2011:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Depreciation of rental equipment | $ | 2,928 | $ | 2,859 |
| Interest paid on rental equipment financing | | 259 | | 399 |
| | **$** | **3,187** | **$** | **3,258** |

## 7. Other Income

Interest and other income for the periods ended December 31, 2012 and 2011 are comprised of the following:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Net gain on sale of property and equipment | $ | 720 | $ | 247 |
| Net gain (loss) on other long-term assets | | 55 | | (54) |
| Extended warranty commission | | 211 | | 217 |
| Foreign exchange gain (loss) | | 356 | | (11) |
| Financial compensation and consignment commissions | | 578 | | 588 |
| Other income | | 1,064 | | 852 |
| | **$** | **2,984** | **$** | **1,839** |

## 8. Wages & Benefits

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Included in cost of sales: | | | | |
| Short-term wages and benefits | **$** | **17,988** | **$** | **14,576** |
| Included in selling, general and administrative expenses: | | | | |
| Short-term wages and benefits | $ | 49,710 | $ | 48,199 |
| Share-based payments | | 1,523 | | 1,150 |
| | | **51,233** | | **49,349** |
| | **$** | **69,221** | **$** | **63,925** |

### 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 a minimum of 15% 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 wages and benefits are $ 847 thousand (2011 - $649 thousand) of expenses incurred by the Company's to match the employee contributions.

## 9. Finance Income & Finance Costs

| | 2012 | 2011 |
|---|---|---|
| Interest income on advances to related party | $ 269 | $ 86 |
| Interest income on long-term lease receivables | 697 | - |
| Interest income on amounts due the Company | 249 | 89 |
| Interest income on held-to-maturity investments | 56 | 197 |
| **Finance income** | **1,271** | **372** |
| Interest expense on convertible debenture | (1,148) | - |
| Interest expense on mortgage and term debt obligations | (1,006) | - |
| Interest expense on note payable | (360) | (521) |
| Interest expense on vendor take back financing | (467) | - |
| Interest expense on financial liabilities | (1,555) | (744) |
| **Finance costs** | **(4,536)** | **(1,265)** |
| Net finance costs recognized in profit | (3,265) | (893) |
| Net finance costs recognized in cost of sales | (259) | (399) |
| **Net finance costs** | **$ (3,524)** | **$ (1,292)** |

## 10. Income Taxes

| **Tax expense comprises:** | 2012 | 2011 |
|---|---|---|
| Current tax expense | $ 11 | $ 296 |
| Deferred tax expense | 9,094 | 7,604 |
| Total tax expense relating to continuing operations | $ 9,105 | $ 7,900 |

The expense for the year can be reconciled to the accounting profit (loss) based on using federal and provincial statutory rates of 25.8% as follows:

| **($ thousands)** | 2012 | 2011 |
|---|---|---|
| Profit before income tax expense | $ 33,687 | $ 26,025 |
| Expected income tax expense | $ 8,691 | $ 7,052 |
| Non-deductible costs and other | 414 | 848 |
| Income tax recovery recognized in profit or loss | $ 9,105 | $ 7,900 |

### Deferred Tax Assets & Liabilities

| **($ thousands)** | 2012 | 2011 |
|---|---|---|
| Carrying value over the tax value of tangible assets | $ (930) | 4 (958) |
| Carrying value over the tax value of convertible debenture liability | (676) | - |
| Carrying value over the tax value of intangible assets | (2,830) | (3,066) |
| Federal investment tax credits | 12,842 | 12,842 |
| Benefit of tax losses to be carried forward | 35,791 | 44,728 |
| **Deferred tax asset** | **$ 44,197** | **$ 53,546** |

All changes in deferred tax assets and liabilities were recognized in income tax expense except for the $676 thousand deferred tax liability related to the convertible debenture, which was recorded in other reserves. During 2012, the Company recognized deferred income tax benefits of $421 thousand from its wholly-owned subsidiary in New Zealand that were not previously recognized of which $244 thousand was expensed and $177 thousand is included in deferred tax assets. The Company believes that it is probable that future taxable profit will be available against which the Company can utilize the benefits of the tax loss carry forwards and investment tax credits except for the unrecognized amounts shown below where the Company does not believe certain capital losses and other tax loss carry forwards can be utilized.

The Canada Revenue Agency ("CRA") has requested for its review information relating to the plan of arrangement involving Cervus LP and Vasogen Inc. completed in October 2009. While management is confident in the appropriateness of its tax-filing position and the accounting for the tax position, there remains a possibility that if the CRA elects to challenge Cervus' tax filings and such challenge is successful, the availability or the amount of the tax losses recognized could be negatively affected.

**Unrecognized Deferred Tax Assets**

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| - tax losses (income) | $ | 221 | $ | 215 |
| - tax losses (capital) | | 19,484 | | 19,537 |
| | $ | 19,705 | $ | 19,752 |

The Company's investment tax credits will commence expiring in 2019 and non-capital losses commence expiring in 2027.

## 11. Business Combinations

a. On August 10, 2012, the Company acquired the business assets and assumed the business liabilities of Bayquip Agricultural Limited ("Bayquip") and Fieldpower Northland Limited ("Fieldpower"). The Company purchased Bayquip and Fieldpower in order to expand and consolidate its agricultural equipment dealerships in New Zealand. Bayquip and Fieldpower operated 5 John Deere dealerships on the north island of New Zealand. The purchase price paid for the net assets of Bayquip and Fieldpower are as follows:

| Net assets purchased ($ thousands) | | |
|---|---|---|
| Inventories | $ | 4,987 |
| Prepaid expenses | | 24 |
| John Deere dealer reserve | | 117 |
| Property and equipment | | 828 |
| Goodwill | | 658 |
| Accounts payable and accrued liabilities | | (2,330) |
| Floor plan payable | | (664) |
| Purchase price | $ | 3,620 |
| Financed by: | | |
| Cash | $ | 2,593 |
| Issuance of common shares | | 1,027 |
| | $ | 3,620 |

The fair value of the common shares issued as part of the transaction was based on the trading price of the Company's common shares on the acquisition date.

Included in these financial statements are revenues of $8.2 million and net profit of $144 thousand related to this acquisition, prior to allocation of corporate expenditures and income tax expense. Had the Company purchased this acquisition at the beginning of the reporting period, January 1, 2012, revenues would have been $14.1 million and the profit for the year would have been $652 thousand, excluding allocation of corporate expenditures and income tax expense. The results of operations of this acquisition are part of the agricultural equipment segment.

b. On March 15, 2012, the Company completed a transaction whereby it has acquired the business assets and assumed the business liabilities of Frontier Peterbilt Sales Ltd. ('Frontier") and Frontier Developments Ltd. ("Developments"). The Company purchased Frontier and Developments for the purposes of expanding and diversifying its commercial and industrial equipment segment. The Company acquired the dealership agreements, trade name and customer lists from the former owner as the Company required these assets to continue operations in future years, of which $9,430 thousand is tax deductible. Frontier operates 4 Peterbilt truck dealerships and 1 Autopro Collision center in 4 locations in Saskatchewan. Development's owns the 5 land and building locations directly related to the operations of Frontier. The purchase price paid for the net assets of Frontier and Developments is as follows:

| Net assets purchased ($ thousands) | | |
|---|---|---|
| Trade and other accounts receivable | $ | 7,700 |
| Inventories | | 16,985 |
| Property and equipment | | 15,903 |
| Intangible assets | | 9,489 |
| Accounts payable and accrued liabilities | | (2,494) |
| Customer deposits | | (217) |
| Floor plan payable | | (10,279) |
| Term debt | | (2,060) |
| Purchase price | $ | 35,027 |
| Financed by: | | |
| Cash, net of cash received of $102 thousand | $ | 21,667 |
| Vendor take back mortgage, due March 15, 2014, repayable in equal annual instalments of $85,998 including interest at the rate of 4.75% per annum | | 13,360 |
| | $ | 35,027 |

Included in these financial statements are revenues of $95.1 million and net profit of $4.6 million related to this acquisition, prior to allocation of corporate expenditures and income tax expense. Had the Company purchased this acquisition at the beginning of the reporting period, January 1, 2012, revenues would have been $115.7 million and the profit for the year would have been $5.1 million, excluding allocation of corporate expenditures and income tax expense. The results of operations of this acquisition are part of the commercial and industrial segment.

## 12. Cash & Cash Equivalents

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| Bank and cash balances | $ | 6,638 | $ | - |
| Money market funds | | 2,751 | | 8,064 |
| | | 9,389 | | 8,064 |
| Credit facilities used for cash management purposes (note 22) | | (1,233) | | (1,528) |
| | $ | 8,156 | $ | 6,536 |

The company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 27.

## 13. Trade & Other Accounts Receivable

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| Trade receivables | $ | 25,939 | $ | 23,095 |
| Advances to Summit REIT, formerly Proventure Income Fund | | 1,100 | | 17,412 |
| Advances to equity accounted investees | | 958 | | - |
| Prepaid expenses | | 2,414 | | 2,248 |
| Current portion of long-term finance contracts | | 971 | | - |
| Volume bonus | | 15 | | 221 |
| Contracts in transit | | 8,329 | | 8,064 |
| Allowance for doubtful debts | | (916) | | (851) |
| | $ | 38,810 | $ | 50,189 |

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 27.

## 14. Inventories

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| New equipment | $ | 82,619 | $ | 44,297 |
| Used equipment | | 66,719 | | 46,550 |
| Parts and accessories | | 22,229 | | 15,246 |
| Work-in-progress | | 1,290 | | 683 |
| | $ | 172,857 | $ | 106,776 |

During the year ended December 31, 2012, inventories recognized as cost of sales amounted to $527,984 thousand (2011 - $444,312 thousand). There were no significant write-downs recorded during the years ended December 31, 2012 and 2011.

## 15. Long-Term Receivables

Long-term receivables consist of internal finance agreements with certain customers for the purchase of equipment. The agreements range from periods of repayment between 3 to 60 months, and require blended principal and interest repayments of up to $53 thousand with interest at rates ranging from 6.5% to 13%.

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| Long-term receivables outstanding | $ | 2,636 | $ | - |
| Less: current portion | | (971) | | - |
| | $ | 1,665 | $ | - |

The Company's credit risks and impairment losses related to trade and other receivables are disclosed in note 27.

## 16. Equity Accounted Investees

| ($ thousands) | Ownership % | | 2012 | | 2011 |
|---|---|---|---|---|---|
| Prairie Precision Network Inc. | 22.2 | $ | 29 | $ | 29 |
| 1595672 Alberta Ltd. | 18.2 | | 550 | | 400 |
| Deer Star Systems, Inc. | 35.7 | | 1,299 | | 906 |
| Maple Farm Equipment Partnership | 20.0 | | 4,511 | | 3,811 |
| Windmill AG Pty Ltd. | 34.6 | | 3,407 | | - |
| PPJ Investments Pty Ltd. | 45.0 | | 1 | | - |
| | | $ | 9,797 | $ | 5,146 |

The Company's share of profit in its equity accounted investees for the year ended December 31, 2012 was $2,457 thousand (2011 - $1,346 thousand). During the year ended December 31, 2012, the Company received $1,152 thousand (2011 - $1,559 thousand) of repayments from its investees.

Summary financial information for 100% ownership of equity accounted investees is as follows:

| ($ thousands) | Current assets | Long-term assets | Current liabilities | Long-term liabilities | Income | Expenses |
|---|---|---|---|---|---|---|
| **December 31, 2011** | 38,163 | 11,770 | 21,754 | 1,921 | 170,855 | 163,897 |
| **December 31, 2012** | 70,411 | 21,641 | 49,735 | 6,727 | 226,126 | 215,757 |

During the year ended December 31, 2012, the Company, through its subsidiary Cervus Equipment Australia Pty Ltd., purchased 37 ordinary shares (34.6% interest) of Windmill AG Pty Ltd. and 450 ordinary shares (45% interest) of PPJ Investments Pty Ltd. During the year ended December 31, 2011, the Company purchased 200 Class A voting shares (22.2% interest) of Prairie Precision Network Inc. ("Prairie") for $200 thousand and 200,000 common shares (18.2% interest) of 1595672 Alberta Ltd. for $400 thousand.

## 17. Deposits With Manufacturers

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

The maximum liability that may arise related to these arrangements is limited to the deposits of $1,855 thousand (December 31, 2011 - $1,459 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.

## 18. Property & Equipment

**Cost**

| ($ thousands) | 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, 2011** | **-** | **20,639** | **6,923** | **2,560** | **3.230** | **1,826** | **1,842** | **37,020** |
| Additions | 6,526 | 2,214 | 1,965 | 225 | 414 | 511 | 272 | 12,127 |
| Disposals | - | (3,506) | (640) | (11) | (9) | (63) | (259) | (4,488) |
| Transfer from inventories | - | 1,485 | - | - | - | - | - | 1,485 |
| Effect of movements in exchange rates | - | 342 | 27 | 1 | 18 | 8 | 3 | 399 |
| **Balance at December 31, 2011** | **6,526** | **21,174** | **8,275** | **2,775** | **3,653** | **2,282** | **1,858** | **46,543** |
| Additions | 61,333 | 4,879 | 2,975 | 704 | 866 | 1,022 | 713 | 72,492 |
| Additions through business acquisition | 15 | 833 | 140 | 85 | 201 | 63 | 150 | 1,487 |
| Disposals | - | (5,138) | (987) | (6) | (109) | (30) | (1,567) | (7,837) |
| Effect of movements in exchange rates | - | 40 | 39 | 6 | 15 | 12 | 2 | 114 |
| **Balance at December 31, 2012** | **67,874** | **21,788** | **10,442** | **3,564** | **4,626** | **3,349** | **1,156** | **112,799** |

#### Accumulated Depreciation & Impairment

| ($ thousands) | 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, 2011** | **-** | **6,125** | **3,135** | **1,560** | **1,789** | **1,002** | **1,391** | **15,002** |
| Depreciation expense | - | 2,868 | 1,441 | 266 | 375 | 406 | 150 | 5,506 |
| Disposals | - | (2,223) | (642) | (34) | - | (53) | (256) | (3,208) |
| Effects of movements in exchange rates | - | 9 | 11 | - | 24 | 13 | 1 | 58 |
| **Balance at December 31, 2011** | **-** | **6,779** | **3,945** | **1,792** | **2,188** | **1,368** | **1,286** | **17,358** |
| Depreciation expense | 1261 | 2,891 | 1,615 | 282 | 545 | 566 | 93 | 7,253 |
| Disposals/transfers | - | (2,655) | (734) | 26 | (86) | (10) | (526) | (3,985) |
| Effects of movements in exchange rates | - | 23 | 7 | 1 | 43 | 8 | - | 82 |
| **Balance at December 31, 2012** | **1,261** | **7,038** | **4,833** | **2,101** | **2,690** | **1,932** | **853** | **20,708** |
| **Carrying value** | | | | | | | | |
| Balance at December 31, 2011 | 6,526 | 14,395 | 4,330 | 983 | 1,465 | 914 | 572 | 29,185 |
| Balance at December 31, 2012 | 65,167 | 14,750 | 5,609 | 1,463 | 1,936 | 1,417 | 303 | 92,091 |

Depreciation expense has been recorded in cost of sales in the amount of $2,928 thousand (2011 - $2,859 thousand) and selling, general and administrative expenses of $4,325 thousand (2011 - $2,646 thousand).

Included in land and building is construction in progress costs of $1,446 thousand and land with a carrying cost of $8.7 million for the construction of a new John Deere dealership in Calgary, Alberta. The land consists of 21.6 acres of which the Company is in the process of subdividing and selling 10.4 acres that are not required to build the new dealership.

The Company has entered into a contract for the construction of the new building in Calgary, Alberta. The construction costs are estimated to be $9.8 million. The Company has incurred approximately $866 thousand of other costs related to the new land and building which is included in construction in progress.

## 19. Intangible Assets

Intangible assets are comprised of the following:

| ($ thousands) | | Dealership distribution agreement | | Trade Name | | Customer lists | | Non-competition agreements | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| Balance at January 1, 2011 | $ | 17,145 | $ | 3,100 | $ | 7,390 | $ | 1,891 | $ | 29,526 |
| Additions (note 11) | | 5,435 | | 1,615 | | 2,439 | | - | | 9,489 |
| Balance at December 31, 2012 | $ | 22,580 | $ | 4,715 | $ | 9,829 | $ | 1,891 | $ | 39,015 |
| **Accumulated amortization** | | | | | | | | | | |
| Balance at January 1, 2011 | $ | 2,503 | $ | 155 | $ | 3,010 | $ | 1,506 | $ | 7,174 |
| Amortization expense | | 857 | | 155 | | 1,250 | | 185 | | 2,447 |
| Balance at December 31, 2011 | | 3,360 | | 310 | | 4,260 | | 1,691 | | 9,621 |
| Amortization expense | | 1,073 | | 219 | | 1,253 | | 132 | | 2,677 |
| Balance at December 31, 2012 | $ | 4,433 | $ | 529 | $ | 5,513 | $ | 1,823 | $ | 12,298 |
| **Carrying amounts** | | | | | | | | | | |
| At December 31, 2011 | $ | 13,785 | $ | 2,790 | $ | 3,130 | $ | 200 | $ | 19,905 |
| At December 31, 2012 | $ | 18,147 | $ | 4,186 | $ | 4,316 | $ | 68 | $ | 26,717 |

Amortization expense has been recorded in selling, general and administrative expense. The Company is undergoing changes to its operating entities that will result in reducing the amortization period for acquired trade name intangibles to a period of 3 years from 20 years. This will result in an increase in amortization expense to $1,572 thousand per annum and it is anticipated that this will commence in the second quarter of 2013.

For the purpose of impairment testing, goodwill and intangibles assets are allocated to the Company's operating divisions within the Company's business segment which represent the lowest level with the Company at which goodwill and intangible assets are monitored for internal management purposes.

## 20. Goodwill

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

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| **Agricultural equipment segment** | | | | |
| AG Alberta division | $ | 1,346 | $ | 1,346 |
| AG Saskatchewan division | | 327 | | 327 |
| AG New Zealand division | | 1,946 | | 1,288 |
| **Commercial and industrial equipment segment** | | | | |
| Bobcat/JCB division | | 1,527 | | 1,527 |
| Material Handling and Forklift division | | 666 | | 666 |
| | $ | 5,812 | $ | 5,154 |

The recoverable amount of the Group's CGU's was based on its value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past operating experience, actual operating results and the budget projection for 2013, 2014 and 2015 respectively. Cash flows for a further 5 to 10-year period were extrapolated using a constant growth rate of between 1% and 3% for the first five years and zero percent for each year thereafter, which does not exceed the long-term average growth rate for the industry.
- Maintenance capital expenditures were determined for each business unit using the average of historical capital additions made by each business unit over the past 3 years.

- A pre-tax discount rate of 11.5 percent was applied in determining the recoverable amount of the unit. The discount rate was estimated based on past experience, and industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 40 percent at a market interest rate of 6 to 7 percent.

## 21. Trade & Other Payables

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| Trade and other payables | $ | 21,822 | $ | 10,370 |
| Non-trade payables and accrued expenses | | 15,833 | | 11,884 |
| | $ | 37,655 | $ | 22,514 |

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

## 22. Loans & Borrowings

### Bank Indebtedness

At December 31, 2012, the Company has a combined credit facility agreement aggregating $43,000 thousand Canadian and $1,500 thousand New Zealand. The Canadian credit facilities consist of an operating facility ($15,000 thousand), inventory facility ($18,000 thousand), rental facility ($7,000 thousand) and a capex facility ($3,000 thousand) and the New Zealand credit facility is an operating facility (NZ$1,500). Of the Canadian operating bank line, $1,500 thousand has been utilized for outstanding letters of credit to John Deere (see note 27). The Company's credit facilities bear interest at the Banks prime rate plus the Applicable Margin (currently 0.25%). Applicable Margin is based on the Company's ratio of total debt to earnings before interest, taxes, depreciation and amortization and can range from 0.25% to 0.75%. The Canadian facility is secured by a general security agreement, a priority agreement; trade accounts receivable, unencumbered inventories, assignment of fire insurance and guarantees from the Company's subsidiaries and the general partner and the New Zealand facility is secured by a general security agreement covering all property. At December 31, 2012 and December 31, 2011, NZ$1,500 thousand has been drawn on the New Zealand facility which for the purposes of consolidation has been included in cash and cash equivalents as described in note 12. During the year ended December 31, 2012, the Company has complied with all covenants in relation to its credit facilities.

### Floor Plan Payables

The Company utilizes floor plan financing arrangements with various suppliers for inventory purchases. The terms of these arrangements may include a one to eleven-month interest-free period followed by a term during which interest is charged at rates ranging from 0.346% to 9.2%. 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 assessment. Floor plan payables are secured by specific new and used equipment inventories.

### Term Debt

| ($ thousands) | 2012 | 2011 |
|---|---|---|
| Farm Credit Corporation, mortgage funding on land and buildings under construction, repayable, interest only until completion at a rate of prime plus 1% per annum | $ 3,375 | $ 3,543 |
| Farm Credit Corporation, mortgage payable in monthly instalments ranging from $39 thousand to $90 thousand including interest at a rate of prime plus 1% per annum | 17,249 | - |
| Frontier Developments Ltd., vendor take back mortgage (see note 11), payable in monthly instalments of $86 thousand including interest at the rate of 4.75% | 13,052 | - |
| ANZ National Bank Ltd., mortgage payable, interest only until 2014 at the rate of 7.5% per annum | 1,104 | - |
| HSBC Bank Canada, central lease loan, repayable in monthly instalments ranging from $2 thousand to $12 thousand including interest at rates ranging from 3.6% to 6.6%, secured by short-term rental equipment | 1,303 | - |
| Finance company, payable in monthly instalments of approximately $107 thousand including interest at prime plus 2.5%, secured by short-term rental equipment | 1,234 | 2,489 |
| John Deere finance contracts, payable in monthly instalments ranging up to $9 thousand including interest at a rate of 4.52% to 5.0%, secured by related equipment | 2,441 | 798 |
| John Deere Financial, Australia, finance contracts, payable in monthly instalments ranging up to NZ$5 thousand including interest at the rate of 5.5% per annum, secured by related equipment | 3,415 | 3,157 |
| Finance contracts, New Zealand, various, repayable in monthly instalments ranging up to NZ$2 thousand per month including interest from 8.68% to 17.95%, secured by related equipment | 513 | 246 |
| | 43,686 | 10,233 |
| Less current portion | (4,658) | (2,957) |
| | $ 39,028 | $ 7,276 |

### Notes Payable

As part of previous business acquisitions, the Company has certain notes payable due to those vendors. The notes payable are unsecured and are as follows:

| ($ thousands) | 2012 | 2011 |
|---|---|---|
| Note payable, non-interest bearing, repayable in annual instalments of $2,838 thousand, effective interest at a rate of 7% per annum. | $ 2,652 | $ 5,129 |
| Less: current portion | (2,652) | (2,477) |
| | $ - | $ 2,652 |

### Convertible Debenture

On July 24, 2012, the Company issued $34.5 million of convertible unsecured subordinated debentures with a face value of $1,000 per debenture that mature on July 31, 2017 and bear interest at 6.0% per annum paid semi-annually on January 31 and July 31 of each year. The debentures are convertible at the option of the holder into shares of the Company at any time subsequent to July 31, 2015 and prior to the maturity date at a rate of $26.15 (the "conversion price") per share. The Company may redeem the debentures at its option after July 31, 2015 if the current market price of the shares on the date of the notice of redemption exceeds 125% of the conversion price.

The issuance of the debentures, net of costs was $32,874 thousand and the value of the conversion feature recorded in equity was $1,949 thousand for a net liability recorded of $30,249 thousand and deferred tax of $676 thousand. Aggregate interest and accretion and amortization expense recorded in finance costs to December 31, 2012 was $1,148 thousand.

## 23. Capital & Other Components Of Equity

### Share Capital

| ($ thousands) | Number of preferred shares | Amount | Number of common shares | Amount | Share purchase loan | Total carrying amount |
|---|---|---|---|---|---|---|
| **Balance January 1, 2011** | **425** | **$ 5,361** | **14,191** | **$ 66,350** | **(70)** | **$ 71,641** |
| Conversion of shares and accrued dividends to share capital | (425) | (5,361) | 433 | 5,439 | - | 78 |
| Issued under the DRIP plan | - | - | 46 | 674 | - | 674 |
| Issued under the deferred share plan | - | - | 7 | 80 | - | 80 |
| Shares issued for land purchase | - | - | 26 | 382 | - | 382 |
| Amortized to profit | - | - | - | - | 70 | 70 |
| **Balance December 31, 2011** | - | - | **14,703** | **72,925** | **-** | **72,925** |
| Issued under the DRIP plan | - | - | 56 | 945 | - | 945 |
| Issued under the deferred share plan | - | - | 1 | 3 | - | 3 |
| Shares issued for business acquisitions | - | - | 138 | 2,609 | - | 2,609 |
| Issued under the share option plan | - | - | 2 | 21 | - | 21 |
| **Balance December 31, 2012** | **-** | **$ -** | **14,900** | **$ 76,503** | **-** | **$ 76,503** |

### Issuance of Common Shares

During the period ended December 31, 2012, the Company issued 56 thousand (2011 - 46 thousand) common shares to shareholders participating in the Company's dividend reinvestment plan ("DRIP"), 1 thousand (2011 - 7 thousand) common shares as a result of redemptions of vested shares from the deferred share plan, 2 thousand (2011 – nil) common shares as a result of share options exercised, and as described in note 11, 54 thousand for business acquisitions, and for the remaining 39.7% interest in Cervus Equipment NZ Ltd., 84 thousand common shares and for a land acquisition in 2011, the Company issued 26 thousand shares. Also during 2011, the Company issued 433 thousand common shares to the holders of the series 1 preferred shares. All issued common shares have been fully paid.

### Common Shares & Preference Shares

The Company has unlimited authorized share capital without par value for all common shares and preference shares with the following characteristics:

#### COMMON SHARES

Shareholders are entitled to: (i) dividends if, as and when declared by the Board of Directors of Cervus; (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 Cervus, subject to the rights of shares having priority over the Common Shares.

#### PREFERRED SHARES

The Preferred Shares are issuable in series and each class of Preferred Shares has such rights, restrictions, conditions and limitations as the Board of Directors of Cervus may from time to time determine. The holders of Preferred Shares are entitled, in priority to holders of Common Shares, to be paid rateably with holders of each other series of Preferred Shares the amount of accumulated dividends, if any, specified to be payable preferentially to the holders of such series and upon liquidation, dissolution or winding up of Cervus, to be paid rateably with holders of each other series of Preferred Shares the amount, if any, specified as being payable preferentially to holders of such series.

### 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.

#### Dividends

The Company has declared and paid the following dividends:

| ($ thousands) | 2012 | 2011 |
|---|---|---|
| $0.745 per qualifying common share | $ 11,031 | $ 10,484 |
| 7% of face value of $4,540 to date of redemption | - | 78 |
| | $ 11,031 | $ 10,562 |

#### 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. During the year ended December 31, 2012, the Company issued 56 thousand (2011 – 46 thousand) shares under this plan. The company has 108 thousand shares reserved for issuance under this plan.

## 24. 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 Cervus as the numerator. No adjustments to net earnings were necessary for the years ended December 31, 2012 and 2011. 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 of shares) | 2012 | 2011 |
|---|---|---|
| Issued common shares January 1 | 14,703 | 14,191 |
| Effect of shares issued under the DRIP plan | 31 | 26 |
| Effect of shares issued for the business acquisitions | 56 | - |
| Effect of shares issued under the deferred share plan | 1 | 4 |
| Effect of shares issued under conversion of series 1 preferences shares | - | 319 |
| Effect of shares issued for the purchase of land | - | 6 |
| **Weighted average number of common shares at December 31** | **14,791** | **14,546** |

#### Diluted Earnings Per Share

The calculation of diluted earnings per share at December 31, 2012 and 2011 was based on the profit attributable to common shareholders and the weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares which consist of the following:

| (Thousands of shares) | 2012 | 2011 |
|---|---|---|
| Weighted average number of common shares (basic) | 14,791 | 14,546 |
| Effect of dilutive securities: | | |
| Deferred share plan | 600 | 498 |
| Share options | 15 | 17 |
| **Weighted average number of shares (diluted) at December 31** | **15,406** | **15,061** |

## 25. Share Based Payments

Included in share based payments are the following:

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| Deferred share plan | $ | 1,352 | $ | 1,041 |
| Share options | | 154 | | 109 |
| | $ | 1,506 | $ | 1,150 |

### Deferred share plan

The Company has a deferred share plan available to officers, directors and employees whereby, if elected, certain payments to these individuals can be deferred, ranging in amounts up to $50 thousand per individual. 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 has 750,000 shares reserved for issuance under this plan. As at December 31, 2012, 600 thousand (2011 – 498 thousand) deferred shares have been issued under the deferred share plan and remain outstanding. As at December 31, 2012, the matching component of the plan aggregated $2,944 thousand (2011 - $2,169 thousand) of which $1,693 thousand (2011 - $1,116 thousand) has been amortized into compensation expense. Of the outstanding deferred shares, $452 thousand (2011 – 332 thousand) can be converted to common shares.

## 26. Operating Leases

The Company leases a number of lands and building facilities, office equipment and vehicles. The leases typically run for a period of between 3 and 10 years with options to renew the leases on the lands and buildings after that date. The land and building leases do not include any provisions for transfer of title, nor does the Company participate in the residual value of the land and buildings. Therefore, 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:

| | | |
|---|---|---|
| Less than 1 year | $ | 2,168 |
| Between 1 and 5 years | | 5,455 |
| More than 5 years | | 857 |
| | $ | 8,480 |

## 27. Financial Risk Management

### Overview

The Company has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; and operational 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 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 developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

### Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, trade and other accounts receivable, trade and other accrued liabilities, floor plan payables and dividends payable approximate their fair values given the short-term maturity of these instruments. 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 fixed at rates similar to prevailing market rates. The carrying value of the convertible debentures differs from fair value as the convertible debentures are publicly traded and quoted market prices are available. At December 31, 2012, the Company had $34.5 million in face value 6.0% convertible debenture outstanding with an estimated fair value of $35.9 million.

### 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 and construction and industrial 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, long-term receivables and deposits with manufacturers (see note 17).

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.

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

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| Cash and bank balances | $ | 8,156 | $ | 6,536 |
| Trade and other accounts receivables | | 37,312 | | 47,940 |
| | $ | 45,468 | $ | 54,476 |

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region was:

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| Domestic | $ | 34,870 | $ | 46,541 |
| New Zealand | | 2,442 | | 1,399 |
| | $ | 37,312 | $ | 47,940 |

The aging of loans and receivables at the reporting date was:

| ($ thousands) | | 2012 | | 2011 |
|---|---|---|---|---|
| Current – 60 days | $ | 33,470 | $ | 36,365 |
| Past due – 61 – 90 days | | 2,134 | | 8,061 |
| Past due – 91 to 120 days | | 909 | | 330 |
| Past due more than 120 days | | 799 | | 3,184 |
| | $ | 37,312 | $ | 47,940 |

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

| | 2012 | 2011 |
|---|---|---|
| **Balance at January 1** | **$ 851** | **$ 493** |
| Additional allowance recorded | 858 | 716 |
| Amounts written-off as uncollectible | (793) | (358) |
| **Balance at December 31** | **$ 916** | **$ 851** |

In our industries, customers typically pay invoices within 30 to 60 days. The average time to collect Company's outstanding accounts receivable was approximately 17 days for the year ended December 31, 2012 (2011 – 20 days). No single outstanding customer balance 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 and establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information. For the year ended December 31, 2012 and 2011, all customer balances provided as bad debts were calculated based on 25% of accounts between 90 to 120 days outstanding and 85% on amounts over 120 days outstanding unless allowance for certain specified accounts requires a greater amount to be allowed for.

### Guarantees

The Company has irrevocable standby letters of credit to John Deere in the amount of $1,500 thousand (December 31, 2011 - $3,100 to John Deere and a supplier). 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.

### 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 22, the Company has available for its current use, $15,000 thousand and NZ$1,500 thousand of operating credit facilities less $1,500 thousand for irrevocable letters of credit issued to John Deere.

The Company believes that it has sufficient operating funds available as described above to meet expected operational expenses for a period of 60 days, including the services of financial obligations.

The following are the contractual maturities of financial liabilities, including estimated interest payments at December 31, 2012.

| ($ thousands) | Carrying amount | Contractual cash flows | Contractual cash flows | 7-12 Months | 1-2 Years | 2 – 5 Years |
|---|---|---|---|---|---|---|
| Credit facilities | $ 1,233 | 1,233 | 1,233 | - | - | - |
| Trade and other accrued liabilities | 37,655 | 37,655 | 37,655 | - | - | - |
| Floor plans payable | 73,627 | 73,627 | 73,627 | - | - | - |
| Dividends payable | 2,831 | 2,625 | 2,625 | - | - | - |
| Term debt payable | 43,685 | 31,726 | 3,174 | 2,927 | 21,315 | 4,310 |
| Debenture payable | 30,534 | 44,850 | 1,898 | 1,035 | 4,140 | 37,777 |
| Notes payable | 2,651 | 2,838 | 2,838 | - | - | - |
| | $ 192,216 | 194,554 | 123,050 | 3,962 | 25,455 | 42,087 |

### Market risk

Market risk is the risk that changes in the market place 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.

### Currency risk

The Company is exposed to foreign currency fluctuation however is not exposed to fluctuations in foreign currency to the extent that all sales and expenditures are incurred in Canadian dollars. However, 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. This may cause fluctuations in the sales values assigned to equipment and parts inventories as the Company's price structure is to maintain consistent gross margins. Both sales revenues and gross margins may fluctuate based on the foreign exchange rate in effect at the time of purchase. Certain of the Company's manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on new equipment inventory purchases.

The company's exposure to foreign currency risk is nominal based on the notional amounts of the trade receivables, bank overdraft and trade payables outstanding at December 31, 2012 and 2011.

### Sensitivity Analysis

A strengthening or weakening of the Canadian dollar by 5% against the New Zealand dollar at December 31, 2012 would have increased (decreased) equity by $4 thousand and profit or loss by $12 thousand. This analysis is based on foreign currency exchange rate the Company considered to be reasonably possible at the end of the reporting period and assumes that all other variables, including interest rates, remain constant.

### Interest Rate Risk

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

At the reporting dates, the interest bearing financial instruments were:

| ($ thousands) | 2012 | 2011 |
|---|---|---|
| Floor plan payables | $ 61,952 | $ 51,944 |
| Term debt | 43,685 | 10,233 |
| Notes payable | 2,651 | 5,129 |
| Debenture payable | 30,534 | - |
| | $ 138,822 | $ 67,306 |

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates would not affect profit or loss. A change in 100 basis points in interest rates would have increased or decreased equity for the three months ended December 31, 2012 by approximately $1,388 thousand (2011 -$572 thousand).

### Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative 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 in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;

- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

Compliance with Company standards is supported by a program of periodic reviews undertaken by an Internal Audit firm. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

**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 can continue to provide returns for Shareholders and benefits for other stakeholders and to provide an adequate return to Shareholders by pricing products and services commensurately with the level of risk. In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (i.e. shares issued, accumulated earnings, shareholder distributions and dilutive instruments).

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

The Company uses the following ratios in determining its appropriate capital levels; a) total debt to adjusted equity ratio (calculated as total debt divided by adjusted equity) and; b) adjusted assets to adjusted equity ratio (adjusted assets divided by adjusted equity). Adjusted assets comprise all components of assets other than other intangible assets and goodwill. Adjusted equity comprises of all components of shareholders' equity and is reduced by other intangible assets and goodwill.

During 2012 and 2011, the Company's strategy has remained unchanged and was to maintain the total debt to equity and total adjusted net assets to adjusted equity ratio at no greater than 4 to 1 in order to comply with its dealership arrangements with John Deere and to meet its covenant conditions with the Company's lender. The total debt to adjusted equity ratios and total adjusted net assets to adjusted equity ratios were as follows:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Total debt | $ | 199,172 | $ | 97,736 |
| Adjusted equity: | | | | |
| Total equity | $ | 203,461 | $ | 183,719 |
| Less intangible assets and goodwill | | (32,529) | | (25,059) |
| Adjusted equity | $ | 170,932 | $ | 158,660 |
| Total debt to adjusted equity ratio | | 1.17 to 1 | | 0.62 to 1 |
| **Adjusted assets:** | | | | |
| Total assets | $ | 402,633 | $ | 281,455 |
| Less other intangible assets and goodwill | | (32,529) | | (25,059) |
| Adjusted assets | $ | 370,104 | | 4256,396 |
| Adjusted equity (above) | $ | 170,932 | $ | 158,660 |
| Adjusted assets to adjusted equity ratio | | 2.17 to 1 | | 1.62 to 1 |

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

## 28. Segment Information

The Company has two reportable segments which include the agricultural equipment segment which primarily distributes agricultural related equipment and services and the construction and industrial equipment segment which includes primarily the sale of construction and industrial equipment and related services. These two business segments are described in note 3 and are considered to be the Company's two strategic business units. The two 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 CEO reviews internal management reports on a monthly basis. The following is a summary of financial information for each of the reportable segments.

The Company allocates corporate expenditures to each individual segment based on a direct allocation method. Total corporate related expenditures, excluding income taxes, that have been allocated for the year ended December 31, 2012 are $3,703 thousand (2011 - $1,045 thousand).

| December 31, 2012 | | Agricultural equipment | | Commercial and industrial equipment | | Total |
|---|---|---|---|---|---|---|
| Revenue | $ | 480,553 | $ | 253,692 | $ | 734,245 |
| Profit for the year | | 18,129 | | 6,453 | | 24,582 |
| Share of profit of equity accounted investees | | 2,457 | | - | | 2,457 |
| Investment in associates | | 9,797 | | - | | 9,797 |
| Depreciation and amortization | | 4,836 | | 5,094 | | 9,930 |
| Interest income | | 342 | | 929 | | 1,271 |
| Interest expense | | 2,766 | | 2,029 | | 4,795 |
| Capital expenditures | | 44,343 | | 28,329 | | 72,672 |
| Reportable segment assets | | 233,207 | | 168,750 | | 401,957 |
| Reportable segment liabilities | | 119,641 | | 79,876 | | 199,517 |
| Other intangible assets | | 4,255 | | 22,462 | | 26,717 |
| Goodwill | | 3,618 | | 2,194 | | 5,812 |

| December 31, 2011 | | Agricultural equipment | | Commercial and industrial equipment | | Total |
|---|---|---|---|---|---|---|
| Revenue | $ | 409,822 | $ | 149,776 | $ | 559,598 |
| Profit for the year | | 14,086 | | 4,040 | | 18,126 |
| Share of profit of equity accounted investees | | 1,346 | | - | | 1,346 |
| Investment in associates | | 5,146 | | - | | 5,146 |
| Depreciation and amortization | | 3,511 | | 4,433 | | 7,944 |
| Interest income | | 236 | | 136 | | 372 |
| Interest expense | | 824 | | 840 | | 1,664 |
| Capital expenditures | | 8,954 | | 2,781 | | 11,735 |
| Reportable segment assets | | 175,390 | | 105,856 | | 281,246 |
| Reportable segment liabilities | | 67,898 | | 29,502 | | 97,400 |
| Other intangible assets | | 4,896 | | 15,009 | | 19,905 |
| Goodwill | | 2,960 | | 2,194 | | 5,154 |

The Company primarily operates in Western Canada but has a subsidiary, Cervus NZ Equipment Ltd. which operates in the agricultural equipment segment in New Zealand. Gross revenue and non-current assets for the geographic segment were $37,625 thousand (2011 - $23,777 thousand) and $9,643 thousand (2011 - $6,342 thousand) respectively.

## 29. Commitments & Contingencies

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, 2012 payments in arrears by such customers aggregated $183 thousand (December 31, 2011 - $242 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, 2012, the net residual value of such leases aggregated $94,956 thousand (December 31, 2011 - $73,009 thousand). Management believes that the potential liability in relation to the amounts outstanding is negligible and consequently, no accrual has been made in these financial statements in relation to any potential loss on assumed lease obligations.

## 30. Related Party Transactions

### Key management personnel compensation

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

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

| | 2012 | 2011 |
|---|---|---|
| Short-term benefits | $ 1,651 | $ 1,274 |
| Share-based payments | 444 | 332 |
| | $ 2,095 | $ 1,606 |

### Key Management Personnel &Director Transactions

Key management and directors of the Company control approximately 27% of the common voting shares of the Company.

### Other Related Party Transactions

The Chief Executive Chair of the Company was the CEO of Proventure Income Fund (the "Fund") until the sale of the Fund in September 2012. He was also the single largest equity holder of the Company and the Fund. In addition to the advances of $1,100 thousand included in trade and other accounts receivable, the Company had the following transactions with the Fund which are in the normal course of business and are recorded at fair value which is the amount agreed to between the two parties:

| | 2012 | 2011 |
|---|---|---|
| Expenses: | | |
| Real estate leases and guarantee fees | $ 356 | $ 3,169 |
| Revenue: | | |
| Fee for assumption of related party loan | $ - | $ 400 |
| Management fees for administration | $ 23 | $ 30 |
| Interest on advances | $ 35 | $ 91 |

In January 2012, the Company purchased certain real estate assets from the Fund for $26.3 million. The purchase price was paid through a combination of cash of $12.2 million, assumption of mortgages of $11.4 million and a reduction in advances made to the Fund of $2.7 million of which $1.1 million remains outstanding at December 31, 2012.

Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating $6,400 thousand. During the year ended December 31, 2012 and 2011, the Company paid those individuals $192 thousand for providing these guarantees. These transactions were recorded at the amount agreed to between the Company and the guarantors and are included in selling, general and administrative expense.

## 31. Subsidiaries

Details of the Company's subsidiaries at December 31, 2012 and December 31, 2011 are as follows:

| Name of subsidiary | Proportion of ownership interest and voting power held |
|---|---|
| Cervus GP Ltd | 100% |
| Cervus AG Equipment Ltd | 100% |
| Cervus Contractors Equipment Ltd | 100% |
| Cervus NZ Equipment Ltd. | 100% |
| Cervus Rental & Leasing NZ Ltd., a wholly-owned subsidiary of Cervus NZ Equipment Ltd. | 100% |
| Cervus LP | 100% |
| Cervus AG Equipment LP | 100% |
| Cervus Equipment Australia Pty Ltd. | 100% |
| Cervus Collision Center LP | 100% |
| Cervus Contractors Equipment LP | 100% |

Subsequent to year end, on January 1, 2013, Cervus LP and Cervus GP Ltd. were combined with Cervus Equipment Corporation.