Cervus Equipment Corporation

MANAGEMENT'S DISCUSSION + ANALYSIS

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

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

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

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

OVERVIEW OF CERVUS

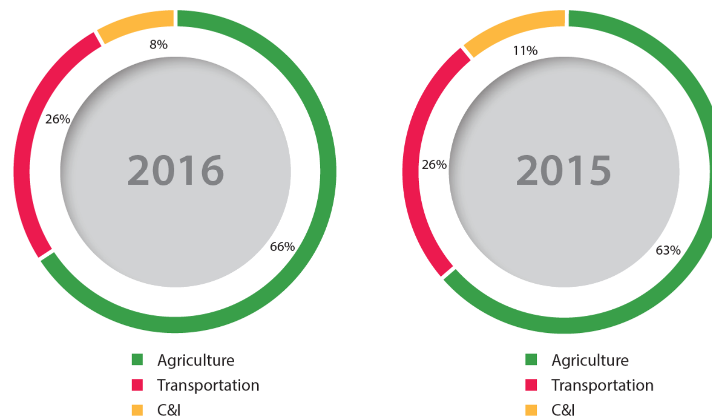
Cervus operates under three segments: Agriculture, Commercial and Industrial, and Transportation based on the industries which they serve. These segments are managed separately, and strategic decisions are made on the basis of their respective operating results.

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

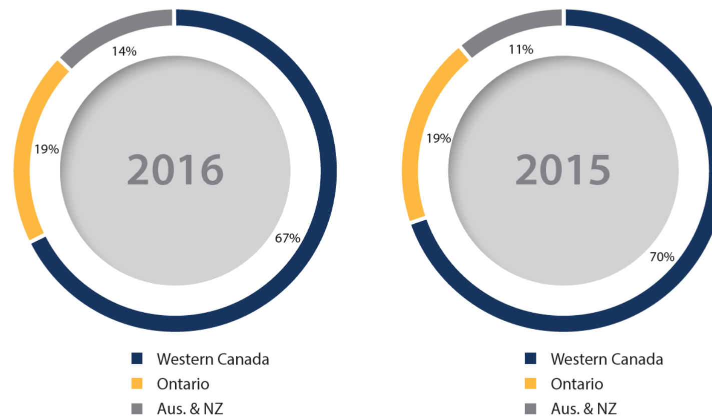
The Commercial and Industrial ("C&I") equipment segment consists of 11 dealership locations with 8 Bobcat/ JCB, Clark, Sellick, and Doosan material handling and forklift equipment dealerships operating in Alberta, 2 Clark, Sellick, and Doosan material handling and forklift equipment dealerships operating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

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

Revenue by Segment



Revenue by Geography



NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

HIGHLIGHTS OF THE YEAR

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

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[1] Refer to Non-IFRS Measures herein

ANNUAL CONSOLIDATED RESULTS

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

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

[2] - Refer to Non-IFRS Measures herein

Operating Summary:

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

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

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

ANNUAL BUSINESS SEGMENT RESULTS

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

Agricultural Segment Results

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

Operating Summary:

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

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

Transportation Segment Results

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

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

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

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

Commercial and Industrial Segment Results

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

Operating Summary:

The C&I segment loss before income tax increased $1.8 million compared to 2015.

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

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

Cash and cash equivalents – Year Ended December 31, 2016

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

Operating activities

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

Investing activities

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

Financing activities

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

FOURTH QUARTER CONSOLIDATED RESULTS

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

Operating Summary:

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

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

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

FOURTH QUARTER SEGMENT RESULTS

Agricultural Segment Results

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

Operating Summary:

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

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

Transportation Segment Results

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

Operating Summary:

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

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

Commercial and Industrial Segment Results

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

Operating Summary:

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

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

FOURTH QUARTER CASH FLOWS

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

Operating activities

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

Investing activities

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

Financing activities

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

CONSOLIDATED FINANCIAL POSITION

LIQUIDITY

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

[1] Refer to Non-IFRS Measures herein

Working capital

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

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

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

Liquidity risk

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

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

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

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

Contractual obligations

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

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

Inventories

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

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

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

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

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

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

Accounts receivable

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

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

CAPITAL RESOURCES

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

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

Operating and other bank credit facilities

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

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

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

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

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

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

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

Capital facilities

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

Floor plan facilities

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

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

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

Outstanding share data

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

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

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

Dividends paid and declared to shareholders

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

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

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

Dividend reinvestment plan ("DRIP")

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

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

Taxation

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

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

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

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

SUMMARY OF RESULTS

Annual Results Summary

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

Quarterly Results Summary

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

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

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

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

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

Alberta & Saskatchewan

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

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

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

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

Ontario

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

New Zealand & Australia

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

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

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

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

TRANSACTIONS WITH RELATED PARTIES

Key management personnel compensation

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

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

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

Other related party transactions

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

BUSINESS RISKS AND UNCERTAINTIES

Risk management framework

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

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

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

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

Market risk

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

Commodity price

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

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

Foreign currency exposure

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

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

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

Interest rate risk

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

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

Reliance on our key manufacturers and dealership arrangements

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

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

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

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

Industry competitive factors

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

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

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

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

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

Seasonality and Cyclicality

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

Human resources

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

Legislative

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

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

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

Environmental risks

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

Acquisition and integration risks

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

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

Credit risk

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

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

Capital risk management

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Determination of fair values

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

Fair value of assets and liabilities acquired in business combinations

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

Property, plant and equipment

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

Intangible assets

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

Inventories

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

Trade and other receivables

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

Other non-derivative financial liabilities

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

Derivative financial instruments

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

Taxation matters

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

Lease arrangements

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

Net realizable value of inventories

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

Asset impairment

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

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

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the Cash Generating Unit ("CGU") to its estimated recoverable amount to ensure that the recoverable amount is greater than the carrying value. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. These valuation methods employ a variety of assumptions, including future revenue growth, expected profit, and profit multiples. Estimating the recoverable amount of a CGU is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an impairment loss in future periods.

FUTURE ACCOUNTING STANDARDS

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

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

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

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

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

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

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

RESPONSIBILITITY OF MANAGEMENT AND BOARD

Disclosure controls

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

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

Internal controls over financial reporting

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

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

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

Additional IFRS Financial Measures

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

Gross profit

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

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

Income (loss) from operating activities

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

Non-IFRS Financial Measures

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

Adjusted earnings (loss)

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

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

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

EBITDA

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

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

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

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

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

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

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

EBITDA Margin

EBITDA margin is calculated as EBITDA divided by gross revenue.

Working Capital and Working Capital Ratio

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