

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2010

The following Management's Discussion & Analysis ("MD&A") was prepared as of March 9, 2011 and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or the "Company") financial performance for the year ended December 31, 2010 and significant trends that may affect future performance of Cervus. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements for the year ended December 31, 2010 and the notes contained therein. The accompanying audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and Cervus' reporting currency is the Canadian dollar. Cervus' shares trade on the Toronto Stock Exchange under the symbol "CVL".

Additional information relating to Cervus, including the Company's Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at [www.sedar.com](http://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-GAAP financial measures to assist users in assessing Cervus' performance. Non-GAAP financial measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Non-GAAP Financial Measures".

## OVERVIEW OF CERVUS

Cervus is a diversified corporation and has historically operated in two separate business segments, an agricultural equipment segment and a construction and industrial segment. These segments are managed separately and strategic decisions are made on the basis of their respective operating results. The agricultural equipment segment consists primarily of 21 John Deere dealerships with 15 in Alberta, Saskatchewan and British Columbia and 6 in New Zealand. The construction and industrial equipment segment consists primarily of 15 dealerships, 5 Bobcat and JCB dealerships operating in Alberta and 10 Clark, Sellick, Nissan and Doosan material handling equipment dealerships operating in Alberta, Saskatchewan and Manitoba. Cervus owns directly or indirectly, 100% of Cervus LP, Cervus AG Equipment LP and Cervus Contractors Equipment LP, together with 100% of the outstanding and issued shares of their respective general partners, Cervus GP Ltd., Cervus AG Equipment Ltd. and Cervus Contractors Equipment Ltd. and 60.3% of Agriturf Limited, a New Zealand company and its 100% interest in its subsidiary, Agriturf Rental and Leasing Limited. The investment in Agriturf has been consolidated in the results of Cervus and a minority interest has been reported for the 39.7% ownership interest of unrelated parties. In addition to the aforementioned subsidiaries, Cervus owns a 20% interest in Maple Farm Equipment Partnership in Saskatchewan and Manitoba that is comprised of 7 John Deere dealerships. The cash flow of Cervus is primarily dependent on the results of the underlying limited partnerships and is derived from the flow-through of income of the LP's to Cervus by means of partnership allocations.

## NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute “forward-looking statements”. 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 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.

In our September 30, 2010 MD&A we discussed that Cervus expects to make quarterly dividend payments to its shareholders of \$0.18 per common share. The most recent quarterly dividend payment was made to the shareholders of record on December 31, 2010 on January 15, 2011. At this time, there is no reason to believe that the quarterly dividend will be changed for the remainder of 2011, however the payments of dividends is always subject to certain risk (see “cautionary note regarding dividends”).

In the Market Outlook section of our September 30, 2010 MD&A; we mentioned that the Association of Equipment Manufacturers (“AEM”) was reporting a 1.2% reduction in farm tractor sales and a 4.3% increase in self-propelled combine sales. At December 31, 2010, AEM reported similar results with a decrease of 1.5% for total farm tractor sales and an increase of 5.2% in self-propelled combine sales.

In the Market Outlook section of our September 30, 2010 MD&A, we discussed that the late harvest caused by the delay in spring planting may reduce production and quality but be offset by an increase in the commodities market. Quality and production were affected by the late harvest, specifically in Saskatchewan; however there have been significant increases in commodity prices that appear to have offset the reduction in the yields and quality of our customer’s commodities. Our current early order program sales for 2011 are approximately the same as 2010.

We also discussed data provided by AEM suggesting sales for the construction and industrial equipment segment in Canada would increase 17% when compared to 2009 and that Canada Mortgage and Housing Corporation (“CMHC”) was estimating growth of 40.1% for 2010 in Alberta. Actual growth per AEM’s 2010 year to date report was 19% and based on CMHC’s first quarterly 2011 Housing Market Outlook, actual housing increases for 2010 were 33.5%.

## MARKET OUTLOOK

(see “Note Regarding Forward-Looking Statements”)

### AGRICULTURAL EQUIPMENT

Over the past number of years, farm income has improved significantly. This combined with increasing commodity prices and world supply demands should provide for positive results in the near future. However, weather conditions in parts of the Company’s geographic operating areas may be impacted by wet conditions from 2010. This may reduce the ability to seed or delay seeding in parts of Western Canada which may impact crop yields in the latter part of 2011.

### CONSTRUCTION AND INDUSTRIAL EQUIPMENT

In their first quarter 2011 Housing Market Outlook, CMHC is forecasting for Alberta, a 0% increase in housing starts for 2011 when compared to 2010 and a 10.0% increase for 2012 when compared to 2011.

Economic indicators such as oil sands development in Alberta, which has an impact on the rest of the province, the increasing price of oil and drilling activity, combined with the increased infrastructure spending suggest that the segment is rebounding from the lows experienced in 2009 and new equipment sales appear to be increasing with the pace suggested by AEM above.

## OVERALL

As described above, market indicators suggest that the construction and industrial segment should see an increase in sales in 2011 and that the market bottom we experienced in 2009 may be behind us. However, we continue to believe that customer confidence and cautious attitudes will remain. Improved commodities pricing, combined with improved customer confidence in our agricultural equipment segment may play a large part in our results in 2011. Our success will continue to be measured by the growth of our current business through improving our overall market share, satisfying our customer’s needs, managing expenditures and the pursuit of acquisitions that are accretive to our shareholders.

## HIGHLIGHTS OF THE 2010 YEAR

The Company further diversified its operations with the purchase of A.R. Williams Materials Handling Ltd. (“ARW”) for approximately \$20.1 million. ARW sells rents and services industrial products and equipment in ten locations in Alberta, Saskatchewan and Manitoba. This further diversified the Company’s operations.

---

The Company purchased a 20% partnership interest in Maple Farm Equipment Partnership (“Maple”) through the sale of the business and assets of its two John Deere dealerships in Moosomin, Saskatchewan and Russell, Manitoba for approximately \$3.0 million. Maple operates seven John Deere dealerships in Saskatchewan and Manitoba.

---

The Company acquired a 60.3% equity interest in a subsidiary, Agriturf Limited (“Agriturf”), a New Zealand corporation for an approximate purchase price of CDN\$2.74 million (NZ\$3.75 million). Agriturf carries on business on the north island of New Zealand offering authorized John Deere equipment, parts and service in six locations, in the Manawatu, Rotorua, Hawke’s Bay and Taranaki regions.

---

Cervus was the winner of the 13<sup>th</sup> Annual IR Magazine “Best investor relations by a TSX Venture Exchange company” which is based on independent surveys of the investment community.

---

Cervus was once again named to Alberta Venture’s list of fast growth companies for 2010.

## OVERALL PERFORMANCE

During 2010 revenue grew by \$91.7 million to \$469.1 million compared to \$377.5 million in 2009, an increase of 24%. The primary reason for the increase in gross revenue was due to the January 2010 acquisition of A.R. Williams Materials Handling Ltd. (“ARW”), the September 2009 purchase of Ranchers Supply Inc. (“Ranchers”) and the July 2010 purchase of our foreign subsidiary, Agriturf Limited (“Agriturf”) and was offset by a decrease in gross revenue from the Company’s contribution of two John Deere dealerships in Russell, Manitoba and Moosomin, Saskatchewan to acquire a 20% partnership interest in Maple Farm Equipment Partnership (“Maple”) in January 2010. Same store segment sales remained strong with the agricultural equipment segment contributing \$33.4 million and the construction and industrial equipment segment contributing \$9.3 million of the overall increase. Total same store sales were \$378.8 million for 2010 compared to \$336.1 million for 2009.

For the year ended December 31, 2010, gross margin decreased by 0.2% to 18.9% when compared to 19.1% for the same period of 2009. The decrease in our overall gross margin was primarily a result of a decrease in our agricultural equipment segment which decreased to 16.1% for the year ended December 31, 2010 when compared to 18.5% for the same period of 2009, primarily from decreases experienced in our equipment margins. This was offset by an increase in our gross margin for our construction and industrial equipment segment of 6.0% to 27.8% for the year ended December 31, 2010, compared to 21.8% for the same period of 2009. The primary reason for the increase in the construction and industrial equipment segment’s gross margin was due to a change in the sales mix as a result of the acquisition of ARW in January 2010.

Net earnings increased by \$1.0 million in 2010 to \$18.2 million or \$1.29 per share compared to \$17.2 million or \$1.22 per share for 2009. The agricultural equipment segment contributed \$14.8 million (a decrease of \$3.2 million from 2009 results) and the construction and industrial equipment segment contributed \$3.6 million (an increase of \$4.4 million from the loss of \$831 thousand reported in 2009). Revenues and earnings for the agricultural equipment segment have continued to outperform the construction and industrial equipment segment during 2010, which had been anticipated due to stronger global grain commodity prices and increased farm income in contrast to the decreased housing, construction and industrial sectors of the Alberta economy. The construction and industrial equipment segment has begun to show signs of recovery from the lows experienced in 2009.

As a result of our increase in earnings, depreciation and amortization, and other non-cash working capital adjustments, cash flows from operating activities increased to \$23.6 million (\$1.67 per basic share) from \$7.7 million (\$0.55 per basic share) in 2009 and EBITDA increased to \$28.4 million (\$2.01 per basic share) in 2010 when compared to \$24.4 million (\$1.73 per basic share) for 2009.

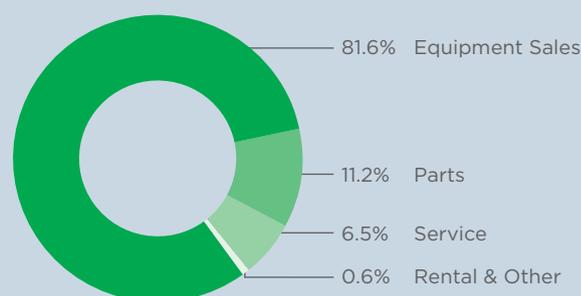
## SELECTED ANNUAL INFORMATION

\$ thousands, except per share amounts	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006
Revenues	469,130	377,475	348,675	304,984	269,134
Gross profit	88,729	71,955	67,412	53,984	44,104
Gross margin	18.9%	19.1%	19.3%	17.7%	16.3%
Net earnings	18,201	17,177	22,208	11,385	8,597
Net earnings per share					
Basic	1.29	1.22	1.70	1.03	0.92
Diluted	1.25	1.19	1.68	1.00	0.86
Cash provided by operating activities	23,622	7,749	26,433	18,138	3,847
Per share - Basic	1.67	0.55	2.02	1.65	0.41
EBITDA <sup>1</sup>	28,431	24,386	27,881	17,106	13,771
EBITDA margin <sup>1</sup>	6.1%	6.5%	8.0%	5.6%	5.1%
Per share - basic	2.01	1.73	2.13	1.55	1.47
Dividends to preferred shares	318	-	-	329	410
Dividends declared to shareholders	10,203	10,152	9,491	8,004	6,607
Per share	0.72	0.72	0.72	0.72	0.72
Weighted average shares outstanding					
Basic	14,169	14,095	13,102	11,028	9,368
Diluted	14,593	14,400	13,248	11,352	9,992
Actual shares outstanding	14,191	14,140	14,013	11,793	10,295
Closing market price per share	15.10	12.60	5.93	10.87	5.77
Price earnings ratio <sup>1</sup> - basic	11.7	10.33	3.49	10.52	6.27
Total assets	260,760	225,845	144,333	113,292	107,515
Long-term liabilities	63,683	59,591	4,874	8,901	9,276
Total debt	145,062	126,751	54,314	64,891	71,355
Shareholders' equity	115,698	99,094	90,019	48,401	36,160
Net book value per share - diluted	7.93	6.88	6.82	4.18	3.62

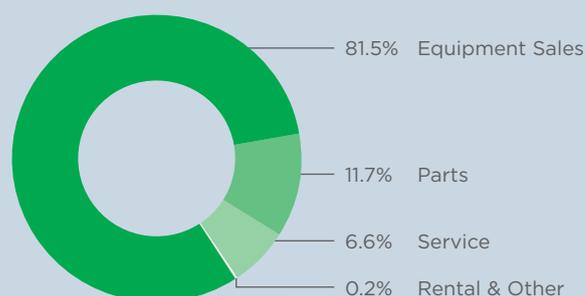
Notes: (1) These financial measures are identified and defined under the section "Non-GAAP Financial Measures".

## RESULTS OF OPERATIONS

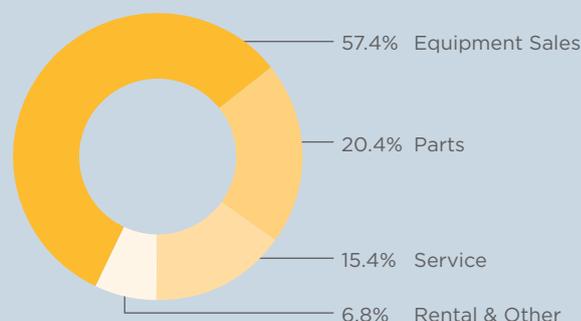
### 2010 AGRICULTURE GROSS SALES BY SEGMENT



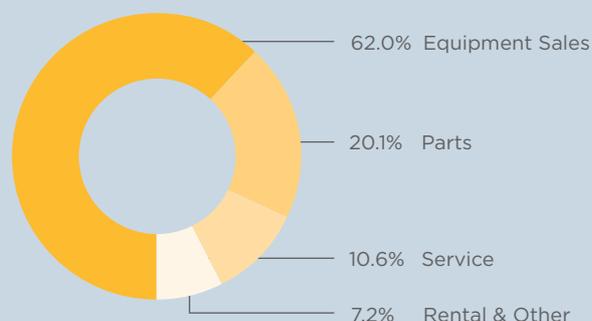
### 2009 AGRICULTURE GROSS SALES BY SEGMENT



### 2010 CONSTRUCTION GROSS SALES BY SEGMENT



### 2009 CONSTRUCTION GROSS SALES BY SEGMENT



## REVENUES

\$ thousands	December 31, 2010	December 31, 2009	% change
<b>Revenues by segment:</b>			
Equipment:	290,677	258,997	12.2
New	<b>181,423</b>	<b>160,904</b>	<b>12.8</b>
Used	<b>109,254</b>	<b>98,093</b>	<b>11.4</b>
Parts	40,015	37,322	7.2
Service	23,144	20,950	10.5
Rental and other	2,279	607	275.5
<b>Agricultural equipment</b>	<b>356,115</b>	<b>317,876</b>	<b>12.0</b>
Equipment	64,880	36,888	75.9
New	55,212	29,725	85.7
Used	9,668	7,163	35.0
Parts	23,002	12,006	91.6
Service	17,428	6,344	174.7
Rental and other	7,706	4,361	76.7
<b>Construction and industrial equipment</b>	<b>113,016</b>	<b>59,599</b>	<b>89.6</b>
<b>Total</b>	<b>469,131</b>	<b>377,475</b>	<b>24.3</b>

## AGRICULTURAL EQUIPMENT

Revenue for our agricultural equipment segment increased by \$38.2 million for the year ended December 31, 2010 when compared to 2009. Same store sales which exclude John Deere dealership purchases in 2010 and 2009, increased by \$33.4 million realizing an internal growth of approximately 12%.

New equipment sales increased \$20.5 million (same store \$13.7 million) during 2010 when compared to 2009. Used equipment sales also increased by \$11.2 million (same store \$16.7 million) for 2010 when compared to 2009. New and used equipment sales have increased primarily due to increased demand due to increased farm income, primarily in Saskatchewan. Used equipment sales were further supported by limited availability of new equipment in the agriculture industry in 2010.

Our parts revenue has increased by \$2.7 million (same store \$942 thousand or 3% internal growth) during 2010 when compared to 2009. Service revenue has also increased \$2.2 million (same store \$859 thousand or 4.8% internal growth) for 2010 when compared to 2009. The overall increase in parts and service sales was directly related to the increase in same store equipment sales activity which requires pre-delivery and re-conditioning work to be performed.

Rental and other revenue increased \$1.7 million (same store increased \$1.1 million or 211% internal growth). The primary reason for the increase in rental and other revenue is related to long-term lease agreements entered into for the use of 10 combines. In addition, our Agriturf division in New Zealand realizes more income from lease arrangements than what has historically experienced in our Canadian agricultural operations.

## CONSTRUCTION AND INDUSTRIAL EQUIPMENT

Revenue from our construction and industrial equipment segment increased by \$53.4 million for the year ended December 31, 2010 when compared to 2009. Same store sales which exclude the purchase of ARW at the beginning of 2010 increased \$9.3 million realizing internal growth of approximately 16% during 2010.

New equipment sales increased by \$25.5 million (same store increased \$10.3 million or 35%) during 2010 when compared to the same period of 2009. Used equipment sales also increased by \$2.5 million (same store decreased by \$655 thousand or 9%) for 2010 when compared to the same period of 2009. Same store new equipment sales have increased primarily due to an increase in our JCB sales and other equipment sales including mulching equipment which accounted for \$4.1 million of the increase. AEM reported a 19.0% increase in year over year new equipment sales for directly related equipment categories for 2010 when compared to 2009 in its September market share information statistics and it appears that our core new equipment sales are following this trend.

Parts revenues have increased \$11.0 million (same store increased \$410 thousand or 3%) and service revenue has increased by \$11.1 million (same store increased \$196 thousand or 3%) during 2010 when compared to the same period of 2009. The increase in parts and service revenue when compared to the same period of 2009 was primarily related to the increase in new and used equipment sales which require a certain amount of pre-delivery and re-conditioning work to be completed.

Rental income has increased \$3.3 million (same store decreased \$880 or 20%) for 2010 when compared to the same period of 2009. Same store decrease in rental income continues to be attributed to the reduced need for our customers to utilize additional resources to complete current contracts due to excess construction equipment that is currently not being utilized.

## GROSS PROFIT

### GROSS PROFIT MARGINS

Percentage	December 31, 2010	December 31, 2009	% change
<b>Gross profit margin by segment:</b>			
Agricultural equipment	16.1	18.5	(13.0)
Construction and industrial equipment	27.8	21.8	27.5
<b>Total</b>	<b>18.9</b>	<b>19.1</b>	<b>(1.0)</b>

### AGRICULTURAL EQUIPMENT

Gross profit dollars decreased slightly by \$1.7 million (same store decreased \$3.2 million or 6%) during 2010 when compared to the same period of 2009. The most significant factor affecting the combined gross profit margin has been from the segment's equipment sales which have been affected by a combination of equipment pricing fluctuations caused by foreign exchange changes, the liquidation of used equipment through auction in the second and fourth quarter of 2010 and management's aggressive efforts to reduce overall used equipment inventories. The Canadian dollar has appreciated with an average foreign exchange rate that has increased by approximately 9.8% when comparing January to December 2010 to the same period of 2009. This strengthening Canadian dollar has resulted in pressure on selling prices of equipment which has decreased overall margins being realized, especially from used equipment inventories that were purchased when the Canadian dollar was weaker. Part margins are down from a combination of foreign exchange changes that primarily affect the selling price of our parts and from a change in sales mix of parts from our original equipment manufacturers and outside suppliers.

### CONSTRUCTION AND INDUSTRIAL EQUIPMENT

Gross profit dollars have increased by \$18.4 million (same store increased \$1.9 million or 15%) during 2010 when compared to the same period of 2009. The overall increase in gross margin percentage is directly related to the acquisition of ARW. There has also been a significant change in the sales mix and weighted average contribution of our products and services from the acquisition of ARW which has caused higher gross margins on a combined basis. The most significant impact on same store combined gross margin was caused by a decrease in gross margin of our aged new equipment caused by the fluctuation in foreign exchange, which has decreased by approximately 9.8% as explained above. Foreign exchange affects the purchase price of new equipment, which in turn, affects the gross selling price of the segment's aged equipment inventories. However, the reduction in new and used equipment margins has been neutralized primarily by an increase in service margin due to increased efficiency from personnel changes made in 2009 that are being experienced throughout fiscal 2010.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include selling, general and administrative expenses and share based compensation:

\$ thousands	December 31, 2010	December 31, 2009	% change
<b>Selling, general and administrative expenses by segment:</b>			
Agricultural equipment	42,098	38,657	8.9
Construction and industrial equipment	24,731	12,854	92.4
<b>Total</b>	<b>66,829</b>	<b>51,511</b>	<b>29.7</b>
<b>% of revenue</b>			
Agricultural equipment	11.8	12.2	(3.3)
Construction and industrial equipment	21.8	21.6	0.9
<b>Total % of revenue</b>	<b>14.2</b>	<b>13.6</b>	<b>4.4</b>

## AGRICULTURAL EQUIPMENT

The agricultural equipment segment reported an increase in selling, general and administrative expenses of \$3.4 million (same store increased \$704 thousand or 2%) during 2010 when compared to the same period of 2009. Same store selling, general and administrative expenses increased primarily due to an increase in commission expense on an increase in same store sales during 2010 when compared to 2009. The increase in overall selling, general and administrative expenses was primarily caused by the purchase in July 2010 of Agriturf and the September 2009 purchase of Ranchers and has been offset by the decrease experienced from the disposal of two dealerships to Maple in January 2010.

## CONSTRUCTION AND INDUSTRIAL EQUIPMENT

The construction and industrial equipment segment's selling, general and administrative expenses increased \$11.9 million (same store decreased \$593 thousand or 5%) during 2010 when compared to the same period of 2009. The primary reason for the overall increase in selling, general and administrative expenses was due to the acquisition of ARW and the reduction in same store selling, general and administrative expenses year to date was primarily due to a reduction in administrative personnel costs implemented in 2009 and reduction of bad debts expense.

## DEPRECIATION AND AMORTIZATION

\$ thousands	December 31, 2010	December 31, 2009	\$ change
<b>Depreciation and amortization by segment:</b>			
<b>Agricultural equipment</b>			
Depreciation on property and equipment	1,515	1,154	361
Depreciation on property and equipment included in cost of sales	391	-	391
Amortization of intangible assets	808	791	17
	<b>2,714</b>	<b>1,945</b>	<b>769</b>
<b>Construction and industrial equipment</b>			
Depreciation on property and equipment	564	387	177
Depreciation on property and equipment included in cost of sales	2,295	1,573	722
Amortization of intangible assets	2,060	660	1,400
	<b>4,919</b>	<b>2,620</b>	<b>2,299</b>
<b>Total</b>	<b>7,633</b>	<b>4,565</b>	<b>3,068</b>

## AGRICULTURAL EQUIPMENT

The agricultural equipment segment depreciation and amortization increased by \$769 thousand (same store increased \$296 thousand) during 2010 when compared to the same period of 2009. The primary reason for the increase in depreciation and amortization was due to the business acquisitions made in the third quarter of 2010 and 2009 and offset by a reduction in depreciation and amortization due to the contribution dealerships for a partnership interest in January 2010. Same store depreciation and amortization increased primarily due to property and equipment additions made during 2010. In addition, the agricultural equipment segment has certain rental equipment that has been capitalized and depreciation is being recorded in cost of sales over their estimated useful lives in 2010 whereas no rental equipment existed in 2009.

## CONSTRUCTION AND INDUSTRIAL EQUIPMENT

The construction and industrial equipment segment reported an increase of \$2.3 million (same store decreased \$375 thousand) for 2010 when compared to the same period of 2009. The increase in the segment's total depreciation and amortization is due to the acquisition of ARW in January 2010. The decrease in same store depreciation is primarily related to the reduction in depreciation caused from reducing the rental equipment fleet.

## INTEREST

\$ thousands	December 31, 2010	December 31, 2009	\$ change
Interest by segment:			
<b>Agricultural equipment</b>			
Interest expense	829	487	342
Interest in cost of sales	92	-	92
	921	487	434
<b>Construction and industrial equipment</b>			
Interest expense	879	306	573
Interest in cost of sales	223	159	64
	1,102	465	637
<b>Total</b>	<b>2,023</b>	<b>952</b>	<b>1,071</b>
<b>% of revenue</b>	<b>0.4</b>	<b>0.2</b>	

Interest expense is comprised primarily of the Company's financing of its short-term debt for floor-plan financing arrangements and long-term debt related to certain equipment financing arrangements, primarily rental equipment. Interest expense primarily increased due to the acquisition of ARW and Agriturf. Same store interest increased \$141 thousand for the agricultural equipment segment and \$40 thousand for the construction and industrial equipment segment.

Floor plan liabilities as a percentage of inventories at December 31, 2010 and 2009 were approximately 45%. Rental equipment financing as a percentage of the original cost of short-term rental equipment has increased to 45% at December 31, 2010 when compared to 34% at December 31, 2009. The increase is primarily due to the addition of ARW and Agriturf rental fleet equipment. In addition, there is an increase in interest expense related to the note payable that financed a portion of the ARW acquisition in 2010.

Overall, the simple average interest rate for 2010 was 3.7% compared to 2.1% during 2009. The increase in the simple average rate was primarily caused by the increase in the prime lending rate during 2010 in Canada in addition to higher borrowing costs related to Agriturf's finance contracts.

## INCOME TAXES

As discussed in our 2009 annual MD&A, on October 22, 2009, Cervus LP (the "LP") converted to Cervus Equipment Corporation which resulted in Cervus becoming a taxable publicly traded corporation. As such, no future income tax assets or liabilities have been recognized in prior periods as previously reported taxable income was allocated to the limited partners. As a result of the purchase of ARW, future tax assets were decreased by \$1.8 million being the future tax liability accounted for on the acquisition of ARW.

Income taxes are calculated based on federally and provincially enacted statutory income tax rates. For 2010, the combined federal and provincial rate for Cervus was 28.6% (2009 - 29.6%). Based on net earnings of \$18.7 million, expected income tax expense of \$5.3 million has been reduced primarily from the benefit of tax loss carry-forwards in the amount of \$5.0 million. Non-deductible costs and other timing differences accounted for \$241 thousand of income taxes. As a result, the Company recorded \$574 thousand of future income tax expense for 2010.

As at December 31, 2010, Cervus has recorded \$61.1 million of future income tax assets and \$57.9 million of deferred credits. As at December 31, 2010, Cervus has the following tax pools available to be used in future periods:

	(\$ thousands)	
Carrying values in excess of tax values	\$	(3,624)
Non-capital losses carry-forward		52,224
Federal investment tax credits		12,746
Capital losses carried forward		19,357
Total estimated future tax asset		80,703
Less: valuation allowance for non-capital and capital losses carried forward		(19,553)
<b>Balance, December 31, 2010</b>	<b>\$</b>	<b>61,150</b>

## NET EARNINGS AND COMPREHENSIVE INCOME

The Company has a foreign subsidiary, Agriturf which upon consolidation, results in unrealized gains (losses) on translation of financial statements of a self-sustaining foreign operation. As a result of the purchase of the 60.3% interest in Agriturf in July 2010, and the resulting consolidation of operations, \$157 thousand has been recorded as other comprehensive income at December 31, 2010. This translation adjustment is the only difference between net earnings and total comprehensive earnings at December 31, 2010. Net earnings, excluding other comprehensive income for the year ended December 31, 2010 are as follows:

	December 31, 2010	December 31, 2009	% change
(\$ thousands except net earnings per share):			
Agricultural equipment	14,761	18,008	(18.0)
Construction and industrial equipment	3,596	(831)	n/a
<b>Total</b>	<b>18,357</b>	<b>17,177</b>	<b>6.9</b>
% of revenue			
Agricultural equipment	4.1	5.7	(28.1)
Construction and industrial equipment	3.2	(1.4)	n/a
<b>Total</b>	<b>3.9</b>	<b>4.6</b>	<b>(15.2)</b>
<b>Net Earnings Per Share:</b>			
<b>Shares outstanding – basic</b>	<b>14,169</b>	<b>14,095</b>	<b>0.5</b>
Agricultural equipment	1.04	1.28	(18.8)
Construction and industrial equipment	0.25	(0.06)	n/a
<b>Total</b>	<b>1.29</b>	<b>1.22</b>	<b>5.7</b>

The most significant contributing factor to our \$1.9 million increase in earnings during the year ended December 31, 2010 when compared to 2009 was the increase in gross revenue which increased \$91.7 million during the period. Total same store sales accounted for \$42.7 million of the increase with the remainder from the acquisitions of Agriturf in July 2010, ARW in January 2010, Ranchers in September 2009 and offset by the reduction in sales from the two John Deere stores used in the acquisition of Maple in January 2010.

Net earnings for the year ended December 31, 2010 increased by \$1.2 million when compared to the same period of 2009. The primary reason for the increase in earnings was from the construction and industrial equipment segment which earned \$3.6 million in 2010 versus a loss of \$831 thousand in 2009 (a \$4.4 million turnaround). This increase in the segment's earnings was a combination of increased profitability in our same stores as well as from the ARW acquisition. The agricultural equipment segment net earnings decreased by \$3.2 million from the results reported in 2009 even though same store sales increased \$33.3 million during 2010. The largest contributing factor to the change in net earnings for this segment was the gross margin experienced on new and used whole goods as discussed above.

## EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (“EBITDA”)

(See Non-GAAP Financial Measures)

\$ thousands	December 31, 2010	December 31, 2009	\$ change
<b>EBITDA by segment:</b>			
Agricultural equipment			
Net earnings and comprehensive income	14,761	18,008	(3,247)
Add:			
Interest	921	487	434
Future income taxes	449	1,523	(1,074)
Depreciation and amortization	2,714	1,945	769
<b>EBITDA</b>	<b>18,845</b>	<b>21,963</b>	<b>(3,118)</b>
Construction and industrial equipment			
Net earnings and comprehensive income	3,596	(831)	4,427
Add:			
Interest	1,102	465	637
Future income taxes	125	169	(44)
Depreciation and amortization	4,919	2,620	2,299
<b>EBITDA</b>	<b>9,742</b>	<b>2,423</b>	<b>7,319</b>
<b>Total EBITDA</b>	<b>28,587</b>	<b>24,386</b>	<b>4,201</b>
<b>% of revenue</b>	<b>6.1</b>	<b>6.5</b>	

EBITDA is used by management to monitor its results and compare its profitability between itself and other entities in its industries. It is primarily used to evaluate potential business acquisitions.

For the year ended December 31, 2010, EBITDA increased by \$4.2 million or 17.2% of 2010 gross revenue. The primary reason for the increase in EBITDA during 2010 when compared to 2009 was due to the acquisition of Agriturf and ARW.

## SUMMARY OF QUARTERLY RESULTS

\$ thousands, except per share amounts	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Revenues	109,542	164,461	127,927	67,201
Net earnings (loss)	3,286	10,679	5,062	(827)
Basic earnings (loss) per share	0.23	0.75	0.36	(0.06)
Diluted earnings (loss) per share	0.22	0.74	0.35	(0.06)
Weighted average shares outstanding				
Basic	14,189	14,176	14,162	14,140
Fully diluted	14,616	14,517	14,504	14,473

\$ thousands, except per share amounts	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Revenues	84,239	121,195	105,701	66,340
Net earnings	(573)	8,745	7,330	1,675
Basic earnings per share	(0.04)	0.61	0.52	0.12
Diluted earnings per share	(0.04)	0.61	0.51	0.12
Weighted average shares outstanding				
Basic	14,138	14,117	14,087	14,040
Fully diluted	14,449	14,361	14,258	14,190

The financial data shown above has been prepared in accordance with Canadian Generally Accepted Accounting Principles.

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 has not materially impacted the above results as the purchase occurred in July 2010. The construction and industrial equipment sector is not as volatile but does see slower sales activity in the winter months. As a result, earnings or losses may not accrue uniformly from quarter to quarter. The primary reason for the change in net earnings for the four quarters of 2010 when compared to 2009 is from the acquisition of ARW and the increase in net earnings being experienced from our same store activities in the construction and industrial equipment segment.

## LIQUIDITY

\$ thousands, except ratio amounts	December 31, 2010	December 31, 2009
Current assets	149,915	134,249
Total assets	260,760	225,845
Current liabilities	81,379	67,160
Long-term liabilities	63,683	59,591
Shareholders' equity	115,698	99,094
Working capital (see "Non-GAAP Financial Measures")	68,356	67,089
Working capital ratio (see "Non-GAAP Financial Measures")	1.84	2.00

## WORKING CAPITAL

Our working capital increased slightly by \$1.3 million to \$68.4 million at December 31, 2010 when compared to \$67.1 million at December 31, 2009. In accordance with outstanding debt agreements, the Company is required to maintain a working capital ratio of no less than 1.25 to 1. The most significant contributing factor to the increase in our working capital was due to net change in working capital items related to the purchase of ARW and the contribution of two John Deere dealerships to Maple in January 2010.

The Company's ability to generate sufficient cash and cash equivalents is determined by continued strong gross revenue performance, maintaining existing gross margins and managing its costs. 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 increased by accessing floor plan monies from unencumbered used equipment inventories. Floor plan financing as a percentage of our inventories was 45% at December 31, 2010. Also, the seasonality of our business requires greater use of cash resources in the first and fourth quarter of each year as explained above to fund general operations caused by a reduction in 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 and financial obligations and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. The Company's contractual obligations at December 31, 2010 are described below.

The Company has available for its current use, \$17.0 million of operating credit facilities (\$15 million in Canada and \$2 million in New Zealand) less \$2.4 million for irrevocable letters of credit issued to John Deere and \$163 thousand of financial guarantees provided for which \$1.2 million of advances have been made from its New Zealand facilities. In addition, the Company has a committed reducing term facility in the amount of \$1.5 million to finance capital asset additions of which no amounts have been advanced.

As part of the Ranchers asset purchase in the third quarter of 2009 and the Agriturf Limited purchase in July 2010, the Company issued irrevocable letters of credit to John Deere Limited (“JDL”) in the amount of \$1.5 million and \$900 thousand respectively. The letters of credit were provided to JDL in an effort to reduce personal guarantees required of our senior management and as collateral.

The Company has approximately \$19.6 million in cash and cash equivalents on hand at December 31, 2010 which consists of \$700 thousand in funds on deposit and \$20.1 million in money market funds and term deposits and \$1.2 million of credit facilities drawn on by our foreign subsidiary, Agriturf. The money market funds and term deposit are available immediately upon request.

As at December 31, 2010, inventories had increased by \$8.7 million to \$97.8 million (includes a net \$370 thousand reduction in inventory from the purchase of ARW and the sale of the Moosomin Saskatchewan and Russell Manitoba John Deere stores). Used equipment represents \$45.8 million (December 31, 2009 - \$42.1 million) of the equipment inventories and is represented by \$40.9 million of used agricultural equipment and \$4.9 million of used construction and industrial equipment.

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 while our construction and industrial equipment sales usually do not have trade-ins. This is why we have a higher amount of used agriculture equipment than used construction and industrial. 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 used and new equipment carried on our books. A majority of our product lines in both segments are manufactured in the US with pricing based in US dollars but invoiced in Canadian dollars.

The market value of aged new and used equipment has been affected by the strengthening Canadian dollar throughout the 2010 and 2009 fiscal periods. This provides for less expensive new equipment during the primary selling season of the second and third quarters of 2010, causing downward pressure on used equipment pricing. As at December 31, 2010, the Company believes that its recoverable amounts on its used equipment inventories exceed their respective carrying values and no impairment reserve is required.

## MARKET RISK

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market factors and is comprised of currency risk, interest rate risk and other price risks.

## FOREIGN CURRENCY EXPOSURE

Other than the Company’s exposure to foreign currency fluctuations on its translation of its foreign subsidiary, Agriturf, the Company is not exposed to fluctuations in foreign currency in its sales and expenditures as they are incurred in Canadian dollars. 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. However, this may cause fluctuations in the sales values assigned to equipment and parts inventories as the Company’s price structure is to maintain consistent gross margins. Both sales revenues and gross margins may fluctuate based on the foreign exchange rate in effect at the time of purchase. Certain of the Company’s manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on new equipment inventory purchases. Based on the Company’s results reported from its foreign subsidiary, an increase or decrease of 5% in foreign currency exchange rates would impact the Company’s consolidated net earnings by approximately \$5 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. Based on the Company's outstanding long-term debt and obligations under capital lease at December 31, 2010, a one percent increase or decrease in market interest rates would impact the Company's annual interest expense by approximately \$550 thousand. The Company's other financial instruments are not exposed to interest rate risk.

## OTHER PRICE RISKS

The Company does not currently have any financial instruments directly affected by changes in commodity prices or other price risks

## ENVIRONMENTAL RISKS

Our dealerships routinely handle hazardous and non-hazardous wastes as part of their day-to-day operations and though the Company tries to achieve 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 is also in the process of establishing an environmental management program to reduce the risk of these incidents from occurring. The Company is not aware of any material environmental liabilities at this time,

## CREDIT RISK

By granting credit sales to customers, it is possible these entities, to which the Company provides services, may experience financial difficulty and be unable to fulfill their obligations. A substantial amount of the Company's revenue is generated from customers in the farming and construction industries. This results in a concentration of credit risk from customers in these industries. A significant decline in economic conditions within these industries would increase the risk 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 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 15 days for the year ended December 31, 2010 (2009 - 13 days) 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 and establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information. For the years ended December 31, 2010 and 2009, all customer balances provided as bad debts were calculated based on 25% of accounts between 90 to 120 days outstanding and 85% on amounts over 120 days outstanding unless allowance for certain specified accounts requires a greater amount to be allowed for. Of the \$21.3 million of trade accounts receivable outstanding, \$6.3 million is represented by sales contract financing receivables in transit and \$15.0 million is represented by customer accounts receivable and other accounts receivable.

The primary reason for the increase in accounts receivable of \$7.9 million between December 31, 2009 and December 31, 2010 was related to the purchase of ARW and Agriturf which have added \$6.6 million of accounts receivable at December 31, 2010.

The Company recorded the following activity in its allowance for doubtful accounts during the year ended December 31, 2010:

	In \$ thousands
Balance, December 31, 2009	\$ 519
Bad debts additions	248
Amounts written-off as uncollectible	(458)
Balance, December 31, 2010	\$ 309

## CASH AND CASH EQUIVALENTS

Cervus' primary sources and use of cash flows are as follows:

### SUMMARY OF CASH FLOWS<sup>1</sup>

\$ thousands	December 31, 2010	December 31, 2009
<b>Net cash provided by operating activities</b>	<b>\$ 23,622</b>	<b>\$ 7,769</b>
Financing activities:		
Repayment of term debt and notes payable	(2,702)	(3,278)
Dividends	(9,854)	(7,700)
Increase in deposits with John Deere	(44)	(110)
<b>Cash flows from (used in) financing activities</b>	<b>(12,600)</b>	<b>(11,088)</b>
Investing activities:		
Business acquisitions and deposits	1,680	(22,554)
Advances from (to) related parties	(617)	1,304
Proceeds from (purchase) of equipment, net	(5,960)	2,947
Proceeds from (increase in) investments	27	(177)
<b>Cash flows used in investing activities</b>	<b>(4,870)</b>	<b>(18,480)</b>
Increase (decrease) in cash	6,152	(21,799)
Cash and cash equivalents, beginning of year	13,453	35,252
Cash and cash equivalents, end of year	\$ 19,605	\$ 13,453

Notes: (1) See the Consolidated Statements of Cash Flows for additional details.

Net cash provided by operating activities increased by \$15.8 million to \$23.6 million for the year ended December 31, 2010 when compared to 2009. The primary reason for the increase in cash flows from operating activities was due to the cash provided by net earnings of \$18.2 million and the adjustment for depreciation and amortization expense of \$7.6 million. The net change in non-cash working capital amounted to a use of \$2.3 million related to operations primarily relates to the difference in inventories purchased and floor plan financing incurred between the two periods as well as changes in accounts receivable affected primarily from contracts in transit. Management uses its discretion to pre-pay or buy down certain floor plans and/or increase floor plans at any time which significantly affects non-cash working capital amounts. The \$15.8 million in operating cash flow change from 2009 was primarily related to the Company's use of additional cash resources to reduce the floor plan payables in relation to the inventory balances in 2009.

During the year ended December 31, 2010, financing activities used \$12.6 million of cash flows compared to \$11.1 million of cash flows for the same period in 2009. The primary difference between the two periods is related to the increase in notes payable and dividends from the issuance of preferred shares for the purchase of ARW.

The Company used \$4.9 million of cash flows for investing activities for the year ended December 31, 2010 compared to \$18.5 million in 2009. During 2010, the acquisition of ARW provided \$1.7 million in cash which represented the difference between the cash cost of the acquisition when completed in January and the cash on hand when the Company purchased ARW. In addition, the Company made advances of \$1.8 million to Agriturf (which subsequently was exchanged for equity) and received approximately \$1.9 million from the disposal of investments in significantly influenced companies which includes the Company's investment in Maple and advanced an additional \$617 thousand to Proventure, a related party.

## CONTRACTUAL OBLIGATIONS

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

\$ in thousands	Total	Due 2011	Due 2012 through 2014	Due 2015 through 2016	Due thereafter
Long-term debt	10,432	3,993	6,430	9	-
Notes payable	7,937	2,683	2,602	2,652	-
Operating leases	24,473	4,820	11,547	4,471	3,635
Total contractual obligations	42,842	11,496	20,579	7,132	3,635

The increase in contractual obligations at December 31, 2010 when compared to December 31, 2009 is approximately \$19.1 million. The increases are primarily related to the increase in long-term debt and notes payable related to the acquisition of ARW and Agriturf which have added approximately \$13.8 million in financing amounts at December 31, 2010. In addition, operating lease commitments have increased by \$7.4 million to primarily account for obligations related to these acquisitions as well.

## 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, 2010 is as follows:

In \$ thousands	Total amount	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	16,161	1,161	2,400	12,600
Term loans	2,125	625	-	1,500
Floor plan facilities and rental equipment term loan financing	180,900	53,557	-	127,343
Total	199,186	55,343	2,400	141,443

Operating and other bank credit facilities include both the Canadian and New Zealand amounts. The borrowings of \$1.2 million represent the Company's advances from its New Zealand bank. We believe that the credit facilities available to the Company and outlined above are sufficient to meet our market share targets for 2011.

## OPERATING AND OTHER BANK CREDIT FACILITIES

Operating and other bank credit facilities are discussed above in the liquidity risk section.

## TERM LOANS

The Company also has two term loans with the bank, a committed reducing term facility and an uncommitted term facility. The committed reducing term facility was provided to the Company in 2005 as part of a business acquisition in the original amount of \$5.0 million. The facility requires principal repayments of \$104 thousand per month plus interest and its balance at December 31, 2010 is \$625 thousand. The uncommitted term facility amounts to \$1.5 million and is provided for the purchase of capital assets. As at December 31, 2010, no amounts had been drawn on this facility.

## FLOOR PLAN FACILITIES

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Limited, John Deere Financial, GE Canada Equipment Financing G.P., General Electric Canada Equipment Financing G.P., GE Commercial Distribution Finance Canada, Textron Financial, US Bank and Royal Bank. At December 31, 2010, floor plan payables related to inventories were \$44.2 million (December 31, 2009 - \$40.4 million) and rental equipment term loan financing was \$9.4 million (December 31, 2009 - \$2.8 million). Floor plan payables at December 31, 2010 and 2009 represented approximately 45% of our inventories. 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.

## OUTSTANDING SHARE DATA

As of the date of this report, there are 14,203,210 common shares, 425,492 preferred shares, 33,090 share options, 412,451 deferred shares outstanding. As at December 31, 2010, the Company had the following weighted average shares outstanding:

In thousands	2010	2009
Basic weighted average number of shares outstanding	14,169	14,095
Dilutive impact of deferred share plan	406	296
Dilutive impact of share options	18	9
Diluted weighted average number of shares outstanding	14,593	14,400

## DIVIDENDS PAID 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 and/or payable for the year ended December 31, 2010 (\$ thousands, except per share amounts):

Record Date	Dividend per Share	Dividend Payable	Dividend Reinvested	Net Dividend Paid
March 31, 2010	0.18	2,547	162	2,385
June 30, 2010	0.18	2,550	141	2,409
September 30, 2010	0.18	2,552	136	2,416
December 31, 2010	0.18	2,554	155	2,399
	0.72	10,203	594	9,609
Preferred shares		318	-	318
<b>Total dividends</b>		<b>10,521</b>	<b>594</b>	<b>9,927</b>

Cervus is anticipating that quarterly dividends will be paid quarterly on or about the 15<sup>th</sup> day of the month following the record date and at this time, the Company anticipates issuing dividends each quarter during 2011 (see "note regarding forward-looking statements").

## DIVIDEND REINVESTMENT PLAN ("DRIP")

The DRIP was implemented to allow shareholders to reinvest monthly dividends into additional 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 may 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.

## TAXATION

Cervus' dividends to December 31, 2010 are considered to be eligible dividends for tax purposes on the date paid.

## CAUTIONARY NOTE REGARDING DIVIDENDS

The payment of future dividends are not assured and may be reduced or suspended. Our ability to continue making cash dividend payments and the actual amount paid 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 common shares may decline if we were 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.

## OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we enter into agreements that include indemnities in favour of third parties, such as engagement letters with advisors and consultants, and service agreements. We have also agreed to indemnify our general partner's directors, officers, and employees in accordance with our limited partnership agreement 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, 2010, payments in arrears by such customers aggregated \$228 thousand (2009 - \$588 thousand). In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit, Agrifinance and Roynat Lease Finance for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2010, the net residual value of such leases aggregated \$56.5 million (2009 - \$58.7 million).

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the Company 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 may arise related to these arrangements is limited to the deposits of \$1.7 million at December 31, 2010. Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

As part of the business acquisition in 2009 of Ranchers and the 2010 investment in Agriturf, the Company issued irrevocable standby Letters of Credit to John Deere Limited ("JDL") in the amount of \$1.5 million and \$900 thousand respectively. The Letters of Credit were issued in accordance with the dealership arrangement that would allow JDL to draw upon the letter of credit if the Company was in default of any of its obligations to JDL. Also, the Company's foreign subsidiary, Agriturf, has \$163 thousand of financial guarantees issued for the purposes of providing financial guarantees to creditors and for a bankcard facility.

## TRANSACTIONS WITH RELATED PARTIES

The Chief Executive Officer (“CEO”) of the Company is the CEO of Proventure Income Fund (the “Fund”). In addition, the CEO is the single largest equity holder of the Company and the Fund and the Company and the Fund share common directors. The Fund is a public income trust that was originally formed in 2003 by transferring into a separate entity, the real property interests of John Deere dealerships operating at the time. Since that date, the Fund has continued to purchase the real property interests of the Company’s John Deere dealerships and two of the Company’s Bobcat/JCB dealerships. During 2010 and 2009, the Company had the following transactions with the Fund:

In \$ thousands	2010	2009
Expenses:		
Real estate leases	\$ 2,969	\$ 2,551
Guarantee fees	\$ 83	\$ 83
Revenue:		
Management fees for administration	\$ 30	\$ 30
Interest on advances	\$ 76	\$ 54

The Company receives \$2.5 thousand per month to carry out all administrative and management tasks related to Proventure’s operations. The amount charged is the amount agreed to between the related parties.

The Company pays a guarantee fee to Proventure equal to 3% of the guaranteed amounts that Proventure has provided to John Deere. This guarantee is a result of guarantees provided to John Deere prior to the establishment of Proventure and for which John Deere has not yet released Proventure from the contractual obligation. At December 31, 2010 and 2009, the Fund had outstanding guarantees with John Deere aggregating \$2.75 million.

During 2008, the Company provided a \$2.75 million revolving credit facility to the Fund expiring on November 30, 2013. The facility is due on demand and bears interest at the rate of prime plus 0.25%. The facility can be used for operations, capital acquisitions, and investments and is secured by a general security agreement. Interest recorded during the year ended December 31, 2010 was \$76 thousand (2009 - \$54 thousand).

Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating \$6.4 million. During the years ended December 31, 2010 and 2009, the Company paid these individuals \$192 thousand for providing these guarantees. These transactions were recorded at the amount agreed to by the parties. These guarantees are required by the Company’s most significant dealership arrangement with John Deere Limited (“JDL”) and the Company believes that the 3% per annum charge provided to the guarantors is a reasonable expense to providing these guarantees.

During 2010, the Company transacted in the normal course of business, \$201 thousand (2009 - \$227 thousand) of parts and service sales with companies in which the board of directors are directors of or control those companies.

## FOURTH QUARTER RESULTS

\$ thousands, except per share amounts	Three months ended December 31, 2010	Three months ended December 31, 2009	% Change
Revenues	109,541	84,239	30.0
Cost of sales, includes amortization of \$884 (2009 - \$353) and interest expense of \$145 (2009 - \$38)	86,962	68,733	26.5
Gross profit	22,579	15,506	45.6
Gross margin	20.6%	18.4%	12.0
Expenses (income)			
Administrative and general	18,353	13,642	34.5
Depreciation and amortization	1,303	803	62.2
Interest expense	385	223	72.6
Interest and other income	(557)	(540)	3.1
Foreign exchange loss	-	31	(100.0)
Loss (gain) on disposal of property and equipment	(107)	275	n/a
Equity earnings of significantly influenced companies	(211)	(47)	348.9
Net earnings before income taxes and non-controlling interest	3,413	1,119	205.0
Future income taxes	216	1,692	(87.2)
Net earnings (loss) before non-controlling interest	3,197	(573)	n/a
Net loss attributed to non-controlling interest	90	-	100.0
Net earnings (loss)	3,287	(573)	n/a
Other comprehensive income	157	-	100.0
Net earnings and comprehensive income	3,444	(573)	n/a
Net earnings (loss) per share			
Basic	0.23	(0.04)	n/a
Diluted	0.22	(0.04)	n/a
Cash flow from operations	14,438	2,903	397.3
Per share - diluted	0.99	0.20	395.0
Dividends declared to common shareholders	2,554	2,545	0.4
Per share	0.18	0.18	-
EBITDA <sup>1</sup>	6,376	2,537	151.3
EBITDA margin <sup>1</sup>	5.8%	3.0%	93.3
Per share - diluted	0.45	0.18	150.0
Weighted average shares outstanding			
Basic	14,189	14,138	0.4
Diluted	14,616	14,449	1.2

Notes: (1) These financial measures are identified and defined under the section "Non-GAAP Financial Measures".

## REVENUE

Revenue for fourth quarter of 2010 was up \$25.3 million compared to the fourth quarter of 2009. Revenue for the agriculture equipment segment increased \$6.5 million (\$6.7 million same store) and the construction and industrial equipment segment revenue increased \$18.8 million (\$7.5 million same store) for the fourth quarter of 2010 when compared to the same period during 2009. Same store revenue primarily increased in both segments due to an increase in used equipment sales for the agricultural equipment segment and new equipment sales in the construction and industrial equipment segment. Used agricultural sales increased primarily due to a concerted effort to reduce used equipment inventories to mitigate carrying costs and possible foreign exchange fluctuations. New equipment sales primarily increased due to a large sale of mulchers.

## GROSS PROFIT AND GROSS MARGIN

Gross profit increased \$7.0 million to \$22.6 million for the fourth quarter of 2010 when compared to \$15.5 million for the same period of 2009. This increase is primarily a result of the acquisition of ARW and increased same store results from the balance of the construction and industrial equipment segment. Gross margin for the fourth quarter of 2010 was 20.6% compared to 18.4% from the same period in 2009. The increase in margin is primarily related to the acquisition of ARW at the beginning of 2010 and as explained above. During the fourth quarter of 2010, our gross margins on new and used equipment decreased by 1.0% when compared to the fourth quarter of 2009 and parts and service gross margins increased by 3.0% during the fourth quarter of 2010 when compared to the same period of 2009. Most of the declines in our gross margins on equipment sales were led by the agricultural equipment segment in their efforts to reduce used equipment inventories and parts and service margins increased primarily due to efficiencies in our service department and the late harvest experienced.

## SELLING, GENERAL, AND ADMINISTRATIVE

Selling, general, and administrative expenses were 16.8% of gross sales for the fourth quarter of 2010 versus 16.2% in the fourth quarter of 2009. Same store selling, general and administrative expenses actually increased by \$1.1 million in our agricultural equipment segment and decreased by \$217 thousand in our construction and industrial equipment segment. The increase in our agricultural equipment segment was primarily related to our personnel expenses which increased due to higher commissions on increased sales, increased marketing for our used equipment and increased occupancy costs due to some repairs and maintenance performed in the fourth quarter of 2010. The decrease in our construction and industrial segment primarily relates to an effort by management to reduce overall expenses in all categories to respond to the decrease in revenue experienced in 2009.

## NET EARNINGS

Net income for the fourth quarter of 2010 was \$3.2 million compared to a net loss of \$572 thousand for the fourth quarter of 2009, an increase of \$3.8 million. The agricultural equipment segment contributed \$1.7 million of the earnings (\$205 thousand in 2009) and the construction and industrial equipment segment contributed of \$1.5 million (net loss of \$778 thousand in 2009).

Accounting for a significant portion of the difference from the prior year was \$1.7 million in future income tax expense recorded in 2009 as a result of the Company's conversion from a limited partnership versus \$217 thousand for the fourth quarter of 2010. The other primary reason for the increase in earnings when compared to the prior year was the net change in construction and industrial equipment which contributed \$1.5 million in net earnings in the fourth quarter of 2010 versus a net loss of \$2.0 million in 2009. This was a combination of positive results from same store net earnings as well as the addition of ARW in January 2010.

## CASH FLOW FROM OPERATIONS

Cash flow from operations increased \$11.2 million to \$14.1 million for the fourth quarter of 2010 when compared to \$2.9 million for the fourth quarter of 2009. Contributing to the increase in cash flows was primarily the net increase in earnings from the construction and equipment segment, together with increase in depreciation and amortization expenses from the ARW acquisition,

## CRITICAL ACCOUNTING ESTIMATES

Preparation of audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the audited consolidated financial statements. Our significant accounting estimates include estimating bad debts on accounts receivable; amortization of intangible assets and property, plant, and equipment; the fair value of assets and liabilities acquired in business combinations; estimated impairment of long-lived assets; the fair value of share-based awards; the fair value of reporting shares for goodwill impairment testing purposes; and estimates of various taxation matters. 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.

## PROVISION FOR DOUBTFUL ACCOUNTS RECEIVABLE

We perform ongoing credit evaluations of our customers and grant credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. Our history of bad debt losses has been within expectations and is generally limited to specific customer circumstances. However, given the cyclical nature of the agricultural business in which many of our customers operate, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

## DEPRECIATION AND AMORTIZATION OF INTANGIBLE ASSETS AND PROPERTY AND EQUIPMENT

Our intangible assets and property, plant, and equipment are depreciated and amortized based upon estimated useful lives and salvage values. We review our historical experience with similar assets to ensure that these amortization rates are appropriate. However, the actual useful life of the assets may differ from our original estimate due to factors such as technological obsolescence and maintenance activity.

## FAIR 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. exchange to determine whether any adjustments are required to our carrying cost of inventory balances to ensure they are properly stated.

## 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. In certain circumstances, such as the valuation of property, plant, and equipment and intangible assets acquired, we rely on independent third party valuations.

## 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.

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the reporting share to the estimated fair value to ensure that the fair value is greater than the carrying value. We arrive at the estimated fair value of a reporting share using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including future revenue growth, expected earnings, and earnings multiples. Estimating the fair value of a reporting share 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.

## TAXATION MATTERS

Income tax provisions, including current and future income tax assets and liabilities, may require estimates and interpretations of federal and provincial income tax rules and regulations, and judgments as to their interpretation and application to our specific situation. Although there are tax matters that have not yet been confirmed by taxation authorities, we believe that the provision for the Company's income taxes is adequate.

## FAIR VALUE OF SHARE-BASED AWARDS

The fair value of share options granted is determined at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. Because changes in subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a single reliable measure of the fair value of our share options granted.

## RECENT ACCOUNTING PRONOUNCEMENTS

The CICA has issued new accounting standards, “Section 1582, Business Combinations”, “Section 1601 Consolidated Financial Statements” and “Section 1602, Non-Controlling Interests”.

Section 1582, Business Combinations establishes how an entity is to account for business combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after January 1, 2011, however earlier adoption is permitted. The Company has adopted this accounting change prospectively effective January 1, 2010.

Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interest establishes standards for the preparation of consolidated financial statements and for the accounting for a non-controlling interest in a subsidiary in consolidated financial statements. This Section applies to interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, however earlier adoption is permitted as of the beginning of a fiscal year. The Company has adopted these accounting changes effective January 1, 2010.

## FUTURE ACCOUNTING CHANGES

### CONVERSION TO IFRS IN FISCAL 2011

The CICA Accounting Standards Board requires all Canadian publicly accountable enterprises to adopt IFRS for years beginning on or after January 1, 2011. The Company will adopt IFRS for the fiscal year 2011 starting January 1, 2011. The Company’s transition from Canadian GAAP to IFRS will commence in the first quarter of 2011 at which time the Company will report both the current and comparative information using IFRS.

The Company has developed and established an IFRS transition project which has taken into consideration both the internal and external resources required to implement IFRS and has completed a preliminary assessment of the impact the change to IFRS will have on the Company’s financial statements. A detailed assessment has been completed for presentation to the audit committee and board of directors for approval.

The IFRS transition project consists of three main phases:

#### PHASE ONE: IMPACT ASSESSMENT

This phase consisted of a high-level impact assessment that identified the key areas of accounting differences between Canadian GAAP and IFRS that are likely to impact the Company as well as other areas that may not necessarily impact the Company at this time. The impact assessment was completed in the third quarter of 2010 and has been provided to the audit committee and board of directors for review.

#### PHASE TWO: DETAILED ASSESSMENT

This phase involved a more comprehensive assessment of the differences between IFRS and the Company’s current accounting policies and account balances and will be reviewed by outside consultants. This will include a detailed assessment of the potential financial impact at the date of conversion as well as potential changes that may be required to current accounting policies, information systems and processes. This detailed assessment has been completed and potential changes to existing accounting policies, business process and information systems that were identified have been presented to the audit committee and board of directors for their review.

### PHASE THREE: IMPLEMENTATION

The implementation phase involved an analysis of the alternatives allowed under IFRS, including the current mandatory and elective exemptions that exist. During this phase, we presented to the audit committee and board of directors, management's recommendations for these exemptions and request final approval of changes in accounting policies and IFRS transition adjustments.

Through the completion of phases 1 and 2 of this process, the Company identified the following potential areas of difference between Canadian GAAP and IFRS that could impact our financial position and operating results upon conversion to IFRS:

- A.** IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement of full retrospective application of IFRS. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings in the first comparative balance sheet.
- B.** Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2010 and the issuance of the exposure draft on IAS 37 Provisions, Contingent Liabilities and Contingent Assets in January 2010, management is still determining the impact of these revised standards on its IFRS transition
- C.** Income taxes: IAS 12, Income Taxes, prescribes that an entity account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities which arise from those transactions should also be recorded in earnings. For transactions that are recognized outside of the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects should also be recognized outside the statement of earnings.

The most significant impact of IAS 12 on Cervus will be derived directly from the accounting policy decisions made under other standards.

- D.** Share-based payments: Under IFRS 2, Share-Based Payment, awards will continue to be measured at fair value, with compensation expense under our plans recognized over the service period. For our equity-settled plans, we will continue to recognize a corresponding increase in equity. Unlike Canadian GAAP, the service period under IFRS may commence prior to the date of grant and end on the vesting date. This represents a difference in timing and ultimately does not impact the overall expense. It is estimated that the impact on transition will not be material.

The transition from Canadian GAAP to IFRS is a significant undertaking that will materially affect our reported financial position and results of operations commencing in the first quarter of 2011. As a result of our assessment of transitional adjustments, we estimate that approximately \$58 million will be recorded in Shareholders' equity and reduce total liabilities due to the reclassification of the current and long-term portion of the deferred credit. In addition, we estimate that approximately \$6 million to \$7 million of future income tax expense and \$84 thousand of share-based payments will be recorded in the comparative 2010 financial statements commencing in March 2011 and approximately \$130 thousand will be recorded as a transitional adjustment for share-based payments.

We continue to monitor standards development as issued by the International Accounting Standards Board and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of our adoption of IFRS.

## BUSINESS RISKS AND UNCERTAINTIES

### RELIANCE ON OUR KEY MANUFACTURERS AND DEALERSHIP ARRANGEMENTS

Cervus' primary source of income is from the sale of farm and construction and industrial equipment and products and services pursuant to agreements to act as an authorized dealer. The agreement with 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 Company also has dealership agreements in place with Bobcat and JCB. These agreements are one year agreements; however the agreements are normally renewed on a year by year basis.

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 circumstances will not arise which gives these equipment manufacturers the right to terminate their dealership agreements.

### DEPENDENCE ON INDUSTRY SECTORS

Authorized John Deere agricultural dealerships sell John Deere agricultural and lawn and garden products and equipment. The majority of sales are derived from the agricultural sector. Consequently, grain and livestock prices, weather conditions, Canadian vs. U.S. currency exchange rates, interest rates, disease, Canadian and U.S. government trade policies and customer confidence have an impact on demand for equipment, parts and service.

The retail farm 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 common areas that the Company's dealerships are located. Presently, 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 manufacture high quality, competitively priced products or maintain its market share in the future.

We have mitigated these risks by geographical diversification in Western Canada within the agricultural sector and industry diversification into the construction sector in Alberta.

The construction and industrial group sells light and medium construction and industrial and is comprised of several lines of equipment from two major manufacturers, Bobcat and JCB. The major competitors are Caterpillar, Komatsu, CNH (Case), John Deere, Volvo, Hitachi and Liebherr. The light and medium construction and industrial market is very much dependent upon residential construction of new housing.

The industrial equipment group sells material handling equipment from several manufacturers, Clark, Sellick, Nissan, and Doosan being the major suppliers. Their major competitors are Toyota, Hyster, and Caterpillar. The materials handling equipment is primarily sold to oilfield supply companies, building supply companies, warehousing, food processors, and the grocery industry. This customer diversity mitigates to some degree the risks inherent in any one of these customer segments. However, this group has been impacted negatively by the general slowdown in the oil and gas and building sectors.

Presently the majority of the construction and industrial equipment division's revenue is derived from the sale of Bobcat, JCB, Doosan, Nissan, Clark and Sellick equipment and products. All these equipment manufacturers have established themselves as industry leaders in the Western Canada market for the manufacture and delivery of light construction and industrial equipment. There can be no assurance however that these suppliers will continue to manufacture high quality, competitively priced products or maintain their market share in the future.

## OTHER RISKS

Although the Company has conducted investigations of, and engaged legal counsel to review, the corporate, legal, financial and business records of Vasogen, there may be liabilities and risks that the Company did not uncover in its due diligence investigation and that these liabilities and risks could have individually or in the aggregate, a material adverse effect on the business, financial condition and results of operations of Cervus.

The steps under the plan of arrangement, pursuant to which the corporate conversion was completed, were structured to be tax-deferred to the Company and the Company's shareholders based on certain rules under the Income Tax Act (Canada). There is a risk that the tax consequences contemplated by the Company or the tax consequences of the plan of arrangement to the Company and the shareholders may be materially different from the tax consequences anticipated by the Company in undertaking the conversion. While the Company is confident in its current position, there is a risk that the Canada Revenue Agency could successfully challenge the tax consequences of the plan of arrangement or prior transactions of Vasogen. Such a challenge could potentially affect the availability or amount of the tax basis or other tax accounts of Cervus.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

### DISCLOSURE CONTROLS AND PROCEDURES

Cervus has designed disclosure controls and procedures for the Company to ensure that information to be disclosed by the Company is communicated to the Company's management on a timely basis to allow for appropriate decisions regarding required disclosures. The Company's CEO and Chief Financial Officer (CFO), under the supervision of the Disclosure Committee, have concluded, based on their evaluation as of December 31, 2010 that the Company's disclosure controls and procedures are effectively designed. The Company is relying on those disclosure controls and procedures.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

We have designed our control environment to achieve a balance of preventative and detective controls as well as manual and automated controls. We used a risk based approach in the design of our internal controls over financial reporting.

Throughout 2010 and 2009 we have engaged an outside accounting firm to advise us on the documentation and design of our internal controls over financial reporting. Based on the results of the work performed, we have implemented certain recommendations to further enhance the design of certain preventative and detective controls, including controls over segregation of duties to achieve an efficient control environment. In 2010 we relied on the design of key controls, along with the enhancements discussed earlier, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our consolidated financial statements in accordance with GAAP.

## LIMITATION ON THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Notwithstanding the foregoing, we do not expect our disclosure controls and procedures, and internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Note that there have been no material changes in the Company's disclosure controls and procedures.

## VOLUNTARY DISCLOSURE

It should be noted that at December 31, 2010, Cervus was a "venture issuer" under applicable Canadian securities legislation, is not required to discuss in this MD&A the design or operating effectiveness of disclosure controls and procedures or internal controls over financial reporting, we have nevertheless chosen to comment on the abovementioned components of such controls. Notwithstanding such voluntary disclosure, we are not required to certify the design and evaluation of disclosure controls and procedures and internal controls over financial reporting and have not done so. Further, it should be noted that inherent limitations on the ability of our CEO and CFO to design and implement on a cost effective basis disclosure controls and procedures and internal controls over financial reporting for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## NON-GAAP FINANCIAL MEASURES

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by Canadian GAAP ("GAAP"). 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 net earnings or to cash flow from operating, investing, and financing activities determined in accordance with Canadian GAAP as indicators of our performance. These measures are provided to assist investors in determining our ability to generate earnings 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:

**EBITDA;** is defined as earnings before interest, taxes, depreciation, and amortization. We believe, in addition to net earnings, 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.

**EBITDA margin;** EBITDA margin is calculated as EBITDA divided by revenue. The following is a summary of EBITDA and EBITDA margin for each of our quarters ending December 31, 2010 and 2009:

\$ thousands, except margin and per share amounts	Year ended December 31, 2010	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Net earnings (loss)	18,201	3,287	10,679	5,062	(827)
Interest	2,024	530	674	434	386
Future income taxes	573	216	175	182	-
Depreciation and amortization	7,633	2,187	1,878	1,861	1,707
EBITDA	28,431	6,220	13,406	7,539	1,266
EBITDA margin	6.1	5.8%	8.2%	5.9%	1.9%
EBITDA per share - diluted	1.95	0.45	0.92	0.55	0.09

\$ thousands, except margin and per share amounts	Year ended December 31, 2009	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Net earnings	17,177	(573)	8,745	7,330	1,675
Interest	952	261	219	213	259
Future income taxes	1,692	1,692	-	-	-
Depreciation and amortization	4,565	1,156	1,113	1,159	1,137
EBITDA	24,386	2,536	10,077	8,702	3,071
EBITDA margin	6.5	3.0%	8.3%	8.2%	4.6%
EBITDA per share - diluted	1.69	0.18	0.70	0.61	0.22

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

**Price earnings ratio;** Price earnings ratio is calculated as market value per share divided by earnings per share.