

**CERVUS**  
EQUIPMENT CORPORATION

Q1 FIRST  
QUARTER  
REPORT  
2012



# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

For the period from January 1, 2012 to March 31, 2012

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The following Management's Discussion & Analysis ("MD&A") was prepared as of May 9, 2012 and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or "Company") financial performance for the three month period ended March 31, 2012 and significant trends that may affect future performance of Cervus. This MD&A should be read in conjunction with the accompanying interim unaudited condensed consolidated financial statements for the period ended March 31, 2012 and the notes contained therein. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Cervus' functional and reporting currency is the Canadian dollar. Cervus' common shares trade on the Toronto Stock Exchange under the symbol "CVL".

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

## Overview of Cervus

Cervus is a diversified corporation and has historically operated in two separate business segments, an agricultural equipment segment and a commercial and industrial equipment segment. These segments are managed separately and strategic decisions are made on the basis of their respective operating results. 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 Commercial and industrial equipment segment consists primarily of 21 dealerships, 7 Bobcat JCB, and CMI dealerships operating in Alberta; 9 Clark, Sellick, Nissan and Doosan material handling equipment dealerships operating in Alberta, Saskatchewan and Manitoba; and 4 Peterbilt truck dealerships and 1 Collision repair center operating in Saskatchewan. Cervus owns directly or indirectly, 100% of Cervus LP, Cervus AG Equipment LP, Cervus Contractors Equipment LP, Cervus Collision Center LP and 101169185 Saskatchewan Ltd., together with 100% of the outstanding and issued shares of the LP's respective general partners, Cervus GP Ltd., Cervus AG Equipment Ltd. and Cervus Contractors Equipment Ltd. and 60.3% of Agriturf Limited ("Agriturf"), a New Zealand company and its 100% interest in its subsidiary, Agriturf Rental and Leasing Limited. In addition to the aforementioned subsidiaries, Cervus owns a 20% interest in Maple Farm Equipment Partnership ("Maple") that is based in Saskatchewan and Manitoba which 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 those limited partnerships to Cervus by means of partnership allocations.

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### Note Regarding Forward-Looking Statements

Certain statements contained in this MD&A constitute "forward-looking statements". These forward-looking statements may include words such as "anticipate", "believe", "could", "expect", "may", "objective", "outlook", "plan", "should", "target" and "will". All statements, other than statements of historical fact, that address activities, events, or developments that Cervus or a third party expects or anticipates will or may occur in the future, including our future growth, results of operations, performance and business prospects and opportunities, and the assumptions underlying any of the foregoing, are forward-looking statements. These forward-looking statements reflect our current beliefs and are based on information currently available to us and on assumptions we believe are reasonable. Actual results and developments may differ materially from the results and developments discussed in the forward-looking statements as they are subject to a number of significant risks and uncertainties, including those discussed under "Business Risks" and 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.

### Non-IFRS Measures

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

### Internal Controls over Financial Reporting

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

The CEO and CFO assessed the effectiveness of the Corporation's internal control over financial reporting as of March 31, 2012, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the CEO and CFO concluded that, as of March 31, 2012, Cervus's internal control over financial reporting is effective.

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### Disclosure Controls

The CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Canadian Securities Administrators National Instrument 52-109). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Company's management, as appropriate to allow timely decisions regarding required disclosure.

The CEO and CFO have concluded that the disclosure controls and procedures were effective as of March 31, 2012 in providing reasonable assurance around material information relating to the Company and its consolidated subsidiaries.

### Market Outlook (see "Note Regarding Forward-Looking Statements")

#### *Agricultural equipment*

As described in our annual report, Agriculture and Agri-Food Canada's 2012 preliminary forecasts have indicated that farm income will decline somewhat as increased expenses and decreased program payments will be greater than the increase in receipts from higher grain prices and livestock prices. However, grain (primarily for wheat, barley, oats and canola) and livestock (steers and heifers) pricing in April 2012 when compared to the same period in 2011, are showing gains of over 10% whereas inputs appear to be relatively stable in comparison.

Agriculture and Agri-Food Canada's Medium Term Outlook indicates that many of the forces affecting farm incomes in Canada in 2011 and 2012 may continue into future years. This includes an increase in world-wide demand for feed grains, a rising price of crude oil, a Canadian dollar near par with the American dollar, and Canadian population growth of 1.2 % per year and its required increase in domestic food demands.

#### *Commercial and industrial equipment*

In their first quarter 2012 Housing Outlook, CMHC has reported that Alberta's economic expansion in 2012, combined with the expected turnaround in oil sands investment and oil prices has been sufficient to restart many of the halted oil sands projects. There is significant upside for energy investment as these projects become viable. As a result, the Government of Alberta is predicting over a 3% real gross domestic product growth for 2012 based on Alberta's Finance and Enterprise 2012 - 2014 Economic Outlook.

#### *Overall*

During 2012, we expect the commercial and industrial equipment segment results will improve at a more rapid pace than our agricultural equipment segment as a result of the factors noted above. This is primarily based on improved performance in the first quarter of 2012 which is consistent with AEM's estimate of construction equipment unit statistics for the first quarter of 2012. We believe we will grow at, or slightly above, market growth expectations.

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### Highlights of the Quarter

- On March 15, 2012, the Company completed the acquisition of Frontier Peterbilt Sales Ltd. and Frontier Collision Center Ltd. (collectively "Frontier") which included 4 Peterbilt dealerships and 1 collision center dealership in Saskatchewan.
- In addition, the Company completed the purchase of Frontier's, related land and buildings for a purchase price of \$35.0 million.
- Revenue increased by \$25.5 million (same store \$22.1 million) to \$109.8 million from \$84.3 million.
- Profit for the period was \$1.4 million, an increase of \$1.6 million over the 2011 loss of \$155 thousand and net income per share was \$0.08 compared to a net loss per share of \$0.01 in 2011.
- Net cash from operating activities increased by \$15.6 million to \$15.8 million from \$185 thousand in the same period of 2011.

### Overall Performance

During the first three months of 2012 when compared to the same period of 2011, revenue grew by \$25.5 million or over 30% to \$109.8 million. Same store sales increased by \$22.1 million or over 26%. Both of our operating segments reported increases in revenues with the agricultural equipment segment increasing by over 29% and the commercial and industrial equipment segment increasing by over 31% (26% on a same store basis).

The increase in our sales, combined with the marginal change in overall gross profit margins, resulted in an increase in our profit for the three month period ended March 31, 2012 when compared to 2011. Profit for the period increased by \$1.6 million to \$1.4 million from a loss of \$155 thousand in 2011. Selling, general and administrative expenditures decreased to 17.9% of total revenue for the three month period ended March 31, 2012 compared to 20.3% for the same period in 2011.

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### Selected Quarterly Information

\$ thousands, except per share amounts	March 31, 2012	March 31, 2011	% change
Revenues	109,782	84,273	30.3
Gross profit	23,055	18,094	27.4
Gross margin	21.0%	21.5%	(2.3)
Profit (loss) for the period	1,397	(155)	n/a
Per share - Basic and diluted	0.08	(0.01)	-
Net cash provided by (used in) operating activities	15,818	185	8450.3
Per share - Basic	1.07	0.01	n/a
EBITDA <sup>1</sup>	5,290	2,137	147.5
EBITDA margin <sup>1</sup>	4.8%	2.5%	92.0
Per share - basic	0.36	0.15	140.0
Dividends declared to common shareholders	2,686	2,557	5.0
Per share	0.1825	0.18	1.4
Weighted average shares outstanding			
Basic	14,715	14,201	3.6
Diluted	15,240	14,654	4.0
Actual common shares outstanding	14,717	14,204	3.6
Closing market price per share	18.75	16.15	16.1
Total assets	351,836	267,524	31.5
Long-term liabilities	42,733	9,986	327.9
Total liabilities	168,814	96,418	75.1
Total equity	183,022	171,106	7.0
Net book value per share - diluted	12.01	11.68	2.8

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

# CERVUS EQUIPMENT CORPORATION

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### Results of Operations

#### Revenues

\$ thousands	March 31, 2012	March 31, 2011	% change
<b>Revenues by segment:</b>			
Equipment:			
New	33,008	26,010	26.9
Used	22,012	15,164	45.2
Total equipment revenue	55,020	41,174	33.6
Parts	9,483	8,015	18.3
Service	5,975	5,299	12.8
Rental and other	951	603	57.7
<b>Agricultural equipment</b>	<b>71,429</b>	<b>55,091</b>	<b>29.7</b>
Equipment			
New	20,842	13,706	52.1
Used	2,454	2,407	2.0
Total equipment revenue	23,296	16,113	44.6
Parts	7846	6,615	18.6
Service	5,355	4,620	15.9
Rental and other	1,856	1,834	1.2
<b>Commercial and industrial equipment</b>	<b>38,353</b>	<b>29,182</b>	<b>31.4</b>
<b>Total</b>	<b>109,782</b>	<b>84,273</b>	<b>30.3</b>

#### Agricultural equipment

Revenue for our agricultural equipment segment increased by \$16.3 million or 29.7% for the three month period ended March 31, 2012 when compared to the same period of 2011.

New equipment sales increased by \$7.0 million or 26.9% and used equipment sales increased by \$6.8 million or 45.2%. The primary reason for the increase in sales is related to increases in our customer's net farm income and optimism towards increased grain prices and cattle prices related over 2011.

Our parts revenue has increased by \$1.5 million or 18.3% and our service revenue has increased by \$676 thousand or 12.8% during the three month period ended March 31, 2012 when compared to the same period of 2011. The overall increase in parts and service sales is primarily related to parts and service required as a result of our increase in new and used equipment sales.

Rental revenue increased \$348 thousand or 57.7% during the three month period ended March 31, 2012. The primary reason for the increase in total rental revenue is related to increased activity seen in New Zealand through our subsidiary, Agriturf Limited.

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### Commercial and industrial equipment

Revenue from our commercial and industrial segment increased by \$9.2 million or 31.4% (\$5.7 million or 19.7% on a same store basis) for the three month period ended March 31, 2012 when compared to the same period of 2011.

New equipment sales have increased by \$7.1 million or 52.1% (\$5.9 million or 43.1% on a same store basis) and used equipment sales have increased by \$47 thousand or 2.0% (decrease of \$318 thousand or 13.2% on a same store basis) during the three month period ended March 31, 2012 when compared to the same period of 2011. The increase in our new equipment sales is primarily due to continued increase in activity being experienced in the oil and gas sector of Alberta as well as the increased activity in the transportation industry, positively affecting the need for material handling equipment.

Parts revenues have increased \$1.2 million or 18.6% (\$47 thousand or 0.7% on a same store basis) and service revenue has increased by \$735 thousand or 15.9% (\$87 thousand or 1.9% on a same store basis). The overall increase in parts and service revenues was nominal and was somewhat hindered by a mild winter season in which customers did not require significant repairs and maintenance.

Rental income increased by a nominal \$22 thousand or 1.2% and the increase was all on a same store basis. The increase in the segment's rental income was also hindered by less equipment required for snow removal during the winter season.

### Gross Profit

#### Gross profit margin by segment:

Agricultural equipment  
Commercial and industrial equipment

Total

	March 31, 2012	March 31, 2011	% change
Agricultural equipment	17.8%	17.7%	0.6
Commercial and industrial equipment	27.0%	28.6%	(5.6)
Total	21.0%	21.5%	(2.3)

### Agricultural equipment

Gross profit dollars increased by \$2.9 million or 30% during the three month period ended March 31, 2012 when compared to the same period of 2011 on increased gross revenue.

Gross margin percentage changed by 0.1% to 17.8% due to a combination of sales mix which was either an increase or decrease of less than 2% for each product line and gross profit increases in equipment which were offset by decreases experienced in parts, service and rental sales.

### Commercial and industrial equipment

Gross profit dollars have increased by \$2.0 million or 24.4% (same store increased \$1.2 million or 14.4%) on increased sales activity during the three month period ended March 31, 2012 when compared to the same period of 2011.

Gross margin percentage declined by 1.6% to 27.0% compared to 28.6% in 2011. The decrease in overall gross margin as a percentage of sales is primarily related to the change in the segment's revenue mix where increases in sales were primarily related to whole goods, whose profit margin is less than those earned on parts, service and rental sales.



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### Selling, General and Administrative Expenses

\$ thousands	March 31, 2012	March 31, 2011	% change
<b>Selling, general and administrative expenses by segment:</b>			
Agricultural equipment	12,391	10,964	13.0
Commercial and industrial equipment	8,898	7,376	20.6
<b>Total</b>	<b>21,289</b>	<b>18,340</b>	<b>16.1</b>
<b>% of revenue</b>			
Agricultural equipment	17.3	19.9	(13.1)
Commercial and industrial equipment	23.2	25.3	(8.3)
<b>Total</b>	<b>19.4</b>	<b>21.8</b>	<b>(11.0)</b>

#### Agricultural equipment

The agricultural equipment segment reported an increase in selling, general and administrative expenses of \$1.4 million or 13.0% for the three month period ended March 31, 2012 when compared to the same period of 2011. The increase is primarily caused by an increase in personnel costs which represent 81% of the increase in 2012 over 2011. This has been caused by a combination of increases in general staff levels, an general increase in wages, and an increase in commissions expense related to the increase in whole goods sales experienced in the quarter.

#### Commercial and industrial equipment

The commercial and industrial equipment segment's selling, general and administrative expenses increased \$1.5 million or 20.6% (\$928 thousand or 12.6% on a same store basis) for the three month period ended March 31, 2012 when compared to the same period of 2011. The primary reason for the overall increase in selling, general and administrative expenses on a same store basis was due to personnel costs which have increased by 108% when compared to 2011. The increase is due to a combination of general salary increases, additions to staff levels and an increase in commissions due to higher sales volumes.

### Depreciation and amortization

\$ thousands	March 31, 2012	March 31, 2011	\$ change
<b>Depreciation and amortization by segment:</b>			
Agricultural equipment:			
Depreciation on equipment included in cost of sales	264	218	46
Depreciation on equipment	618	421	197
Amortization of intangible assets	179	199	(20)
	<b>1,061</b>	<b>838</b>	<b>223</b>
Commercial and industrial equipment:			
Depreciation on equipment included in cost of sales	493	521	(28)
Depreciation on equipment	370	164	206
Amortization of intangible assets	435	415	20
	<b>1,298</b>	<b>1,100</b>	<b>198</b>
<b>Total</b>	<b>2,359</b>	<b>1,938</b>	<b>421</b>

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Depreciation and amortization increased by \$421 thousand for the three month period ended March 31, 2012 when compared to 2011. The primary reason for the increase was related to the purchase of real properties from Proventure Income Fund, a related party at the beginning of 2012. Depreciation related to the acquisition of these properties amounted to \$288 thousand of the \$421 thousand increase. In addition, the agriculture equipment segment had an increase in rental equipment depreciation related to its rental assets in Agriturf. The increase in amortization of intangible assets in the commercial and industrial equipment segment was directly related to the purchase of 4 Peterbilt dealerships and 1 collision center on March 15, 2012.

### Finance income

Finance income is comprised of interest earned on customer accounts receivable, contract lease receivables, related party advances and held-to-maturity investments. Total finance income was \$359 thousand (\$235 thousand on a same store basis) for the three month period ended March 31, 2012 when compared to \$49 thousand for the same period of 2011. The primary reason for the increase in same store finance income is related to interest earned on advances to related parties and interest on amounts due the Company for short-term and long-term receivables.

### Finance costs and other interest

Finance costs are comprised of interest expenses related to the funds loans and borrowings as well as floor plan payables. Interest expense is also recorded on loans and borrowings related to the Company's rental fleet property and equipment which is recorded in cost of sales of each segment. For the purposes of showing the Company's interest expense, the following analysis includes both the interest expense on financial liabilities recorded in finance costs and interest on financial liabilities recorded directly in cost of sales.

\$ thousands

#### Interest by segment:

##### Agricultural equipment

Interest expense

Interest in cost of sales

##### Commercial and industrial equipment

Interest expense

Interest in cost of sales

Total

% of revenue

	March 31, 2012	March 31, 2011	\$ change
Interest expense	397	121	276
Interest in cost of sales	66	17	49
	463	138	325
Interest expense	189	188	1
Interest in cost of sales	29	48	(19)
	218	236	(18)
Total	681	374	307
% of revenue	0.6	0.4	n/a

Floor plan liabilities as a percentage of inventories at March 31, 2012 were 61.6% compared to 49.0% at December 31, 2011 and 50.4% at March 31, 2011.

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Overall, the simple average interest rate on the Company's debt as at March 31, 2012 was 2.7% compared to 2.5% at March 31, 2011. The increase in the simple average interest rate is primarily related to the increase in interest bearing floor plan payables during the three month period ended March 31, 2012. As at March 31, 2012, the Company's non-interest floor plans represent approximately 10% of the aggregate floor plans outstanding. In addition during the year the Company received rebates which were applied against interest expense that would otherwise be payable. The amount of rebates received during the three month period ended March 31, 2012 and 2011 of \$241 thousand and \$235 thousand respectively.

### Net profit and comprehensive income

The Company has a foreign subsidiary, Agriturf, which, upon consolidation, results in unrealized gains (losses) on currency translation of the financial statements of a foreign operation with a non-Canadian dollar as their functional currency. As a result, a profit of \$90 thousand has been recorded as other comprehensive income for the three month period ended March 31, 2012 and a loss of \$40 thousand for the same period of 2011. This translation adjustment is the only difference between the profit for the period and total comprehensive profit for the period.

The net profit attributed to shareholders for the period excludes the allocation of profit to non-controlling interests. Under IFRS, the non-controlling interest share of profit is shown in profit for the year. Earnings per share are calculated based on the profit for the year attributed to shareholders of the Company only.

(\$ thousands except net earnings per share):

	March 31, 2012	March 31, 2011	% change
<b>Net profit (loss) for the period:</b>			
Agricultural equipment segment	301	(792)	n/a
Adjust for loss (income) from non-controlling interest	(178)	97	n/a
Net profit attributable to shareholders from agricultural equipment segment	123	(695)	n/a
Commercial and industrial equipment	1,095	637	71.9
<b>Net profit (loss) attributable to shareholders</b>	<b>1,218</b>	<b>(58)</b>	<b>n/a</b>
<b>Profit (loss) as a % of total segment revenues</b>			
Agricultural equipment	0.5	(1.4)	n/a
Commercial and industrial equipment	2.6	2.2	18.2
<b>Total</b>	<b>3.1</b>	<b>0.8</b>	<b>287.5</b>
<b>Net Earnings Per Share:</b>			
Shares outstanding – basic	<b>14,715</b>	<b>14,201</b>	<b>3.6</b>
Agricultural equipment	0.01	(0.05)	n/a
Commercial and industrial equipment	0.07	0.04	75.0
<b>Total</b>	<b>0.08</b>	<b>(0.01)</b>	<b>n/a</b>

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### EBITDA (See Non-IFRS Financial Measures)

(\$ thousands)	March 31, 2012	March 31, 2011	\$ change
<b>EBITDA by segment:</b>			
<b>Agricultural equipment</b>			
Net profit (loss)	301	(792)	1,093
Add:			
Interest	463	138	325
Income taxes	(89)	(257)	168
Depreciation and amortization	1,061	838	223
<b>EBITDA</b>	<b>1,736</b>	<b>(73)</b>	<b>1,809</b>
<b>% of segment revenue</b>	<b>2.4</b>	<b>(0.1)</b>	<b>n/a</b>
<b>Commercial and industrial equipment</b>			
Net profit	1,095	637	458
Add:			
Interest	218	236	(19)
Income taxes	943	237	707
Depreciation and amortization	1,298	1,100	198
<b>EBITDA</b>	<b>3,554</b>	<b>2,210</b>	<b>1,344</b>
<b>% of segment revenue</b>	<b>9.3</b>	<b>7.6</b>	<b>n/a</b>
<b>Total EBITDA</b>	<b>5,290</b>	<b>2,137</b>	<b>3,153</b>
<b>% of revenue</b>	<b>4.8</b>	<b>2.5</b>	<b>n/a</b>

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

For the three month period ended March 31, 2012, EBITDA increased by \$3.2 million when compared to the same period of 2011. The most significant factor contributing to the increase in EBITDA for the year was the increase in net profit before income taxes which amounted to \$2.4 million. In addition, depreciation and amortization increased as a result of the property and equipment additions described above and interest expense increased, primarily in the agricultural equipment segment due to an increase in mortgage liabilities and interest related to Agriturf rental equipment liabilities.

### Summary of Quarterly Results

The 2010 quarterly results have been restated to reflect the Company's transition to IFRSs. An explanation of the transitional differences is shown below the quarterly summary which includes primarily the increase in deferred share compensation and the change in income taxes as previously shown above and the reconciliation to net profit is shown below.

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\$ thousands, except per share amounts	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Revenues	109,782	141,356	186,878	147,091
Profit attributable to the shareholders	1,218	4,397	8,193	5,912
Basic earnings per share	0.08	0.30	0.56	0.40
Diluted earnings per share	0.08	0.29	0.54	0.39
Weighted average shares outstanding				
- Basic	14,715	14,699	14,659	14,618
- Fully diluted	15,240	15,211	15,152	15,074

\$ thousands, except per share amounts	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Revenues	84,273	109,542	164,461	127,927
Profit (loss) attributable to the shareholders	(58)	2,190	6,753	3,254
Basic earnings (loss) per share	(0.00)	0.15	0.48	0.23
Diluted earnings (loss) per share	(0.00)	0.15	0.47	0.22
Weighted average shares outstanding				
- Basic	14,201	14,189	14,176	14,162
- Fully diluted	14,654	14,616	14,517	14,504

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. The commercial and industrial equipment sector is not as volatile but does see slower sales activity in the winter months. As a result, profit or loss may not accrue uniformly from quarter to quarter. The primary reason for the change in net profit is from increased sales activity being experienced in both segments.

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### Liquidity

\$ thousands, except ratio amounts	March 31, 2012	December 31, 2011
Current assets	181,480	166,948
Total assets	351,836	281,455
Current liabilities	126,081	87,808
Long-term liabilities	168,814	97,736
Shareholders' equity	183,022	183,719
Working capital (see "Non-GAAP Financial Measures")	55,399	79,140
Working capital ratio (see "Non-GAAP Financial Measures")	1.4	1.9

#### **Working capital**

Our working capital decreased by \$23.7 million to \$55.4 million at March 31, 2012 when compared to \$79.1 million at December 31, 2011. 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 Company's ability to generate sufficient cash and cash equivalents is determined by continued strong gross revenue performance, maintaining existing gross margins and controlling 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 restored by accessing floor plan monies from unencumbered used equipment inventories. 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 the cyclical nature of our sales activity.

#### **Liquidity risk**

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the ability to raise funds to meet purchase commitments 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 March 31, 2012 are described below.

The Company has available for its current use \$50.7 million. The credit facilities consist of an operating facility (\$15 million), inventory facility (\$18 million), rental facility (\$7 million), capex facility (\$3 million), lease loan facility (\$5.5 million). In addition, the Company has an operating bank line of credit with its subsidiary, Agriturf, to a maximum amount of approximately \$1.6 million (NZ\$2.0 million) in New Zealand. This is reduced by \$4.0 million the Company has issued for irrevocable letters of credit described below and \$172 thousand (NZ\$210 thousand) of financial guarantees provided in New Zealand. Of the \$45.5 million available, the company has drawn on the inventory facility (\$6.9 million),

# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

For the period from January 1, 2012 to March 31, 2012

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the rental facility (\$1.8 million), the capex facility (\$1.1 million), the lease loan facility (\$2.1 million) and \$1.2 million (NZ\$1.5 million) has been drawn by Agriturf, our New Zealand subsidiary.

The Company has \$4.0 million of irrevocable letters of credit issued with \$2.4 million issued to John Deere Limited ("JDL") on behalf of our agricultural equipment segment and \$1.6 million issued to an equipment supplier of our commercial and industrial equipment segment. The letters of credit were provided to the suppliers in an effort to reduce personal guarantees required by JDL of our senior management and as collateral for past business acquisitions and to secure inventory delivery through 2012.

The Company has approximately \$6.3 million in cash and cash equivalents on hand as at March 31, 2012 which consists of funds on deposit of \$7.5 million and is reduced by \$1.2 million (NZ\$1.5 million) of credit facilities drawn on by Agriturf.

As at March 31, 2012, inventories had increased by \$31.5 million (same store increased \$14.5 million) to \$138.3 million when compared to December 31, 2012. New equipment inventories comprise the bulk of the increase at \$24.0 million (same store increased \$14.2 million) to \$68.3 million at March 31, 2012 and used equipment increased \$1.1 million (same store decreased by \$1.2 million) to \$47.7 million. Parts inventories have also increased by \$5.5 million (same store increased \$1.3 million) to \$20.8 million. Work-in-process increased by \$895 thousand (same store increased \$208 thousand) to \$1.6 million. The primary increase in our inventories, being new equipment has been driven by the substantial increase in equipment sales in both of our segments.

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 commercial and industrial equipment sales usually do not have trade-ins. This is why we have a higher amount of used agriculture equipment than used commercial and industrial equipment. In addition, the majority of our new John Deere equipment is on consignment from John Deere whereas we purchase the new equipment from our other manufacturers. These factors directly impact the amount of 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.

As at March 31, 2012, the Company believes that its recoverable amounts on its used equipment inventories exceed their respective carrying values and no impairment reserve is required or has been recorded.

### ***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

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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 profit by approximately \$22 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 at March 31, 2012, a one percent increase or decrease in market interest rates would impact the Company's annual interest expense by approximately \$1 million. The Company's other financial instruments are not exposed to interest rate risk.

### ***Environmental risks***

Our dealerships routinely handle hazardous and non-hazardous waste 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 has established safety programs to help reduce these risks. 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 repayment obligations. A substantial amount of the Company's revenue is generated from customers in the farming and commercial and industrial equipment industries. This results in a concentration of credit risk from customers in these industries. A significant decline in economic conditions within these industries would increase the risk 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 19 days as at March 31, 2012 (20 days for the year ended December 31, 2011) and no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on specific customers' credit risk, historical trends, and other economic information.

The Company's allowance for doubtful collections has increased by \$390 thousand (same store increased \$107 thousand) to \$1.24 million at March 31, 2012 which represents approximately 3.9% of outstanding trade accounts receivable and 0.2% of gross revenue on an annualized basis. Write-offs during the three month period ended March 31, 2012 amounted to \$119 thousand.



# CERVUS EQUIPMENT CORPORATION

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For the period from January 1, 2012 to March 31, 2012

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### *Cash and cash equivalents*

Cervus' primary sources and uses of cash flow for the three month period ended March 31, 2012 are as follows:

### **Operating activities**

Net cash from operating activities was \$15.8 million when compared to \$185 thousand for the same period of 2011, an increase of \$15.6 million. The primary reason for the increase was a combination of increased profit of \$1.5 million and an increase in non-cash transactions and working capital items of \$13.1 million.

### **Investing activities**

The Company used \$20.7 million in net cash for investing activities. The most significant use of cash for investing activities was the purchase of property and equipment for \$19.5 million, advances received from repayments of related party loans of \$15.9 million and \$17.6 million used for a business acquisition.

### **Financing activities**

The Company's financing activities provided \$4.6 million in net cash flows, primarily from advances of new term debt financing of \$6.9 million and the payment of dividends in the amount of \$2.4 million.

### **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 principal contractual obligations are as follows:

<b>\$ in thousands</b>	<b>Total Carrying value</b>	<b>Due 2012</b>	<b>Due 2013 through 2015</b>	<b>Due 2016 through 2017</b>	<b>Due thereafter</b>
Long-term debt	44,270	4,234	22,915	2,083	15,038
Notes payable	5,218	2,521	2,697	-	-
Operating leases	9,598	2,457	4,836	1,209	1,096
<b>Total contractual obligations</b>	<b>59,086</b>	<b>9,212</b>	<b>30,448</b>	<b>3,292</b>	<b>16,134</b>

The contractual obligations for the long-term debt in the amount of \$6.7 million related to land and buildings under construction are included in the due thereafter column until the contractual repayment terms are determined on completion of the project.

# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

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### 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. The major increase in our floor plan facilities at March 31, 2012 when compared to December 31, 2011 was from the business acquisition made in March 2012. As a result of the acquisition, the Company has added \$14 million to its floor plan limit. A summary of the Company's available credit facilities as at March 31, 2012 is as follows:

<i>In \$ thousands</i>	<i>Total amount</i>	<i>Borrowings</i>	<i>Letters of Credit</i>	<i>Amount Available</i>
Operating and other bank credit facilities	49,650	13,178	4,000	32,472
Floor plan facilities and rental equipment term loan financing	155,410	84,285	-	71,125
<b>Total</b>	<b>205,060</b>	<b>97,463</b>	<b>4,000</b>	<b>103,597</b>

#### ***Operating and other bank credit facilities***

As discussed above in the liquidity risk section, operating and other bank credit facilities include both the Canadian and New Zealand amounts. The operating facility borrowing of NZ\$1.5 million or CAD \$1.2 million represents 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 and working capital requirements for the remainder of 2012.

#### ***Floor plan facilities***

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with JDL John Deere Financial, GE Canada Equipment Financing G.P., General Electric Canada Equipment Financing G.P., GE Commercial Distribution Finance Canada, TCF Commercial Finance Canada Inc., US Bank and PACCAR Financial Services Ltd. and Paccar Financial Ltd. ("PACCAR") At March 31, 2012, floor plan payables related to inventories were \$84.3 million and rental equipment term loan financing was \$2.7 million. Floor plan payables at March 31, 2012 represented approximately 61.6% of our inventories (December 31, 2011 - 49.0%). The increase in the floor plan during the three month period ended March 31, 2012 was primarily due to the Company using available facilities to generate sufficient cash flow to fund the business acquisition. 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.

# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

For the period from January 1, 2012 to March 31, 2012

### *Outstanding Share Data*

As of the date of this MD&A, there are 14,729 thousand common shares, 99 thousand share options, and 505 thousand deferred shares outstanding. As at March 31, 2012 and 2011, the Company had the following weighted average shares outstanding:

In thousands	2012	2011
Basic weighted average number of shares outstanding	14,715	14,201
Dilutive impact of deferred share plan	504	424
Dilutive impact of share options	21	29
Diluted weighted average number of shares outstanding	15,240	14,654

During the three month period ended March 31, 2012, 14 thousand common shares were issued through the Company's dividend reinvestment program from the December 31, 2011 dividend paid in January 2012.

### *Dividends paid and declared to Shareholders*

The Company, at the discretion of the board of directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid for the three month period ended March 31, 2012 (\$ thousands, except per share amounts):

Record Date	Dividend per Share	Dividend Payable	Dividends Reinvested	Net Dividend Paid
March 31, 2011	0.1825	2,686	207	2,479

Dividends are paid quarterly and are paid on or about the 15<sup>th</sup> day of the month following the record date. As of the date of this MD&A, all dividends as described above were paid.

### *Dividend reinvestment plan ("DRIP")*

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

### *Taxation*

Cervus' dividends declared and paid to March 31, 2012 are considered to be eligible dividends for tax purposes on the date paid.

# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

For the period from January 1, 2012 to March 31, 2012

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

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

### **Off-Balance Sheet Arrangements**

In the normal course of business, we enter into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants, and service agreements. We have also agreed to indemnify our subsidiary 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") and PACCAR provide financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At March 31, 2012, payments in arrears by such customers aggregated \$174 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 March 31, 2012, the net residual value of such leases aggregated \$59.3 million of which the Company believes all are recoverable.

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the Company owes Deere Credit under this obligation. The deposits are capped at between 1% and 3% of the total dollar amount of the lease and finance contracts outstanding. The maximum liability that can arise related to these arrangements is limited to the deposits of \$1.3 million at March 31, 2012. Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

The Company has issued irrevocable standby Letters of Credit to JDL and another supplier in the aggregate amount of \$4.0 million. The Letters of Credit were issued in accordance with the dealership arrangements with the suppliers that would allow the supplier to draw upon the letter of credit if the Company was in default of any of its obligations. Also, the Company's foreign subsidiary, Agriturf, has \$172 thousand (NZ\$210 thousand) of financial guarantees issued for the purposes of providing financial guarantees to creditors and for a bankcard facility.

# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

For the period from January 1, 2012 to March 31, 2012

### Transactions with Related Parties

#### *Key management personnel compensation*

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

#### *Key management personnel and director transactions*

Key management and directors of the Company control approximately 34% of the common voting shares of the Company.

The remuneration of key management personnel and directors during the three month period ended March 31, 2012 and 2011 was:

(in \$ thousands)	2012	2011
Short-term benefits	\$ 627	\$ 401
Share-based payments	40	30
	\$ 667	\$ 431

#### *Other related party transactions*

The Chief Executive Officer ("CEO") of the Company is the CEO of Proventure Income Fund (the "Fund"). He is also the single largest equity holder of the Company and the Fund. It must be noted that the Company and the Fund share a common board of directors. The Company had the following transactions with the Fund which are in the normal course of business and are recorded at fair value which is the amount agreed to between the two parties:

	2012	2011
Expenses	\$	\$
Real estate rentals	74	736
Guarantee fees	14	21
Revenue		
Management fees (\$2.5 thousand per month)	8	8
Interest on advances	11	17

The Company pays a guarantee fee to the Fund equal to 3% per annum for the guaranteed amounts that the Fund has provided to John Deere. The Fund was released from this guarantee during the three month period ended March 31, 2012 and therefore, no further payments will be made.

During the three month period ended March 31, 2012 and in addition to the business acquisition described in note 11, the Company purchased \$26.3 million of land and buildings from a related party, Proventure Income Fund ("Proventure"). The purchase price was comprised of lands of \$7.3 million and buildings and paving of \$19 million.

# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

For the period from January 1, 2012 to March 31, 2012

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Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating \$6,400 thousand. During the three month period ended March 31, 2012 and 2011, the Company paid those individuals an aggregate of \$48 thousand for providing these guarantees. These transactions were recorded at the amount agreed to between the Company and the guarantors and are included in selling, general and administrative expenses.

During the three month period ended March 31, 2012, the Company received \$12.4 million in repayments from Prodev Trust ("Prodev"), a related party due to common ownership and Trustees as the Fund and \$2.3 million in repayments from funds lent to the CEO. In addition, the Company recorded interest in the amount of \$176 thousand from Prodev and \$8 thousand from the CEO. Interest is charged on the outstanding balances at a rate of 8% for Prodev and bank prime plus 0.25% for the CEO.

### **Critical Accounting Estimates**

Preparation of unaudited and audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the unaudited and audited consolidated financial statements. 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 goodwill for 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.

# CERVUS EQUIPMENT CORPORATION

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

### *Taxation matters*

Income tax provisions, including current and future income tax assets and liabilities, require estimates and interpretations of federal and provincial income tax rules and regulations, and 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 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.

# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

For the period from January 1, 2012 to March 31, 2012

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### Business Risks and Uncertainties

#### *Reliance on our key manufacturers and dealership arrangements*

Cervus' primary source of income is from the sale of agricultural and commercial 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, JCB, CMI, Clark, Sellick, Nissan, Doosan, and PACCAR. These agreements are one or two year agreements and are normally renewed annually, except for unusual situations such as bankruptcy or fraud.

The successes of our dealerships depend 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 turf and sport 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 agricultural equipment industry is very competitive. The Company faces a number of competitors, including other "in-line" John Deere dealerships and other competitors including authorized Agco, Case, Kubota and New Holland dealerships that may be located in and around communities in which the Company's dealerships are located. Deere & Company has a reputation for the manufacture and delivery of high quality, competitively priced products. John Deere has the largest market share of manufacturing and sales of farm equipment in North America. There can be no assurance that John Deere will continue to 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 and New Zealand within the agricultural sector and industry diversification into the construction, transportation and material handling sector.

The commercial and industrial equipment group sells light and medium construction equipment, material handling equipment and transportation equipment. The construction equipment is comprised of 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 equipment market is very much dependent upon residential and commercial construction. Based on CMHC's year ended housing report, the 2011 market estimate, though negative, appears to be an improvement over prior years and is expected to somewhat improve in 2012 and later years (see "Note Regarding Forward-Looking Statements").



# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

For the period from January 1, 2012 to March 31, 2012

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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.

The transportation equipment group primarily sells transport equipment through PACCAR, which manufactures Peterbilt trucks. The major competitors to Peterbilt are International, Freightliner and Mack trucks. The trucks are very dependent on consumer and commercial transportation of goods and service industries, such as oil and gas. This diverse customer base does mitigate the risks inherent in any one of those customer segments.

Presently the majority of the commercial and industrial equipment segment 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 commercial and industrial equipment. There can be no assurance however that these suppliers will continue to manufacture high quality, competitively priced products or maintain its market share in the future.

### ***Other risks***

Although the Company has conducted investigations of, and engaged legal counsel to review, the corporate, legal, financial and business records of Vasogen Inc., with whom Cervus underwent its conversion from a limited partnership structure to that of a corporation in 2009, 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.

# CERVUS EQUIPMENT CORPORATION

## Management's Discussion and Analysis

For the period from January 1, 2012 to March 31, 2012

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### Non-IFRS Financial Measures

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

**EBITDA;** is defined as profit before interest, taxes, depreciation, and amortization. We believe, in addition to net profit, EBITDA is a useful supplemental profit 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 gross revenue.

**Price earnings ratio;** price earnings ratio is calculated by dividing the Company's market capitalization by its total annual profit. Market capitalization is calculated by multiplying the Company's shares outstanding by the current market price of one share.

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

### Events after the Reporting Period and Proposed Transactions

The Company has agreed to purchase certain property consisting of 21.58 acres for the purposes of constructing a new location for its John Deere dealership in Calgary, Alberta. The purchase price for the land is approximately \$8.5 million and is subject to a re-zoning condition. The company has paid a \$100 thousand deposit and will finance the balance of the purchase price through an approved mortgage already in place. The Company plans to use approximately half the land purchased for the dealership and sub-divide and sell the remaining portion assuming suitable buyers can be located and the properties can be sold on reasonable terms.

Unaudited Condensed Consolidated Financial Statements of

**CERVUS EQUIPMENT CORPORATION**

For the three month periods ended March 31, 2012 and 2011

**CERVUS EQUIPMENT CORPORATION**  
**Unaudited Condensed Consolidated Statement of Financial Position**  
**As at March 31, 2012 and December 31, 2011**

<i>( \$ thousands)</i>	Note	March 31, 2012	December 31, 2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		6,305	6,536
Deposit for business acquisition	11	-	2,000
Asset held for sale		1,447	1,447
Trade and other accounts receivable		35,382	50,189
Inventories	12	138,346	106,776
<b>Total current assets</b>		<b>181,480</b>	<b>166,948</b>
<b>Non-current assets</b>			
Long-term receivables		1,991	-
Investments in associates, at equity		5,137	5,146
Other long-term assets		120	112
Deposits with manufacturers		1,297	1,459
Property and equipment	14	75,180	29,185
Deferred tax asset		52,697	53,546
Intangible assets	13	28,780	19,905
Goodwill		5,154	5,154
<b>Total non-current assets</b>		<b>170,356</b>	<b>114,507</b>
<b>Total assets</b>		<b>\$ 351,836</b>	<b>\$ 281,455</b>

**CERVUS EQUIPMENT CORPORATION**  
**Unaudited Condensed Consolidated Statement of Financial Position (continued)**  
**As at March 31, 2012 and December 31, 2011**

<i>(In \$ thousands)</i>	Note	March 31, 2012	December 31, 2011
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other accrued liabilities		\$ 26,429	\$ 22,514
Customer deposits		5,926	5,269
Floor plan payables		84,285	51,944
Dividends payable		2,686	2,647
Current portion of term debt		4,234	2,957
Current portion of notes payable		2,521	2,477
<b>Total current liabilities</b>		<b>126,081</b>	<b>87,808</b>
<b>Non-current liabilities</b>			
Term debt	15	40,036	7,276
Notes payable		2,697	2,652
<b>Total non-current liabilities</b>		<b>42,733</b>	<b>9,928</b>
<b>Total liabilities</b>		<b>168,814</b>	<b>97,736</b>
<b>Equity</b>			
Shareholders' capital	16	73,122	72,925
Deferred share plan		4,055	3,785
Other reserves		3,072	3,036
Accumulated other comprehensive income		227	150
Retained earnings		100,616	102,084
<b>Total equity attributable to equity holders of the Company</b>		<b>181,092</b>	<b>181,980</b>
<b>Non-controlling interest</b>		<b>1,930</b>	<b>1,739</b>
<b>Total equity</b>		<b>183,022</b>	<b>183,719</b>
<b>Total liabilities and equity</b>		<b>\$ 351,836</b>	<b>\$ 281,455</b>

Approved by the Board:

"Peter Lacey" Director

"Gary Harris" Director

**CERVUS EQUIPMENT CORPORATION**  
**Unaudited Condensed Consolidated Statement of Comprehensive Income**  
**For the three month periods ended March 31, 2012 and 2011**

<i>(In \$ thousands)</i>	Note	2012	2011
<b>Revenue</b>			
Equipment sales		\$ 78,315	\$ 57,287
Parts		17,329	14,629
Service		11,331	9,920
Rentals		2,807	2,437
<b>Total revenue</b>		<b>109,782</b>	<b>84,273</b>
Cost of sales	6	(86,727)	(66,179)
<b>Gross profit</b>		<b>23,055</b>	<b>18,094</b>
Other income	7	557	257
Selling, general and administrative	8	(21,289)	(18,340)
<b>Results from operating activities</b>		<b>2,323</b>	<b>11</b>
Finance income		359	49
Finance costs		(586)	(309)
<b>Net Finance Costs</b>	9	<b>(227)</b>	<b>(260)</b>
Share of profit of equity accounted investees, net of income tax		154	73
<b>Profit (loss) before income tax recovery (expense)</b>		<b>2,250</b>	<b>(176)</b>
Income tax recovery (expense)	10	(854)	21
<b>Profit (loss) for the period</b>		<b>1,396</b>	<b>(155)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations		90	(40)
<b>Total comprehensive income for the period</b>		<b>\$ 1,486</b>	<b>(195)</b>

**CERVUS EQUIPMENT CORPORATION**  
**Unaudited Condensed Consolidated Statement of Comprehensive Income (continued)**  
**For the three month periods ended March 31, 2012 and 2011**

<i>(In \$ thousands, except per share amounts)</i>	Note	2012	2011
<b>Profit (loss) attributable to:</b>			
Shareholders of the Company		\$ 1,218	\$ (58)
Non-controlling interest		178	(97)
<b>Profit (loss) for the period</b>		<b>\$ 1,396</b>	<b>\$ (155)</b>
<b>Total comprehensive income (loss) attributable to:</b>			
Shareholders of the Company		\$ 1,295	\$ (249)
Non-controlling interest		191	54
<b>Total comprehensive income (loss) for the period</b>		<b>\$ 1,486</b>	<b>\$ (195)</b>
<b>Net income (loss) per share attributable to shareholders of the Company:</b>			
Basic	16	\$ 0.08	\$ (0.01)
Diluted	16	\$ 0.08	\$ (0.01)

**CERVUS EQUIPMENT CORPORATION**  
**Unaudited Condensed Consolidated Statement of Changes in Equity**  
**For the three month periods ended March 31, 2012 and 2011**

Attributable to equity holders of the Company										
(In \$ thousands)	Note	Share capital	Preferred shares	Deferred share plan	Other reserves	Cumulative translation account	Retained earnings	Total	Non-controlling interest	Total equity
Balance December 31, 2010		\$ 66,280	\$ 5,361	\$ 2,823	\$ 2,927	\$ 157	\$ 94,202	\$ 171,750	\$ 1,837	\$ 173,587
<b>Comprehensive income for the period</b>										
Profit or loss		-	-	-	-	-	(58)	(58)	(97)	(155)
<b>Other comprehensive income</b>										
Foreign currency translation adjustments		-	-	-	-	(191)	-	(191)	151	(40)
Total comprehensive income (loss) for the period		-	-	-	-	(191)	(58)	(249)	54	(195)
<b>Transactions with owners, recorded directly in equity</b>										
Dividends to equity holders		-	-	-	-	-	(2,635)	(2,635)	-	(2,635)
Shares issued through DRIP	16	154	-	-	-	-	-	154	-	154
Shares issued through deferred share plan	16	25	-	(25)	-	-	-	-	-	-
Share-based payment transactions		-	-	147	16	-	-	163	-	163
Employee loans forgiven	16	32	-	-	-	-	-	32	-	32
Total transactions with owners		211	-	122	16	-	(2,635)	(2,286)	-	(2,286)
Balance March 31, 2011		\$ 66,491	\$ 5,361	\$ 2,945	\$ 2,943	\$ (34)	\$ 91,509	\$ 169,215	\$ 1,891	\$ 171,106
Balance December 31, 2011		\$ 72,925	\$ -	\$ 3,785	\$ 3,036	\$ 150	\$ 102,084	\$ 181,980	\$ 1,739	\$ 183,719
<b>Comprehensive income for the period</b>										
Profit		-	-	-	-	-	1,218	1,218	178	1,396
<b>Other comprehensive income</b>										
Foreign currency translation adjustments		-	-	-	-	77	-	77	13	90
Total comprehensive income for the period		-	-	-	-	77	1,218	1,295	191	1,486
<b>Transactions with owners, recorded directly in equity</b>										
Dividends to equity holders		-	-	-	-	-	(2,686)	(2,686)	-	(2,686)
Shares issued through DRIP	16	197	-	-	-	-	-	197	-	197
Share-based payment transactions		-	-	270	36	-	-	306	-	306
Total transactions with owners		197	-	270	36	-	(2,686)	(2,183)	-	(2,183)
Balance March 31, 2012		\$ 73,122	\$ -	\$ 4,055	\$ 3,072	\$ 227	\$ 100,616	\$ 181,092	\$ 1,930	\$ 183,022

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



**CERVUS EQUIPMENT CORPORATION**  
**Unaudited Condensed Consolidated Statement of Cash Flows**  
**For the three month periods ended March 31, 2012 and 2011**

<i>(In \$ thousands)</i>	Note	2012	2011
<b>Cash flows from operating activities</b>			
Profit (loss) for the period		\$ 1,396	\$ (155)
Depreciation		1,745	1,323
Amortization of intangibles	13	614	614
Forgiveness of employee purchase loans		-	33
Equity-settled share-based payment transactions		306	162
Net finance costs		322	260
Gain on sale of property and equipment		(34)	(78)
Share of profit of equity accounted investees, net of tax		(154)	(73)
Income tax expense	10	854	(21)
Change in non-cash working capital		11,450	(1,632)
		16,499	433
Interest paid		(681)	(248)
<b>Net cash from operating activities</b>		15,818	185
<b>Cash flows from investing activities</b>			
Interest received	9	359	49
Business acquisitions		(17,648)	-
Advances from related parties		15,930	24
Purchase of property and equipment		(19,537)	(1,497)
Proceeds from disposal of property and equipment		59	482
Proceeds from investments, at equity		163	400
Increase in other investments, at cost		(8)	(4)
<b>Net cash used in investing activities</b>		(20,682)	(546)
<b>Cash flows from financing activities</b>			
Advances from term debt, net of repayment		6,926	(2,479)
Dividends		(2,449)	(2,480)
Decrease in deposits with John Deere		156	528
Repayment of notes payable		-	(100)
<b>Net cash used in financing activities</b>		4,633	(4,531)
Net decrease in cash and cash equivalents		(231)	(4,892)
Cash and cash equivalents, beginning of period		6,536	19,605
Cash and cash equivalents, end of period		\$ 6,305	\$ 14,713

# **CERVUS EQUIPMENT CORPORATION**

## **Notes to the Unaudited Condensed Consolidated Financial Statements**

### **For the three month periods ended March 31, 2012 and 2011**

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#### **1. Reporting entity**

Cervus Equipment Corporation (“Cervus” or the “Company”) is an incorporated entity under the Canada Business Corporations Act and is domiciled in Canada. The registered office of the Company is situated at 5201 - 333, 96<sup>th</sup> Avenue N.E., Calgary, Alberta, Canada, T3K 0S3. The consolidated financial statements of the Company as at and for the period ended March 31, 2012 comprise of the Company and its subsidiaries (“the Group”). The Company is primarily involved in the sale, after-sale service and maintenance of agricultural, commercial and industrial equipment. The Company also provides equipment rental, primarily in the commercial and industrial equipment segment. The Company operates 35 John Deere agricultural equipment, Bobcat and JCB construction equipment, and Clark, Sellick, Nissan and Doosan material handling equipment and Peterbilt truck dealerships in 33 locations across Western Canada. Cervus also has a majority interest in Agriturf Limited (“Agriturf”), with six locations on the north island of New Zealand. The Company’s shares are listed on the Toronto Stock Exchange (“TSX”) and trade under the symbol “CVL”.

#### **2. Basis of preparation**

##### **(a) Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements prepared for the year ended December 31, 2011.

The Board of Directors authorized the issue of these consolidated financial statements on May 9, 2012.

##### **(b) The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.**

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011.

#### **3. New and amended IFRSs**

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are not required to be adopted in the current period. None of these changes in standards or interpretations will have a material effect on the consolidated financial statements or note disclosures as currently presented.

**CERVUS EQUIPMENT CORPORATION**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**For the three month periods ended March 31, 2012 and 2011**

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**4. Significant accounting policies**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements prepared for the year ended December 31, 2011 and as described in note 4 in those financial statements.

**5. Seasonality**

The Canadian and New Zealand retailing of agricultural and commercial and industrial equipment are influenced by seasonality. Sales activity for the agricultural equipment segment is normally highest between April and September during growing seasons in Canada and July through December in New Zealand. Sales in the commercial and industrial equipment segment are not as heavily impacted by seasonality but do see slower sales activity in the winter months. As a result, earnings or losses may not accrue uniformly from quarter to quarter.

**6. Cost of sales**

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

	2012	2011
Depreciation of rental equipment	\$ 757	\$ 739
Interest paid on rental equipment financing	95	66
	<b>\$ 852</b>	<b>\$ 805</b>

**7. Other income**

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

	2012	2011
Net gain on sale of property and equipment	\$ 34	\$ 78
Other income, including net training support, consignment commissions, commissions on extended warranty products, finance fees and other sundry items	523	179
	<b>\$ 557</b>	<b>\$ 257</b>

**CERVUS EQUIPMENT CORPORATION**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**For the three month periods ended March 31, 2012 and 2011**

**8. Wages and benefits**

	2012	2011
Included in cost of sales:		
Short-term wages and benefits	\$ 3,083	\$ 2,731
Included in selling, general and administrative expenses:		
Short-term wages and benefits	\$ 12,712	\$ 10,375
Share-based payments	306	170
	<b>13,018</b>	<b>10,545</b>
	<b>\$ 16,101</b>	<b>\$ 13,276</b>

**9. Finance income and finance costs**

Finance income and finance costs for the three month periods ended March 31, 2012 and 2011 are comprised of the following:

	2012	2011
Interest income on advances to related parties	\$ 119	\$ 22
Interest income on amounts due the Company	216	-
Interest income on held-to-maturity	3	27
Net foreign exchange income	21	-
<b>Finance income</b>	<b>359</b>	<b>49</b>
Interest expense on financial liabilities	(586)	(309)
<b>Finance costs</b>	<b>(586)</b>	<b>(309)</b>
<b>Net finance costs recognized in profit</b>	<b>\$ (227)</b>	<b>\$ (260)</b>

**10. Income taxes**

Income tax recognized in profit or loss for the three month periods ended March 31, 2012 and 2011 are:

(in \$ thousands)	2012	2011
Profit (loss) before income tax expense	\$ 2,250	\$ (176)
Expected income tax recovery (expense)	\$ (576)	\$ 47
Non-deductible costs and other	(278)	(26)
Income tax recovery (expense) recognized in profit or loss	\$ (854)	\$ 21

**CERVUS EQUIPMENT CORPORATION**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**For the three month periods ended March 31, 2012 and 2011**

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The expense for the year can be reconciled to the accounting profit based on using federal and provincial statutory rates of 25.6% (2011 - 27.1%). The primary reason for the reduction in the overall tax rate was due to a reduction in the federal income tax rate of 1.5% and the allocation of taxable income to provincial jurisdictions with different income tax rates.

**11. Business combinations**

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

Net assets purchased (in \$ thousands):		
Trade and other accounts receivable	\$	7,700
Inventories		16,985
Property and equipment		15,903
Intangible assets		9,489
Accounts payable and accrued liabilities		(2,494)
Customer deposits		(217)
Floor plan payable		(10,279)
Term debt		(2,060)
<b>Purchase price</b>	<b>\$</b>	<b>35,027</b>
Financed by:		
Cash, net of cash received of \$102 thousand	\$	19,648
Vendor take back mortgage, due March 15, 2014, repayable in equal annual installments of \$85,998 including interest at the rate of 4.75% per annum		13,360
Balance payable on May 15, 2012		2,019
<b>Purchase price</b>	<b>\$</b>	<b>35,027</b>

The amounts in the above table have been determined on a provisional basis, and may be revised when new information identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date. Such revisions will only be made if the new information is obtained within one year of the acquisition date about the facts and circumstances that existed at the acquisition date.

**CERVUS EQUIPMENT CORPORATION**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**For the three month periods ended March 31, 2012 and 2011**

Included in these condensed financial statements are revenues of \$3,426 thousand and net profit of \$380 thousand related to this acquisition, prior to allocation of corporate expenditures and income tax expense. Had the Company purchased this acquisition at the beginning of the reporting period, January 1, 2012, revenues would have been \$23,983 thousand and the profit for the period would have been \$913 thousand related to this acquisition, excluding allocation of corporate expenditures and income tax expense. The results of operations of this acquisition are part of the commercial and industrial equipment segment.

**12. Inventories**

(in \$ thousands)	March 31, 2012	December 31, 2011
New equipment	\$ 68,302	\$ 44,297
Used equipment	47,681	46,550
Parts and accessories	20,785	15,246
Work-in-progress	1,578	683
	<b>\$ 138,346</b>	<b>\$ 106,776</b>

During the three month period ended March 31, 2012, inventories recognized in cost of sales amounted to \$55,156 thousand (2011 - \$54,304 thousand) and write-downs of \$633 thousand (2011 - \$nil) were recorded.

**13. Intangible assets**

Intangible assets are comprised of the following:

<i>(In \$ thousands)</i>	Dealership distribution agreements	Trade Name	Customer lists	Non- competition agreements	Total
<b>Cost</b>					
Balance at December 31, 2011	\$ 17,145	\$ 3,100	\$ 7,390	\$ 1,891	\$ 29,526
Additions from business combination (note 11)	5,435	1,615	2,439	-	9,489
Balance at March 31, 2012	<b>\$ 22,580</b>	<b>\$ 4,715</b>	<b>\$ 9,829</b>	<b>\$ 1,891</b>	<b>\$ 39,015</b>
<b>Accumulated amortization</b>					
Balance at December 31, 2011	\$ 3,360	\$ 310	\$ 4,260	\$ 1,691	\$ 9,621
Amortization expense	226	42	305	41	614
Balance at March 31, 2012	<b>\$ 3,586</b>	<b>\$ 352</b>	<b>\$ 4,565</b>	<b>\$ 1,732</b>	<b>\$ 10,235</b>
<b>Carrying amounts</b>					
At December 31, 2011	\$ 13,785	\$ 2,790	\$ 3,130	\$ 200	\$ 19,905
At March 31, 2012	<b>\$ 18,994</b>	<b>\$ 4,363</b>	<b>\$ 5,264</b>	<b>\$ 159</b>	<b>\$ 28,780</b>

The amortization expense has been recorded in selling, general and administrative expense. No impairment losses have been recognized in the statement of comprehensive income.

**CERVUS EQUIPMENT CORPORATION**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**For the three month periods ended March 31, 2012 and 2011**

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**14. Property and equipment**

During the three month period ended March 31, 2012 and in addition to the business acquisition described in note 11, the Company purchased \$26.3 million of land and buildings from a related party, Proventure Income Fund ("Proventure"). The purchase price was comprised of lands of \$7.3 million and buildings and paving of \$19 million.

Included in property and equipment is \$6,467 thousand of land and building under construction. It is anticipated that total construction costs will be approximately \$10 million for the project. It is expected that the building will be available for occupancy during the third quarter of 2012. Until the buildings are available for occupancy, no depreciation is recorded on the capitalized amounts.

**Assets pledged as security**

All of the Company's assets are pledged under a general security agreement with the Company's bank. Assets with a carrying amount of \$5,052 thousand are pledged as security to a bank in New Zealand on behalf of our subsidiary, Agriturf.

**15. Loans and borrowings**

During the period, the Company assumed \$11.5 million of mortgages related to the purchase of land and buildings from Proventure. The mortgages are with Farm Credit Canada and consist of \$6.3 million with payments required of \$59 thousand per month at a rate of 6.95% per annum and \$5.2 million with payments required of \$39 thousand per month at a rate of FCC prime plus 0.75%. Including the above assumption, the Company has entered into a credit agreement with FCC for a total of \$41 million to fund the property purchase from Proventure, upgrades to existing facilities, future acquisition line for future capital purchases and construction of new facilities in Saskatoon, Saskatchewan and Calgary, Alberta.

As part of the acquisition of Frontier, the Company assumed \$2,060 thousand of central lease loan liabilities with the HSBC Bank Canada ("HSBC"). The facility is for the purpose of financing new and used heavy trucks and trailers that are leased to third parties or are sold and financed under conditional sales contracts and allows the Company to borrow to a maximum of \$5.5 million (\$4.5 million for new and \$1 million for used) and bears interest at the rate of HSBC prime rate plus 1.35% per annum. Repayments of the facility are dependent on the initial terms of the leases and sales contracts but range from 12 to 60 months with monthly repayments of principal amounts between 1.3% and 3.0% of the amounts borrowed. In addition, the Company has a \$2.15 million used lease line of credit with HSBC for the purposes of financing used heavy trucks and trailers. The line of credit bears interest at the rate of HSBC prime rate plus 1.85% per annum and requires principal repayments between 12 and 48 months at monthly rates of 1.5% to 3.0% of the amount borrowed.

**CERVUS EQUIPMENT CORPORATION**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**For the three month periods ended March 31, 2012 and 2011**

**16. Capital and other components of equity**

*Share capital*

(In thousands)	Number of preferred shares	Amount	Number of common shares	Amount	Share purchase loan	Total Carrying Amount
<b>Balance December 31, 2010</b>	425	5,361	14,191	66,350	(70)	71,641
Issued under the DRIP plan	-	-	11	154	-	154
Issued under the deferred share plan	-	-	2	25	-	25
Amortized to profit	-	-	-	-	32	32
<b>Balance March 31, 2011</b>	425	5,361	14,204	66,529	(38)	71,852
Conversion of shares and accrued dividends to share capital	(425)	(5,361)	433	5,439	-	78
Issued under the DRIP plan	-	-	35	520	-	520
Issued under the deferred share plan	-	-	5	55	-	55
Shares issued for land purchase	-	-	26	382	-	382
Amortized to profit	-	-	-	-	38	38
<b>Balance December 31, 2011</b>	-	-	14,703	72,925	-	72,925
Issued under the DRIP plan	-	-	14	197	-	197
<b>Balance March 31, 2012</b>	-	\$ -	14,717	\$ 73,122	-	\$ 73,122

**17. Earnings per share**

*Per share amounts*

Both basic and diluted earnings per share have been calculated using the net earnings attributable to the shareholders of Cervus as the numerator. No adjustments to net earnings were necessary for the three month periods ended March 31, 2012 and 2011. The weighted average number of shares for the purposes of diluted earnings per share can be reconciled to the weighted average number of basic shares as follows:



**CERVUS EQUIPMENT CORPORATION**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**For the three month periods ended March 31, 2012 and 2011**

<i>(In thousands of shares)</i>	<b>2012</b>	<b>2011</b>
Issued common shares January 1	14,703	14,191
Effect of shares issued under the DRIP plan	12	9
Effect of shares issued under the deferred share plan	-	1
<b>Weighted average number of common shares at March 31</b>	<b>14,715</b>	<b>14,201</b>

***Diluted earnings per share***

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

<i>(In thousands of shares)</i>	<b>March 31, 2012</b>	<b>March 31, 2011</b>
Weighted average number of common shares (basic)	14,715	14,201
Effect of dilutive securities:		
Deferred share plan	504	424
Share options	21	29
<b>Weighted average number of shares - diluted</b>	<b>15,240</b>	<b>14,654</b>

**18. Segment information**

The Company has two reportable segments which include the agricultural equipment segment which primarily distributes agricultural related equipment and services and the commercial and industrial equipment segment which includes primarily the sale of construction, material handling and transportation equipment and related services. The two business segments offer different products and services and are managed separately as they operate in different markets and require separate strategies. For each of the strategic business units, the Company's CEO reviews internal management reports on a monthly basis. The following is a summary of financial information for each of the reportable segments.

The Company allocates corporate expenditures to each individual segment based on a direct allocation method. Total corporate related expenditures, excluding income taxes, that have been allocated for the three month period ended March 31, 2012 are \$1,610 thousand (2011 - \$1,212 thousand).

**CERVUS EQUIPMENT CORPORATION**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**For the three month periods ended March 31, 2012 and 2011**

<b>March 31, 2012</b>	<b>Agricultural Equipment</b>	<b>Commercial and Industrial Equipment</b>	<b>Total</b>
Revenue	\$ 71,429	\$ 38,353	\$ 109,782
Profit for the period	301	1,095	1,396
Share of profit of equity accounted investees	154	-	154
Investment in associates	5,137	-	5,137
Depreciation and amortization	1,061	1,298	2,359
Finance income	116	223	339
Finance expense	463	218	681
Capital expenditures	1,043	30,136	33,179
Reportable segment assets	200,163	151,673	351,836
Reportable segment liabilities	99,302	69,512	168,814
Other intangible assets	4,716	24,064	28,780
Goodwill	2,960	2,194	5,154

<b>March 31, 2011</b>	<b>Agricultural Equipment</b>	<b>Commercial and Industrial Equipment</b>	<b>Total</b>
Revenue	\$ 55,091	\$ 29,182	\$ 84,273
Profit (loss) for the period	(792)	637	(155)
Share of profit of equity accounted investees	73	-	73
Investment in associates	4,433	-	4,433
Depreciation and amortization	838	1,099	1,938
Finance income	26	23	49
Finance expense	121	236	357
Capital expenditures	619	838	1,456
Reportable segment assets	159,968	107,556	267,524
Reportable segment liabilities	65,017	31,401	96,418
Other intangible assets	5,484	16,254	21,738
Goodwill	2,907	2,194	5,101

The Company primarily operates in Western Canada but has a subsidiary, Agriturf, which operates in the agricultural equipment segment in New Zealand. Gross revenue and non-current assets for the geographic segment were \$10,745 thousand (2011 - \$5,420 thousand) and \$4,216 thousand (2011 - \$6,355 thousand) respectively.

**CERVUS EQUIPMENT CORPORATION**  
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**19. Related party transactions**

*Key management personnel and director transactions*

Key management and directors of the Company control approximately 32% of the common voting shares of the Company. In October 2011, the Company provided its Executive Chairman of the Board of Directors (“EC”) and former Chief Executive Officer (“CEO”) and an immediate family member with a \$10,212 thousand short-term loan to assist them in transactions involving securities held in their Registered Retirement Savings Plans as a result of recent amendments to the Income Tax Act (Canada). The loan bears interest at the rate of bank prime plus 0.25%. The outstanding amount plus accrued interest was repaid during the three months ended March 31, 2012.

*Other related party transactions*

The EC of the Company is the CEO of Proventure Income Fund (the “Fund”). He is also the single largest equity holder of the Company and the Fund. It must be noted that the Company and the Fund share a common board of directors. In addition to transactions discussed elsewhere in these financial statements, the Company had the following transactions with the Fund which are in the normal course of business and are recorded at fair value which is the amount agreed to between the two parties:

	2012	2011
Expenses:		
Real estate leases	\$ 74	\$ 736
Guarantee fees	\$ 14	\$ 21
Revenue:		
Management fees for administration	\$ 8	\$ 8
Interest on advances	\$ 11	\$ 17

As described in note 14 and 15, the Company purchased land and buildings from Proventure and assumed certain mortgage liabilities related to those assets. The purchase price was at fair value and aggregated \$26.3 million, of which \$11.5 million was an assumption of mortgage debt and the balance of \$14.8 million, was in the form of cash in the amount of \$13.3 million and \$1.5 million was applied as a reduction in the loan between the Company and the Fund. As at March 31, 2012, the balance of the loan between the Company and the Fund is \$1.2 million.

The Company receives \$2.5 thousand per month to carry out all administrative and management tasks related to the Fund’s operations.

The Company pays a guarantee fee to the Fund equal to 3% per annum for the guaranteed amounts that the Fund has provided to John Deere. This guarantee is a result of guarantees provided to John Deere prior to the establishment of the Fund. During the three month period ended March 31, 2012, John Deere has released the Fund from this obligation and therefore, no further payments are required.

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Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating \$6,400 thousand. During the period ended March 31, 2012 and 2011, the Company paid those individuals \$48 thousand for providing these guarantees. These transactions were recorded at the amount agreed to between the Company and the guarantors and are included in selling, general and administrative expense.

**20. Events After the Reporting Period**

The Company has agreed to purchase certain property for the purposes of constructing a new location for a John Deere Dealership in Calgary, Alberta. The purchase price of the land is approximately \$8,524 thousand and is subject to a re-zoning condition. The Company has paid a \$100 thousand deposit and expects to finance the balance of the purchase price through an approved mortgage already in place.