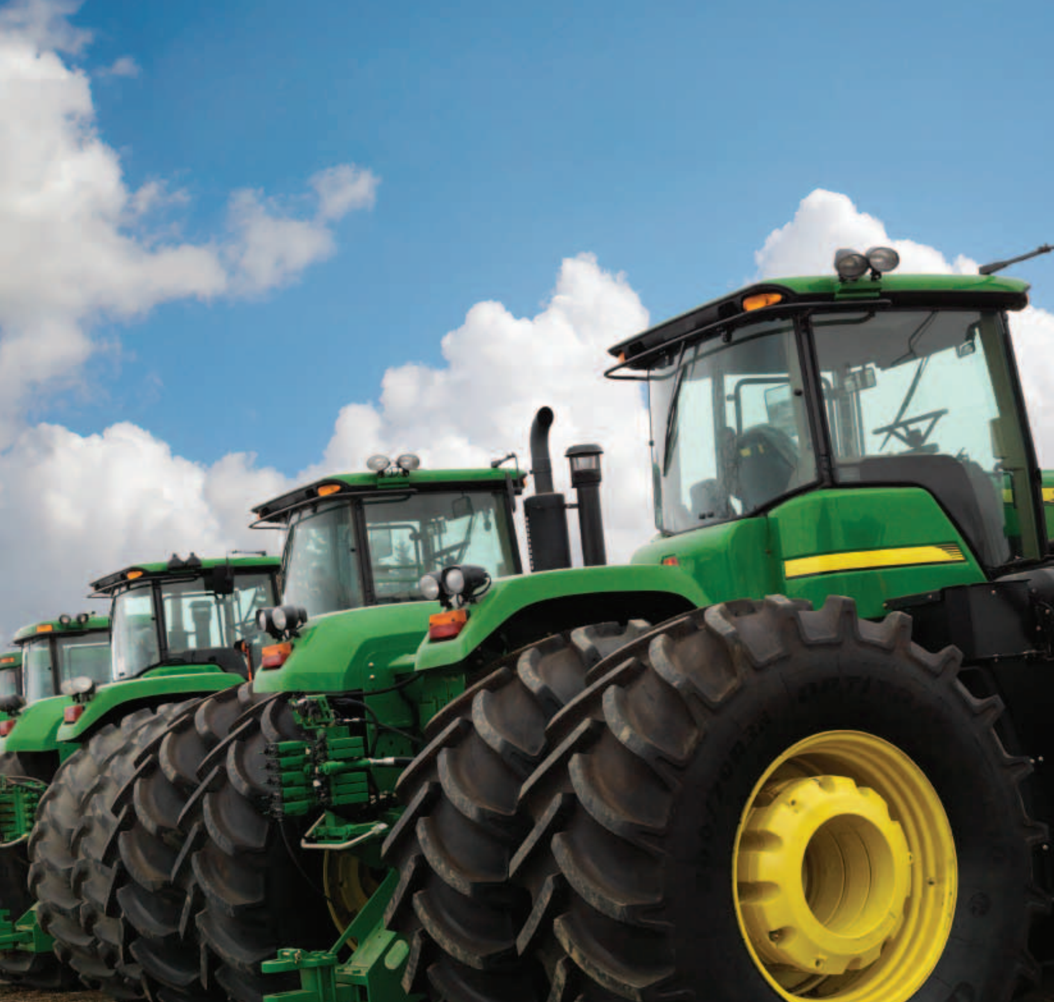

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SECOND QUARTER REPORT 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

CERVUS EQUIPMENT CORPORATION

For the period from
January 1, 2010 to June 30, 2010

The following Management's Discussion & Analysis ("MD&A") was prepared as of August 10, 2010 and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or "Company") financial performance for the three and six month periods ended June 30, 2010 and significant trends that may affect future performance of Cervus. This MD&A should be read in conjunction with the accompanying interim unaudited consolidated financial statements for the period ended June 30, 2010 and the notes contained therein. The accompanying interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and Cervus' reporting currency is the Canadian dollar. Cervus' shares trade on the TSX Venture Exchange under the symbol "CVL".

Additional information relating to Cervus is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at www.sedar.com.

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

Overview of Cervus

Cervus is a diversified corporation and has historically operated in two separate business segments, an agricultural equipment segment and a construction and industrial segment. These segments are managed separately and strategic decisions are made on the basis of their respective operating results. The agricultural equipment segment consists primarily of 15 John Deere dealerships in Alberta and Saskatchewan and the construction and industrial equipment segment consists primarily of 15 dealerships, 5 Bobcat and JCB dealerships operating in Alberta and 10 Clark, Sellick, Nissan and Doosan material handling equipment dealerships primarily selling in Alberta, Saskatchewan and Manitoba. Cervus owns directly or indirectly, 100% of Cervus LP, Cervus AG Equipment LP and Cervus Contractors Equipment LP, together with 100% of the outstanding and issued shares of their respective general partners, Cervus GP Ltd., Cervus AG Equipment Ltd. and Cervus Construction Equipment Ltd. The cash flow of Cervus is solely dependent on the results of the underlying limited partnerships and is derived from the flow-through of income of the LP's to Cervus by means of partnership allocations.

Note Regarding Forward-Looking Statements

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

In our 2010 first quarter MD&A we discussed that Cervus expects to make quarterly dividend payments to its shareholders of $0.18 per common share. On July 15, 2010, a dividend payment was made to the shareholders of record as of June 30, 2010. At this time, there is no reason to believe that the quarterly dividend will be changed for the remainder of 2010, however the payments of dividends is always subject to certain risk (see "cautionary note regarding dividends").

In the Market Outlook section of our December 31, 2009 MD&A, we discussed that the Association of Equipment Manufacturers ("AEM") is expecting to see a 4.9% decrease in agricultural equipment sales. Based on AEM's June 2010 Flash Report Canada Unit Retail Sales, unit sales have increased 1.3% year to date.

We also discussed that AEM was estimating that sales for the construction and industrial equipment segment would increase by 6.5% in 2010 and that Canada Mortgage and Housing Corporation ("CMHC") was estimating growth of 22% for new construction starts in 2010. Based on AEM's year-to-date June statistics for construction equipment unit sales of our related products, the industry has experienced an increase of 2.2% when compared to 2009. CMHC's Housing Market Outlook for the second quarter of 2010 indicates that total housing starts will remain positive in Alberta with an expected increase of 38.4% for 2010 over 2009 starts and is estimating a 15.3% increase in 2011 over 2010 starts.

Market Outlook

(see "Note Regarding Forward-Looking Statements")

Agricultural equipment

The most recent data from AEM regarding Canada Unit Retail Sales for new equipment sales for the first six months of the year is showing total farm tractors sales have increased by 0.7% and self-propelled combine sales have increased of 8.2% from the same period in 2009. This appears to be consistent with the Company's first six months of 2010 results for farm tractor sales, however, harvest equipment sales are behind AEM reported results for the first six months of 2010 as a result of the equipment being delivered to our dealerships later in 2010 when compared to 2009.

Significant rainfall has been experienced in western Canada during the spring planting season. Saskatchewan has seen more than 150% of the average precipitation for some regions and has recorded extremely high or record wet precipitation levels in the second quarter of 2010 when compared to 2009. Provincial crop reports have estimated that approximately 95%, 76% and 85% of Alberta, Saskatchewan and Manitoba respectively have been seeded for the 2010 crop year and are representative of our areas of responsibility. The wet weather combined with the later than normal planting season have caused a variety of crop damage, including leaf diseases, root rot and late crop development issues in Saskatchewan. Increased moisture levels have helped offset drought-like conditions experienced in 2009 for Alberta farmers in central and northern-central Alberta. These increased moisture levels in Alberta have had a positive impact on haying operations as well as pasture growth.

These factors have caused our customers to be cautious with their equipment purchase decisions, however, seeded crops appear to be developing well, particularly in Alberta, but are behind 2009 crop development stages. Commodity prices have also seen recent increases as a result of lower than anticipated production in 2010. A later than expected harvest as a result of later seeding, and the resulting increased urgency to harvest, will play a large role in how our customers eventually respond to weather conditions seen earlier in the first six months of 2010. In addition, the late spring planting season, combined with excessive moisture throughout parts of Western Canada may impact farm crop quality and yields and therefore may impact the segment's results in the 3rd and 4th quarter of 2010.

Approximately 59% of the segment's gross revenue through the 2nd quarter of 2010 has been derived from operations in Alberta with Saskatchewan comprising the balance of 41%. The effect of Manitoba's and Saskatchewan seeded acreage also affects Cervus' 20% investment in Maple Farm Equipment Partnership which has operations in each of these provinces.

Construction and industrial equipment

In their second quarter 2010 Housing Outlook, CMHC is forecasting a 38.4% increase in housing starts for 2010 when compared to 2011 and a further increase of 15.3% for 2011 when compared to 2010. Though the increase is positive, the housing starts still continue to be well below the 2006 and 2007 levels experienced in Alberta.

Though the economic indicators above suggest that the segment is rebounding from the lows experienced in 2009, there appears to be reluctance on the part of customers to purchase equipment as sales are not increasing to the expected levels indicated by AEM and in comparison to housing starts as described above. We believe that it will take more time for our customers to gain confidence in the economy and this, combined with our understanding that there are excess levels of idle construction equipment in the market may delay this segments recovery to the latter part of 2010 and into 2011.

Overall

As described above, though market indicators suggest an increase in unit sales in both our operating segments, extreme weather conditions being experienced in our agricultural equipment segment combined with customer confidence and cautious attitudes in both of our operating segments have impacted our results for the first six months of 2010 and may impact our results through the last six months of 2010. However, improved commodities pricing, combined with improved confidence in both the agricultural and construction and industrial equipment segments will play a large part in improving results in the latter part of 2010 and through the 2011 fiscal period. Based on the results being experienced by the construction and industrial equipment segment through the first six months of 2010, it appears that gradual improvement in the industry is occurring, but on a much slower pace than originally predicted. Our success will continue to be measured by the growth of our current business through improving our overall market share, satisfying our customer's needs, managing expenditures and the pursuit of acquisitions that are accretive to our shareholders (see "Note Regarding Forward-Looking Statements").

Highlights of the Quarter

- Gross revenue increased by $22.2 million or by 21% to $127.9 million for the second quarter of 2010 over $105.7 million reported in the second quarter of 2009.

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

Overall Performance

During the three month period ended June 30, 2010, revenue increased by $22.2 million ($9.4 million for our agricultural equipment segment and $12.8 million for our construction and industrial equipment segment) to $127.9 million compared to $105.7 million for the same period of 2009, an increase of 21%. The primary reason for the increase in gross revenue was due to the January 2010 acquisition of A.R. Williams Materials Handling Ltd. ("ARW") and the September 2009 purchase of Ranchers Supply Inc. ("Ranchers") and was offset by a decrease in gross revenue from the Company's contribution of two John Deere dealerships in Russell, Manitoba and Moosomin, Saskatchewan in exchange for a 20% partnership interest in Maple Farm Equipment Partnership ("Maple") in January 2010. Our agricultural equipment segment remained strong and reported an increase in gross revenue of $9.4 million (same store $3.8 million or 4.7%) in the three month period ended June 30, 2010 when compared to 2009. Our construction and industrial equipment segment reported an increase in gross revenues of $12.8 million (same store increased $1.0 million or 6.3%).

For the three month period ended June 30, 2010, gross margin decreased by 1.7% to 17.3% when compared to 19.0% for the same period of 2009. The decrease in our gross margin was primarily a result of a decrease in our agricultural equipment segment which decreased to 14.8% for the three month period ended June 30, 2010, compared to 18.3% for the same period of 2009. This was offset by an increase in our gross margin for our construction and industrial equipment segment of 3.6% to 26.0% for the three month period ended June 30, 2010, compared to 22.4% for the same period of 2009. The primary reason for the increase in the construction and industrial equipment segment's gross margin was due to a change in the sales mix as a result of the acquisition of ARW in January 2010.

Our combined selling, general and administrative expenses have also increased to 12.7% of revenue for the three month period ended June 30, 2010 when compared to 12.1% for the same period of 2009. The increase in selling, general and administrative expense as a percentage of revenue has primarily been caused by the acquisition of ARW in January 2010.

In addition, during the three month period ended June 30, 2010, the Company generated $4.7 million or $0.33 per basic share in cash flows from operating activities when compared to using $1.7 million or $0.12 per basic share for the same period in 2009. Cash flows from operating activities increased primarily as a result of changes in our non-cash working capital items which included an increase in cash generated by financing a greater portion of our equipment inventories purchased during the three month period ended June 30, 2010 when compared to 2009.

Net earnings for the three months ended June 30, 2010 decreased by $2.3 million to $5.1 million with the agricultural equipment segment contributing $4.5 million, a decrease of $2.7 million from 2009 and the construction and industrial segment contributing $587 thousand, an increase of $478 thousand from 2009. The primary reason for the decrease in net earnings is a result of decreased gross margins being experienced in both of our operating segments, primarily from equipment sales.

EBITDA (see "Non-GAAP Financial Measures") decreased by $1.2 million to $7.5 million for the three month period ended June 30, 2010 when compared to $8.7 million for the same period of 2009. The decrease is due primarily to a reduction in net earnings and offset by increased depreciation and amortization and an increase in interest expense due to increased floor plan amounts assumed in the ARW business acquisition.

Selected Quarterly Information

$ thousands, except per unit amounts	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	% change	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	% change
Revenues	127,927	105,701	21.0	195,128	172,040	13.4
Gross profit	22,190	20,055	10.6	37,462	33,185	12.9
Gross margin	17.3%	19.0%	(8.9)	19.2%	19.3%	(0.5)
Net earnings	5,062	7,330	(30.9)	4,235	9,005	(53.0)
Per unit - Basic	0.36	0.52	(30.8)	0.30	0.64	(53.1)
Per unit - Diluted	0.35	0.51	(31.4)	0.29	0.63	(54.0)
Cash provided by (used in) operating activities	4,730	(1,656)	n/a	1,846	(12,227)	n/a
Per unit – Basic	0.33	(0.12)	n/a	0.13	(0.87)	n/a
EBITDA1	7,539	8,702	(13.4)	8,804	11,773	(25.2)
EBITDA margin1	5.9%	8.2%	(28.0)	4.5%	6.8%	(33.8)
Per Unit – basic	0.53	0.62	(14.5)	0.62	0.84	(26.2)
Distributions to general partner	-	-	-	-	64	(100.0)
Dividends declared to shareholders	2,550	2,537	0.5	5,097	5,066	0.6
Per unit	0.18	0.18	-	0.36	0.36	-
Weighted average units outstanding						
Basic	14,162	14,087	0.5	14,156	14,063	0.7
Diluted	14,504	14,258	1.7	14,500	14,231	1.9
Actual units outstanding				14,164	14,105	0.4
Closing market price per unit				10.65	8.15	30.7
Total assets				260,209	160,024	62.6
Long-term liabilities				67,295	2,438	2660.3
Total liabilities				156,072	65,195	139.4
Unitholders' equity				104,137	94,830	9.8
Net book value per unit - diluted				7.18	6.66	7.8

Notes:

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

Results of Operations

Revenues

$ thousands	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	% change	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	% change
Revenues by segment:						
Equipment	83,815	74,278	12.8	117,733	117,290	0.4
New	*57,939*	*48,826*	*18.7*	*78,828*	*77,544*	*1.7*
Used	*25,876*	*25,452*	*1.7*	*38,905*	*39,746*	*(2.1)*
Parts	8,937	9,513	(6.1)	15,242	15,250	0.1
Service	5,890	5,614	4.9	9,919	9,313	6.5
Rental and other	335	146	129.5	395	162	143.8
Agricultural equipment	**98,977**	**89,551**	**10.5**	**143,289**	**142,015**	**0.9**
Equipment	16,982	10,424	62.9	29,158	18,640	56.4
New	*14,961*	*8,272*	*80.9*	*24,829*	*14,791*	*67.9*
Used	*2,021*	*2,152*	*(6.1)*	*4,329*	*3,849*	*12.5*
Parts	5,465	2,984	83.1	10,674	6,046	76.5
Service	4,531	1,618	180.0	8,389	3,301	154.1
Rental and other	1,972	1,124	75.4	3,618	2,039	77.4
Construction and industrial equipment	**28,950**	**16,150**	**79.2**	**51,839**	**30,026**	**72.6**
Total	**127,927**	**105,701**	**21.0**	**195,128**	**172,041**	**13.4**

Agricultural equipment

Revenue for our agricultural equipment segment increased by $9.4 million ($3.8 million on a same store basis) for the three month period ended June 30, 2010 when compared to the same period of 2009 and $1.3 million year to date (same store decreased by $2.5 million). Same store sales exclude the three dealerships purchased in September 2009 and the two dealerships which were contributed to Maple in exchange for a 20% partnership interest, effective January 1, 2010.

New equipment sales increased by $9.1 million (same store $3.4 million or 7.7%) during the three month period ended June 30, 2010 when compared to the same period of 2009 and $1.2 million (same store decrease of $3.6 million or 7.9%) year to date. Used equipment sales increased by $424 thousand (same store increased $780 thousand or 3.4%) for the three month period ended June 30, 2010 when compared to the same period of 2009 and decreased $841 thousand (same store increased $1.1 million or 4.9%) year to date. The primary reason for the increase in our same store sales was due to the inclusion of sprayer equipment sales in gross revenue for 2010 due to a wind up of the company that had previously sold this equipment whereas previous year's revenue was included in the segments equity earnings of significantly influenced companies. Used equipment sales increased on a same store basis due to auction proceeds of $3.1 million for used equipment received in the three month period ended June 20, 2010.

Our parts revenue has decreased by $576 thousand (same store decreased $572 thousand or 6.7%) during the three month period ended June 30, 2010 when compared to the same period of 2009 and decreased $8 thousand (same store decreased $406 thousand or 4.8%) year to date. Service revenue increased slightly by $276 thousand (same store $5 thousand or 0.1%) for the three month period ended June 30, 2010 when compared to the same period of 2009 and $606 thousand (same store $193 thousand or 3.8%) year to date. The overall decrease in parts sales and fairly flat service sales was primarily due to the reduction in sales being experienced due to the weather conditions in Western Canada and described above which has reduced utilization of equipment required for spring planting season.

Construction and industrial equipment

Revenue from our construction and industrial segment increased by $12.8 million (same store increased $1.0 million or 6.2%) for the three month period ended June 30, 2010 when compared to the same period of 2009 and increased $21.8 million (same store decreased by $553 thousand or 3.4%) year to date. The increase in overall revenue is related to the acquisition of ARW in January 2010.

New equipment sales increased by $6.6 million (same store $2.0 million or 24.5%) during the three month period ended June 30, 2010 when compared to the same period of 2009 and $10.0 million (same store $1.8 million or 21.9%) year to date. Used equipment sales decreased by $131 thousand (same store decreased $725 thousand or 33.7%) for the three month period ended June 30, 2010 when compared to the same period of 2009 and increased $480 thousand (same store decreased $1.1 million or 52.4%) year to date. AEM reported a 2.2% increase in year over year new equipment sales for directly related equipment categories for 2010 when compared to 2009 in its June market share information statistics. This increase combined with a concerted effort to sell our aged inventory was the primary reason for the 24.5% increase over the prior year. The decrease in same store used equipment sales is primarily related to the segment's overall decrease in used equipment inventories available for sale due to less trades being accepted and made available for sale as well as lower demand.

Parts revenues have increased $2.5 million (same store decreased $194 thousand or 6.5%) and service revenue has increased by $2.9 million (same store increased $79 thousand or 4.8%) during the three months ended June 30, 2010 when compared to the same period of 2009 and parts revenues have increased $4.6 million (same store decreased $522 thousand or 8.6%) and service revenue has increased $5.1 million (same store decreased $307 thousand or 9.3%) year to date. The overall decrease in same store parts and service revenue continue to be related to our customer's hesitation in completing service and repair work until the economy shows a longer period of positive turnaround.

Rental income has increased $848 thousand (same store decreased $177 thousand or 15.7%) for the three month period ended June 30, 2010 when compared to the same period of 2009 and increased $1.6 million (same store decreased $405 thousand or 19.9%) year to date. Same store decrease in rental income continues to be attributed to the reduced need for our customers to utilize additional resources to complete current contracts due to excess construction equipment that is currently not being utilized.

Gross Profit

	Three Months Ended			Six Months Ended		
$ thousands	**June 30, 2010**	**June 30, 2009**	**% change**	**June 30, 2010**	**June 30, 2009**	**% change**
Gross profit by segment:						
Agricultural equipment	14.8%	18.3%	(19.1)	16.1%	18.7%	(13.9)
Construction and industrial equipment	26.0%	22.4%	16.1	27.9%	22.2%	25.7
Total	**17.3%**	**19.0%**	**(8.9)**	**19.2%**	**19.3%**	**0.5**

Agricultural equipment

Gross profit dollars decreased $1.8 million (same store decreased $2.6 million or 17.0%) during the three month period ended June 30, 2010 when compared to the same period of 2009 and $3.5 million (same store decreased $4.2 million or 27.8%) year to date. Combined gross profit margin decreased 3.5% from 18.3% for the three month period ended June 30, 2009 to 14.8% for the same period of 2010 and decreased 2.6% overall year to date.

The most significant factor affecting the combined gross profit margin has been from the segment's equipment sales which have been affected by a combination of equipment pricing fluctuations caused by foreign exchange changes which impacts new equipment margins and the liquidation of used equipment through auction in the second quarter of 2010. Foreign exchange has decreased approximately 7.9% from June of 2009 to June of 2010. Excluding the auction results, the segment's used equipment margins were consistent with 2009 results.

Construction and industrial equipment

Gross profit dollars have increased by $3.9 million (same store decreased $199 thousand or 5.5%) during the three month period ended June 30, 2010 when compared to the same period of 2009 and increased $7.8 million (same store decreased $126 thousand or 1.9%) year to date. The overall increase in gross margin dollars is directly related to the acquisition of ARW. There has also been a significant change in the sales mix and weighted average contribution of our products and services from the acquisition of ARW which has caused higher gross margins on a combined basis.

The most significant impact on same store combined gross margin has been a reduction in new equipment margins caused by competitive market share pressures as well as a decrease in gross margin of our aged new equipment caused by the fluctuation in foreign exchange, which has decreased by approximately 7.9% between June 2009 and June 2010. Foreign exchange affects the purchase price of new equipment, which in turn, affects the gross selling price of the segment's aged equipment inventories.

Selling, General and Administrative Expenses

	Three Months Ended			Six Months Ended		
$ thousands	**June 30, 2010**	**June 30, 2009**	**% change**	**June 30, 2010**	**June 30, 2009**	**% change**
Selling, general and administrative expenses by segment:						
Agricultural equipment	10,148	9,589	5.8	18,695	17,444	7.2
Construction and industrial equipment	6,126	3,186	92.3	12,499	6,727	85.8
Total	**16,274**	**12,775**	**27.4**	**31,194**	**24,171**	**29.1**
% of revenue						
Agricultural equipment	10.3	10.7	(3.7)	13.0	12.2	6.6
Construction and industrial equipment	21.2	19.7	7.6	24.1	22.4	7.6
Total	**12.7**	**14.2**	**(10.6)**	**19.2**	**14.0**	**37.1**

Agricultural equipment

The agricultural equipment segment reported an increase in selling, general and administrative expenses of $559 thousand (same store decreased of $11 thousand) for the three month period ended June 30, 2010 when compared to the same period of 2009 and $1.3 million (same store increased $103 thousand) year to date. The increase in selling, general and administrative expenses was primarily caused by the purchase in September 2009 of Ranchers and offset by the decrease experienced from the disposal of two dealerships to Maple in January 2010.

Construction and industrial equipment

The construction and industrial equipment segment's selling, general and administrative expenses increased $2.9 million (same store decreased $51 thousand) for the three month period ended June 30, 2010 when compared to the same period of 2009 and $5.8 million (same store decreased $457 thousand) year to date. The primary reason for the overall increase in selling, general and administrative expenses was due to the acquisition of ARW and the reduction in same store selling, general and administrative expenses was primarily due to a reduction in administrative personnel costs implemented in 2009.

Depreciation and amortization

$ thousands	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	$ change	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	$ change
Depreciation and amortization by segment:						
Agricultural equipment	559	472	87	1,058	903	155
Construction and industrial equipment	1,302	687	615	2,510	1,393	1,117
Total	**1,861**	**1,159**	**702**	**3,568**	**2,296**	**1,272**

Agricultural equipment

The agricultural equipment segment depreciation and amortization increased by $87 thousand (same store increased $28 thousand) during the three month period ended June 30, 2010 when compared to the same period of 2009 and increased $155 thousand (same store increased $51 thousand) year to date. The primary reason for the increase in depreciation and amortization was due to the business acquisition made in the third quarter of 2009.

Construction and industrial equipment

The construction and industrial equipment segment reported an increase of $615 thousand (same store decreased $18 thousand) for the three month period ended June 30, 2010 when compared to the same period of 2009 and increased $1.1 million (same store decreased $22 thousand) year to date. The increase in the segment's total depreciation and amortization is due to the acquisition of ARW in January 2010. The decrease in same store depreciation is primarily related to the reduction in depreciation caused from reducing the rental equipment fleet.

Interest

$ thousands	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	$ change	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	$ change
Interest by segment:						
Agricultural equipment	217	96	121	328	237	91
Construction and industrial equipment	217	117	100	491	235	256
Total	**434**	**213**	**221**	**819**	**472**	**347**
% of revenue	**0.3**	**0.2**		**0.4**	**0.3**	

Interest expense is comprised primarily of the Company's financing of its short-term debt for floor-plan financing arrangements and long-term debt related to certain equipment financing arrangements, primarily rental equipment. Floor plan liabilities as a percentage of inventories at June 30, 2010 were 55% and 45% at December 31, 2009 compared to 47% at June 30, 2009 and 53% of inventories at December 31, 2008.

Income Taxes

As discussed in our 2009 annual MD&A, on October 22, 2009, Cervus LP (the "LP") converted to Cervus Equipment Corporation which resulted in Cervus becoming a taxable publicly traded corporation. Cervus' calculation of current and future income taxes for the three month period ended June 30, 2010 are based on the corporate structure whereas the June 30, 2009 current and future income taxes for the period are based on the LP being a publicly traded limited partnership. As such, no future income tax assets or liabilities have been recognized in prior periods as previously reported taxable income was allocated to the limited partners.

As a result of the purchase of ARW, future tax assets were decreased by $1.8 million being the future tax liability accounted for on the acquisition of ARW.

As at June 30, 2010, Cervus has the following tax pools available to be used in future periods:

		($ thousands)
Carrying values in excess of tax values	$	(3,071)
Non-capital losses carry-forward		56,346
Federal investment tax credits		12,910
Capital losses carried forward		19,354
Total estimated future tax asset		85,539
Less: valuation allowance for non-capital and capital losses carried forward		(19,551)
Balance, June 30, 2010	**$**	**65,988**

Net Earnings and comprehensive income

The Company has no changes in net assets or equity from non-owner sources that would be considered as comprehensive income and therefore, net earnings and comprehensive income are the same results.

	Three Months Ended			Six Months Ended		
$ thousands	**June 30, 2010**	**June 30, 2009**	**$ change**	**June 30, 2010**	**June 30, 2009**	**$ change**
Net earnings by segment:						
Agricultural equipment	4,474	7,222	(2,748)	3,768	9,489	(5,721)
Construction and industrial equipment	588	108	480	467	(484)	951
Total	5,062	7,330	(2,268)	4,235	9,005	(4,770)
% of revenue						
Agricultural equipment	4.5	8.1		2.6	6.7	
Construction and industrial equipment	2.0	0.7		0.9	(1.6)	
Total	4.0	6.9		2.2	5.2	
Net Earnings per unit						
Units outstanding – basic ($ thousands except per unit amounts)	14,162	14,087		14,156	14,063	
Agricultural equipment	0.32	0.51		0.27	0.67	
Construction and industrial equipment	0.04	0.01		0.03	(0.03)	
Total	0.36	0.52		0.30	0.64	

The most significant contributing factor to our $2.3 million decrease in earnings during the three month period ended June 30, 2010 when compared to the three month period ended June 30, 2009 was the reduction in gross margin being experienced in both segments.

EBITDA

(See Non-GAAP Financial Measures)

$ thousands, except %	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	$ change	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	$ change
EBITDA by segment:						
Agricultural equipment						
Net earnings	4,474	7,222	(2,748)	3,768	9,489	(5,721)
Add:						
Interest	217	96	121	328	237	91
Income taxes	96	-	96	96	-	96
Depreciation and amortization	559	472	87	1,058	903	155
Total	**5,346**	**7,790**	**(2,444)**	**5,250**	**10,629**	**(5,379)**
% of revenue	**5.4**	**8.7**		**3.7**	**7.5**	
Construction and industrial equipment						
Net earnings (loss)	588	108	480	467	(484)	951
Add:						
Interest	217	117	100	491	235	256
Income taxes	86	-	86	86	-	86
Depreciation and amortization	1,302	687	615	2,510	1,393	1,117
Total	**2,193**	**912**	**1,281**	**3,554**	**1,144**	**2,410**
% of revenue	**7.5**	**5.6**		**6.8**	**3.8**	
Total EBITDA	**7,539**	**8,702**	**(1,163)**	**8,804**	**11,773**	**(2,969)**
% of revenue	**5.9**	**8.2**		**4.5**	**6.8**	

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

For the three month period ended June 30, 2010, EBITDA decreased by $1.2 million or 0.9% of gross revenue reported for the period when compared to the three month period ended June 30, 2009 and decreased $3.0 million or 2.1% of gross revenue reported year to date. The most significant factor contributing to the reduction in EBITDA during the three and six month periods ended June 30, 2010 when compared to the same period of 2009 was the reduction in net earnings of the agricultural equipment segment. The increase in EBITDA for the construction and industrial equipment segment was primarily due to the acquisition of ARW in January 2010.

Summary of Quarterly Results

$ thousands, except per share amounts	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Revenues	127,927	67,201	84,239	121,195
Net earnings (loss)	5,062	(827)	(573)	8,745
Basic earnings (loss) per share	0.36	(0.06)	(0.04)	0.61
Diluted earnings (loss) per share	0.35	(0.06)	(0.04)	0.61
Weighted average shares outstanding Basic	14,162	14,140	14,138	14,117
Fully diluted	14,504	14,473	14,449	14,361

$ thousands, except per share amounts	June 30, 2009	March 31 30, 2009	December 31, 2008	September 30, 2008
Revenues	105,701	66,340	69,790	107,595
Net earnings	7,330	1,675	2,635	8,888
Basic earnings per share	0.52	0.12	0.19	0.64
Diluted earnings per share	0.51	0.12	0.19	0.63
Weighted average shares outstanding Basic	14,087	14,040	14,086	13,883
Fully diluted	14,258	14,189	14,147	14,003

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

Sales activity for the agricultural segment is normally highest between April and September during growing seasons in Canada. The construction and industrial equipment sector is not as volatile but does see slower sales activity in the winter months. As a result, earnings or losses may not accrue uniformly from quarter to quarter.

Liquidity

$ thousands, except ratio amounts	June 30, 2010	December 31, 2009
Current assets	149,740	134,249
Total assets	260,209	225,845
Current liabilities	88,777	67,160
Long-term liabilities	67,295	59,591
Shareholders' equity	104,136	99,094
Working capital (see "Non-GAAP Financial Measures")	60,963	67,089
Working capital ratio (see "Non-GAAP Financial Measures")	1.7	2.0

Working capital

Our working capital decreased by $6.1 million to $61.0 million at June 30, 2010 when compared to $67.1 million at December 31, 2009. In accordance with outstanding debt agreements, the Company is required to maintain a working capital ratio of no less than 1.25 to 1. The most significant contributing factor to the reduction in working capital was due to the reduction in cash and cash equivalents of $4.9 million for the six month period ended June 30, 2010 and the net change in working capital items related to the purchase of ARW and the contribution of two John Deere dealerships to Maple in January 2010.

The Company's ability to generate sufficient cash and cash equivalents is determined by continued strong gross revenue performance, maintaining existing gross margins and managing its costs. At this time, there are no known factors that management is aware of that would affect its short and long-term objectives of meeting the Company's obligations as they come due. Working capital may fluctuate from time to time based primarily on the use of cash and cash equivalents to fund future business acquisitions as well as due to the seasonal nature of our business. Cash resources can normally be increased by accessing floor plan monies from unencumbered used equipment inventories. Also, the seasonality of our business requires greater use of cash resources in the first and fourth quarter of each year as explained above to fund general operations caused by a reduction in sales activity.

Liquidity risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the ability to raise funds to meet purchase commitments and financial obligations and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. The Company's contractual obligations at June 30, 2010 are described below.

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

As part of the operating bank line of credit, committed reducing term facility and uncommitted non-reducing term facility with the Company's lender, the Company is to maintain certain financial and negative covenants. As at June 30, 2010, the Company was in compliance with all its covenants. In addition, in order for the Company to maintain its facilities at prime plus 1.25%, the Company must maintain a senior debt to EBITDA ratio of less than 1.25 to 1 (see Non-GAAP Financial Measures). As at June 30, 2010, the Company's senior debt to EBITDA ratio was 0.84 to 1.

The Company has approximately $8.5 million in cash and cash equivalents on hand at June 30, 2010 which consists of $3.9 million of cash on hand and in bank and $4.6 million in money market funds. The money market funds are invested through the Company's primary financial institution and the funds are available immediately upon request.

As at June 30, 2010, inventories had increased by $15.6 million to $104.7 million (includes a net $370 thousand reduction in inventory from the purchase of ARW and the sale of the Moosomin Saskatchewan and Russell Manitoba John Deere stores). Used equipment represents $48.3 million (December 31, 2009 - $42.1 million) of the equipment inventories and is represented by $43.0 million of used agricultural equipment and $5.3 million of used construction and industrial equipment.

The nature of the business has a significant impact on the amount of equipment that is owned by our various dealerships. The majority of our agricultural equipment sales come with a trade-in while our construction and industrial equipment sales usually do not have trade-ins. This is why we have a higher amount of used agriculture equipment than used construction and industrial. In addition, the majority of our new John Deere equipment is on consignment from John Deere whereas we purchase the new equipment from our other manufacturers. These factors directly impact the amount of used and new equipment carried on our books. A majority of our product lines in both segments are manufactured in the US with pricing based in US dollars but invoiced in Canadian dollars.

The market value of aged new and used equipment has been affected by the strengthening Canadian dollar throughout the 2009 fiscal period and for the first six months of 2010. This provides for less expensive new equipment during the primary selling season of the second and third quarters of 2010, causing downward pressure on used equipment pricing. Combined with an increase in strength of the Canadian dollar in the latter part of 2009 and relatively stable dollar in the first six months of 2010 may impact our aged new and used equipment margins for the balance of 2010 (see "note regarding forward looking statements"). As at June 30, 2010, the Company believes that its recoverable amounts on its used equipment inventories exceed their respective carrying values and no impairment reserve is required.

Market risk

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

Foreign currency exposure

The Company is exposed to foreign currency fluctuations on its New Zealand dollar loan to Agriturf and subsequently will be exposed to foreign currency fluctuations on its net investment in Agriturf subsequent to the June 30, 2010 reporting period. The Company is not exposed to fluctuations in foreign currency in its sales and expenditures as they are incurred in Canadian dollars. Many of our products, including equipment and parts are based on a U.S. dollar price as they are supplied primarily by U.S. manufacturers but are settled in Canadian dollars as they are received. However, this may cause fluctuations in the sales values assigned to equipment and parts inventories as the Company's price structure is to maintain consistent gross margins. Both sales revenues and gross margins may fluctuate based on the foreign exchange rate in effect at the time of purchase. Certain of the Company's manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on new equipment inventory purchases.

Interest rate risk

The Company's cash flow is exposed to changes in interest rates on its floor plan arrangements and certain term debt which bear interest at variable rates. The cash flows required to service these financial liabilities will fluctuate as a result of changes in market interest rates. Based on the Company's outstanding long-term debt and obligations under capital lease at June 30, 2010, a one percent increase or decrease in market interest rates would impact the Company's annual interest expense by approximately $612 thousand. The Company's other financial instruments are not exposed to interest rate risk.

Other price risks

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

Credit risk

By granting credit sales to customers, it is possible these entities, to which the Company provides services, may experience financial difficulty and be unable to fulfill their obligations. A substantial amount of the Company's revenue is generated from customers in the farming and construction industries. This results in a concentration of credit risk from customers in these industries. A significant decline in economic conditions within these industries would increase the risk that customers will experience financial difficulty and be unable to fulfill their obligations to the Company. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable and deposits with John Deere. The Company's revenues are normally invoiced with payment terms of net, 30 days. The average time to collect the Company's outstanding accounts receivable was approximately 16 days for the rolling 12 month period ended June 30, 2010 (13 days for the year ended December 31, 2009 and 15 days for the rolling 12 month period ended June 30, 2009) and no single outstanding customer balance, excluding sales contract financing receivables represented more than 10% of total accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding and establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information. For the six month periods ended June 30, 2010 and 2009, all customer balances provided as bad debts were calculated based on 25% of accounts between 90 to 120 days outstanding and 85% on amounts over 120 days outstanding unless allowance for certain specified accounts requires a greater amount to be allowed for. Of the $26.8 million of trade accounts receivable outstanding, $11.2 million is represented by sales contract financing receivables in transit and $15.6 million is represented by customer accounts receivable and other accounts receivable.

The Company recorded the following activity in its allowance for doubtful accounts during the six month period ended June 30, 2010:

		In $ thousands
Balance, December 31, 2009	$	519
Bad debts additions		264
Amounts written-off as uncollectible		(333)
Balance, June 30, 2010	$	449

Cash and cash equivalents

Cervus' primary sources and uses of cash flows1 for the six month period ended June 30 are as follows:

$ thousands		2010		2009
Net cash provided by (used) in operating activities	**$**	**1,846**	**$**	**(12,227)**
Financing activities:				
Issuance of shares from dividend reinvestment plan		301		563
Repayment of term debt and notes payable		(1,842)		(1,872)
Dividends		(5,171)		(5,125)
Decrease (increase) in deposits with manufacturers		434		(27)
Cash flows used in financing activities		**(6,278)**		**(6,461)**
Investing activities:				
Business acquisitions and deposits recovered		1,680		-
Advances (repayment) of short-term loans and related party loans		(372)		1,664
Purchase of equipment, net of proceeds		(920)		(339)
Proceeds from (increase in) investments		(875)		685
Cash flows provided by (used in) investing activities		**(487)**		**2,010**
Decrease in cash		(4,919)		(16,678)
Cash and cash equivalents, beginning of period		13,453		35,252
Cash and cash equivalents, end of period	**$**	**8,534**	**$**	**18,575**

(1) See the Interim Unaudited Consolidated Statements of Cash Flows for additional details.

Net cash used in operating activities increased by $14.1 million to $1.8 million for the six month period ended June 30, 2010 when compared to the same period of 2009. The primary reason for the increase in cash flows from operating activities was due to both a reduction in net earnings of $4.8 million and the net change in non-cash working capital of $16.7 million. The net change in non-cash working capital related to operations of $16.7 million was primarily related to the difference in inventories purchased and floor plan financing incurred between the two periods. Management uses its discretion to pre-pay or buy down certain floor plans and/or increase floor plans at any time which significantly affects non-cash working capital amounts.

During the six month period ended June 30, 2010, financing activities used $6.3 million of cash flows compared to $6.5 million of cash flows for the same period in 2009. The primary difference between the two periods is the decrease in deposits with manufacturers which changed by $461 thousand between the two periods.

During the six month period ended June 30, 2010, the Company used $487 thousand of cash flows for investing activities compared to provide $2.0 million of cash flows for the same period of 2009. The acquisition of ARW provided $1.7 million in cash which represented the difference between the cash cost of the acquisition when completed in January and the cash on hand when the Company purchased ARW. In addition, the Company made advances of $1.8 million to Agriturf and received approximately $1.0 million from the disposal of investments in significantly influenced companies.

Contractual obligations

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

$ in thousands	Total	Due 2011	Due 2012 through 2014	Due 2015 through 2016	Due thereafter
Long-term debt	7,303	4,632	2,594	77	-
Notes payable	10,702	2,606	8,096	-	-
Operating leases	19,963	4,712	9,211	3,306	2,734
Total contractual obligations	37,968	11,950	19,901	3,383	2,734

Capital Resources

We use our capital to finance our current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize our shareholder value is to use a combination of equity and debt financing to leverage our operations. A summary of the Company's available credit facilities as at June 30, 2010 is as follows:

In $ thousands	Total amount	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	15,000	-	2,400	12,600
Term loans	2,750	1,250	-	1,500
Floor plan facilities and rental equipment term loan financing	126,489	62,328	-	107,572
Total	187,650	63,578	2,400	121,672

We believe that the credit facilities available to the Company and outlined above are sufficient to meet our market share targets for 2010. As at June 30, 2010, consigned inventory from John Deere amounted to $43.4 million and this amount is not included in the total amount available.

Operating and other bank credit facilities

At June 30, 2010 and 2009, the Company had a non-committed operating bank line of credit to a maximum amount of $15.0 million. As at June 30, 2010 and December 31, 2009, the Company had not drawn on this operating line. The bank indebtedness is also subject to certain financial and negative covenants in which we are in compliance as at June 30, 2010 and as at the date of this report.

As part of the purchase of Ranchers and Agriturf, the Company issued irrevocable standby letters of credit to John Deere in the amount of $1.5 million and $900 thousand respectively. These letters of credit were issued under our current operating bank line of credit and therefore the amount available for borrowing under this facility is reduced to $12.6 million.

Term loans

The Company also has two term loans with the bank, a committed reducing term facility and an uncommitted term facility. The committed reducing term facility was provided to the Company in 2005 as part of a business acquisition in the original amount of $5.0 million. The facility requires principal repayments of $104 thousand per month plus interest and its balance at June 30, 2010 is $1.3 million. The uncommitted term facility amounts to $1.5 million and is provided for the purchase of capital assets. As at June 30, 2010, no amounts had been drawn on this facility.

Floor plan facilities

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Limited, John Deere Credit, GE Canada Equipment Financing G.P., General Electric Canada Equipment Financing G.P., GE Commercial Distribution Finance Canada, Textron Financial, US Bank and Royal Bank. At June 30, 2010, floor plan payables were $57.3 million (December 31, 2009 - $40.4 million) and rental equipment term loan financing was $5.0 million (December 31, 2009 - $2.8 million). Floor plan payables at June 30, 2010 represented approximately 55% (December 31, 2009 - 45%) of our inventories. Floor plan payables fluctuate significantly from quarter to quarter based on the timing between the receipt of equipment inventories and their actual repayment so that the Company may take advantage of any programs made available to the Company by its key suppliers.

Outstanding Share Data

As of the date of this report, there are 14,178,267 common shares, 70,510 share options and 324,498 deferred shares outstanding. As at June 30, 2010 and 2009, the Company had the following weighted average shares outstanding:

	Three months ended		Six months ended	
In thousands	**June 30, 2010**	**June 30, 2010**	**June 30, 2010**	**June 30, 2009**
Basic weighted average number of shares outstanding	14,162	14,087	14,156	14,063
Dilutive impact of deferred share plan	325	163	325	163
Dilutive impact of share options	17	8	19	5
Diluted weighted average number of shares outstanding	14,504	14,258	14,500	14,231

Also, as at June 30, 2010 and as part of the ARW acquisition, the Company has 425 thousand series 1 preferred shares with a 7% cumulative dividend rate, redeemable and retractable when certain conditions are met.

Dividends paid to Shareholders

The Company, at the discretion of the board of directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid and/or payable for the three month period ended June 30, 2010 ($ thousands, except per share amounts):

Record Date	Dividend per Share	Dividend Payable	Dividends Reinvested	Net Dividend Paid/Payable
April 30, 2010	0.18	2,547	162	2,385
June 30, 2010	0.18	2,550	141	2,409
Preferred shares		158	-	158
Total dividends		5,255	303	4,952

Cash dividends are paid quarterly and are paid on or about the 15th day of the month following the record date. As of the date of this report, all dividends as described above have been paid.

Dividend reinvestment plan (“DRIP”)

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

Taxation

Cervus’ dividends to June 30, 2010 will be considered to be eligible dividends for tax purposes on the date paid.

Cautionary note regarding dividends

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

Off-Balance Sheet Arrangements

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

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At June 30, 2010, payments in arrears by such customers aggregated $224 thousand (December 31, 2009 - $588 thousand). In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit, Agrifinance and Roynat Lease Finance for the net residual value of the lease outstanding at the maturity of the contract. At June 30, 2010, the net residual value of such leases aggregated $52.8 million (December 31, 2009 - $58.7 million). The Company believes that the residual value of the leases fairly represents the Company's estimate of market value for the equipment at the end of their respective leases.

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the Company owes Deere Credit under this obligation. The deposits are capped at between 1% and 3% of the total dollar amount of the lease and finance contracts outstanding. The maximum liability that may arise related to these arrangements is limited to the deposits of $954 thousand at June 30, 2010. Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

As part of the business acquisition in 2009 of Ranchers and the 2010 investment in Agriturf, the Company issued irrevocable standby Letters of Credit to John Deere Limited ("JDL") in the amount of $1.5 million and $900 thousand respectively. The Letters of Credit were issued in accordance with the dealership arrangement that would allow JDL to draw upon the letter of credit if the Company was in default of any of its obligations to JDL.

Transactions with Related Parties

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

In $ thousands	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Expenses:				
Real estate leases	$ 677	$ 631	$ 1,334	$ 1,260
Guarantee fees	$ 21	$ 21	$ 41	$ 41
Revenue:				
Management fees for administration	$ 8	$ 8	$ 15	$ 15
Interest on advances	$ 16	$ 12	$ 33	$ 31

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

The Company pays a guarantee fee to Proventure equal to 3% of the guaranteed amounts that Proventure has provided to John Deere. This guarantee is a result of guarantees provided to John Deere prior to the establishment of Proventure and for which John Deere has not yet released Proventure from the contractual obligation. At June 30, 2010, December 31, 2009 and March 31 2009, the Fund had outstanding guarantees with John Deere aggregating $2.75 million.

During 2009, the Company provided a $2.75 million revolving credit facility to the Fund expiring on November 30, 2013. The facility is due on demand and bears interest at the rate of prime plus 0.25%. The facility can be used for operations, capital acquisitions, and investments and is secured by a general security agreement. Interest recorded during the three month period ended June 30, 2010 was $16 thousand (2009 - $12 thousand) and $33 thousand (2009 - $31 thousand) year to date.

Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating $6.4 million (2009 - $6.4 million). During the three and six month periods ended June 30, 2010 and 2009, the Company paid these individuals $48 thousand and $96 thousand respectively for providing these guarantees. These transactions were recorded at the amount agreed to by the parties. These guarantees are required by the Company's most significant dealership arrangement with John Deere Limited ("JDL") and the Company believes that the 3% per annum charge provided to the guarantors is a reasonable expense to providing these guarantees.

During the three month period ended June 30, 2010, the Company transacted in the normal course of business, $43 thousand (2009 - $99 thousand) and $59 thousand (2009 - $100 thousand) year to date of parts and service sales with companies in which the board of directors are directors of or control those companies.

Critical Accounting Estimates

Preparation of audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the audited consolidated financial statements. Our significant accounting estimates include estimating bad debts on accounts receivable; amortization of intangible assets and property, plant, and equipment; the fair value of assets and liabilities acquired in business combinations; estimated impairment of long-lived assets; the fair value of share-based awards; the fair value of reporting units for goodwill impairment testing purposes; and estimates of various taxation matters. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results.

Provision for doubtful accounts receivable

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

Depreciation and amortization of intangible assets and property and equipment

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

Fair value of inventories

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

Fair value of assets and liabilities acquired in business combinations

The value of acquired assets and liabilities on the acquisition date require the use of estimates to determine the purchase price allocation. Estimates are made as to the valuations of property, plant, and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant, and equipment and intangible assets acquired, we rely on independent third party valuations.

Asset Impairment

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

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the reporting unit to the estimated fair value to ensure that the fair value is greater than the carrying value. We arrive at the estimated fair value of a reporting unit using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including future revenue growth, expected earnings, and earnings multiples. Estimating the fair value of a reporting unit is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an impairment loss in future periods.

Taxation matters

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

Fair value of share-based awards

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

Future Accounting Changes

International Financial Reporting Standards

Conversion to IFRS in Fiscal 2011

The CICA Accounting Standards Board requires all Canadian publicly accountable enterprises to adopt IFRS for years beginning on or after January 1, 2011. The Company will adopt IFRS for the fiscal year 2011 starting January 1, 2011. The Company's transition from Canadian GAAP to IFRS will commence in the first quarter of 2011 at which time the Company will report both the current and comparative information using IFRS for interim and annual financial statements. While IFRS uses a conceptual framework similar to Canadian GAAP, there are differences in accounting policies that must be addressed.

The Company is currently determining the impact of adopting IFRS on its consolidated financial statements and has developed and established an IFRS transition project which has taken into consideration both the internal and external resources required to implement IFRS and has completed a preliminary assessment of the impact the change to IFRS will have on the Company's financial statements. The IFRS transition project consists of three main phases:

Phase One: Impact Assessment
This phase consisted of a high-level impact assessment that identified the key areas of accounting differences between Canadian GAAP and IFRS that are likely to impact the Company as well as other areas that may not necessarily impact the Company at this time.

Phase Two: Detailed Assessment
This phase involves a more comprehensive assessment of the differences between IFRS and the Company's current accounting policies and account balances, the assessment of IFRS 1 exemptions and alternatives, the selection of IFRS 1 alternatives for first-time adoption of IFRS, and the implication on the Company's IT systems. This included a detailed assessment of the potential financial impact at the date of conversion as well as potential changes that may be required to current accounting policies, information systems and processes.

Phase Three: Implementation
The implementation phase will focus on the development of the IFRS financial statement format and the quantification of the effect on the Company's financial statements and will include changes, if deemed necessary, to internal controls over financial reporting that will result from changes in accounting policies.

Update on the Transition Project

The Company has completed the impact assessment and detailed assessment phases and is expected to have comparative financial statements under IFRS for audit committee review at the end of the third quarter of 2010. The Board of Directors and the Audit Committee have been regularly updated on the progress of the IFRS conversion plan, and made aware of the evaluation to date of the key aspects of IFRS affecting the Company.

Potential Impact of the Conversion

The comparison of IFRS with Canadian GAAP accounting policies has helped identify a number of differences that will impact the Company as well as IFRS 1, First-time Adoption of International Financial Reporting Standards that provides entities adopting IFRS for the first time with a number of optional and mandatory exceptions for the retrospective application of IFRS.

The significant accounting policy changes that have been identified to date are detailed below. These changes are for identified policy changes only and should not be considered to be a complete list of all IFRS accounting policy differences for the Company. At this time, the Company is assessing the quantitative impact of the opening balance sheet transitional adjustments and expects to report quantified IFRS results later in fiscal 2010.

Key Accounting Policy	Key Differences Identified Between IFRS and Canadian GAAP	Potential Impact on the Company
Property and equipment	An IFRS exemption allows the measurement of property and equipment using a cost model or a revaluation model. Canadian GAAP only allows the use of the cost model. The Company has selected to continue to use the cost model approach under IFRS.	The Company believes that there is no significant impact to the opening balance sheet and no significant impact is expected subsequent to the transition as the Company has selected the same measurement model under IFRS as it is currently utilizing under Canadian GAAP.
	IFRS requires separate amortization of major components of property and equipment which have a different useful life. Canadian GAAP is less explicit about this requirement, but it does exist.	The Company has reviewed its major components of property and equipment and based on the type of property and equipment owned and their useful lives, no componentization is considered necessary. Therefore, the Company believes that there will be no significant impact to the opening balance sheet or subsequent to the transition.
Impairment of long-lived assets	IFRS tests asset groups for impairment at the cash-generating unit (“CGU”) level when impairment testing at individual level is not possible. CGUs are determined based on the ability of groups of assets to generate independent cash inflows Canadian GAAP tests asset groups for impairment based on net cash flows.	Grouping of assets for impairment purposes is potentially at a lower level than currently used by Canadian GAAP. This may result in opening balance sheet adjustments. The Company has assessed the identification of its CGU’s and has determined that they be established at a dealership level (respective group level) due to the inter-changeable inventories between stores, pricing strategies, sharing of key management personnel and macro assumptions made that affect the larger group of stores. The Company already assesses the impairment on the basis of each of its cash-generating unit where indicators of impairment exist and will conduct another assessment on the Company’s transition to IFRS.
	IFRS tests for impairment using a single-step approach for long-lived assets based on discounted cash flows whereas Canadian GAAP uses a two-step approach which first compares undiscounted cash flows to the carrying amount and impairment is measured based on fair value if the undiscounted cash flow is less than the carrying value.	No significant impact is expected to the opening balance sheet on the date of transition and the Company will continue to use the discounted cash flow method to determine impairment subsequent to transition.
	Under IFRS, previously recognized impairment losses must be considered for reversal when changes in circumstances indicate that the impairment has been reduced whereas Canadian GAAP	The Company has not previously recognized any impairment losses and therefore there will be no impact on the opening balance sheet and subsequent to transition, any impairment losses recorded will subsequently be assessed for reversal.

Provisions	IFRS provides more extensive guidance than Canadian GAAP on the recognition of provisions defined as liabilities including when provisions are recognized and how they are classified. Under IFRS, provisions are recognized when it is probable (i.e. more likely than not) that an obligation will be required to be settled while Canadian GAAP has a higher threshold. Under IFRS, provisions should be separately classified from other liabilities whether they are current or non-current and shown on the face of the balance sheet with additional disclosure requirements whereas Canadian GAAP is less explicit. Provisions are recognized whether there are constructive or legal obligations that exist under IFRS whereas Canadian GAAP only recognizes legal obligations.	The Company will assess the impact on the opening balance sheet related to provisions that exist and it is possible that at the date of transition, additional provisions may be required to be recognized under IFRS and the measurement of existing liabilities may differ. Based the Company's assessment of provisions at June 30, 2010, other than separate classification of provisions, there are no known additional provisions that would be required to be recorded under IFRS that are not recorded at June 30, 2010.
Consolidation of subsidiaries and investments in associates	IFRS requires the consistent use of accounting policies for subsidiaries and associates whereas, for Canadian GAAP, this is no explicitly stated.	No significant impact is expected on the opening balance sheet however, the Company is working with all its investments to ensure the impact of the transition to IFRS is appropriate captured.
Business Combinations	IFRS requires that if the fair value of the net assets acquired is greater than the cost of the business combination, any excess remaining is immediately recognized in profit or loss. Under Canadian GAAP, if the amount assigned to assets acquired and liabilities assumed exceeds the cost of the purchase, the excess is eliminated to the extent possible by allocating it as a pro rata reduction across all the acquired non-current and non-financial assets (with certain exceptions). Under IFRS, acquisition costs related to business combinations are expensed as incurred where as under Canadian GAAP, certain acquisition related costs can be recognized as part of the purchase equation. In addition, under Canadian GAAP and EIC 110 "Accounting for Acquired Future Tax Benefits in Certain Purchase Transactions that are not Business Combinations", the asset acquired should be recorded at fair value with any excess of the amount classified as a deferred credit.	As the Company has adopted CICA standard 1582, Business Combinations effective January 1, 2010 and the fact that Section 1582 converges with IFRS 3, Business Combinations, no restatement of previous business combinations is anticipated to the opening balance sheet on the date of transition. As the Company recorded a deferred credit for the future tax benefits acquired in the October 22, 2009 plan of arrangement with Vasogen Inc., any deferred credits that existed on the date of transition to IFRS will be recorded as an adjustment to the opening balance sheet and recorded in retained earnings.

Share-based payments	Under IFRS, Share-Based Payment awards will continue to be measured at fair value, with compensation expense under share-based plans recognized over the service period. However, IFRS does not permit the attribution of costs on a straight-line basis for stock options with graded vesting provisions whereas Canadian GAAP does.	Though the Company records the compensation expense for share-based payments on a straight-line basis over the vesting life of the original award, the effect of changing the accounting for share-based payments to confer with IFRS will not materially impact the opening balance sheet on the date of transition. Subsequent to the transition, the Company will expense share-based payment awards in accordance with IFRS.
Income taxes	IFRS requires a Company to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities which arise from those transactions should also be recorded in earnings. For transactions that are recognized outside of the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects should also be recognized outside of the statement of earnings.	No significant impact is expected on the opening balance sheet as the Company currently accounts for the tax consequences of transactions and other events in the same way that it accounts for transactions and other events themselves.

First-Time Adoption of IFRS

IFRS 1, “First-time Adoption of International Financial Reporting Standards”, provides guidance on the Company’s initial transition to IFRS. The Company must apply this standard in fiscal 2011 and will apply IFRS 1 optional exemptions retrospectively from the date of its transition to IFRS, being January 1, 2010. IFRS 1 also includes exceptions to retrospective treatment which are outlined in the standard. The most significant optional exemptions that the Company expects to apply are as follows:

Business Combinations

The Company expects to apply IFRS 3, “Business Combinations”, prospectively from the date of transition to IFRS, being January 1, 2010. There is no expected impact to the Company’s opening IFRS balance sheet as a result of this election.

Business Risks and Uncertainties

Reliance on our key manufacturers and dealership arrangements

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

The success of our dealership depends on the timely supply of equipment and parts from our manufacturers to ensure the timely delivery of products and services to our customers. We also depend on our suppliers to provide competitive prices and quality products. Currently all of our dealership contracts are in good standing with our suppliers. There can be no guarantee that circumstances will not arise which gives these equipment manufacturers the right to terminate their dealership agreements.

Dependence on Industry Sectors

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

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

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

The construction and industrial group sells light and medium construction and industrial and is comprised of several lines of equipment from two major manufacturers, Bobcat and JCB. The major competitors are Caterpillar, Komatsu, CNH (Case), John Deere, Volvo, Hitachi and Liebherr. The light and medium construction and industrial market is very much dependent upon residential construction of new housing. Over the past few years the residential construction markets in Alberta have been very strong, however we have seen reductions in this market beginning in 2009 and carrying through 2009. However based on CMHC's first quarter housing report, the 2010 market appears to be somewhat improving and we expect this to have a positive impact on our 2010 operating results for our construction and industrial segment.

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

Presently the majority of the construction and industrial equipment division's revenue is derived from the sale of Bobcat, JCB, Doosan, Nissan, Clark and Sellick equipment and products. All these equipment manufacturers have established themselves as industry leaders in the Western Canada market for the manufacture and delivery of light construction and industrial equipment. There can be no assurance however that these suppliers will continue to manufacture high quality, competitively priced products or maintain 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, there may be liabilities and risks that the Company did not uncover in its due diligence investigation and that these liabilities and risks could have individually or in the aggregate, a material adverse effect on the business, financial condition and results of operations of Cervus.

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

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Disclosure Controls and Procedures

Cervus has designed disclosure controls and procedures for the Company to ensure that information to be disclosed by the Company is communicated to the Company's management on a timely basis to allow for appropriate decisions regarding required disclosures. The Company's CEO and Chief Financial Officer (CFO), under the supervision of the Disclosure Committee, have concluded, based on their evaluation as of June 30, 2010 that the Company's disclosure controls and procedures are effectively designed. The Company is relying on those disclosure controls and procedures.

Internal Controls over Financial Reporting

In fulfilling its responsibilities, management has designed a system of internal controls based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with Canadian GAAP. These controls include policies and procedures that:

Provide reasonable assurance that transactions are recorded to be able to prepare financial statements in accordance with GAAP, and that receipts and expenditures are made only in accordance with authorizations of management and the Board of directors;

Pertain to the maintenance of records that accurately reflect the transactions affecting the disposition of assets; and,

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets, which could have a material impact on financial statements.

Management has used a risk-based approach in the design of internal controls over financial reporting and engaged an outside accounting firm in the fourth quarter of 2009 and in 2010 to assist in conducting an evaluation of the operating effectiveness of these controls. Design and operating effectiveness issues noted during this evaluation have been reported to management as well as the Audit Committee. Management has implemented the necessary remediation actions to further enhance the company's control environment.

Limitation on the Effectiveness of Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

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

Voluntary Disclosure

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

Non-GAAP Financial Measures

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

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

EBITDA margin; EBITDA margin is calculated as EBITDA divided by revenue.

The following is a summary of EBITDA and EBITDA margin for each of our previous eight quarters ending June 30, 2010:

$ thousands, except margin and per share amounts	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Net earnings (loss)	5,062	(827)	(573)	8,745
Interest	434	386	261	219
Future income taxes	182	-	1,692	-
Depreciation and amortization	1,861	1,707	1,156	1,113
EBITDA	7,539	1,266	2,536	10,077
EBITDA margin	5.9%	1.9%	3.0%	8.3%
EBITDA per share - diluted	0.552	0.09	0.18	0.70

$ thousands, except margin and per share amounts	June 30, 2009	March 31, 2009	December 31, 2009	September 30, 2009
Net earnings	7,330	1,675	2,635	8,888
Interest	213	259	192	176
Future income taxes	-	-	-	-
Depreciation and amortization	1,159	1.137	1,194	1,150
EBITDA	8,702	3,071	4,021	10,214
EBITDA margin	8.2%	4.6%	5.8%	9.5%
EBITDA per share - diluted	0.61	0.22	0.30	0.73

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

Senior debt to EBITDA; senior debt to EBITDA ratio is defined as all interest bearing indebtedness for borrowed money, interest bearing liabilities, capital lease obligations, vendor take back agreements but excluding accounts payable, floor plan financing arrangements, subordinated related debt and other short-term non-interest bearing liabilities and future income taxes divided by EBITDA.

INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF

Cervus Equipment Corporation

For the three and six month periods ended
June 30, 2010

(These interim consolidated financial statements have not been reviewed by Cervus Equipment Corporation's auditors)

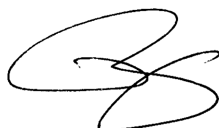
Interim Unaudited Consolidated Balance Sheets

Interim Unaudited Consolidated Balance Sheets
June 30, 2010 and December 31, 2009

		2010		2009
Assets				
Current assets:				
Cash and cash equivalents	$	8,533,921	$	13,453,188
Deposit for business acquisition (note 4)		-		6,810,000
Trade accounts receivable		26,839,541		13,398,559
Advances to related party (note 5)		2,483,072		2,111,069
Income taxes receivable		174,392		-
Future income tax asset (note 15)		6,317,000		7,985,882
Inventories (note 6)		104,744,047		89,150,468
Prepaid expenses and deposits		648,353		1,340,293
		149,740,326		134,249,459
Investments, at equity (note 7)		4,050,734		1,886,994
Other long-term assets (note 8)		2,914,339		1,420,139
Deposits with manufacturers		954,288		1,648,522
Other intangible assets (note 9)		23,786,400		11,020,633
Equipment (note 10)		15,226,044		10,338,266
Future tax asset (note 15)		59,670,814		62,081,695
Goodwill		3,866,174		3,199,680
	$	**260,209,119**	**$**	**225,845,388**
Liability and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	13,519,416	$	9,980,596
Customer deposits		2,270,787		2,689,191
Floor plan payables (note 12)		57,313,002		40,426,213
Dividends payable		2,628,877		2,545,131
Current portion of deferred credit (note 15)		5,807,000		7,148,027
Current portion of term debt (note 13)		4,631,536		4,004,196
Current portion of notes payable (note 14)		2,606,613		366,667
		88,777,231		67,160,021
Term debt (note 13)		2,671,991		1,838,739
Notes payable (note 14)		8,095,275		491,666
Deferred credit (note 15)		56,527,973		57,260,521
		156,072,470		126,750,947
Shareholders' equity (note 16):				
Shareholders' capital		71,428,355		65,765,665
Share purchase loans		(110,304)		(165,895)
Deferred share plan		2,123,975		1,814,408
Contributed surplus		2,896,785		2,881,977
Retained earnings		27,797,838		28,798,286
		104,136,649		99,094,441
Subsequent events (note 25)				
Commitments and contingencies (note 19)				
	$	**260,209,119**	**$**	**225,845,388**

See accompanying notes to interim unaudited consolidated financial statements.

Approved by the Board:



Peter Lacey, Director

Steven Collicutt, Director

Interim Unaudited Consolidated Statement of Net Earnings, Comprehensive Income and Retained Earnings

For the Three and Six Month Periods Ended June 30, 2010 and 2009

	Three month period ended June 30, 2010	Three month period ended June 30, 2009	Six month period ended June 30, 2010	Six month period ended June 30, 2009
Revenue:				
Equipment sales	$ 100,796,998	$ 84,702,901	$ 146,890,852	$ 135,930,508
Parts	14,402,376	12,496,766	25,915,482	21,295,561
Service	10,420,958	7,232,380	18,308,141	12,613,501
Rentals	2,307,143	1,269,129	4,013,670	2,201,307
	127,927,475	105,701,176	195,128,145	172,040,877
Cost of sales (note 17)	105,737,296	85,645,871	157,665,917	138,855,871
Gross profit	22,190,179	20,055,305	37,462,228	33,185,006
Expenses:				
Selling, general and administrative (note 21)	16,274,218	12,775,019	31,193,986	24,170,790
Interest	365,863	168,236	704,745	388,637
Depreciation and amortization	1,246,706	746,842	2,343,107	1,430,735
Earnings before other income (expense)	4,303,392	6,365,208	3,220,390	7,194,844
Other income (expense):				
Gain on disposal of property and equipment	127,377	93,059	174,472	180,505
Foreign exchange gain (loss)	37,133	-	(7,685)	-
Interest and other income	273,174	234,434	512,225	599,618
Equity earnings of significantly influenced companies (note 7)	503,437	637,088	518,172	1,030,046
Net earnings before income taxes	5,244,513	7,329,789	4,417,574	9,005,013
Future income tax expense (note 15)	182,188	-	182,188	-
Net earnings and comprehensive income	**$ 5,062,325**	**$ 7,329,789**	**$ 4,235,386**	**$ 9,005,013**
Retained earnings, beginning of period	**$ 25,364,375**	**$ 20,920,389**	**$ 28,798,286**	**$ 21,838,111**
Net earnings	5,062,325	7,329,789	4,235,386	9,005,013
Dividends to shareholders	(2,628,862)	(2,536,839)	(5,235,834)	(5,129,785)
Retained earnings, end of period	**$ 27,797,838**	**$ 25,713,339**	**$ 27,797,838**	**$ 25,713,339**
Net earnings per unit (note 16):				
Basic	$ 0.36	$ 0.52	$ 0.30	$ 0.64
Diluted	$ 0.35	$ 0.51	$ 0.29	$ 0.63

See accompanying notes to interim unaudited consolidated financial statements.

Interim Unaudited Consolidated Statement of Cash Flows

For the Three and Six Month Periods Ended June 30, 2010 and 2009

	Three month period ended June 30, 2010	Three month period ended June 30, 2009	Six month period ended June 30, 2010	Six month period ended June 30, 2009
Cash flows from (used in):				
Operating activities:				
Net earnings for period	$ 5,062,325	$ 7,329,789	$ 4,235,386	$ 9,005,013
Add items not affecting cash:				
Depreciation and amortization expense	1,861,239	1,159,048	3,568,216	2,296,102
Forgiveness of employee purchase loans	27,795	27,795	55,591	55,590
Share based compensation expense	120,532	6,856	176,552	11,146
Foreign exchange loss (gain)	(37,133)	-	7,685	-
Gain on disposal of assets	(127,377)	(93,059)	(174,472)	(180,505)
Future income taxes	182,188	-	182,188	-
Equity earnings from significantly influenced companies	(503,437)	(637,088)	(518,172)	(1,030,046)
	6,586,132	7,793,341	7,532,974	10,157,300
Net change in non-cash working capital related to operations	(1,855,975)	(9,449,509)	(5,687,448)	(22,384,444)
Net cash provided by (used in) operating activities	4,730,157	(1,656,168)	1,845,526	(12,227,144)
Financing activities:				
Issuance of shares	162,413	277,117	301,491	562,825
Repayment of term debt	(963,955)	(602,969)	(1,742,386)	(1,772,561)
Dividends	(2,625,629)	(2,536,339)	(5,170,760)	(5,124,997)
Decrease (increase) in deposits with John Deere	272,537	9,985	434,111	(26,628)
Repayment of notes payable	-	-	(100,000)	(100,000)
Net cash used in financing activities	(3,154,634)	(2,852,206)	(6,277,544)	(6,461,361)
Investing activities:				
Advances from short-term loan	-	-	-	662,462
Advances from (to) related party	(72,787)	458,993	(372,003)	1,002,480
Purchase of equipment, net of proceeds	(323,758)	(285,250)	(919,933)	(339,013)
Repayment from investment in significantly influenced companies	692,985	696,307	992,985	696,307
Increase in other long-term assets	(794,303)	(12,098)	(1,868,366)	(11,616)
Proceeds from business acquisitions (note 4)	-	-	1,680,068	-
Net cash provided by (used in) investing activities	(497,863)	857,952	(487,249)	2,010,620
Increase (decrease) in cash	1,077,660	(3,650,422)	(4,919,267)	(16,677,885)
Cash and cash equivalents, beginning of period	7,456,261	22,224,885	13,453,188	35,252,348
Cash and cash equivalents, end of period	$ 8,533,921	$ 18,574,463	$ 8,533,921	$ 18,574,463

Cash and cash equivalents is comprised of cash on hand and in bank of $3,922,041 (2009 – $3,717,052) and money market funds of $4,611,880 (2009 - $14,857,411).

Supplemental cash flow information (note 18)

See accompanying notes to interim unaudited consolidated financial statements.

Notes to the Consolidated Financial Statements

For the Six Month Period ended June 30, 2009 and the Year ended December 31, 2009

1. Description of business

Cervus Equipment Corporation ("Cervus" and the "Company") is an incorporated entity under the Canada Business Corporations Act. Cervus, directly, and indirectly, owns a 100% interest in Cervus LP (the "LP") and its subsidiaries. The Company is a retailer of agricultural, construction and industrial equipment, parts and services in Western Canada.

2. Significant accounting policies

These interim financial statements should be read in conjunction with the audited December 31, 2009 annual financial statements. These interim financial statements follow the same accounting policies and methods of their application as in the December 31, 2009 annual financial statements, except as identified below. These interim financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements in that they do not include all note disclosures. The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these interim financial statements.

Business segments

The Company operates two distinct business segments, an agricultural equipment segment and a construction 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 John Deere dealership locations in Alberta, Saskatchewan and British Columbia and the construction and industrial equipment segment consists primarily of Bobcat, JCB, Clark, Sellick, Doosan and Nissan dealership locations in Alberta, Saskatchewan and Manitoba.

Changes in accounting policies

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

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

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

Comparative information

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

3. Seasonality

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

4. Business acquisitions

a) On January 4, 2010, Cervus purchased all the issued and outstanding shares of A.R. Williams Materials Handling Ltd., a private company that sells, rents, and services industrial products and equipment in ten locations for an aggregate purchase price of $20,101,117 of which $6,810,000 was paid by way of cash deposit at December 31, 2009 resulting in a recovery of $1,680,068 from the net cash on hand on the purchase date. The allocation of the purchase price to the net assets acquired based on their fair values is as follows:

Net assets acquired:		
Accounts receivable	$	5,425,720
Income taxes receivable		174,392
Inventories		4,782,350
Prepaid expenses		40,300
Property and equipment		6,308,635
Other intangible assets		14,200,000
Goodwill		666,494
Accounts payable and accrued liabilities		(3,246,044)
Floor plans payable		(3,223,752)
Future income taxes		(1,824,000)
Long-term debt		(3,202,978)
	$	20,101,117
Financed by:		
Cash, net of cash received of $1,680,068	$	5,129,932
425,492 series 1 preferred shares, redeemable and retractable, 7% cumulative payable quarterly		5,361,199
Note payable, non-interest bearing, due in equal annual installments commencing January 1, 2011		9,609,986
Purchase price	$	20,101,117

a) On January 25, 2010, the Company completed the sale of its business and net assets of two wholly owned John Deere dealerships located in Russell, Manitoba and Moosomin, Saskatchewan to Maple Farm Equipment Partnership (“Maple”) with an effective date of January 1, 2010. As consideration for the sale of the business and assets, Cervus obtained a 20% partnership interest in Maple which operates various John Deere dealerships in the Provinces of Saskatchewan and Manitoba. The 20% interest in Maple will be accounted for using the equity method of accounting. The carrying value of the net assets sold to Maple, effective January 1, 2010 are as follows:

Net assets sold:		
Accounts receivable	$	82,816
Inventories		3,185,097
Property and equipment		381,282
Deposits with John Deere finance		260,123
Accounts payable and accrued liabilities		(76,348)
Customer deposits		(40,714)
Floor plan payable		(529,063)
		3,263,193
Payable to Cervus, non-interest bearing, due October 31, 2010		(252,440)
Purchase price of 20% partnership interest in Maple	$	3,010,753

5. Advances to related party

During 2008, the Company provided a $2,750,000 revolving credit facility to Proventure Income Fund (the "Fund") (see note 21) expiring on November 30, 2013. The facility is due on demand and bears interest at the rate of prime plus 0.25% which is the rate agreed to between the related parties. The facility can be used for operations, capital acquisitions, and investments and is secured by a general security agreement. Interest recorded during the three and six month periods ended June 30, 2010 was $15,761 and $33,173 (2009 - $12,246 and $30,790).

6. Inventories

		2010		2009
New equipment	$	40,982,954	$	35,094,705
Used equipment		48,336,930		42,093,224
Parts and accessories		14,481,627		11,553,029
Work-in-progress		942,536		409,510
	$	104,744,047	$	89,150,468

7. Investments, at equity

		2010		2009
Investment in significantly influenced companies:				
Maple Farm Equipment Partnership (20% interest) (note 4)	$	3,438,921	$	-
101034350 Saskatchewan Ltd. (33% interest)		-		650,607
Greenway Sprayers (38% interest)		-		372,197
Deer Star Systems Inc. (36% interest, 2009 – 33%)		611,813		864,190
	$	4,050,734	$	1,886,994

During the three and six month periods ended June 30, 2010, the Company recorded $503,437 and $518,172 (2009 - $637,088 and $1,030,046) respectively for earnings from significantly influenced companies. The Company has one representative on each of the respective board of directors. During 2009, Greenway Sprayers discontinued operations and the operations of the joint venture were effectively assumed by the venturers. The investment balance was recorded as an account receivable which has been collected as at June 30, 2010. In addition, during the three month period ended June 30, 2010, the Company sold and received payment for its interest in 101034350 Saskatchewan Ltd. at net book value to Maple Farm Equipment Partnership.

8. Other long-term assets

	2010	2009
Investment in companies at cost:		
Agritronics Inc. (a 25.78% interest)	$ 68,806	$ 68,806
Employee housing loan, non-interest bearing	-	365,210
Agriturf Limited loan, unsecured, due on demand, bearing interest at 5% per annum	2,744,074	883,394
Cash surrender value of life insurance	101,458	102,729
	$ 2,914,339	$ 1,420,139

During the three and six month period ended June 30, 2010, the Company advanced an additional NZ$1,086,000 and NZ$2,550,000 respectively and combined with the advances made during 2009, the Company has advanced an aggregate of NZ$3,700,000 to Agriturf Limited ("Agriturf"), a New Zealand company. The funds were used to purchase 60.28% equity interest in Agriturf which has been completed subsequent to June 30, 2010. Agriturf consists of six authorized John Deere dealership with locations on the north island of New Zealand. During the three and six month period ended June 30, 2010, interest of $15,750 and $26,215 (2009 $nil) has been recorded in interest and other income and a foreign exchange gain (loss) of $37,133 and ($7,685), (2009 - $nil) has been included in net earnings.

9. Other intangible assets

2010	Cost	Accumulated amortization	Net book value
Dealership distribution agreements	$ 17,145,000	$ 2,065,656	$ 15,079,344
Trade name	3,100,000	77,500	3,022,500
Customer lists	7,390,000	2,271,650	5,118,350
Non-competition agreements	1,891,109	1,324,903	566,206
	$ 29,526,109	$ 5,739,709	$ 23,786,400

2009	Cost	Accumulated amortization	Net book value
Dealership distribution agreements	$ 10,645,000	$ 1,637,030	$ 9,007,970
Customer lists	2,790,000	1,532,650	1,257,350
Non-competition agreements	1,891,109	1,135,796	755,313
	$ 15,326,109	$ 4,305,476	$ 11,020,633

10. Equipment

2010	Cost	Accumulated depreciation	Net book value
Short term rental equipment	$ 15,280,688	$ 5,964,085	$ 9,316,603
Automotive and trucks	5,379,753	2,690,728	2,689,025
Furniture and fixtures	2,350,405	1,499,582	850,823
Parts and shop equipment	2,837,935	1,613,115	1,224,820
Computers and software	1,458,233	857,183	601,050
Leasehold improvements	1,878,808	1,335,085	543,723
	$ 29,185,822	$ 13,959,778	$ 15,226,044

2009	Cost	Accumulated depreciation	Net book value
Buildings	$ 66,272	$ 16,274	$ 49,998
Short term rental equipment	8,115,181	2,981,509	5,133,672
Automotive and trucks	4,610,147	2,595,290	2,014,857
Furniture and fixtures	2,065,465	1,305,814	759,651
Parts and shop equipment	2,422,806	1,351,355	1,071,451
Computers and software	1,570,555	937,935	632,620
Leasehold improvements	1,868,656	1,192,639	676,017
	$ 20,719,082	$ 10,380,816	$ 10,338,266

11. Bank indebtedness

At June 30, 2010 and December 31, 2009, the Company has an operating bank line of credit to a maximum amount of $15,000,000 of which $2,400,000 (December 31, 2009 - $1,500,000) has been utilized for outstanding letters of credit issued to John Deere (see note 19). In addition, the Company has $1,500,000 available by way of a non-committed reducing term facility to facilitate capital asset purchases. The operating line of credit and the non-committed reducing term facility bear interest at rates ranging from prime plus 1.25% to prime plus 2.0% based on certain financial covenants and is secured by a general security agreement, a priority agreement; trade accounts receivable, unencumbered inventories, assignment of fire insurance and guarantees from the Company's subsidiaries and the general partner. At June 30, 2010 and December 31, 2009, the Company had not drawn on these facilities.

12. Floor plan payables

The Company utilizes floor plan financing arrangements with various suppliers for inventory purchases. The terms of these arrangements may include a one to eleven-month interest-free period followed by a term during which interest is charged at rates ranging from 0.346% to 7.46%. Settlement of the floor plan liability occurs at the earlier of sale of the inventory, in accordance with terms of the financing arrangement, or based on management's determination to use other Company assets to repay the financings earlier. Floor plan payables are secured by specific new and used equipment inventories.

13. Term debt

	2010	2009
Bank term loan, due July 1, 2011, interest at rates ranging from prime plus 0.25% to prime plus 0.75% and principal instalments of $104,167 per month. For security, see note 11.	$ 1,250,000	$ 1,875,000
Finance company, payable in monthly instalments of approximately $197,392 including interest at prime plus 2.5%, secured by short term rental equipment	5,015,008	2,785,684
John Deere finance contracts, payable in monthly instalments ranging from $1,293 to $5,283 including interest at the rate of 4.0% to 4.9%, secured by related equipment, due at various dates through 2014	1,006,489	1,134,079
Finance contracts and fixed rate bank term loans repayable in monthly instalments ranging from $440 to $4,194 including interest up to 7.25%, secured by related equipment, due at various dates through 2011	32,030	48,172
	7,303,527	5,842,935
Less: current portion	(4,631,536)	(4,004,196)
	$ 2,671,991	$ 1,838,739

Estimated principal repayments required over the next five years are as follows:

2011	$ 4,631,536
2012	1,221,353
2013	1,113,049
2014	260,518
2015	77,071
	$ 7,303,527

14. Notes payable

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

	2010	2009
Notes payable, due in annual instalments of $200,000 including interest at the rate of 6% per annum	$ 425,000	$ 525,000
Note payable, due September 10, 2011 in two equal annual instalments including interest at the rate of 6% per annum	333,333	333,333
Notes payable, non-interest bearing, repayable in annual instalments of $2,837,500, discounted at a rate of 7%	9,943,555	-
	10,701,888	858,333
Less: current portion	(2,606,613)	(366,667)
	$ 8,095,275	$ 491,666

Principal repayments required over the next five years are as follows:

2011	$ 2,606,613
2012	2,762,425
2013	2,589,480
2014	2,743,370
	$ 10,701,888

15. Future income taxes

The provision for income taxes differs from that calculated from using the federal and provincial statutory rates of 28.6% (2009 – 29.6%) for the three and six month periods ended June 30 due to the following:

	Three Months Ended				Six months Ended			
		June 30, 2010		June 30, 2009		June 30, 2010		June 30, 2009
Net earnings before income taxes	$	5,244,513	$	7,329,789	$	4,417,574	$	9,005,013
Expected income tax expense		1,499,931		2,169,618		1,262,313		2,665,484
Impact of flow through partnership income and equity earnings		-		(2,169,618)		-		(2,665,484)
Non-deductible costs and other		755,832		-		993,450		-
Future income tax recovered from benefit of tax loss carry-forwards		(2,073,575)		-		(2,073,575)		-
Income tax expense	**$**	**182,188**	**$**	**-**	**$**	**182,188**	**$**	**-**

The components of the future income tax asset and liability are as follows:

		June 30, 2010		December 31, 2009
Tax values over carrying value of tangible assets	$	695,616	$	1,212,021
Carrying values over tax value of intangible assets		(3,766,703)		(1,855,824)
Benefit of non-capital losses carried forward		56,345,555		57,997,725
Federal investment tax credits		12,909,816		12,909,816
Benefit of capital losses carried forward		19,354,425		19,353,063
Total future tax asset		85,538,709		89,616,801
Less:				
Valuation allowance for non-capital losses carried forward		(196,470)		(196,161)
Valuation allowance for capital losses carried forward		(19,354,425)		(19,353,063)
Total future income tax asset		65,987,814		70,067,577
Current portion of future income tax asset		(6,317,000)		(7,985,882)
Future income tax asset	$	59,670,814	$	62,081,695

Cervus has a deferred credit as follows:

		June 30, 2010		December 31, 2009
Balance, beginning of period	$	64,408,548	$	-
Deferred tax credit as a result of transaction with Vasogen		-		71,888,147
Amortized to income tax expense		(2,073,575)		(7,479,599)
Total deferred tax credit		62,334,973		64,408,548
Current portion of deferred tax credit		5,807,000		7,148,027
Balance, end of period	$	56,527,973		57,260,521

Cervus has available for carry forward, the following:

		June 30, 2010		December 31, 2009
Non-capital losses	$	215,377,528	$	223,500,617
Capital losses		151,355,405		151,355,405
Federal investment tax credits		12,909,816		12,909,816

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

16. Shareholders' Equity

Authorized

Unlimited number of common shares, voting

Unlimited number of preferred shares in series, non-voting

Unlimited Series 1 preferred shares, non-voting, cumulative, redeemable and retractable

Share capital issued

	Preferred shares	Amount	Common shares	Amount	Total
Balance December 31, 2008	-	$ -	14,012,374	$ 64,933,278	$ 64,933,278
Issued under DRIP plan	-		123,898	812,598	812,598
Issued under deferred share plan	-		3,342	19,789	19,789
Balance December 31, 2009	**-**		**14,139,614**	**65,765,665**	**65,765,665**
Issued for business acquisition – series 1 preferred shares (note 4)	425,492	5,361,199	-	-	5,361,199
Issued under DRIP plan	-		24,246	301,491	301,491
Balance June 30, 2010	**425,492**	**$ 5,361,199**	**14,163,860**	**$ 66,067,156**	**$ 71,428,355**

On December 22, 2009, the Company filed a Notice of Intention to Make a Normal Course Issuer Bid (the "Bid") to purchase for cancellation, from time to time, as the Company considers advisable, it's issued and outstanding shares ("Shares"). The Bid expires on December 21, 2010. Pursuant to the Bid, the Company can purchase for cancellation up to a maximum of 706,981 shares, being approximately 5% of the Company's currently issued and outstanding shares at the time of the Bid. Notwithstanding the foregoing, pursuant to the rules of the TSX-V, the Company may not purchase more than 282,792 shares (i.e. 2% of its currently outstanding Units) in a given 30-day period. The price that the Company will pay for any shares purchased by it under the Bid will be the prevailing market price of the shares on the TSX-V at the time of such purchase. No shares have been purchased for cancellation under this Bid during the six month period ended June 30, 2010.

Preferred Shares

The Company has issued 425,492 non-voting convertible redeemable Series 1 preferred shares of Cervus. The Series 1 preferred shares shall be entitled to a preference over the common shares of Cervus with respect to priority in the payment of dividends. Each series 1 preferred share shall be entitled to a cumulative dividend at the rate of 7% per annum on the stated amount. It is anticipated that the dividends on the series 1 preferred shares will be paid in cash quarterly concurrently with the payment of cash dividends on the common shares of Cervus. If the 30 day volume weighted average trading price of the common shares of Cervus on any stock exchange recognized for the purposes of the *Income Tax Act* (Canada) upon which the common shares of Cervus are listed and posted for trading is equal to or greater than $16.00 per common share, Cervus shall have the right to redeem the series 1 preferred shares, in whole or in part. The holders of series 1 preferred shares shall be entitled to exchange those shares at any time for common shares of Cervus on the basis of one common share for each series 1 preferred share exchanged.

Share option plan

The Company has a share option plan available to officers, directors and employees with grants under the plan approved from time to time by the board of directors. The exercise price of each option equals the market price of the shares at the date of grant. The plan provides for vesting, at the discretion of the board, and the options expire after five years from the date of grant.

Changes in the outstanding options are as follows:

	Number outstanding	Weighted average exercise price
Outstanding , December 31, 2008	**15,000**	**$ 12.67**
Granted under share option plan	36,719	6.20
Forfeited during the year	(18,629)	(11.41)
Outstanding, December 31, 2009	33,090	6.20
Granted under share option plan	37,420	12.05
Outstanding, June 30, 2010	**70,510**	**$ 9.30**

The weighted average remaining life of the options is 4.4 years (2009 – 4.1 years). During the three month period ended June 30, 2010, 37,420 shares (year ended December 31, 2009 - 36,719 shares) were granted and nil (year ended December 31, 2009 - 18,629) options were forfeited due to employees leaving the employ of the Company prior to the options vesting.

The fair value of the options issued in the three month period ended June 30, 2010, calculated using the Black-Scholes option pricing model, was $6.31 per share using a risk fee interest rate of 1.7%, expected life of 5 years, expected annual distribution of 5.98% and an expected unit price volatility of 101%. For the three and six month period ended June 30, 2010, $11,339 and $14,808 (2009 - $6,856 and $11,146) respectively, has been recorded as compensation cost related to these options.

Contributed surplus

Changes in contributed surplus are as follows:

Balance, December 31, 2008	**$ 2,860,125**
Issue of share options	21,852
Balance, December 31, 2009	**2,881,977**
Issue of share options	14,808
Balance, June 30, 2010	**$ 2,896,785**

Per share amounts

Both basic and diluted earnings per share have been calculated using the net earnings attributable to the shareholders of the Cervus as the numerator. No adjustments to net earnings were necessary for 2010 and 2009. As at June 30, 2010, the Company has no securities issued that are anti-dilutive. 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:

Three month period ended June 30	2010	2009
Weighted average number of shares used in basic earnings per share	14,161,820	14,087,042
Effect of dilutive securities:		
Deferred share plan	324,498	162,899
Share options	17,192	8,295
Weighted average number of shares used in diluted earnings per share	14,503,510	14,258,236

Six month period ended June 30	2010	2009
Weighted average number of shares used in basic earnings per share	14,155,697	14,063,285
Effect of dilutive securities:		
Deferred share plan	324,498	162,899
Share options	19,970	4,814
Weighted average number of shares used in diluted earnings per share	14,500,165	14,230,998

Dividend reinvestment plan

The Company has a Dividend Reinvestment Plan ("DRIP") entitling shareholders to reinvest cash dividends in additional shares at 95 percent of the average share price of the previous 10 trading days prior to the dividend. During the three and six month period ended June 30, 2010, the Company issued 12,376 and 24,246 (2009 – 39,572 and 91,800) shares respectively under this plan. During the six month period ended June 30, 2010, the average issue price of the shares was $12.43 (2009 - $6.13).

Employee share purchase plan

The Company has an employee share purchase plan available to all employees on a voluntary basis. Under the plan, employees are able to contribute 2% to 4% of their annual salaries, based on years of service. The Company contributes at a minimum of 15% to 100% on a matching basis to a maximum of $5,000 per year, per employee. The shares are purchased on the open market through a trustee; therefore, there is no dilutive effect to existing shareholders. Included in general, sales and administrative expenses for the three and six month periods ended June 30, 2010 are $130,942 and $260,400 (2009 - $124,289 and $200,592) respectively for contributions made on behalf of the Company's employees.

Deferred share plan

As at June 30, 2010, 324,498 (December 31, 2009 - 295,741 and June 30, 2009 – 162,899) deferred shares have been issued under the deferred share plan and remain outstanding. The matching component of the plan totals $1,168,367 (December 31, 2009 - $1,061,986 and June 30, 2009 - $580,405) and during the three and six month period ended June 30, 2010, $109,193 and $161,744 (2009 - $33,320 and $60,836) respectively has been amortized into compensation expense on a straight-line basis over a period of 5 years.

Share purchase loans

The Company has provided loans to certain employees for shares issued under the Company's private placement offerings and to pay for the exercise of share options. The loans bear interest at the rate of 4% per annum. The employees have provided the shares as security for the loans. During the six month period ended June 30, 2010, no loans were provided to employees and during the three and six month period ended June 30, 2010 and 2009, $27,795 and $55,590 has been forgiven and recorded as compensation expense.

17. Cost of sales

The following amounts have been included in cost of sales:

	Three month period ended		Six month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Depreciation and amortization	$ 614,533	$ 412,206	$ 1,225,109	$ 865,367
Interest expense	68,008	44,491	114,687	83,065
	$ 682,541	$ 456,697	$ 1,339,796	$ 948,432

18. Supplemental cash flow information

	Three month period ended		Six month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
The following cash payments have been included in the determination of net earnings:				
Interest paid	$ 277,884	$ 197,378	$ 478,380	$ 441,106
Supplemental disclosure of non-cash financing and investing activities not included in the statement of cash flows:				
Issuance of preferred shares for business acquisition (note 4)	$ -	$ -	$ 5,361,199	$ -
Issuance of note payable for business acquisition (note 4)	$ -	$ -	$ 9,609,986	$ -

19. Commitments and contingencies

(a) John Deere Credit Inc. ("Deere Credit") and other financing companies provide financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At June 30, 2010 payments in arrears by such customers aggregated $223,800 (December 31, 2009 - $587,753). In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit and other financing companies through recourse arrangements for the net residual value of the lease outstanding at the maturity of the contract. At June 30, 2010, the net residual value of such leases aggregated $52,801,080 (December 31, 2009 - $58,731,799).

Management believes that the potential liability in relation to the amounts outstanding is negligible and consequently, no accrual has been made in these financial statements in relation to any potential loss on assumed lease obligations.

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

2011	$	4,711,555
2012		3,570,420
2013		3,111,703
2014		2,529,091
2015		1,895,393
Thereafter		4,144,974
	$	19,963,136

(c) The Company has irrevocable standby letters of credit to John Deere in the amount of $2,400,000 (December 31, 2009 - $1,500,000). As part of the Company's purchase of its 60% equity interest in Agriturf (see notes 8 and 25), an additional $900,000 irrevocable standby letter of credit was issued to John Deere in the three month period ended June 30, 2010. The letter of credit agreement allows for John Deere to draw upon it in whole or in part in the event of any default by the Company of any or all obligations of the Company to John Deere.

20. Economic dependence

A source of the Company's revenue is from the sale of farm equipment products and services pursuant to agreements to act as an authorized dealer for John Deere Limited. The agreement with John Deere Limited provides a framework under which John Deere Limited can terminate a John Deere dealership if such dealership fails to maintain certain performance or 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 with Bobcat, JCB, JLG, Doosan, Nissan, Clark, Sellick, Powerboss and Hiab Cranes.

Management is not aware of any deficiencies or non-renewal of its current dealership agreements that would have a material effect on the Company's ability to continue as a going concern.

21. Related party transactions

b) The CEO of the Company is the CEO of Proventure Income Fund (the "Fund"). In addition, the CEO is the single largest equity holder of the Company and the Fund and the Company and the Fund share 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 operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties:

	Three month period ended		**Six month period ended**	
	June 30, 2010	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Expenses				
Real estate rentals	$ 677,075	$ 631,919	$ 1,334,147	$ 1,259,763
Guarantee fees	20,625	20,625	41,250	41,250
Revenue				
Management fees	7,500	7,500	15,000	15,000
Interest on advances	15,761	12,246	33,173	30,790

The Company receives $2,500 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 and for which John Deere has not yet released the Fund from the contractual obligation. At June 30, 2010 and 2009, the Fund has outstanding guarantees with John Deere aggregating $2,750,000.

c) Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating $6,400,000. During the three and six month period ended June 30, 2010 and 2009 the Company paid these individuals $48,000 and $96,000 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.

d) During the three and six month period ended June 30, 2010, the Company transacted in the normal course of business, $43,083 and $59,134 (2009 - $98,634 and $100,489) respectively of parts and service purchases with companies in which the Board of Directors are Directors of or Control those companies.

22. Segment information

The Company operates in two main industry segments with all of the operations being in Canada. These segments are the agricultural equipment segment and the construction and industrial equipment segment. The segment amounts are as follows:

Six months ended June 30, 2010	Agricultural Equipment	Construction and Industrial Equipment	Total
Revenue	$ 143,288,722	$ 51,839,423	$ 195,128,145
Net earnings	3,768,286	467,099	4,235,385
Income tax expense	95,560	85,628	182,188
Earnings of significantly influenced Companies	518,172	-	518,172
Investment in significantly influenced companies	4,050,734	-	4,050,734
Depreciation and amortization	1,058,254	2,509,962	3,568,216
Interest expense	328,443	490,989	819,432
Capital expenditures	1,037,793	3,076,298	4,114,091
Total assets	154,909,408	105,299,711	260,209,119
Other intangible assets	6,087,646	17,698,754	23,786,400
Goodwill	1,672,680	2,193,494	3,866,174

Six months ended June 30, 2009	Agricultural Equipment	Construction and Industrial Equipment	Total
Revenue	$ 142,015,311	$ 30,025,566	$ 172,040,877
Net earnings	9,489,115	(484,102)	9,005,013
Income tax expense	-	-	-
Earnings of significantly influenced companies	1,030,046	-	1,030,046
Investment in significantly influenced companies	2,653,938	-	2,653,938
Depreciation and amortization	902,577	1,393,525	2,296,102
Interest expense	237,435	234,267	471,702
Capital expenditures	987,133	743,342	1,730,475
Total assets	104,491,129	55,533,070	160,024,199
Other intangible assets	4,864,328	6,385,750	11,250,078
Goodwill	1,672,680	1,527,000	3,199,680

Three months ended June 30, 2010	Agricultural Equipment	Construction and Industrial Equipment	Total
Revenue	$ 98,977,142	$ 28,950,333	$ 127,927,475
Net earnings	4,474,677	587,647	5,062,324
Income tax expenses	95,560	85,628	182,188
Earnings of significantly influenced Companies	503,437	-	503,437
Investment in significantly influenced companies	4,050,734	-	4,050,734
Depreciation and amortization	559,588	1,301,651	1,861,239
Interest	216,811	217,060	433,871
Capital expenditures	565,255	1,674,411	2,239,666
Total assets	154,909,408	105,299,711	260,209,119
Other intangible assets	6,087,646	17,698,754	23,786,400
Goodwill	1,672,680	2,193,494	3,866,174

Three months ended June 30, 2009	Agricultural Equipment	Construction and Industrial Equipment	Total
Revenue	$ 89,551,141	$ 16,150,035	$ 105,701,176
Net earnings	7,221,879	107,910	7,329,789
Income tax expense	-	-	-
Earnings of significantly influenced companies	637,088	-	637,088
Investment in significantly influenced companies	2,653,938	-	2,653,938
Depreciation and amortization	471,630	687,418	1,159,048
Interest	96,344	116,383	212,727
Capital expenditures	430,152	507,409	937,561
Total assets	104,491,129	55,533,070	160,024,199
Other intangible assets	4,864,328	6,385,750	11,250,078
Goodwill	1,672,680	1,527,000	3,199,680

23. Capital management

The Company's objective when managing its capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders and to provide an adequate return to Shareholders by pricing products and services commensurately with the level of risk. In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (i.e. shares issued, accumulated earnings, shareholder distributions and dilutive instruments).

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

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

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

		June 30, 2010		**December 31, 2009**
Total debt	$	156,072,470	$	126,750,947
Adjusted equity:				
Total equity	$	104,136,649	$	99,094,441
Less other intangible assets and goodwill		(27,652,574)		(14,220,313)
Adjusted equity	$	76,484,075	$	84,874,128
Total debt to adjusted equity ratio		2.04 to 1		1.49 to 1
Adjusted assets:				
Total assets	$	260,209,119	$	225,845,388
Less other intangible assets and goodwill		(27,652,574)		(14,220,313)
Adjusted assets	$	232,556,545	$	211,625,075
Adjusted equity (above)	$	76,484,075	$	84,874,128
Adjusted assets to adjusted equity ratio		3.04 to 1		2.49 to 1

The increase in total debt to adjusted equity ratio and adjusted assets to adjusted equity ratio during the six months ended June 30, 2010 resulted primarily from the decrease in adjusted equity as a result of other intangible assets purchased through the business acquisition described in note 4.

24. Financial instruments

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, advances to related party, accounts payable and accrued liabilities, floor plan payables, dividend payable, and notes payable approximate their fair values given the short-term maturity of these instruments. The carrying values of the current and long-term portions of debt approximate fair value because the applicable interest rates on these liabilities are fixed at rates similar to prevailing market rates.

Fair value hierarchy

The Company's financial assets and liabilities that are recorded at fair value have been categorized into one of three categories based upon a fair value hierarchy. Fair values of assets and liabilities included in Level I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level III valuations are based on inputs that are not readily observable and are significant to the overall fair value measurement.

At June 30 2010, the Company's investment in money market funds was the only financial instrument carried on the balance sheet at fair value. The investment is short term in nature and is accordingly valued at cost plus accrued interest, which approximates fair value. The Company has classified the determination of fair value of these investments as level 2, as the valuation methodology used by the Company includes an assessment of assets in quoted markets with similar interest rates and terms to maturity.

Market risk

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

Currency risk

The Company is exposed to foreign currency fluctuations on its loan to Agriturf Limited (see note 8) however is not exposed to fluctuations in foreign currency to the extent that all sales and expenditures are incurred in Canadian dollars. However, many of our products, including equipment and parts are based on a U.S. dollar price as they are supplied primarily by U.S. manufacturers. This may cause fluctuations in the sales values assigned to equipment and parts inventories as the Company's price structure is to maintain consistent gross margins. Both sales revenues and gross margins may fluctuate based on the foreign exchange rate in effect at the time of purchase. Certain of the Company's manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on new equipment inventory purchases.

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 Company's outstanding long-term debt and obligations under capital lease at June 30, 2010, a one percent increase or decrease in market interest rates would impact Company's annual interest expense by approximately $612,000. The Company's other financial instruments are not exposed to interest rate risk.

Other price risks

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

Credit risk

By granting credit sales to customers, it is possible these entities, to which the Company provides services, may experience financial difficulty and be unable to fulfill their obligations. A substantial amount of the Company's revenue is generated from customers in the farming and construction industries. This results in a concentration of credit risk from customers in these industries. A significant decline in economic conditions within these industries would increase the risk 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. At June 30, 2010, $5,088,216 (December 31, 2009 - $2,660,623) of the Company's gross receivables were over 30 days in which the Company recorded $449,237 (December 31, 2009 - $518,708) of allowance for uncollectible amounts. In our industries, customers typically pay invoices within 30 to 60 days. The average time to collect Company's outstanding accounts receivable was approximately 16 days for the rolling 12 month period ended June 30, 2010 (13 days for the year ended December 31, 2009 and 15 days for the six month period ended June 30, 2009) and no single outstanding customer balance represented more than 10% of total accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding and establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information. For the period ended June 30, 2010 and 2009, all customer balances provided as bad debts were calculated based on 25% of accounts between 90 to 120 days outstanding and 85% on amounts over 120 days outstanding unless allowance for certain specified accounts requires a greater amount to be allowed for.

The Company recorded the following activity in its allowance for doubtful accounts during the six month period ended June 30, 2010:

Balance, December 31, 2009	**$**	**518,708**
Additional allowance recorded		263,918
Amounts written-off as uncollectible		(333,389)
Balance, June 30, 2010	**$**	**449,237**

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. At June 30, 2010, the Company's contractual obligations are described in note 19 above. As described in note 11, the Company has available for its current use, $15,000,000 of operating credit facilities less $2,400,000 for irrevocable letters of credit issued to John Deere for which no advances have been made. In addition, the Company has a committed reducing term facility in the amount of $1.5 million to finance capital asset additions of which no amounts have been advanced.

25. Subsequent events

On July 13, 2010, the Company completed a transaction whereby it has acquired control through a 60.28% equity interest in a subsidiary, Agriturf, a private New Zealand corporation for a purchase price of $2,744,074. The purchase price was paid by the conversion of the loan described in note 8 into 215,534 common shares out of a total of 357,561 issued and outstanding in Agriturf. The purchase price has been estimated to be allocated as follows:

Net assets purchased:		
Accounts receivable	$	1,172,609
Inventories		4,273,975
Property and equipment		4,133,145
Deposits with John Deere finance		265,999
Goodwill and other intangibles		912,315
Accounts payable and accrued liabilities		(1,400,695)
Floor plan payable		(2,023,378)
Term debt		(2,784,943)
Minority interest		(1,804,953)
Purchase price of 60.28% partnership interest in Agriturf	$	2,744,074