# Cervus Equipment Corporation Management's Discussion + Analysis

## For the period from January 1, 2015 to September 30, 2015

The following Management's Discussion & Analysis ("MD&A") was prepared as of November 4, 2015 and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or the "Company") financial performance for the three and nine month periods ended September 30, 2015 and significant trends that may affect future performance of Cervus. This MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2015 and notes contained therein. The accompanying interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Cervus' functional and reporting currency is the Canadian dollar. Cervus' common shares trade on the Toronto Stock Exchange under the symbol "CVL".

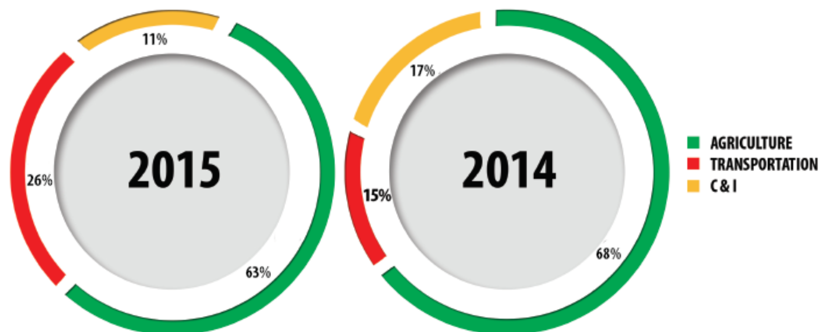
Additional information relating to Cervus, including Cervus' current annual information form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site **at www.sedar.com**.

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

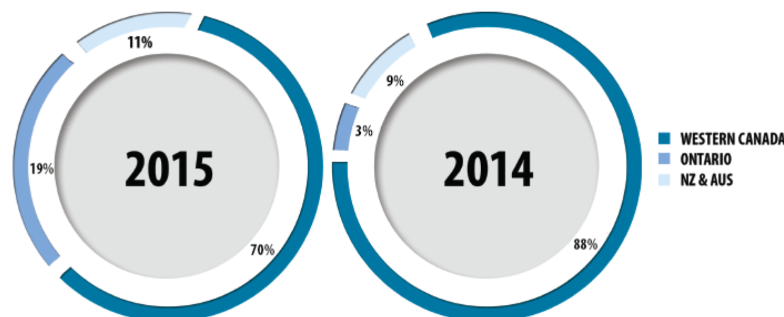
## Overview of Cervus

Cervus is a diversified corporation and has historically operated in two separate business segments, an Agricultural equipment segment and a Commercial and Industrial equipment segment. During the fourth quarter of 2014, the Company realigned its operating segments as a result of changes to the governance and organizational structure resulting from the acquisition of 13 Ontario Peterbilt dealerships. The Company realigned the operating segments to be the following: Agricultural, Transportation, and Commercial and Industrial ("C&I") segments, based on the industry which they serve. While Cervus continues to operate all segments under a unified corporate strategy, the expansion of Peterbilt operations and the appointment of a vice-president dedicated to Transportation operations in 2014, caused changes in how management presents and reviews information for financial reporting and management decision making purposes. Each segment continues to operate under the same unified Cervus brand and values, but are managed separately, providing segment leaders latitude to make strategic decisions relevant to the markets they serve. All prior period disclosure has been updated to reflect changes in operating segments, and certain amounts have been reclassified to conform to the current year presentation.

**Year to date revenue by segment**




**Year to date revenue by geography**




The Agricultural equipment segment consists of interests in 42 John Deere dealership locations with 14 in Alberta, 11 in Saskatchewan, 1 in British Columbia, 1 in Manitoba, 9 in New Zealand and 6 in Australia. Of the 42 John Deere Dealerships, 35 are wholly owned, and the Company holds a minority interest in 7.

The Commercial and Industrial ("C&I") equipment segment consists of 13 dealership locations with 10 Bobcat/ JCB, Clark, Sellick, and Doosan material handling and forklift equipment dealerships operating in Alberta, 2 Clark, Sellick, and Doosan material handling and forklift equipment dealerships operating in Saskatchewan and 1 in Manitoba.

The Transportation segment consists of 16 dealership locations with 4 Peterbilt truck dealerships and 1 collision repair center operating in Saskatchewan, and 11 Peterbilt truck dealerships operating in Ontario.

## Note Regarding Forward-Looking Statements

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

The most recent quarterly dividend payment of $0.2125 per share was made to the shareholders of record as of September 30, 2015 on October 15, 2015. See "Capital Resources - Cautionary note regarding dividends" for a cautionary note regarding future dividends.

## Highlights of the Quarter

- The Company generated adjusted earnings[1] of $6.6 million for the three months ended September 30, 2015, and adjusted basic earnings per share[1] of $0.43. For the comparable period in 2014, the Company generated adjusted earnings of $8.7 million and adjusted basic earnings per share[1] of $0.57.

- Total revenues increased $48.6 million and gross profit dollars increased $2.9 million compared to the three months ended September 30, 2014. Same store revenues and gross profit decreased $14.3 million and $6.3 million, respectively.

- Cost saving initiatives within same store operations resulted in a $4.3 million reduction in selling, general, and administrative ("SG&A") expenses quarter over quarter, decreasing same store SG&A as a percentage of revenue to 13.6% in the third quarter of 2015 from 14.5% in 2014.

- Acquisitions contributed $2.1 million of incremental earnings before interest, taxes, depreciation, and amortization ("EBITDA"). Same store EBITDA was $12.7 million during the three months ended September 30, 2015 compared to $17.6 million for the similar period in 2014.

- Dividends of $0.2125 per share were declared to shareholders of record as at September 30, 2015

- The Company climbed to #66 from #72 on the Alberta Venture's 2015 Venture 250 ranking

Throughout this MD&A, same store results for the three and nine month periods ended September 30, 2015 in the Agricultural segment exclude the results of six John Deere dealerships acquired in October and December of 2014. Further, Agricultural segment same store results exclude the consolidated results of Deer Star Systems Inc. ("Deer Star"), as Cervus did not own a majority interest Deer Star's operations during the comparative period in 2014. For the Transportation segment, same store results for the three and nine month periods ended September 30, 2015 exclude the July 1, 2015 to August 15, 2015 results of our Ontario Peterbilt dealerships acquired in August 2014.

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[1] Refer to Non-IFRS Measures herein

# Third Quarter Consolidated Performance

| ($ thousands, except per share amounts) | Three months period ended September 30 | | | | | Nine months period ended September 30 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total 2015 | | 2015 Same Store | | | Total 2015 | | 2015 Same Store | | |
| | 2015 | % Change | 2015 Same Store[1] | % Change | 2014 | 2015 | % Change | 2015 Same Store[1] | % Change | 2014 |
| Revenue | **334,742** | 17% | 271,854 | (5%) | 286,192 | **876,152** | 27% | 637,705 | (8%) | 690,569 |
| Cost of sales | **(279,464)** | 20% | (225,837) | (3%) | (233,847) | **(721,306)** | 29% | (519,680) | (7%) | (559,850) |
| **Gross profit** | **55,278** | 6% | 46,017 | (12%) | 52,345 | **154,846** | 18% | 118,025 | (10%) | 130,719 |
| Other income | **1,169** | | 573 | | 1,426 | **946** | | 1,601 | | 3,269 |
| Unrealized foreign exchange gain (loss) | **(676)** | | (326) | | (179) | **(1,727)** | | (743) | | 40 |
| Total other income (loss) | **493** | (60%) | 247 | (80%) | 1,247 | **(781)** | (124%) | 858 | (74%) | 3,309 |
| Selling, general and administrative expense | **(45,314)** | 10% | (37,063) | (10%) | (41,372) | **(137,097)** | 23% | (103,576) | (7%) | (111,712) |
| **Income from operating activities** | **10,457** | (14%) | 9,201 | (25%) | 12,220 | **16,968** | (24%) | 15,307 | (31%) | 22,316 |
| Finance income | **58** | (28%) | 58 | (28%) | 80 | **147** | (28%) | 146 | (28%) | 203 |
| Finance costs | **(3,172)** | 39% | (2,605) | 14% | (2,290) | **(8,605)** | 53% | (6,469) | 15% | (5,628) |
| Share of profit (loss) of equity accounted investees, net of tax | **(68)** | (109%) | (68) | (109%) | 766 | **296** | (63%) | 296 | (63%) | 803 |
| **Income before income tax expense** | **7,275** | (32%) | 6,586 | (39%) | 10,776 | **8,806** | (50%) | 9,280 | (48%) | 17,694 |
| Income tax expense | **(3,365)** | 10% | | | (3,069) | **(40,060)** | 682% | | | (5,126) |
| **Income (loss) for the period** | **3,910** | | | | 7,707 | **(31,254)** | | | | 12,568 |
| **Income (loss) attributable to shareholders** | **3,910** | | | | 7,707 | **(31,189)** | | | | 12,492 |
| **EBITDA[1]** | **14,863** | (16%) | 12,715 | (28%) | 17,599 | **31,296** | (10%) | 25,730 | (26%) | 34,902 |
| **EBITDA margin[1]** | **4.4%** | | 4.7% | | 6.1% | **3.6%** | | 4.0% | | 5.1% |
| **Ratios as a percentage of revenue:** | | | | | | | | | | |
| Gross profit margin | **16.5%** | | 16.9% | | 18.3% | **17.7%** | | 18.5% | | 18.9% |
| Selling, general and administrative | **13.5%** | | 13.6% | | 14.5% | **15.6%** | | 16.2% | | 16.2% |
| **Earnings (loss) per share** | | | | | | | | | | |
| Adjusted - Basic[1] | 0.43 | | | | 0.57 | 0.54 | | | | 0.84 |
| Basic | 0.25 | | | | 0.51 | (2.02) | | | | 0.83 |
| Diluted | 0.24 | | | | 0.49 | (2.02) | | | | 0.79 |

[1] - Refer to Non-IFRS Measures herein

**Operating Summary – Three months ended September 30, 2015**

Total EBITDA decreased $2.7 million in the three months ended September 30, 2015, primarily due to reduced demand in our Commercial & Industrial (C&I) segment as a result of extended uncertainty in oil prices. Acquisitions contributed $2.1 million of incremental EBITDA for the quarter, while SG&A reductions generated $4.3 million of efficiencies on a same store basis.

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## Same Store Highlights

For the three months ended September 30, 2015, same store EBITDA decreased $4.9 million, primarily due to a $3.0 million decrease in operating income and $0.8 million of reduced earnings from equity investments. The C&I and Transportation segments were the primary sources of this decrease as a result of continued uncertainty surrounding oil prices, while same store new Agriculture equipment sales in the period were impacted by negative mid-season 2015 crop outlook. Agriculture new sales were partially offset by additional demand for used equipment as crop yield improved later in the third quarter. Parts and service activity across segments were less volatile than new sales, as equipment continues to operate and require servicing. Further, the Company's cost reduction initiatives reduced SG&A by $4.3 million in the third quarter of 2015 compared with the same period in 2014.

For the nine months ended September 30, 2015, EBITDA decreased $9.2 million primarily due to factors consistent with those discussed for the third quarter of 2015.

## Acquisition Performance

For the three months ended September 30, 2015, Agriculture acquisitions contributed $1.0 million of operating income on $37.9 million of revenue. These results include $0.6 million of operating losses due to consolidating the results of Deer Star, which was accounted for as an equity investment in the comparative period.

The acquisition of Ontario transportation generated total income from operating activities of $0.1 million for the third quarter, of which a $0.1 million loss from operating activities is included in the same store results above related to the six week period from August 15 to September 30, 2015. Excluding the $0.4 million of unrealized foreign exchange loss, the Ontario stores contributed $0.5 million of operating income in the quarter, and $1.3 million of EBITDA.

For the nine months ended September 30, 2015, acquisitions contributed operating income of $1.7 million, and EBITDA of $5.6 million.

# Third Quarter Business Segment Performance

The Company has three reportable segments: Agricultural, Transportation, and Commercial and Industrial, each supported by a single shared resources function. The Company allocates the expenditures of shared resources to each individual segment according to specific identification and allocation metrics as outlined in Note 15 of the accompanying Unaudited Condensed Interim Consolidated Financial Statements.

## Agricultural Segment Results

| | Three months period ended September 30 | | | | | Nine months period ended September 30 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total 2015 | | 2015 Same Store | | | Total 2015 | | 2015 Same Store | | |
| ($ thousands, except per share amounts) | 2015 | % Change | 2015 Same Store[1] | % Change | 2014 | 2015 | % Change | 2015 Same Store[1] | % Change | 2014 |
| Equipment | | | | | | | | | | |
| New equipment | **108,239** | (3%) | 91,517 | (18%) | 111,734 | **281,083** | 9% | 230,808 | (11%) | 258,966 |
| Used equipment | **84,125** | 44% | 68,338 | 17% | 58,538 | **177,802** | 35% | 140,325 | 6% | 132,097 |
| Total equipment revenue | **192,364** | 13% | 159,855 | (6%) | 170,272 | **458,885** | 17% | 371,133 | (5%) | 391,063 |
| Parts | **27,983** | 29% | 23,545 | 9% | 21,652 | **66,192** | 33% | 55,192 | 11% | 49,925 |
| Service | **11,496** | 42% | 10,689 | 32% | 8,118 | **29,353** | 20% | 26,248 | 8% | 24,362 |
| Rental and other | **859** | 47% | 726 | 24% | 584 | **3,031** | 49% | 2,627 | 29% | 2,036 |
| Total revenue | **232,702** | 16% | 194,815 | (3%) | 200,626 | **557,461** | 19% | 455,200 | (3%) | 467,386 |
| Cost of sales | **(197,673)** | 17% | (165,564) | (2%) | (168,401) | **(468,098)** | 20% | (381,858) | (2%) | (391,377) |
| Gross profit | **35,029** | 9% | 29,251 | (9%) | 32,225 | **89,363** | 18% | 73,342 | (4%) | 76,009 |
| Total other income | **718** | 1% | 629 | (12%) | 714 | **1,858** | (17%) | 1,942 | (13%) | 2,227 |
| Selling, general and administrative expense | **(25,007)** | 14% | (20,122) | (9%) | (22,026) | **(73,821)** | 21% | (59,333) | (3%) | (61,121) |
| Income from operating activities | **10,740** | (2%) | 9,758 | (11%) | 10,913 | **17,400** | 2% | 15,951 | (7%) | 17,115 |
| EBITDA | **13,014** | (3%) | 11,452 | (15%) | 13,430 | **24,784** | 11% | 21,502 | (3%) | 22,270 |
| Ratios as a percentage of revenue: | | | | | | | | | | |
| Gross profit margin | **15.1%** | | 15.0% | | 16.1% | **16.0%** | | 16.1% | | 16.3% |
| Selling, general and administrative | **10.7%** | | 10.3% | | 11.0% | **13.2%** | | 13.0% | | 13.1% |

[1] - Refer to Non-IFRS Measures herein

### Operating Summary – Three months ended September 30, 2015

Total Agriculture EBITDA for the three month period ended September 30, 2015 was within 2% of the comparable period in 2014. Acquisitions generated incremental EBITDA of $1.6 million offset by a decrease in same store EBITDA of $2.0 million. Early indicators of a poor crop ultimately improved on late season rainfall, however farmers' initial expectations impacted demand for new equipment. This was compounded by the increased Canadian dollar cost of new equipment due to appreciation in the US dollar. Demand for used equipment accelerated as crop outlook improved later in the third quarter, while increases in both parts and service revenue reflects the earlier start to the 2015 harvest season and increased parts prices due to the higher US dollar, compared to 2014.

## Same Store Highlights

For the three months ended September 30, 2015, same store income from operating activities decreased $1.2 million, as dry conditions leading into Q3 combined with US exchange factors tempered new equipment demand. As harvest outlook improved mid-quarter, demand for used equipment accelerated assisted by attractive used equipment pricing relative to new. Further, our parts and service revenues were ahead of prior year due to an earlier harvest compared to 2014, strong machine population in our geography, and parts price increases on a higher US dollar. Targeted expense control initiatives reduced SG&A dollars by $1.9 million and reduced SG&A as a percent of revenue to 10.3%.

For the nine month period ended September 30, 2015, same store income from operating activities decreased $1.2 million or 7% compared to the prior year, as the decrease in new equipment sales was not fully offset by increases in all other revenue streams. The decrease in new equipment sales primarily related to the third quarter, as crop concerns in July tempered pre-harvest sales.

## Acquisition Performance

For the three months ended September 30, 2015, acquisitions contributed $1.0 million of operating income on $37.9 million of revenue. Included in this result is a $0.6 million third quarter loss from operating activities generated by Deerstar Systems Inc., which the company acquired a controlling interest in as a result of the Evergreen acquisition. Deerstar Systems sells crop sprayers and the sales season for this equipment is typically early summer, which coincided with the period of uncertainty regarding overall crop yield. The Evergreen and Deer Country acquisitions contributed $1.6 million income from operating activities in the quarter, despite their geography being significantly impacted by below average rainfall.

For the nine months ended September 30, 2015, Agriculture acquisitions generated $1.4 million of operating income, based on factors consistent with those impacting same store results.

## Transportation Segment Results

For the Transportation segment, same store results for the three and nine month periods ended September 30, 2015 exclude the results of Peterbilt of Ontario for January 1, 2015 through August 15, 2015, as the Ontario operations were not owned by the Company in the comparative period of 2014. Same store operations include the results of Peterbilt of Ontario for August 16, 2015 through to September 30, 2015.

| | Three months period ended September 30 | | | | | Nine months period ended September 30 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total 2015 | | 2015 Same Store | | | Total 2015 | | 2015 Same Store | | |
| **($ thousands, except per share amounts)** | **2015** | **% Change** | **2015 Same Store[1]** | **% Change** | **2014** | **2015** | **% Change** | **2015 Same Store[1]** | **% Change** | **2014** |
| Equipment | | | | | | | | | | |
| New equipment | **37,835** | 61% | 23,581 | 0% | 23,513 | **116,939** | 116% | 38,003 | (30%) | 54,044 |
| Used equipment | **3,605** | 119% | 2,715 | 65% | 1,648 | **9,260** | 100% | 4,308 | (7%) | 4,636 |
| Total equipment revenue | **41,440** | 65% | 26,296 | 5% | 25,161 | **126,199** | 115% | 42,311 | (28%) | 58,680 |
| Parts | **23,343** | 51% | 16,307 | 5% | 15,468 | **70,826** | 113% | 33,170 | (0%) | 33,292 |
| Service | **7,269** | 44% | 5,391 | 7% | 5,057 | **21,538** | 86% | 11,497 | (1%) | 11,566 |
| Rental and other | **1,622** | 9% | 679 | (54%) | 1,492 | **6,013** | 154% | 1,412 | (40%) | 2,363 |
| Total revenue | **73,674** | 56% | 48,673 | 3% | 47,178 | **224,576** | 112% | 88,390 | (17%) | 105,901 |
| Cost of sales | **(60,634)** | 62% | (39,116) | 4% | (37,437) | **(184,385)** | 121% | (68,999) | (17%) | (83,425) |
| Gross profit | **13,040** | 34% | 9,557 | (2%) | 9,741 | **40,191** | 79% | 19,391 | (14%) | 22,476 |
| Other income (loss) | **100** | | (467) | | 511 | **(1,200)** | | (689) | | 428 |
| Unrealized foreign exchange gain (loss) | **(676)** | | (266) | | (179) | **(1,727)** | | (683) | | 40 |
| Total other income (loss) | **(576)** | | (733) | | 332 | **(2,927)** | | (1,372) | | 468 |
| Selling, general and administrative expense | **(12,633)** | 29% | (9,267) | (5%) | (9,795) | **(38,086)** | 81% | (19,053) | (9%) | (20,995) |
| (Loss) income from operating activities | **(169)** | (161%) | (443) | (259%) | 278 | **(822)** | (142%) | (1,034) | (153%) | 1,949 |
| EBITDA | **1,024** | (30%) | 438 | (70%) | 1,471 | **3,135** | (29%) | 851 | (81%) | 4,401 |
| Ratios as a percentage of revenue: | | | | | | | | | | |
| Gross profit margin | **17.7%** | | 19.6% | | 20.6% | **17.9%** | | 21.9% | | 21.2% |
| Selling, general and administrative | **17.1%** | | 19.0% | | 20.8% | **17.0%** | | 21.6% | | 19.8% |

[1] - Refer to Non-IFRS Measures herein

**Operating Summary – Three months ended September 30, 2015**

For our Transportation segment in the third quarter, total EBITDA was $1.0 million, comprised of $0.9 million of EBITDA from Ontario, and a $0.1 million in EBITDA from our Saskatchewan operations. Resource prices and related uncertainty have been the primary factor behind our Saskatchewan results. Total operating loss for the quarter was $0.2 million, comprised of $0.1 million of operating income from Ontario, and a $0.3 million operating loss in our Saskatchewan stores.

## Same Store Highlights

For the three months ended September 30, 2015, same store income from operating activities decreased $0.7 million due to a $0.7 million decrease in Saskatchewan.

Saskatchewan equipment sales decreased $11.8 million compared to Q3 2014, although parts and service revenues remained resilient due to continuing utilization of existing equipment. The decrease in parts and service was limited to 8% compared to the 70% decrease in equipment sales. In addition to the impact of resource prices, the appreciation of the US dollar over the prior year has increased the sale price of equipment, a compounding factor in customer purchase decisions. Offsetting the impact of these economic factors, was the $1.3 million of SG&A reductions achieved by our Saskatchewan operations when compared to third quarter 2014.

Same store operations include the results for Peterbilt of Ontario for the six week period of August 16, 2015 through to September 30, 2015. On same store basis, revenue reductions in Saskatchewan were replaced by incremental revenue from Ontario operations, however gross margins are lower in Ontario due to the fleet-focused market. As a result, same store gross margin decreased despite a 3% increase in same store revenue.

For the nine months ended September 30, 2015, same store income from operating activities decreased $3.0 million, including $0.7 million in unrealized foreign exchange losses on floorplan payables. The decline in Saskatchewan equipment sales, tempered by comparative resilience in parts and service sales and targeted SG&A reductions were the primary drivers of year to date same store results, consistent with the above analysis for the three months ended September 30, 2015.

## Acquisition Performance

For the three months ended September 30, 2015 Ontario transportation generated income from operating activities of $0.1 million. Adjusted income excluding unrealized foreign exchange was $0.5 million. Ontario generated $57.4 million in revenue with strong class 8 truck sales, which impacted the sales mix and resulted in an overall gross margin of 15.0%. Ontario SG&A as a percentage of revenue for the third quarter was 14.4% which is comparable to trends for the six months ended June 30, 2015.

Of the total $0.1 million of income from operating activities generated by Ontario in the third quarter of 2015, $0.1 million of operating losses are included in the same store results above.

For the nine months ended September 30, 2015, Ontario recorded adjusted operating income of $1.6 million, excluding $1.0 million of unrealized foreign exchange loss on the conversion of US dollar denominated floorplans and $0.5 million of non-recurring acquisition and integration related costs. Ontario achieved 2015 year to date sales of $168.6 million, while profitability was impacted by margin pressures on rationalizing inventory in the first quarter combined with implementing process and structural efficiencies post acquisition.

## Commercial and Industrial Segment Results

| | Three months period ended September 30 | | | Nine months period ended September 30 | | |
|---|---|---|---|---|---|---|
| | Total 2015 | | | Total 2015 | | |
| ($ thousands, except per share amounts) | 2015 | % Change | 2014 | 2015 | % Change | 2014 |
| Equipment | | | | | | |
| New equipment | **15,364** | (34%) | 23,154 | **50,797** | (28%) | 70,620 |
| Used equipment | **2,015** | (4%) | 2,106 | **6,334** | 5% | 6,024 |
| Total equipment revenue | **17,379** | (31%) | 25,260 | **57,131** | (25%) | 76,644 |
| Parts | **5,998** | (12%) | 6,812 | **20,236** | (6%) | 21,482 |
| Service | **3,418** | (16%) | 4,048 | **11,460** | (10%) | 12,702 |
| Rental and other | **1,571** | (31%) | 2,268 | **5,288** | (18%) | 6,454 |
| Total revenue | **28,366** | (26%) | 38,388 | **94,115** | (20%) | 117,282 |
| Cost of sales | **(21,157)** | (24%) | (28,009) | **(68,823)** | (19%) | (85,048) |
| Gross profit | **7,209** | (31%) | 10,379 | **25,292** | (22%) | 32,234 |
| Total other income | **351** | 75% | 201 | **288** | (53%) | 614 |
| Selling, general and administrative expense | **(7,674)** | (20%) | (9,551) | **(25,190)** | (15%) | (29,596) |
| Income (loss) from operating activities | **(114)** | (111%) | 1,029 | **390** | (88%) | 3,252 |
| EBITDA | **825** | (69%) | 2,698 | **3,377** | (59%) | 8,231 |
| Ratios as a percentage of revenue: | | | | | | |
| Gross profit margin | **25.4%** | | 27.0% | **26.9%** | | 27.5% |
| Selling, general and administrative | **27.1%** | | 24.9% | **26.8%** | | 25.2% |

**Operating Summary – Three months ended September 30, 2015**

Third quarter EBITDA in the Commercial and Industrial (C&I) segment decreased by $1.9 million due to regional economic uncertainty surrounding oil prices, which primarily impacted new equipment demand in the Alberta construction market. The resulting $3.2 million decrease in gross profit was partially offset by a 20% reduction in SG&A.

Income from operating activities declined $1.1 million as our construction operations have been most affected by regional economic factors, while the impact of resource prices has been less significant for our industrial operations. Construction equipment demand is linked to our customers' outlook regarding construction contracts, which have been impacted by the overall outlook for oil. Parts and service revenue across the segment has been less volatile, indicating equipment continues to operate and require servicing. This is evidenced by the 13% decrease in parts and service revenue in the quarter compared to the 31% decrease in equipment sales. Expense reduction initiatives generated a $1.9 million decrease in SG&A expenses in the third quarter.

For the nine months ended September 30, 2015, EBITDA decreased $4.9 million due to a $23.2 million revenue decrease, due to factors consistent with those discussed for the third quarter of 2015.

# Third Quarter Cash Flows

## Cash and Cash Equivalents – Nine Months Ended September 30, 2015

Cervus' primary sources and uses of cash flow for the nine months ended September 30, 2015 are as follows:

***Operating Activities***

Net cash provided by operating activities was $3.1 million for the nine months ended September 30, 2015, compared to cash provided of $42.5 million for the same period of 2014, a net decrease of $39.4 million. The primary reason for this decrease was $18.2 million of net cash used for working capital items in the current year, compared to $12.7 million provided year to date 2014, primarily due to:

- A $21.5 million use of cash related to inventory and floorplan payables (use of cash of $6.2 million from net inventory and floorplan movement in the nine month period ended September 30, 2015, compared to a $15.3 million source of cash for the comparative period in 2014).
- A $20.5 million use of cash for accounts payables and accruals (a decrease in accounts payable of $6.2 million in the nine month period ended September 30, 2015 compared to increase of $14.3 million in the similar period of 2014).

***Investing Activities***

During the nine months ended September 30, 2015, the Company used $18.0 million of net cash for investing activities compared $45.3 million for the same period in 2014. There were several one-time events in 2014 which were non-recurring in 2015, one of which related to the purchase of Transportation Ontario operations in August 2014. In addition, there was a sale of an Agriculture building in 2014 which provided a source of cash. In the nine months ended September 30, 2015 amounts were paid for final holdback payments on business acquisitions in 2014, these amounts were accrued as payable in 2014.

***Financing Activities***

During the nine months ended September 30, 2015, the Company's financing activities provided $1.5 million of cash, compared to a use of $3.6 million in 2014, for a net source of $5.1 million. The primary driver of the change when compared to the same period in 2014 is net proceeds from term debt of $14.5 million in 2015 primarily on drawings on Syndicate line for final payments on 2014 acquisitions and working capital requirements, compared to $7.2 million in 2014.

# Consolidated Financial Position & Liquidity

| ($ thousands, except ratio amounts) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Current assets | **423,949** | 410,214 |
| Total assets | **645,573** | 669,303 |
| Current liabilities | **294,535** | 290,838 |
| Long-term liabilities | **161,106** | 148,974 |
| Shareholders' equity | **189,932** | 229,491 |
| Working capital (see "Non-IFRS Measures") | **129,414** | 119,376 |
| Working capital ratio (see "Non-IFRS Measures") | **1.44** | 1.41 |

### Working Capital

Cervus' working capital increased by $10.0 million to $129.4 million at September 30, 2015 when compared to $119.4 million at December 31, 2014. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at September 30, 2015, the Company had the ability to floor plan an additional $52.4 million of inventory, and held $248.8 million of undrawn floor plan capacity.

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

### Inventories

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

Inventory by segment for the period ended September 30, 2015 compared to December 31, 2014 is as follows:

| ($ thousands) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Agricultural** | **196,980** | 200,374 |
| **Transportation** | **85,692** | 68,024 |
| **Commercial & Industrial** | **54,375** | 56,227 |
| **Total** | **337,047** | 324,625 |

As at September 30, 2015, inventories had increased by $12.4 million to $337.1 million when compared to $324.6 million at December 31, 2014. Of the $12.4 million increase, $6.3 million relates to new equipment, $3.1 million in used and $2.5 million in parts. The increased cost of inventory associated with foreign exchange increases has been a factor across all inventory balances.

Due to seasonality of sales activity in our operating segments, comparison to inventory levels at December 31, 2014 may be limited. Therefore, we have provided inventory by segment for the period ended September 30, 2015 compared to September 30, 2014. A summary of the movement is as follows:

| ($ thousands) | September 30, 2015 | | September 30, 2014 |
|---|---|---|---|
| | Total | Same Store | |
| Agricultural | 196,980 | 160,854 | 161,455 |
| Transportation | 85,692 | 85,692 | 82,793 |
| Commercial & Industrial | 54,375 | 54,375 | 49,194 |
| Total | 337,047 | 300,921 | 293,442 |

Inventory has increased $43.6 million when compared to September 30, 2014. Included in the increase is $36.1 million of inventory from acquisitions. On a same store basis, inventory has increased by $7.5 million compared to September 30, 2014, comprised of a $2.1 million increase in new equipment, a $6.3 million increase in used equipment, partly offset by a $0.7 million decrease in parts. Same store inventory levels expressed in dollars within the Agriculture segment is consistent with Q3 2014, despite the increases in the US dollar cost between the two periods. This has been achieved through continued focus in managing inventory levels throughout the year. The increase in our same store equipment inventory in our Transportation and Commercial and Industrial segments is due to stocking new equipment inventory in expectation of typical western Canadian equipment demand. This demand has not materialized due to the economic implications of resource price decrease and related uncertainty in western Canada, as previously discussed.

At September 30, 2015, the Company believes that the recoverable amount on used equipment inventory exceeds their respective carrying value and no significant general impairment reserve is required or has been recorded.

**Accounts Receivable**

The calculated rolling twelve month average time to collect the Company's outstanding accounts receivables was approximately 17 days as at September 30, 2015 compared to 22 days for the same period in 2014. At September 30, 2015 no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on account aging, combined with specific customers' credit risk, historical trends, and other economic information.

The Company's allowance for doubtful collections has increased to $1.9 million at September 30, 2015 (September 30, 2014 - $1.7 million), which represents 4.7% (September 30, 2014 – 3.7%) of outstanding trade accounts receivable and 0.1% (September 30, 2014 - 0.2%) of gross revenue on an annual basis. Bad debt expense for the nine months ended September 30, 2015 amounted to a $0.7 million expense (2014 - $0.7 million recovery).

## Capital Resources

We use our capital to finance current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize 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 September 30, 2015 are as follows:

| ($ thousands) | Total Amount | Borrowings | Letters of Credit | Consigned Inventory | Amount Available |
|---|---|---|---|---|---|
| Operating and other bank credit facilities | 103,134 | 56,664 | 2,556 | - | 43,914 |
| Floor plan facilities and rental equipment floor plan facilities | 513,205 | 204,771 | - | 59,681 | 248,753 |
| Capital facilities | 63,991 | 43,098 | - | - | 20,893 |
| Total | 680,330 | 304,533 | 2,556 | 59,681 | 313,560 |

### Operating and Other Bank Credit Facilities

At September 30, 2015, the Company has a committed revolving credit facility with a syndicate of lenders, with a principal amount of $100.0 million. The facility is committed for a two year term beginning December 17, 2014, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an $80.0 million accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at September 30, 2015 there was $56.1 million drawn on the facility and $2.4 million had been utilized for outstanding letters of credit to John Deere.

Operating and other bank credit facilities include both Canadian and New Zealand balances. The New Zealand operating facility of NZ $1.5 million (CAD $1.3 million), represents the Company's operating credit facility with its New Zealand bank.

We believe that the credit facilities available to the Company outlined above are sufficient to meet our market share targets and working capital requirements for 2015.

### Floor Plan Facilities

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Canada ULC, GE Canada Equipment Financing G.P., General Electric Canada Equipment Financing G.P., GE Commercial Distribution Finance Canada, De Lage Landen Financial Services Canada Inc., PACCAR Financial Ltd., US Bank, and Canadian Imperial Bank of Commerce. At September 30, 2015, floor plan payables related to inventories were $183.5 million.

Floor plan payables at September 30, 2015 represented approximately 54.4 % of our inventories (December 31, 2014 – 53.9%). Floor plan payables fluctuate significantly from quarter to quarter based on the timing between the receipt of equipment inventories and their actual repayment so that the Company may take advantage of any programs made available to the Company by its key suppliers.

Interest on floor plans at the contractual rate were largely offset by dealer rebates and interest free periods. Total Agricultural segment interest otherwise payable on John Deere floor plans approximates $0.6 million and $1.6 million for the three and nine month periods ended September 30, 2015, respectively. This amount was offset by rebates applied during the three and nine month periods ended September 30, 2015 of $0.4 million and $1.3 million, respectively. At September 30, 2015 approximately 25% of the C&I and 94% of the Transportation segment's outstanding floor plan balances were interest bearing due to various incentives and interest free periods in place.

### Capital Facilities

Capital facilities consist of capital asset financing primarily through credit facilities with Farm Credit Canada and Affinity Credit Union.

### Outstanding Share Data

As of the date of this MD&A, there are 15,578 thousand common shares, 39 thousand share options, and 714 thousand deferred shares outstanding. The Company also has convertible debentures with a face value of $34.5 million, convertible into common shares at the holder's option prior to the maturity date (July 31, 2017) at a conversion price of $26.15 per common share (see "Contractual Obligations"). Further, at the maturity date, the Company may repay the debentures in cash or shares, at the Company's discretion. As at September 30, 2015 and 2014, the Company had the following weighted average shares outstanding:

| (thousands) | September 30, 2015 | September 30, 2014 |
|---|---|---|
| Basic weighted average number of shares outstanding | **15,449** | 15,106 |
| Dilutive impact of deferred share plan | **-** | 727 |
| Dilutive impact of share options | **-** | 11 |
| Diluted weighted average number of shares outstanding | **15,449** | 15,844 |

The above tables excludes all deferred share units and options for the nine months ended September 30, 2015 (703 thousand) as they are considered anti-dilutive.

## Dividends Paid and Declared to Shareholders

The Company, at the discretion of the Board of Directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid for the period ended September 30, 2015:

| ($ thousands, except per share amounts) Record Date | Dividend per Share | Dividend Payable | Dividends Reinvested | Net Dividend Paid |
|---|---|---|---|---|
| March 31, 2015 | 0.2125 | 3,287 | 292 | 2,995 |
| June 30, 2015 | 0.2125 | 3,293 | 282 | 3,011 |
| September 30, 2015 | 0.2125 | 3,306 | 270 | 3,036 |
| Total | **0.6375** | **9,886** | **844** | **9,042** |

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

## Dividend Reinvestment Plan ("DRIP")

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

During the three and nine month period ended September 30, 2015, 19 thousand and 50 thousand common shares, respectively, were issued through the Company's dividend reinvestment plan.

## Taxation

Cervus' 2015 dividends declared and paid through September 30, 2015 are considered to be eligible dividends for tax purposes on the date paid.

The Alberta corporate income tax rate increase announced June 18, 2015 increased Alberta provincial income tax to 12% from 10% for current and future periods. We estimate that our overall corporate tax rate for current and future periods will increase approximately 0.75% to 1.0%, compared to the tax rates in effect prior to the Alberta tax increase.

## Cautionary Note Regarding Dividends (see "Note Regarding Forward-Looking Statements")

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

# Summary of Results

## Quarterly Results Summary

| ($ thousands, except per share amounts) | **September 30, 2015** | June 30, 2015 | March 31, 2015 | December 31, 2014 |
|---|---|---|---|---|
| Revenues | **334,742** | 302,988 | 238,422 | 289,040 |
| Profit (loss) attributable to the shareholders | **3,910** | (32,203) | (2,896) | 5,870 |
| Gross profit dollars | **55,278** | 55,256 | 44,312 | 55,954 |
| Gross margin percentage | **16.5%** | 18.2% | 18.6% | 19.4% |
| EBITDA | **14,863** | 12,305 | 4,128 | 15,909 |
| Earnings (loss) per share: | | | | |
| Basic | **0.25** | (2.08) | (0.19) | 0.38 |
| Diluted | **0.24** | (2.08) | (0.19) | 0.37 |
| Adjusted earnings (loss) per share[1] | | | | |
| Basic | **0.43** | 0.19 | (0.08) | 0.49 |
| Diluted | **0.41** | 0.18 | (0.08) | 0.47 |
| Weighted average shares outstanding | | | | |
| Basic | **15,519** | 15,446 | 15,382 | 15,273 |
| Diluted | **16,222** | 15,446 | 15,382 | 16,023 |

| ($ thousands, except per share amounts) | September 30, 2014 | June 30, 2014 | March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Revenues | 286,192 | 237,488 | 166,889 | 225,813 |
| Profit (loss) attributable to the shareholders | 7,707 | 5,618 | (833) | 6,250 |
| Gross profit dollars | 52,345 | 45,253 | 33,121 | 43,188 |
| Gross margin percentage | 18.3% | 19.1% | 19.8% | 19.1% |
| EBITDA | 17,599 | 13,247 | 4,053 | 13,120 |
| Earnings (loss) per share: | | | | |
| Basic | 0.51 | 0.37 | (0.06) | 0.42 |
| Diluted | 0.49 | 0.35 | (0.06) | 0.40 |
| Adjusted earnings (loss) per share[1] | | | | |
| Basic | 0.57 | 0.39 | (0.10) | 0.41 |
| Diluted | 0.55 | 0.37 | (0.10) | 0.40 |
| Weighted average shares outstanding | | | | |
| Basic | 15,148 | 15,130 | 15,034 | 15,005 |
| Diluted | 15,884 | 15,835 | 15,034 | 15,689 |

[1] - Refer to Non-IFRS Measures herein

Sales activity for the Agricultural segment is normally highest between April and September during growing seasons in Canada and the impact on the growing seasons for New Zealand and Australia has not materially impacted the above results. Activity in the Transportation sector generally increases in winter months, while the Commercial and Industrial sector generally slows in the winter months. As a result, earnings or losses may not accrue uniformly from quarter to quarter. The reason for the change in net profit for the four most recent quarters when compared to prior quarters, is primarily the impact of resource prices on western Canadian Transportation and C&I operations, followed by our Ontario Peterbilt operations generating operating losses during integration.

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

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

***Alberta & Saskatchewan***

At time of writing, the 2015 harvest is substantially complete across western Canada, with yields and quality substantially above many mid-season expectations. Statistics Canada is forecasting total 2015 growing season crop production of 103 million tonnes, a 7.2% decrease from the 2014 crop yield.[2] However, reduced yield is likely to be partially or fully offset by increases in 2015-16 crop prices received by Canadian farmers, due to the appreciation in the US Dollar increasing Canadian dollar crop prices. Agriculture and Agri-Food Canada (AAFC) is forecasting 2015-16 wheat and canola prices expressed in Canadian dollars, to increase between 2% to 16% above 2014 average pricing for wheat, and canola to increase between 0% and 8.4% above 2014 average pricing.[3]

This is a significant turnaround from expectations earlier in the 2015 crop year, as the current forecast 2015 crop yield is within 1% of an average crop year.[4] The achieved yield has bolstered farmer sentiment and sustained farm balance sheets heading into the winter, which in turn supports farmer's ability to invest and maintain equipment. While the exchange rate has offset the reduced 2015 yield through price increases for Canadian crops, it has also caused a significant increase in the Canadian dollar cost of new equipment. The impact of exchange related pricing increases on new equipment in 2015 has been tempered by elevating the comparative value proposition of well-conditioned used equipment. Demand for new equipment into 2016 is influenced by Canadian crop yields, crop prices, and weather outlook through the 2016 growing season. Our performance through the challenging first half of the 2015 crop year illustrates the annuity of, and opportunities within, parts and service sales due to continued utilization of existing equipment in spite of seasonal weather fluctuations. We also enter the winter of 2016 with the cost basis of our used agricultural equipment well positioned relative to the current Canadian dollar cost of new equipment.

Our Commercial and Industrial operations in Alberta and Saskatchewan have been heavily impacted by petroleum prices. Specifically, demand for new construction equipment has receded as our customers curtail capital spending in response to economic uncertainty in western Canada, triggered by low and fluctuating oil prices. The outlook for construction equipment is contingent on growth and stability in oil prices, the timing of which has proved to be elusive. However, demand for parts and service has remained comparatively robust, indicating that equipment continues to operate as projects already in progress continue. Discipline in adapting and sizing to market conditions is essential to maintaining profitability through industry cycles. The cost reduction initiatives implemented in Q3 2015, position the company well for current realities while safeguarding the ability to respond to accelerated demand as the market cycle runs its course.

Saskatchewan's resource sector has slowed substantially due to lower oil prices, and our Transportation operations have shared in the impact. The Saskatchewan transportation market is weighted towards the owner-operator and small fleets, a significant number of whom haul for, or directly provide, oilfield related transportation services. Uncertainty regarding oil prices has impacted these customers as oilfield activity has tapered significantly, particularly in the heavily oil dependant areas of Lloydminster and Estevan. Similar to the C&I sector, we anticipate demand for equipment is unlikely to return to 2014 levels until oil prices stabilize. Customer requirements for parts and service remain, generated by residual oilfield maintenance activity and our presence on the trans-Canada transportation corridor. As with our C&I segment, targeted cost reductions have been implemented across our Saskatchewan Transportation operations, while retaining our ability to respond to renewed activity.

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[2] Statistics Canada, *Production of Principal Field Crops, September 2015,* October 2, 2015, retrieved from www.statcan.gc.ca

[3] Agriculture and Agri Food Canada, *Outlook for Principal Field Crops,* September 24, 2015, retrieved from www.agr.gc.ca

[4] The 2015 crop is expected to be within 1% of 2012 yield. Statistics Canada, Production of Principal Field Crops, September 2015, October 2, 2015, retrieved from www.statcan.gc.ca

***Ontario***
TD Economics expects Ontario to be a bright spot of economic growth in the country, forecasting a nation leading real GDP of 2.4% for 2016.[5] A significant factor in TD's forecast for Ontario is manufacturing growth spurred on by a favorable exchange rate for Canadian manufacturers, combined with economic activity in the US. The Ontario market is fleet centric, and our post acquisition activities have focused on building the relationships and processes in the fleet market. Outlook for the remainder of the year is focused on profitable growth and achieving the performance expectations anticipated at acquisition, supported by positive transportation demand.

***New Zealand & Australia***
At the time of release, New Zealand ("NZ") is moving into their summer months and are expecting El Nino to bring generally favorable weather conditions, increasing rainfall on the east coast of the country. Further, after dairy prices declined significantly in late 2014 and into 2015, cautious optimism exists for improved dairy pricing due to reduced production and increased demand from China. Recent strength in the NZ dollar provides equipment purchasing power, while beef and sheep prices remain strong. Based on these factors, outlook is trending positive but remains largely contingent on the materialization of dairy prices.

Our Australian operations are also impacted by dairy prices, although domestic consumption accounts for more than half of Australia's milk production. This has limited the decline in dairy prices, which are expected to hold or gain slightly over the next twelve months. Dairy pressures have been offset by strength in livestock prices due to a weaker Australian dollar and strong international demand for beef and lamb. Many areas are currently experiencing drier than normal conditions for this time of year, and expectations are for a challenging harvest. Overall, we expect demand for equipment to remain stable based on a challenging harvest offset by livestock strength, illustrating the diversified agriculture in our geography.

***Foreign Exchange***
The speed of which the US dollar appreciated relative to the Canadian dollar in the nine months ended June 30, 2015 has caused a significant increase in the cost of equipment, which translates to an increased cost to Canadian customers. Should exchange rates continue to fluctuate by significant amounts over relatively short periods of time, it may exaggerate or negate the impact of microeconomic, industry specific fundamentals.

## Off-Balance Sheet Arrangements

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

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At September 30, 2015, payments in arrears by such customers aggregated $262 thousand. In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit for the net residual value of the lease outstanding at the maturity of the contract. At September 30, 2015, the net residual value of such leases aggregated $187.5 million of which the Company believes all are recoverable.

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the Company owes Deere Credit under this obligation. The deposits are capped at between 1% and 3% of the total dollar amount of the lease and finance contracts outstanding. The maximum liability that can arise related to these arrangements is limited to the deposits of $2.8 million at September 30, 2015. Deere

[5] TD Economics, *Provincial Economic Forecast,* October 8, 2015, www.td.com

Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

The Company has issued irrevocable standby Letters of Credit to Deere Credit and another supplier in the aggregate amount of $2.4 million. The Letters of Credit were issued in accordance with the dealership arrangements with the suppliers that would allow the supplier to draw upon the letter of credit if the Company was in default of any of its obligations.

# Transactions with Related Parties

**Key Management Personnel Compensation**

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

Total remuneration of key management personnel and directors during the three and nine months ended September 30, 2015 and 2014 was:

| | Three month periods ended September 30 | | Nine month periods ended September 30 | |
|---|---|---|---|---|
| **($ thousands)** | **2015** | **2014** | **2015** | **2014** |
| Short-term benefits | **615** | 410 | **2,514** | 1,998 |
| Share-based payments | **69** | 80 | **320** | 369 |
| Total | **684** | 490 | **2,834** | 2,367 |

***Other Related Party Transactions***

Certain officers and dealer managers of the Company have provided guarantees to John Deere as required by John Deere aggregating $6.5 million. The guarantees are kept in place until released by John Deere. During the three and nine month periods ended September 30, 2015 and 2014, the Company paid those individuals $49 thousand and $147 thousand for providing these guarantees which represents a similar amount to guarantee fees otherwise paid to financial institutions. These transactions were recorded at the amount agreed to between the Company and the guarantors and are included in selling, general and administrative expenses.

## Critical Accounting Estimates and Judgements

Preparation of unaudited and audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the unaudited and audited consolidated financial statements. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results. Further information on our critical accounting estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2014 as filed on SEDAR at www.sedar.com. In preparing these unaudited condensed interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2014, except as disclosed in Note 8 of the accompanying unaudited interim consolidated financial statements for impairment tests including intangible assets and goodwill.

## Business Risks and Uncertainties

The Company's business risks and uncertainties remain unchanged from those discussed in our annual MD&A for the year ended December 31, 2014 as filed on SEDAR at www.sedar.com

## Changes in Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements prepared for the year ended December 31, 2014 and as described in note 3 in those financial statements.

### New Standards Not Yet Adopted

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are required to be adopted in the current or future periods. The new standards, amendments to existing standards effective for annual periods beginning on or after January 1, 2016 and have not been applied in preparing these consolidated financial statements are set out below.

Effective January 1, 2016, the Company will be required to adopt amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible for clarification on acceptable methods of depreciation and amortization. The amendments are to be applied prospectively for the annual period commencing January 1, 2016. The Company does not expect the amendments to have a material impact on the Company's financial statements.

On September 25, 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

On December 18, 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company intends to adopt these amendments in its financial statements for annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Effective January 1, 2018, the Company will be required to adopt IFRS 15 related to revenue from contracts with customers. Revenue from Contracts with Customers, was issued in May 2014 and replaces IAS 11

Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The extent of the impact of adoption has not yet been determined. The impact on the financial statements has yet to be determined.

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

## Responsibility of Management and Board

### Internal Controls Over Financial Reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Cervus are responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and the CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no significant changes in the design of our ICFR during the three and nine month periods ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

The control framework utilized to design the Company's ICFR is the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), (2013).

### Disclosure Controls

The CEO and the CFO are also responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P"). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and includes controls and procedures designed to ensure that information required to be disclosed in documents filed or submitted under securities legislation is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities. There have been no significant changes in the design of our DC&P during the three and nine month period ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect the Company's DC&P.

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

# Non-IFRS Financial Measures

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

## Adjusted Earnings

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

| | Three month period ended September 30 | | Nine month period ended September 30 | |
|---|---|---|---|---|
| **($ thousands, except per share amounts)** | **2015** | **2014** | **2015** | **2014** |
| Income (loss) attributed to shareholders | **3,910** | 7,707 | **(31,189)** | 12,492 |
| Adjustments: | | | | |
| CRA settlement | **1,825** | - | **36,948** | - |
| Unrealized foreign currency (gain) loss | **676** | 179 | **1,727** | (40) |
| Acquisition and integration costs | **230** | 819 | **829** | 893 |
| Loss (gain) on sale of land and building | **-** | - | **-** | (680) |
| Adjusted income attributed to shareholders | **6,641** | 8,705 | **8,315** | 12,665 |
| Adjusted earnings per share: | | | | |
| Basic | **0.43** | 0.57 | **0.54** | 0.84 |
| Diluted | **0.41** | 0.55 | **0.51** | 0.80 |

## EBITDA

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

***Three months ended September 30, 2015***

| EBITDA ($ thousands)<br>Three months ended September 30, 2015 | Total | Agricultural | Transportation | Commercial & Industrial | Other[1] |
|---|---|---|---|---|---|
| Net profit (loss) | **3,910** | 8,591 | (2,421) | (435) | (1,825) |
| Add: | | | | | |
| Interest | **3,349** | 1,967 | 1,019 | 363 | - |
| Income taxes | **3,365** | 261 | 1,254 | 25 | 1,825 |
| Depreciation and Amortization | **4,239** | 2,195 | 1,172 | 872 | - |
| EBITDA | **14,863** | 13,014 | 1,024 | 825 | - |

| EBITDA ($ thousands) - Same Store<br>Three months ended September 30, 2015 | Total | Agricultural | Transportation | Commercial & Industrial |
|---|---|---|---|---|
| Net profit (loss) before tax | **6,586** | 8,299 | (1,303) | (410) |
| Add: | | | | |
| Interest | **2,782** | 1,535 | 884 | 363 |
| Depreciation and Amortization | **3,347** | 1,618 | 857 | 872 |
| EBITDA | **12,715** | 11,452 | 438 | 825 |

| EBITDA ($ thousands)<br>Three months ended September 30, 2014 | Total | Agricultural | Transportation | Commercial & Industrial |
|---|---|---|---|---|
| Net profit (loss) | **7,707** | 7,403 | (276) | 580 |
| Add: | | | | |
| Interest | **2,472** | 1,404 | 734 | 334 |
| Income taxes | **3,069** | 2,977 | (124) | 216 |
| Depreciation and Amortization | **4,351** | 1,646 | 1,137 | 1,568 |
| EBITDA | **17,599** | 13,430 | 1,471 | 2,698 |

***Nine months ended September 30, 2015***

| **EBITDA ($ thousands)**<br>**Nine months ended September 30, 2015** | **Total** | **Agricultural** | **Transportation** | **Commercial & Industrial** | **Other[1]** |
|---|---|---|---|---|---|
| Net profit (loss) | **(31,189)** | 8,488 | (2,305) | (424) | (36,948) |
| Add: | | | | | |
| Interest | **9,171** | 5,088 | 2,827 | 1,256 | - |
| Income taxes | **40,060** | 4,605 | (1,260) | (233) | 36,948 |
| Depreciation and Amortization | **13,254** | 6,603 | 3,873 | 2,778 | - |
| EBITDA | **31,296** | 24,784 | 3,135 | 3,377 | - |

| **EBITDA ($ thousands) - Same Store**<br>**Nine months ended September 30, 2015** | **Total** | **Agricultural** | **Transportation** | **Commercial & Industrial** |
|---|---|---|---|---|
| Net profit (loss) before tax | **9,345** | 12,610 | (2,608) | (657) |
| Add: | | | | |
| Interest | **7,035** | 4,121 | 1,658 | 1,256 |
| Depreciation and Amortization | **9,350** | 4,771 | 1,801 | 2,778 |
| EBITDA | **25,730** | 21,502 | 851 | 3,377 |

| **EBITDA ($ thousands)**<br>**Nine months ended September 30, 2014** | **Total** | **Agricultural** | **Transportation** | **Commercial & Industrial** |
|---|---|---|---|---|
| Net profit | **12,492** | 10,233 | 495 | 1,764 |
| Add: | | | | |
| Interest | **6,065** | 3,708 | 1,358 | 999 |
| Income taxes | **5,126** | 4,206 | 202 | 718 |
| Depreciation and Amortization | **11,219** | 4,123 | 2,346 | 4,750 |
| EBITDA | **34,902** | 22,270 | 4,401 | 8,231 |

[1] – The impact of the CRA settlement as discussed in Note 13 of the accompanying Unaudited Condensed Interim Consolidated Financial Statements have not been allocated to the business segments.

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

### EBITDA Margin

EBITDA margin is calculated as EBITDA divided by gross revenue.

### Same Store

Same store illustrates the current period results for stores that were included in the comparable period for the prior year. Excluded from same store are the incremental results for newly acquired stores for the period they were not owned in the prior year, including any current year acquisition related costs and amortization of intangibles.

### Price Earnings Ratio

Price earnings ratio is calculated by dividing the Company's market capitalization by its total annual profit.

### Working Capital

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

### Market Capitalization

Market capitalization is calculated as current common shares outstanding at a particular time multiplied by the market value of those respective shares at that time.

### Net Book Value Per Share – Diluted

Net book value per share – diluted is calculated as shareholders' equity divided by the weighted average number of shares outstanding on a diluted basis.