Cervus Equipment Corporation
MANAGEMENT'S DISCUSSION + ANALYSIS
(AMENDED AND RESTATED)

For the period from January 1, 2013 to December 31, 2013

On October 3, 2014, Cervus Equipment Corporation ("Cervus" or the "Company") re-filed its re-filed Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2013, to correct its conclusions regarding the effectiveness of disclosure controls and procedures. The changes resulting from this re-filing are included in, and limited to, the "Disclosure Controls" section herein.

On July 23, 2014, Cervus re-filed its MD&A for the year ended December 31, 2013, to adjust for inter-department revenue and costs elimination as discussed below under Restatement of Consolidated Financial Statements. For the convenience of the reader, this 2013 MD&A sets forth the amended and restated MD&A in its entirety as required to reflect the effects of the restatement for the inter-department revenue and related costs of sales. This MD&A should be read in conjunction with the accompanying amended consolidated financial statements for the period ended December 31, 2013 and the notes contained therein. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Cervus' functional and reporting currency is the Canadian dollar. Cervus' common shares trade on the Toronto Stock Exchange under the symbol "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. These segments are managed separately and strategic decisions are made on the basis of their respective operating results. The agricultural equipment segment consists of 28 John Deere dealership locations with 8 in Alberta, 5 in Saskatchewan, 1 in British Columbia, 9 in New Zealand and 5 in Australia. The commercial and industrial equipment segment consists of 20 dealership locations with 12 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; and 4 Peterbilt truck dealerships and 1 collision repair center operating in Saskatchewan. Cervus owns directly or indirectly, 100% of Cervus LP, Cervus AG Equipment LP and Cervus Contractors Equipment LP, Cervus Agriculture NZ Ltd. ("AG New Zealand) and its subsidiary, Cervus Rental & Leasing NZ Ltd., Cervus Equipment Australia Pty Ltd., and its 53.3% owned subsidiary Windmill AG Pty Ltd. ("Windmill"), Cervus Collision Center LP and 101169185 Saskatchewan Ltd., together with 100% of the outstanding and issued shares of their respective general partners, Cervus GP Ltd., Cervus AG Equipment Ltd. and Cervus Contractors Equipment Ltd. In addition to the aforementioned subsidiaries, Cervus owns a 21% interest in Maple Farm Equipment Partnership ("Maple") that is based in Saskatchewan and Manitoba which is comprised of 7 John Deere dealerships. The cash flow of Cervus is primarily dependent on the results of the underlying limited partnerships and is derived from the flow-through of income of those limited partnerships to Cervus by means of partnership allocations.

Non-IFRS Measures

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 provided reconciliations of profit as determined in accordance with IFRS to EBITDA.

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.

In this MD&A we state that the Company expects to continue making quarterly dividend payments to its shareholders. The most recent quarterly dividend payment of $0.20 per share was made to the shareholders of record as of December 31 on January 15, 2014. See "Capital Resources - Cautionary note regarding dividends" for a cautionary note regarding future dividends. In addition, in this MD&A we make certain statements regarding the expected tax consequences of the plan of arrangement involving Cervus LP and Vasogen Inc. completed in October 2009 pursuant to which Cervus LP converted from a limited partnership structure to the current corporate structure of Cervus Equipment Corporation,. See "Business Risks and Uncertainties – Other Risks" for a cautionary note regarding deferred income taxes recorded.

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. Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and the CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and the CFO evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2013, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), (1992). Based on this assessment, the CEO and the CFO concluded that, as of December 31, 2013, Cervus' internal control over financial reporting are not effective.

The Company has identified a material weakness over financial reporting as follows: During the course of its financial close process and related audit, management identified a material weakness in internal controls related to inter-department revenue and cost elimination. The impact on correction is an equal reduction in both revenue and costs with nil impact to total comprehensive income, the statement of financial position, statement of changes in equity, or statement of cash flows. As of June 30, 2014 the weakness has been remediated. Management has updated the disclosure procedures whereby inter-department revenues and costs are captured and eliminated on a quarterly basis.

In 2014, the Company will transition from the 1992 COSO framework, to the 2013 COSO framework. The 2013 COSO framework includes various updates and enhancements to the 1992 framework, including the identification and mitigation of enterprise risks which are beyond the financial reporting function. The Company is in the process of identifying the differences between the two frameworks and executing a transition plan. The Company expects to certify compliance with the 2013 COSO framework in the third quarter of 2014.

Disclosure Controls

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

The CEO and the CFO evaluated, or caused to be evaluated under their supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and the CFO concluded that, as of December 31, 2013, Cervus' disclosure controls and procedures are not effective.

As there is a substantial overlap between the definitions of internal control over financial reporting and disclosure controls and procedures, the CEO and CFO concluded that, as of December 31, 2013, the material weakness in Cervus' internal controls over financial reporting, as more further described above, also represented a weakness that is significant to Cervus' disclosure controls and procedures. As of June 30, 2014 the weakness has been remediated. Management has updated the disclosure procedures whereby inter-department revenues and costs are captured and eliminated on a quarterly basis.

HIGHLIGHTS OF THE YEAR

- On May 28, 2013, the Company purchased an additional 18.6% interest in Windmill AG Pty Ltd. ("Windmill") for $1.8 million in cash, bringing the Company`s ownership interest to 53.3%. The results of Windmill have been consolidated in the Company's financial statements commencing from the date control was obtained.
- Gross revenue increased by $158.8 million or by 22.6% to $861.1 million for the year when compared to 2012. Same store sales increased 13.9% or $97.1 million.
- Gross margin dollars for the year increased by $24.5 million or 17.6% to $163.3 million from the $138.8 million reported in 2012.
- The Company substantially completed its branding initiative in 2013 and is operating as Cervus Equipment across all divisions at December 31, 2013.
- Basic earnings per share for the year held consistent at $1.54 per share.
- The Company was named to PROFIT Magazine's list of 500 Fastest Growing Companies.
- In June 2013, the Report on Business ranked the Company 301st in their Top 1000 annual ranking of Canada's most profitable businesses, improving from 340th in 2012.
- The Company was named to Alberta Venture's Alberta's 2014 Fast Growth 50 List

OVERALL PERFORMANCE

During the year ended December 31, 2013, revenue increased by $158.8 million or 22.6% ($127.6 million from our agricultural equipment segment and $31.2 million from our commercial and industrial equipment segment). Same store revenue increased $97.1 million or 13.9% ($84.2 million or 18.3% from our agricultural equipment segment and $12.9 million or 5.4% from our commercial and industrial equipment segment).

For the year ended December 31, 2013, overall gross margin decreased to 19.0% from 19.8% in 2012. The decrease was primarily a result of margin pressure in the agricultural segment.

The increase in our sales, partially offset by a decrease in gross margin percentage, resulted in an increase in our gross margin dollars of $24.5 million for the year ended 2013 when compared to 2012. The increase in gross margin dollars is attributable to a $15.3 million increase in agriculture, and $9.2 million increase in the commercial and industrial segment.

Selling, general and administrative ("SG&A") expenditures decreased slightly as a percent of overall revenue, decreasing to 15.4% of total revenue in 2013 compared to 15.5% in 2012, although SG&A expenditure dollars increased $24.1 million compared to the year ended December 31, 2012.

Profit for the year decreased marginally by $0.3 million in 2013 compared to 2012, primarily attributable to decreases in gross margin percentage combined with the increased expenditure that include:

- $6.3 million in increased SG&A costs in 2013, related to consolidating the operating results of Windmill Ag prospectively from the date control was obtained on May 28, 2013.
- $6.3 million (12.4%) increase in same store personnel expenses, primarily attributable to Transportation being included for 12 months in 2013 compared to nine months in 2012, a 8.7% increase in customer facing employees across the organization, including a 12% increase in the average number of technicians employed.
- $1.8 million increase in amortization of intangible assets in 2013, related to reducing the useful life of certain brand name intangibles from twenty to 2 years, commencing April 1, 2013. The intangibles will be fully amortized by December 31, 2014.
- $1.7 million of additional convertible debenture interest in 2013 compared to convertible debenture interest incurred in 2012, as the debenture was outstanding for a full year in 2013.
- $2.3 million of branding expense incurred in 2013 related to uniting all locations under the Cervus brand.

SELECTED ANNUAL INFORMATION

[1] Refer to "Non-IFRS Measures" herein.

(in $ thousands, except per share amounts)	2013	2012	% Change
Revenues	**861,138**	702,352	22.6%
Gross profit	**163,309**	138,810	17.6%
Gross margin	**19.0%**	19.8%	-4.0%
Net profit	**23,326**	23,625	-1.3%
Net profit attributable to shareholders	**23,090**	23,437	-1.5%
Per share - Basic	**1.54**	1.58	-2.5%
Per share - Diluted	**1.48**	1.52	-2.6%
Cash provided by operating activities	**28,293**	18,951	49.3%
Per share – Basic	**1.89**	1.28	47.7%
EBITDA[1]	**51,883**	46,856	10.7%
EBITDA margin [1]	**6.0%**	**6.7%**	-10.4%
Per share – diluted	**3.31**	3.04	8.9%
Dividends declared to shareholders	**11,759**	11,031	6.6%
Per share	**0.79**	0.75	5.3%
Weighted average shares outstanding			
Basic	**14,968**	14,791	1.2%
Diluted	**15,653**	15,406	1.6%
Actual shares outstanding	**15,012**	14,900	0.8%
Closing market price per share	**23.91**	18.74	27.6%
Total assets	**426,230**	399,816	6.6%
Long-term liabilities	**78,540**	69,562	12.9%
Total liabilities	**207,810**	199,172	4.3%
Shareholders' equity	**218,420**	200,644	8.9%
Net book value per share - diluted	**13.95**	13.02	7.1%

RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In the process of preparing equipment for sale, Cervus incurs costs for parts and technician time related to configuration of new equipment and refurbishment of used equipment. The costs vary by division and equipment model, and are incidental to the market value of individual pieces of machinery.

Internal revenue and cost of sales

Upon analysis during the third quarter of 2013, it was determined that the labour and parts related to preparing equipment for sale had been added to the carrying value of equipment inventory at their market value, not at the cost to Cervus. When the equipment inventory is sold to the end customer, the difference reverses and there is no remaining net impact to the financial statements. The resulting gross margin on these internal sales remaining in inventory was removed effective September 30, 2013, consistent with prospective treatment.

The amounts for intercompany profit arising on these inter-department transactions had been eliminated under the September 30, 2013, recasting as discussed above. There was an outstanding adjustment required for the gross impact of the inter-department revenue and costs. As all intercompany profit arising on these transactions had been previously eliminated, there is no impact to total comprehensive income, the statement of financial position, statement of changes in equity, or statement of cash flows for December 31, 2013 and 2012. The adjustment recorded in the December 31, 2013, and December 31, 2012 comparative figures, is limited to an equal reduction in revenues and cost of sales related to intercompany revenue. The following corrections have been made in the restatement of corresponding periods:

Impact of Restatement on Comprehensive Income for Period (in $ thousands)	**Three months ended December, 2012**	**Year ended December 31, 2012**	**Three months ended December, 2013**	**Year ended December 31, 2013**
Revenue				
Parts	(3,955)	(13,393)	(4,682)	(16,698)
Service	(4,634)	(15,841)	(7,366)	(21,970)
Cost of Sales	(8,589)	(29,234)	(12,048)	(38,668)
Comprehensive income impact in period	-	-	-	-

RESULTS OF OPERATIONS

Revenues by segment:

($ thousands)	**2013**	**2012**	**% Change**
Agricultural equipment			
Equipment			
New	**317,274**	257,301	23.3%
Used	**182,307**	138,853	31.3%
Total equipment	**499,581**	396,154	26.1%
Parts	**56,524**	40,973	38.0%
Service	**28,467**	20,992	35.6%
Rental and other	**3,946**	2,814	40.2%
Total for segment	**588,518**	460,933	27.7%
Commercial and industrial equipment			
Equipment			
New	**156,896**	140,415	11.7%
Used	**16,646**	17,780	-6.4%
Total equipment	**173,542**	158,195	9.7%
Parts	**60,737**	48,946	24.1%
Service	**27,444**	24,245	13.2%
Rental and other	**10,897**	10,033	8.6%
Total for segment	**272,620**	241,419	12.9%
Total	**861,138**	702,352	22.6%

Throughout this MD&A, same store results in the commercial and industrial equipment segment exclude the four Peterbilt dealerships and one collision repair center (“Transportation”) for the period January to March 2013, as these stores were acquired in March 2012. For the agricultural segment, same store results exclude the results of the five New Zealand John Deere dealerships for the period January to June 2013, as the dealerships were purchased in July of 2012, as well as excluding the 2013 results of the five Australian John Deere dealerships acquired in May of 2013.

Agricultural equipment

Revenue for our agricultural equipment segment increased by $127.6 million or 27.7% ($84.2 million or 18.3% on a same store basis) for the year ended December 31, 2013 when compared to the same period of 2012. For the year ended December 31, 2013, demand for agriculture equipment in Canada remained strong with industry reports[1] indicating an 8.9% and 1.7% overall average increase in tractor and combine sales compared to the same period in 2012, respectively. The Company has experienced demand exceeding this national average for 2013, attributed to strong 2012 farm cash receipts, customers’ general positive outlook, and the Company’s focused sales efforts in 2013.

New equipment sales increased by $60.0 million or 23.3% and used equipment sales increased by $43.5 million or 31.3% compared to the year ended December 31, 2012. On a same store basis, new equipment sales increased $35.2 million (13.7%) and used equipment revenue increased $36.4 million (26.2%) above 2012 levels. We attribute these increases to targeted sales efforts buoyed by strong industry demand during 2013. Industry demand was facilitated by high farm income levels in 2012 leading into 2013, along with expectations for, and occurrence of, a record harvest in 2013.

Our parts revenue has increased by $15.6 million or 38.0% and our service revenue has increased by $7.5 million or 35.6% during the year ended December 31, 2013 when compared to the same period of 2012. For the year ended December 31, 2013, same store parts revenue increased by $8.4 million or 20.4%, and same store service revenue increased $3.1 million or 14.7%, compared to 2012. The increase in same store parts and service sales for 2013 year to date was facilitated by a 13% increase in the monthly average number of technicians employed in 2013 compared to 2012, combined with strong maintenance and repair demand, and higher volume of pre-delivery configuration and refurbishment of new and used equipment respectively.

[1] Association of Equipment Manufacturers *September 2013 Flash Report, Canada Unit Retail Sales*

Commercial and industrial equipment

Revenue from our commercial and industrial segment increased by $31.2 million or 12.9% (same store increased $12.9 million or 5.4%) for the year ended December 31, 2013 when compared to the same period of 2012.

New equipment sales increased by $16.5 million or 11.7% driven by the inclusion of Transportation for 12 months in 2013 compared to nine months in 2012, as well as an increase in sales of $7.9 million from the Construction group in 2013. The increase in our construction group new sales was wholly responsible for same store new sales increasing $7.8 million or 5.6% in 2013 compared to 2012.

Used equipment sales decreased by $1.1 million or 6.4% (same store decreased $2.6 million or 14.9%) during the year ended December 31, 2013 when compared to the same period of 2012. The revenue decrease in used equipment on a same store basis is wholly attributable to intentionally reducing the emphasis on used equipment within our Transportation group.

Parts revenues have increased $11.8 million or 24.1% (same store increased $5.9 million or 12.4%) and service revenue has increased by $3.2 million or 13.2% (same store increased $1.2 million or 5.1%) during the year ended December 31, 2013 when compared to the same period of 2012. Increases in parts and service revenues reflect the capture of increased industry activity, facilitated by a 10% increase in the number of service technicians employed.

Rental and training income has increased by $0.9 million or 8.6% (same store increased $520 thousand or 5.2%) for the year ended December 31, 2013 due to an increased industry demand for training when compared to the same period of 2012.

GROSS PROFIT

Gross profit by segment, is as follows:

($ thousands)	2013	2012	% Change
Agricultural equipment - gross profit $	**95,495**	80,174	19.1%
Commercial and industrial equipment - gross profit $	**67,814**	58,636	15.7%
Total gross profit dollars	**163,309**	138,810	17.6%
Agricultural equipment - gross profit %	**16.2%**	17.4%	-6.9%
Commercial and industrial equipment - gross profit %	**24.9%**	24.3%	2.5%
Total gross profit percent	**19.0%**	19.8%	-4.0%

Agricultural equipment

For the year ended December 31, 2013, gross margin percentage declined by 1.2% to 16.2% compared to 17.4% in 2012. Gross profit dollars increased by $15.3 million or 19.1% on increased sales volume (same store increased $6.4 million or 8.0%) during the year ended December 31, 2013 when compared to the same period of 2012.

Same store gross margin for the year ended December 31, 2013, declined 1.5% to 15.9% compared to 17.4% in 2012. The change in same store gross margin for the year ended December 31, 2013 was driven primarily by a reduction in gross margin of 0.3% and 2.4% on new and used equipment respectively, compared to 2012. The industry as a whole experienced higher than typical used inventory levels in 2013, increasing competitive pressures on used equipment. Used equipment sales comprised 31.0% of total revenue in 2013, an increase of 0.9% compared to 30.1% in 2012. The increased sales mix of used equipment in the year contributed to the gross margin decrease as used equipment typically generates a lower margin than all other revenue streams.

Commercial and industrial equipment

Gross profit dollars have increased by $9.2 million or 15.7% (same store increased by $5.1 million or 8.7%) during the year ended December 31, 2013 when compared to the same period of 2012, reflecting both sales volume increases and moderate margin gains. Same store gross profit margin increased 0.8% primarily due to a 8% increase in used gross margin and 2.7% increase in parts gross margin, which we attribute to an improved industry outlook in 2013, and focused account management.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses by segment are as follows:

Selling, general and administrative expenses by segment:

($ thousands)	2013	2012	% Change
Agricultural equipment			
Selling, general and administrative	**68,470**	55,126	24.2%
Depreciation and amortization	**4,248**	3,447	23.2%
Total for segment	**72,718**	58,573	24.1%
Commercial and industrial equipment			
Selling, general and administrative	**53,900**	46,540	15.8%
Depreciation and amortization	**6,178**	3,554	73.8%
Total for segment	**60,078**	50,094	19.9%
Total	**132,796**	108,667	22.2%
% of revenue			
Agricultural equipment	**12.4%**	12.7%	-2.4%
Commercial and industrial equipment	**22.0%**	20.7%	6.3%
Total	**15.4%**	15.5%	-0.6%

Agricultural equipment

The agricultural equipment segment reported an increase in selling, general and administrative expenses of $14.1 million, while SG&A as a percent of revenue decreased to 12.4% for the year ended December 31, 2013 compared to 12.7% in 2012. The largest driver of the increase in SG&A dollars was the inclusion of Windmill AG since May 2013, which resulted in an additional $6.3 million of SG&A in 2013 compared to 2012.

Same store SG&A increased $5.4 million or 9.2% for the year ended December 31, 2013 when compared to the same period of 2012, primarily due an 11% increase in the number of customer facing employees, as well as branding expenses related to uniting all stores under the Cervus brand.

Commercial and industrial equipment

The commercial and industrial equipment segment's selling, general and administrative expenses increased $10.0 million for 2013 when compared to 2012. The primary drivers for the overall increase in selling, general and administrative expenses was due to the inclusion of the Transportation group for 12 months in 2013 compared to nine months in 2012. Same store SG&A increased $6.1 million and 12.3%, due to $1.8 million of accelerated amortization of brand name intangibles in 2013, branding costs associated with transitioning the Cervus brand, and a 6% increase in same store customer facing employees.

NET FINANCE COSTS

Finance income

Finance income is comprised of interest earned on customer accounts receivable, contract lease receivables, related party advances and held-to-maturity investments. Total finance income was $0.5 million for the year ended December 31, 2013 when compared to $1.3 million in 2012, primarily due to non-recurring interest receipts in 2012 related to short term investment of excess cash.

Finance costs and other interest

Finance costs are comprised of interest expenses related to the Company's loans and borrowings as well as floor plan payables and other financial liabilities. Interest expense is also recorded on loans and borrowings related to the Company's rental fleet which is recorded in cost of sales.

For the purposes of showing the Company's interest expense, the following analysis includes both the interest expense on financial liabilities recorded in finance costs and interest on financial liabilities recorded directly in cost of sales by segment.

Interest by segment:

($ thousands)	2013	2012	% Change
Agricultural equipment			
Interest expense	**3,901**	2,599	50.1%
Interest in cost of sales	**162**	167	-3.0%
Total for segment	**4,063**	2,766	46.9%
Commercial and industrial equipment			
Interest expense	**2,834**	1,937	46.3%
Interest in cost of sales	**191**	92	107.6%
Total for segment	**3,025**	2,029	49.1%
Total	**7,088**	4,795	47.8%
% of revenue	**0.8%**	0.7%	14.3%

Overall interest expense has increased $2.3 million during the year ended December 31, 2013 when compared to the same period in 2012. The majority of this increase is attributable to the Company's outstanding debenture issued in July 2012, whereby the Company issued $34.5 million of 6% convertible debentures. The convertible debentures including interest payable, costs and conversion feature, have an effective interest rate of 9.1%, and cash interest payable at 6% of the debentures face value. As the debentures were outstanding for twelve months in 2013, an additional $1.7 million of interest expense related to the debenture was recorded in 2013 compared to 2012. As a interim measure, proceeds raised from the debenture were utilized in 2013 and 2012 to reduce the amounts owing under certain floor plans and mortgages which incurred interest at rates between 4% to 7%. The Company retains the flexibility to increase the borrowings under these floor plan and mortgage facilities as future capital requirements arise.

The Company received rebates during the year which were applied against interest expense that would otherwise be payable. Total interest otherwise payable on John Deere floor plans in 2013 was approximately $2.7 million, this amount was offset by rebates received during 2013 by $1.4 million. At December 31, 2013, 62% of the commercial and industrial equipment segment's outstanding floor plan balance was interest bearing, due to various incentives and interest free periods in place.

INCOME TAXES

As at December 31, 2013, Cervus has the following tax pools available to be used in future periods:

($ thousands)	2013	2012
Carrying values in excess of tax values of tangible assets	**(1,487)**	(930)
Carrying values in excess of tax values of convertible debenture	**(582)**	(676)
Carrying values in excess of tax values of intangible assets	**(2,022)**	(2,830)
Federal investment tax credits	**12,841**	12,842
Non-capital losses carry-forward	**28,502**	36,720
Capital losses carried forward	**20,910**	19,705
Total estimated deferred tax asset	**58,162**	64,831
Less: amount of non-capital and capital losses carried forward for which	**(21,153)**	(19,705)
Balance, December 31	**37,009**	45,126

For the year ended December 31, 2013, deferred income tax expense amounted to $8.2 million. The Company's combined tax rate is 25.8% and its effective tax rate is 26.4%. The difference between the combined tax rate and the effective rate is primarily related to differences in the carrying values of tangible and intangible assets compared to their respective tax values (see "Business Risks and Uncertainties – Other Risks").

PROFIT AND COMPREHENSIVE INCOME

The Company has two foreign subsidiaries, Ag New Zealand, and Windmill, which upon consolidation, result in unrealized gains and losses on the currency translation of financial statements of foreign operations which use a currency other than the Canadian dollar as their functional currency. As a result, expenditures of $0.1 million have been recorded in other comprehensive income for the year ended December 31, 2013 compared to additions of $0.1 million in 2012. This translation adjustment is the only difference between the profit for the period and total comprehensive profit for the period.

The profit attributed to shareholders for the period excludes the allocation of profit to non-controlling interests. Earnings per share are calculated based on the profit for the year attributed to shareholders of the Company only.

Net profit by segment:

($ thousands, except net earnings per share)	2013	2012	% Change
Agricultural equipment segment	**18,443**	17,507	5.3%
Adjust for loss (income) from non-controlling interest	**(236)**	(188)	25.5%
Net profit attributable to shareholders from agricultural equipment segment	**18,207**	17,319	5.1%
Commercial and industrial equipment	**4,883**	6,118	-20.2%
Net profit attributable to shareholders	**23,090**	23,437	-1.5%
Profit as a % of total segment revenues			
Agricultural equipment	**3.1%**	3.8%	-18.4%
Commercial and industrial equipment	**1.8%**	2.5%	-28.0%
Total	**2.7%**	3.3%	-18.2%
Net earnings per share by segment:			
Shares outstanding – basic	**14,968**	14,791	1.2%
Agricultural equipment	**1.22**	1.17	4.3%
Commercial and industrial equipment	**0.33**	0.41	-19.5%
Total	**1.54**	1.54	0.0%

Agricultural equipment

Total net profit available to shareholders generated by the agricultural equipment segment has increased $0.9 million or 5.1%. Increased sales volumes of $127.6 million were offset by reductions in gross margin of 1.2%, resulting in a $15.3 million increase in gross margin dollars in 2013 compared to the year ended December 31, 2012. Offsetting this increase in gross margin dollars was a $14.1 million increase in selling, general and administrative ("SG&A") costs during the year, $6.3 million of which is attributable to the consolidation of Windmill in 2013, $2.5 million of the increase is attributable to additional New Zealand SG&A related to stores acquired in 2012 which were included for a full year in 2013. Further, the Cervus branding initiative resulted in $0.9 million of branding costs during the year, and same store personnel costs increased $4.1 million, primarily due to a 11.2% increase in the number of same store customer facing employees, and market wage adjustments.

Interest expense increased $1.3 million primarily due to the debenture outstanding throughout 2013 compared to a partial year in 2012, partially offset by a reduced percentage of inventory floor planed in 2013 compared to 2012. Earnings from equity investments increased $1.1 million in 2013 due to strong investee performance.

Construction and industrial

Total net profit available to shareholders generated by the construction and industrial segment decreased $1.2 million for the year ended December 31, 2013 compared to the year ended 2012. Increased sales volumes of $31.2 million, combined with a 0.6% increase in gross margin percentage contributed an additional $9.2 million in gross margin dollars during 2013 compared to year end 2012. This increase was offset by a $10.0 million increase in SG&A.

Primary drivers behind the increase in SG&A costs in 2013 compared to 2012 include: $4.5 million attributable to including Transportation for 12 months in 2013 compared to nine months in 2012, $1.8 million of accelerated amortization on trade name intangibles, $1.4 million of costs associated with the Cervus branding initiative, combined with a 6.1% increase in customer facing employees across the segment during 2013.

EBITDA (SEE NON-IFRS FINANCIAL MEASURES)

EBITDA by segment:

($ thousands, except %)	2013	2012	% Change
Agricultural equipment			
Net profit	**18,207**	17,319	5.1%
Add:			
Interest	**4,063**	2,766	46.9%
Income taxes	**6,642**	6,036	10.0%
Depreciation and amortization in SG&A	**4,248**	3,447	23.2%
Depreciation and amortization in cost of goods sold	**733**	1,389	-47.2%
EBITDA for segment	**33,893**	30,957	9.5%
% of segment revenue	**5.8%**	6.7%	
Commercial and industrial equipment			
Net profit	**4,883**	6,118	-20.2%
Add:			
Interest	**3,025**	2,029	49.1%
Income taxes	**1,754**	2,658	-34.0%
Depreciation and amortization in SG&A	**6,178**	3,553	73.9%
Depreciation and amortization in cost of goods sold	**2,150**	1,541	39.5%
EBITDA for segment	**17,990**	15,899	13.2%
% of segment revenue	**6.6%**	6.6%	
Total EBITDA	**51,883**	46,856	10.7%
% of revenue	**6.0%**	6.7%	

EBITDA is used by management to monitor its results and compare profitability between itself and other entities in its industries. It is also a primary measurement in identifying potential business acquisitions. For the year ended December 31, 2013, EBITDA increased by $5.0 million or 10.7% when compared to the year ended December 31, 2012. The most significant factor contributing to the increase in EBITDA for the year was the increase in gross margin dollars during 2013, partially offset by increased expenditures before interest, taxes, depreciation and amortization.

SUMMARY OF QUARTERLY RESULTS

($ thousands, except per share amounts)	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Revenues (Restated)	**225,813**	249,394	244,245	141,686
Profit attributable to the shareholders	**6,250**	8,646	8,318	(122)
Gross margin percentage (Restated)	**19.1%**	19.0%	18.4%	19.5%
Basic earnings per share	**0.42**	0.58	0.56	(0.01)
Diluted earnings per share	**0.40**	0.55	0.53	(0.01)
Weighted average shares outstanding				
- Basic	**15,005**	14,989	14,956	14,918
- Fully diluted	**15,689**	15,650	15,576	15,535

($ thousands, except per share amounts)	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Revenues (Restated)	184,532	225,551	188,030	104,239
Profit attributable to the shareholders	6,908	8,606	7,098	825
Gross margin percentage (Restated)	20.2%	18.6%	19.8%	21.5%
Basic earnings per share	0.46	0.58	0.48	0.06
Diluted earnings per share	0.45	0.56	0.46	0.05
Weighted average shares outstanding				
- Basic	14,895	14,825	14,719	14,715
- Fully diluted	15,513	15,416	15,278	15,240

Sales activity for the agricultural segment is normally highest between April and September during growing seasons in Canada and the impact on the growing seasons for New Zealand has not materially impacted the above results. The commercial and industrial equipment sector is not as volatile but does see slower sales activity in the winter months. As a result, earnings or losses may not accrue uniformly from quarter to quarter. The primary reason for the change in net profit for the four quarters of 2013 when compared to 2012 is from the acquisition of the transportation group in March 2012 and the increase in same store profit in the agricultural equipment segment.

LIQUIDITY

(in $ thousands, except ratio amounts)	2013	2012
Current assets	**242,454**	216,753
Total assets	**426,230**	399,816
Current liabilities	**129,270**	129,610
Long-term liabilities	**78,540**	69,562
Shareholders' equity	**218,420**	200,644
Working capital (see "Non-IFRS Measures")	**113,184**	87,143
Working capital ratio (see "Non-IFRS Measures")	**1.88**	1.67

Working capital

Our working capital increased by $26.1 million to $113.2 million at December 31, 2013 when compared to $87.1 million at December 31, 2012. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at December 31, 2013, the Company had the ability to floor plan an additional $39.7 million of inventory, and $150.7 million of undrawn floor plan capacity.

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

Liquidity risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the ability to raise funds to meet purchase commitments and financial obligations and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. The Company's contractual obligations at December 31, 2013 are described below.

The Company has bank credit facilities available for its current use of $50.6 million as follows:

Type of facility	($ thousands)	Borrowings and pledged amounts
Operating	**45,000**	2,556
Flexible credit (NZ$1,500)	**1,313**	1,313
Australia operating (AU$600)	**570**	570
Foreign currency contracts	**3,750**	-
Total	**50,633**	4,439

Inventories

As at December 31, 2013, inventories had increased by $8.7 million to $178.5 million when compared to $169.8 million at December 31, 2012. Used equipment and parts inventory drove the increase, with used inventory increasing by $7.2 to $73.0 million, and parts increasing $4.0 million to $26.2 million, while new equipment decreased $2.4 million to $78.1 million. Work-in-process has held consistent at $1.2 million. Inventory increases were driven by the addition of Windmill during the year.

Same store inventory levels have decreased $2.1 million to $167.7 million at December 31, 2013 when compared to $169.8 million at December 31, 2012. Changes in new equipment inventory drove the decrease, decreasing $8.5 million, while used equipment inventories increased $4.1 million, and parts inventories increased $2.5 million. Work-in-process has held consistent at $1.2 million.

The nature of the business has a significant impact on the amount of equipment that is owned by our various dealerships. The majority of our agricultural equipment sales come with a trade-in while our commercial and industrial equipment sales usually do not have trade-ins. This is why we have a higher amount of used agriculture equipment than used commercial and industrial equipment. In addition, the majority of our new John Deere equipment is on consignment from John Deere whereas we purchase the new equipment from our other manufacturers. These factors directly impact the amount of used and new equipment carried on our books. A majority of our product lines in both segments are manufactured in the US with pricing based in US dollars but invoiced in Canadian dollars. As at December 31, 2013, the Company believes that its recoverable amounts on its used equipment inventories exceed their respective carrying values and no impairment reserve is required or has been recorded.

Market risk

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

Foreign currency exposure

Other than the Company's exposure to foreign currency fluctuations on its translation of its foreign subsidiaries, Ag New Zealand and Windmill, the Company is not exposed to fluctuations in foreign currency in its sales and expenditures as they are incurred in Canadian dollars. Many of our products, including equipment and parts are based on a U.S. dollar price as they are supplied primarily by U.S. manufacturers but are settled in Canadian dollars as they are received. However, this may cause fluctuations in the sales values assigned to equipment and parts inventories as the Company's price structure is to maintain consistent gross margins. Both sales revenues and gross margins may fluctuate based on the foreign exchange rate in effect at the time of purchase. Certain of the Company's manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on new equipment inventory purchases.

Based on the Company's results reported from its foreign subsidiaries, a strengthening or weakening of the Canadian dollar by 5% against the New Zealand dollar at December 31, 2013 would have increased (decreased) profit or loss by $34 thousand (2012 - $12 thousand). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2013 would have increased (decreased) profit or loss by $25 thousand (2012 -$nil).

Interest rate risk

The Company's cash flow is exposed to changes in interest rates on its floor plan arrangements and certain term debt including mortgages which bear interest at variable rates. The cash flows required to service these financial liabilities will fluctuate as a result of changes in market interest rates. Based on the Company's outstanding long-term debt at December 31, 2013, a one percent increase or decrease in market interest rates would impact the Company's annual interest expense by approximately $1.2 million (2012 - $1.4 million).

Environmental risks

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

Credit risk

By granting credit sales to customers, it is possible these customers may experience financial difficulty and be unable to fulfill their repayment obligations. The Company's revenue is generated from customers in the farming, construction, industrial, and transportation industries, resulting in a concentration of credit risk from customers in these industries. The strength of our agricultural segment is influenced by the prices of crop inputs, commodity prices, as well as local and global weather patterns in a growing season. Our Construction and Industrial equipment sector is influenced by general economic and construction activity, and due to location, oil prices for Western Canadian crude oil. 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 year ended December 31, 2013 (17 days for the year ended December 31, 2012) and no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on specific customers' credit risk, historical trends, and other economic information.

The Company's allowance for doubtful collections has decreased by $235 thousand to $681 thousand at December 31, 2013 which represents approximately 2.5% of outstanding trade accounts receivable and 0.1% of gross revenue. Write-offs during the year ended December 31, 2013 amounted to $353 thousand (2012 - $793 thousand).

Cash and cash equivalents

Cervus' primary sources and uses of cash flow for the year ended December 31, 2013 are as follows:

Operating activities

Net cash provided by operating activities was $28.3 million for the year ended December 31, 2013 when compared to $19.0 million for the same period of 2012, an increase of $9.3 million. The primary reason for the increase in operating cash flow was a $6.9 million reduction in working capital requirements, primarily reduced inventory growth compared to 2012. We used a net $15.2 million for increases in inventory levels and repayments of floor plan facilities during 2013 compared to a use of $35.7 million for the same purpose in 2012. Of the $8.7 million increase in inventory, $10.8 million is attributable to the addition of Windmill during the year.

Investing activities

During the year ended December 31, 2013, the Company used $16.2 million (2012- use of $44.2 million) in net cash for investing activities, a decreased use of cash of $28.0 million. The most significant decrease in cash used for investing activities was a $20.9 million reduction of cash used for business acquisitions, as the Transportation group was added in 2012, but an acquisition of similar size was not conducted in 2013.

Financing activities

During the year ended December 31, 2013, financing activities used $6.1 million in cash compared to a source of $26.8 million in 2012, a net decrease in cash from financing activities of $32.9 million. This is primarily attributable to the debenture issuance in July 2012, which provided $33.2 million of cash in 2012. A similar issuance was not conducted in 2013.

Contractual obligations

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

($ thousands)	Total carrying value	Due 2014	Due 2015 through 2016	Due 2016 through 2017	Due thereafter
Long-term debt	52,170	6,168	6,334	15,017	24,651
Convertible Debenture	31,265	-	-	31,265	-
Operating leases	13,496	3,835	3,559	2,069	4,033
Total	96,931	10,003	9,893	48,351	28,684

CAPITAL RESOURCES

We use our capital to finance our current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize our shareholder value is to use a combination of equity and debt financing to leverage our operations. A summary of the Company's available credit facilities as at December 31, 2013 is as follows:

($ thousands)	Total Amount	Borrowings	Letters of Credit	Consigned Inventory	Amount Available
Operating and other bank credit facilities	50,633	1,883	2,556	-	46,194
Floor plan facilities	292,197	67,198	-	74,297	150,702
Capital facilities and rental equipment term loan financing	75,442	50,287	-	-	25,155
Total	418,272	119,368	2,556	74,297	222,051

Operating and other bank credit facilities

In December 2013, the Company completed revisions to its primary Canadian credit facility. Prior to December 2013, the credit facility was segmented into various components, with $15 million available for operating requirements, $18 million available for inventory, $7 million available for the purchase of rental equipment, and $3 million available for capital expenditures, for a total of $43 million. In December 2013, the facility was restructured, collapsing the segments into a single pool of funds with a $45 million limit. At December 31, 2013 no funds were drawn on the credit facility, other than standing letters of credit of $2.4 million.

As discussed in the liquidity risk section above, operating and other bank credit facilities include both the Canadian and New Zealand amounts. The operating facility borrowing of NZ$1.5 million or CAD $1.2 million represents the Company's advances from its New Zealand bank. We believe that the credit facilities available to the Company and outlined above are sufficient to meet our market share targets and working capital requirements for 2014.

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 Landed Financial Services Canada Inc., PACCAR Financial Ltd., and US Bank. At December 31, 2013, floor plan payables related to inventories was $67.2 million. Floor plan payables at December 31, 2013 and December 31, 2012 represented approximately 37.6% and 43.4% of our inventories, respectively. 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 MD&A, there are 15,032 thousand common shares, 57 thousand share options, and 683 thousand deferred shares outstanding. The Company also has $34.5 million principal amount of convertible debentures, convertible at the holder's option, into common shares prior to the maturity date at a conversion price of $26.15 per common share see "Contractual Obligations"). As at December 31, 2013 and 2012, the Company had the following weighted average shares outstanding:

(thousands)	2013	2012
Basic weighted average number of shares outstanding	**14,968**	14,791
Dilutive impact of deferred share plan	**677**	600
Dilutive impact of share options	**8**	15
Diluted weighted average number of shares outstanding	**15,653**	15,406

Dividends paid and declared to Shareholders

The Company, at the discretion of the board of directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid for the year ended December 31, 2013 ($ thousands, except per share amounts):

Record Date	Dividend per Share	Dividend Payable	Dividends Reinvested	Net Dividend Paid
March 31, 2013	$ 0.1925	$ 2,877	$ 220	$ 2,657
June 28, 2013	0.1950	2,919	432	2,487
September 30, 2013	0.1975	2,961	240	2,721
December 31, 2013	0.2000	3,002	252	2,750
Total	**$ 0.7850**	**$ 11,759**	**$ 1,144**	**$ 10,615**

The Company expects that dividends will continue to be paid quarterly on or about the 15th day of the month following the record date (see "Capital Resources – Cautionary note regarding dividends"). As of the date of this MD&A, all dividends as described above were paid.

Dividend reinvestment plan ("DRIP")

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

Taxation

Cervus' dividends declared and paid to December 31, 2013 are considered to be eligible dividends for tax purposes on the date paid.

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.

ANNUAL RESULTS SUMMARY

($ thousands, except per share amounts)	2013	2012	2011
Total Revenues	**861,138**	702,352	531,576
Profit for the year	**23,326**	23,625	16,941
Profit for the year attributable to shareholders	**23,090**	23,437	17,259
Net earnings per share - basic	**1.54**	1.58	1.19
Net earnings per share - diluted	**1.48**	1.52	1.15
Total assets	**426,230**	399,816	280,271
Total long-term liabilities	**78,540**	69,562	9,928
Dividends declared per share	**0.785**	0.745	0.720

OFF-BALANCE SHEET ARRANGEMENTS

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

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2013, payments in arrears by such customers aggregated $64 thousand. In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2013, the net residual value of such leases aggregated $123.9 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 $2.0 million at December 31, 2013. Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

The Company has issued irrevocable standby Letters of Credit to JDL and another supplier in the aggregate amount of $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, and contributes to the Company's deferred share plan and the employee share purchase plan on behalf of those directors and executive officers, if enrolled, in accordance with the terms of the plans. The Company has no retirement or post-employment benefits available to its directors and executive officers. In addition, no directors or executive officers are part of the share option plan.

The remuneration of key management personnel and directors during the year ended December 31, 2013 and 2012 was:

Key management personnel and director transactions

Key management and directors of the Company control approximately 28% of the common voting shares of the Company.

Other related party transactions

Certain officers and dealer managers of the Company have provided guarantees to John Deere as required by John Deere aggregating $6,500 thousand. The guarantees are kept in place until released by John Deere. During the three and twelve month periods ended December 31, 2013 and 2012, the Company paid those individuals $177 thousand, respectively, for providing these guarantees which represents a similar amount to guarantee fees 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.

Total remuneration of key management personnel and directors during the year ended December 31, 2013 and 2012 was:

($ thousands)	**2013**	**2012**
Short-term benefits	**1,881**	1,651
Share-based payments	**442**	444
Total	**2,323**	2,095

FOURTH QUARTER RESULTS FOR THE THREE MONTHS ENDED DECEMBER 2013 AND 2012

(in $ thousands, except per share amounts)	2013	2012	% Change
Revenue	**225,813**	184,532	22.4%
Cost of sales	**182,625**	147,319	24.0%
Gross profit	**43,188**	37,213	16.1%
Other income	**2,097**	(18)	-
Selling, general and administrative expense	**(37,227)**	(28,768)	29.4%
Results from operating activities	**8,058**	8,427	-4.4%
Finance income	**98**	293	-66.6%
Finance costs	**(1,456)**	(1,492)	-2.4%
Net finance Costs	**(1,358)**	(1,199)	13.3%
Share of profit of equity accounted investees, net of income tax	**1,386**	504	175.0%
Profit before income tax expense	**8,086**	7,732	4.6%
Income tax expense	**(1,713)**	(825)	107.6%
Profit for the period	**6,373**	6,907	-7.7%
Net profit attributable to shareholders	**6,250**	6,907	-9.5%
Net earnings (loss) per share			
- Basic	**0.42**	0.46	-8.7%
- Diluted	**0.40**	0.45	-11.1%
Cash flow from operations	**10,038**	(1,516)	-762.1%
Per share - diluted	**0.64**	(0.10)	-740.0%
Dividends declared to common shareholders	**3,002**	2,831	6.0%
Per share - basic	**0.20**	0.19	5.3%
EBITDA[1]	**13,120**	11,729	11.9%
EBITDA margin 1	**5.8%**	6.4%	-9.8%
Per share - diluted	**0.84**	0.76	10.5%
Weighted average shares outstanding			
Basic	**15,005**	14,895	0.7%
Diluted	**15,689**	15,513	1.1%

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

Throughout this fourth quarter discussion, same store results for the agricultural segment exclude the results of the five Australian John Deere dealerships acquired in May of 2013 (Windmill). Same store results for the commercial and industrial equipment are the same as the total results for the segment as Transportation was owned by the Company in the fourth quarter of both 2012 and 2013.

REVENUE

The following is a summary of revenues by segment for the three month period ended December 31, 2013 and 2012:

Revenues by segment:

($ thousands)	2013	2012	% Change
Agricultural equipment			
Equipment			
New	**76,785**	65,096	18.0%
Used	**50,321**	31,325	60.6%
Total equipment	**127,106**	96,421	31.8%
Parts	**14,143**	7,606	85.9%
Service	**8,549**	5,425	57.6%
Rental and other	**1,570**	996	57.6%
Total for segment	**151,368**	110,448	37.0%
Commercial and industrial equipment			
Equipment			
New	**42,928**	42,728	0.5%
Used	**5,491**	5,341	2.8%
Total equipment	**48,419**	48,069	0.7%
Parts	**16,541**	15,480	6.9%
Service	**6,753**	8,157	-17.2%
Rental and other	**2,732**	2,378	14.9%
Total for segment	**74,445**	74,084	0.5%
Total	**225,813**	184,532	22.4%

Agricultural equipment

Revenue for the agriculture equipment segment for the 3 month period ended December 31, 2013 increased $40.9 million ($22.9 million same store) when compared to the same period during 2012.

The same store increase of $22.9 million is primarily due to increased new and used equipment sales which contributed $19.5 million of the increase when compared to 2012, attributable to additional demand for harvest equipment and 2WD tractors.

Parts and service revenues increased $9.7 million in the 4th quarter of 2013 when compared to the same period of 2012, (increase of $2.8 million same store) due the 11% increase in number of technicians employed during the fourth quarter of 2013 compared to the same period in 2012, as well as harvest completing earlier in 2013 than in 2012, facilitating earlier equipment maintenance and non-critical repair.

Commercial and industrial equipment

For the commercial and industrial segment, same store financial measures are the same as total financial measures for the three months ended December 31, 2013, as Transportation was purchased in March 2012 and is included in the comparative figures for the three months ended December 31, 2012.

Revenue for our commercial and industrial equipment segment increased $361 thousand or 0.5% during the 4th quarter of 2013 when compared to the same period of 2012, primarily attributable to new and used equipment increases of $0.4 million within the Transportation group on strong Q4 truck sales.

GROSS PROFIT

The following is a summary of gross profit by segment for the three month period ended December 31, 2013 and 2012:

($ thousands)	2013	2012	% Change
Agricultural equipment - gross profit $	**25,108**	19,715	27.4%
Commercial and industrial equipment - gross profit $	**18,080**	17,498	3.3%
Total gross profit dollars	**43,188**	37,213	16.1%
Agricultural equipment - gross profit %	**16.6%**	17.9%	-7.3%
Commercial and industrial equipment - gross profit %	**24.3%**	23.6%	3.0%
Total gross profit percent	**19.1%**	20.2%	-5.4%

Agricultural equipment

Gross profit dollars increased $5.4 million overall, and $2.4 million or 11.9% on a same store basis during the three month period ended December 31, 2013 when compared to the same period of 2012. Overall gross profit margin on a same store basis has decreased by 1.9% primarily due to a shift in sales mix, where new equipment comprised 57% of total revenues in the fourth quarter of 2013, compared to 67% in the comparative period in 2012. Used sales in the fourth quarter of 2013 captured the bulk of this variance, increasing to 40% of total revenue in 2013 compared to 32% in the fourth quarter of 2012, resulting in higher margin new sales being replaced with lower margin used sales, combined with a lower margin on used sales compared to 2012.

Commercial and industrial equipment

Gross profit dollars have increased by $0.6 million during the fourth quarter of 2013 when compared to the same period of 2012. Gross profit margin increased 0.7% primarily due to gross margin increase 14.3% on used equipment. The margin increases, particularly on used equipment, are attributed to a strong construction sector in the Company's area of operations and a significant increase in snow removal requirements in the fourth quarter of 2013 compared to the same period in 2012.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following is a summary of selling, general and administrative expenses by segment for the three month period ended December 31, 2013 and 2012:

Selling, general and administrative expenses by segment:

(in $ thousands)	2013	2012	% change
Agricultural equipment			
Selling, general and administrative	**18,792**	13,706	37.1%
Depreciation and amortization	**1,215**	824	47.5%
Total for segment	**20,007**	14,530	37.7%
Commercial and industrial equipment			
Selling, general and administrative	**15,537**	13,305	16.8%
Depreciation and amortization	**1,683**	933	80.4%
Total for segment	**17,220**	14,238	20.9%
Total	**37,227**	28,768	29.4%
% of revenue			
Agricultural equipment	**13.2%**	13.2%	0.0%
Commercial and industrial equipment	**23.1%**	19.2%	20.3%
Total	**16.5%**	15.6%	5.8%

Agricultural equipment

The agricultural equipment segment reported an increase in selling, general and administrative expenses of $5.5 million for the three month period ended December 31, 2013 when compared to the same period of 2012. On a same store basis, the agricultural equipment segment reported an increase in selling, general and administrative expenses of $2.7 million or 18.9% for the three month period ended December 31, 2013 when compared to the same period of 2012. The primary reason for the increase in selling, general and administrative expenses is due to a 10.5% increase in customer facing employees, marketing costs, and increased commissions on increases in gross sales.

Commercial and industrial equipment

The commercial and industrial equipment segment's selling, general and administrative expenses increased $3.0 million for the 4th quarter of 2013 when compared to 2012. The primary reason for the overall increase in selling, general and administrative expenses was due to: $0.8 million of increased amortization associated primarily with a reduced amortization period for trade name intangibles, increased marketing costs associated with the branding initiative, and a 4.5% increase in the number of customer facing employees compared to the same period in 2012.

FINANCE COSTS AND OTHER INTEREST

The following is a summary of finance costs and other interests by segment for the three month period ended December 31, 2013 and 2012:

Interest by segment:

(in $ thousands)	2013	2012	% change
Agricultural equipment			
Interest expense	**841**	915	-8.1%
Interest in cost of sales	**32**	20	60.0%
Total for segment	**873**	935	-6.6%
Commercial and industrial equipment			
Interest expense	**615**	577	6.6%
Interest in cost of sales	**82**	8	925.0%
Total for segment	**697**	585	19.1%
Total	**1,570**	1,520	3.3%
% of revenue	**0.7%**	0.8%	-12.5%

Overall interest expense has held constant with an increase of $50 thousand during the three month period ended December 31, 2013 when compared to the same period in 2012, primarily attributable to reductions in inventory floor planned, slight decreases in floor plan interest rates, offset by increases in term debt. For the three months ended December 31, 2013 there was $706 thousand interest recognized on convertible debenture (allocated evenly between the segments) and $704 thousand recognized on mortgage and term debt outstanding (allocated according to the segment to which it relates).

PROFIT AND COMPREHENSIVE INCOME

The profit attributed to shareholders for the three month period ended December 31 excludes the allocation of profit to non-controlling interests. Earnings per share are calculated based on the profit for the period attributed to shareholders of the Company only.

Net profit by segment:

($ thousands, except net earnings per share)	**2013**	**2012**	**% Change**
Agricultural equipment segment	**5,790**	4,826	20.0%
Adjust for loss (income) from non-controlling interest	**(123)**	-	-
Net profit attributable to shareholders from agricultural equipment segment	**5,667**	4,826	17.4%
Commercial and industrial equipment	**583**	2,081	-72.0%
Net profit attributable to shareholders	**6,250**	6,907	-9.5%
Profit as a % of total segment revenues			
Agricultural equipment	**3.7%**	4.4%	-15.9%
Commercial and industrial equipment	**0.8%**	2.8%	-71.4%
Total	**2.8%**	3.7%	-24.3%
Net earnings per share by segment:			
Shares outstanding – basic	**15,005**	14,895	0.7%
Agricultural equipment	**0.38**	0.32	18.8%
Commercial and industrial equipment	**0.04**	0.14	-71.4%
Total	**0.42**	0.46	-8.7%

Total net profit available to shareholders generated decreased 0.7 million for the three months ended December 31, 2013 compared to the same period in 2012, contributed to the following factors:

Agricultural equipment

Total net profit available to shareholders generated by the agricultural equipment segment has increased $0.8 million or 17.4%. Increased equipment sales volumes of $30.7 million were offset by reductions in gross margin of 1.3%, resulting in a $5.4 million increase in gross margin dollars in the fourth quarter of 2013 compared to the same period in 2012. The primary driver for decreased gross margin was a shift in sales mix, resulting in a 8% decrease in new equipment sales as a percentage of total revenue, partially offset by a 5% increase in used equipment sales as a percentage of total revenue on a same store basis. Used equipment margins decreased by 4.6% in the fourth quarter of 2013 due to a focus on reducing used inventory levels, which compounded the sales mix impact.

Offsetting this increase in gross margin dollars was a $5.5 million increase in selling, general and administrative ("SG&A") costs during the fourth quarter of 2013, $2.9 million of which is attributable to the inclusion of Windmill in the fourth quarter of 2013, $0.4 million of branding costs, and same store personnel costs increases of $2.7 million, primarily due to a 10.5% increase in the number of same store customer facing employees, and market wage adjustments.

An increase in other income of $1.1 million was generated in the fourth quarter of 2013, primarily due to increased activity with short-line vendors generating additional rebates, the addition of Windmill compared in the fourth quarter of 2013 compared to the same period in 2012, and increased commissions earned on agronomic services sold. Equity earnings from investments also increased by $0.9 million, on strong performance of the Company's equity accounted investments in the fourth quarter of 2013 compared to the same period in 2012. These increase resulted in, and were partially offset by additional tax expense during the quarter.

Construction and industrial

Total net profit available to shareholders generated by the construction and industrial segment decreased $1.5 million for the quarter ended December 31, 2013 compared to the same period in 2012. Increased equipment sales volumes of $0.4 million, combined with a 0.7% increase in gross margin percentage contributed an additional $0.6 million in gross margin dollars during the fourth quarter of 2013 compared to the fourth quarter of 2012. This increase was offset by a $3.0 million increase in SG&A.

Primary drivers behind the increase in SG&A costs in the fourth quarter of 2013 compared to the same period in 2012 include: $0.8 million of accelerated amortization on primarily related to trade name intangibles, $1.5 million of additional costs incurred during the quarter associated with marketing and the Cervus branding initiative, combined with a $0.6 million increase in personnel costs, primarily related to a 5.5% increase in customer facing employees across the segment in the fourth quarter of 2013 compared to the same period in 2012.

EBITDA (SEE NON-IFRS FINANCIAL MEASURES)

The following is a summary of EBITDA by segment for the three month period ended December 31, 2013 and 2012:

EBITDA by segment:

(in $ thousands, except %)	2013	2012	% Change
Agricultural equipment			
Net profit	**5,667**	4,826	17.4%
Add:			
Interest	**873**	935	-6.6%
Income taxes	**1,640**	698	135.0%
Depreciation and amortization in SG&A	**1,215**	824	47.5%
Depreciation and amortization in cost of goods sold	**146**	714	-79.6%
EBITDA for segment	**9,541**	7,997	19.3%
% of segment revenue	**6.3%**	7.2%	
Commercial and industrial equipment			
Net profit	**583**	2,081	-72.0%
Add:			
Interest	**697**	585	19.1%
Income taxes	**73**	127	-42.5%
Depreciation and amortization in SG&A	**1,683**	933	80.4%
Depreciation and amortization in cost of goods sold	**543**	6	0.0%
EBITDA for segment	**3,579**	3,732	-4.1%
% of segment revenue	**4.8%**	5.0%	
Total EBITDA	**13,120**	11,729	11.9%
% of revenue	**5.8%**	6.4%	

For the three month period ended December 31, 2013, EBITDA increased by $1.4 million or 11.9% when compared to the same period in 2012. The most significant factor contributing to the increase in EBITDA for the period was the increase in gross margin dollars on higher sales volume, partially offset by additional expenses before interest, taxes, depreciation and amortization.

Agricultural equipment

Of the $1.5 million EBITDA increase in the agriculture equipment segment was due to an increase in gross margin and also as a result of consistent selling and administrative expenses as a percentage of revenue over the same period in 2012.

Commercial and industrial equipment

The decrease in EBITDA of $0.2 million in the commercial and industrial equipment segment was primarily attributable to branding costs incurred in the fourth quarter of 2013 compared to the same period in 2012.

Cash and cash equivalents

The Company used $2.4 million of cash and cash equivalents during the three month period ended December 31, 2013. The primary sources and use of these cash flows in the three month period are as follows:

Operating activities

Net cash provided in operating activities was $10.0 million when compared to cash used of $1.5 million for the same period of 2012, an increase of $11.5 million. The primary reason for the increase in operating cash flow was the use of $0.8 million in cash resources for net repayments of working capital items compared to a use of $10.8 million in the same period of 2012. During the three months ended December 31, 2013, we used a net $1.9 million (2012 - $26.6 million) for increases in inventory levels and repayments in floor plan facilities, and an additional $1.7 million from increases in accounts receivable and customer deposits (2012 - $16.2 million decrease).

Investing activities

The Company used $6.6 million in net cash for investing activities. The most significant use of cash for investing activities, net of proceeds from sale, was the purchase of property and equipment for $7.4 million primarily related to the construction of the Calgary Ag store.

Financing activities

Financing activities used $5.9 million in cash flows in the period, primarily through the payment of dividends of $2.8 million, repayment of notes payable of $2.8 million and the repayment of $240 thousand of term debt.

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

Provision for doubtful accounts receivable

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

Depreciation and amortization of intangible assets and property and equipment

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

Fair value of inventories

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

Fair value of assets and liabilities acquired in business combinations

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

Asset Impairment

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

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

Taxation matters

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

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 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.

BUSINESS RISKS AND UNCERTAINTIES

Reliance on our key manufacturers and dealership arrangements

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

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

Dependence on Industry Sectors

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

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

We have mitigated these risks by geographical diversification in Western Canada, New Zealand and Australia within the agricultural sector and industry diversification into the construction, transportation and material handling sector.

The commercial and industrial equipment group sells light and medium construction equipment 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 equipment market is very much dependent upon residential and commercial construction.

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

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

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

Income taxes

The Canada Revenue Agency has previously requested information relating to the conversion transaction involving Cervus LP and Vasogen Inc. completed in October 2009 pursuant to which Cervus LP converted from a limited partnership structure to the current corporate structure of Cervus Equipment Corporation.

On March 4, 2014 Cervus received a proposal letter from the Canada Revenue Agency ("CRA") indicating that it intends to challenge Cervus' tax filing position stemming from the conversion transaction. In its proposal letter, the CRA has informed the Company of their proposed position that non-capital tax losses of $138.6 million claimed or pending claim by the Company through to December 31, 2013 are ineligible for deduction against taxable income. Further, it is the CRA proposes that the Company's 2014 non-capital carry forward balance of $82M; capital loss carry forward balances of $146 million; scientific research and experimental development expenditure pool of $29 million and investment tax credits of $12 million, are not available for deduction against future taxable income.

As set out in the CRA's proposal letter, the Company has until April 3, 2014 to provide a response to the proposal letter, or request an extension to the response period. Upon close of the initial or extended response period, the Company expects that the CRA will formally reassess the Company. Upon reassessment, the Company is able to appeal.

Cervus remains confident in the appropriateness of its tax-filing position and the expected tax consequences of the conversion transaction and intends to defend such position vigorously if a notice of reassessment is received from the Canada Revenue Agency. Cervus strongly believes that the acquisition of control and general anti-avoidance rules do not apply to the conversion transaction and intends to file its future tax returns on a basis consistent with its view of the outcome of the conversion transaction. In order to appeal, 50% of any reassessed amount is due. Based on Cervus' taxation years since the conversion transaction and ending with the taxation year ended December 31, 2013, if Cervus is reassessed on the basis of the proposal letter, Cervus expects the 50% amount to equal $17.7 million. Cervus would also be required to make a payment of 50% of the taxes the CRA claims are owed in any future tax year if the Canada Revenue Agency issues a similar notice of reassessment for such years and Cervus appeals it.

Certain other companies that converted from income trusts to corporations in a manner similar to the manner in which Cervus converted from a limited partnership to a corporation have publically disclosed that they have already received notices of reassessment from the Canada Revenue Agency and that they either intend to, or have initiated, challenges of reassessment received from the Canada Revenue Agency. These other companies have either been reassessed or expect to be reassessed by the CRA under acquisition of control and general anti-avoidance rules, the same basis upon which the CRA has issued its proposal letter to the Company.

While Cervus is confident in the appropriateness of its tax-filing position and the expected tax consequences of the conversion transaction, there remains a possibility that, if the Canada Revenue Agency elects to challenge Cervus tax filings and such challenge is successful, it will negatively affect the availability or quantum of the tax losses or other tax accounts of Cervus. If Cervus is ultimately successful in defending its position, such payments, plus applicable interest, will be refunded to Cervus. If the Canada Revenue Agency is successful, Cervus will be required to pay the balance of the taxes claimed plus applicable interest.

Other risks

Although the Company has conducted investigations of, and engaged legal counsel to review, the corporate, legal, financial and business records of Vasogen Inc., with whom Cervus underwent its conversion from a limited partnership structure to that of a corporation in 2009, there may be liabilities and risks that the Company did not uncover in its due diligence investigation and that these liabilities and risks could have, individually or in the aggregate, a material adverse effect on the business, financial condition and results of operations of Cervus.

Further, there is a risk that the tax consequences contemplated by Cervus may be materially different from the tax consequences anticipated by Cervus in undertaking the conversion transaction. The Canada Revenue Agency has requested information relating to the plan of arrangement involving Cervus LP and Vasogen Inc. completed in October 2009 pursuant to which Cervus LP converted from a limited partnership structure to the current corporate structure of Cervus Equipment Corporation.

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:

EBITDA

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.

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.