CERVUS LP

2006 SECOND QUARTER REPORT TO THE UNITHOLDERS (UNAUDITED)

For the period ended June 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of Cervus LP ("Cervus", or "LP") should be read in conjunction with the 2005 Annual Report and the unaudited interim consolidated financial statements and notes contained in this report. This discussion of the LP's business may include forward-looking information with respect to the LP, including its business and operations and strategies, as well as financial performance and conditions. The use of forward-looking words, such as "may", "will", "expect" or similar variations generally identify such statements. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties including the factors discussed in the 2005 Annual Report.

This document has been reviewed and approved by the Board of Directors of Cervus and contains information that is current as of August 22, 2006. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Additional information about Cervus is available on SEDAR at www.sedar.com.

About Cervus

Cervus LP is in the business of acquiring and operating authorized agricultural and industrial equipment dealerships by facilitating dealership succession and positioning the next generation of dealers for profitability and growth. Cervus LP does business through 15 dealer stores in 13 locations across Alberta, Saskatchewan and western Manitoba

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in conformity with Canadian GAAP. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Canadian retailing of agricultural and construction equipment is influenced by seasonality. Agriculture sales activity is normally highest between April and September during growing seasons in Canada whereas construction sales activity is not as volatile, however sees slower sales activity in the winter months. As a result, earnings or losses normally do not accrue uniformly from quarter to quarter.

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments necessary to fairly present the LP's results for the interim periods presented. These unaudited interim consolidated financial statements have been prepared by management using the same accounting policies and methods of application as the most recent annual consolidated

financial statements of the LP.

The results of operations for the six month and three month period ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

Selected Financial Highlights

For the six months ended June 30, 2006 as compared to the interim period in the preceding financial year.

- Revenue increased to $122.17 million, an increase of $52.84 million or 76.2% over revenue of $69.33 million in the first six months of 2005.
- Gross margin increased to $20.96 million, an increase of $9.94 million or 90.1% over gross margin of $11.02 million in the first six months of 2005.
- Gross margin as a percentage of sales increased to 17.2%, an increase of 1.3% from gross margin of 15.9% in the first six months of 2005.
- General and administrative expenses increased to $15.06 million, an increase of $6.06 million or 67.2% compared to $9.00 million in the first six months of 2005.
- Interest on debt increased to $927,000, an increase of $535,000 or 136% over interest of $392,000 in the first six months of 2005.
- Depreciation and amortization increased to $1.56 million, an increase of $1.44 million or 1,183% over depreciation and amortization of $121,000 in the first six months of 2005.
- Net earnings increased to $3.72 million, an increase of $2.02 million or 119.3% over net income of $1.70 million for the first six months of 2005.
- Net earnings per unit for basic were $0.60 for the first six months of 2006 compared to $0.40 per unit in the first six months of 2005.

Purchase of minority interest in Farm & Garden Centre of Saskatoon

On June 29, 2006, the LP acquired 100% of the issued and outstanding shares of Farm & Garden Centre of Saskatoon Ltd. ("Farm & Garden") by purchasing the remaining 20.2% of minority interest held in Farm & Garden. The purchase price paid was $1,871,088 through the issuance of 155,924 limited partnership units at $12 per unit and was allocated as follows:

Goodwill	$1,359,398
Reduction in notes payable	511,690
	$1,871,088

Financial Review

Revenue is primarily comprised of equipment sales, both new and used, parts and service sales and rental income.

General and administrative expenses primarily consist of personnel and related costs, professional fees, administrative functions and corporate related expenses.

The following is a summary of selected financial and operating information of the LP for the six month period ended June 30, 2006 and 2005. This summary should be read in conjunction with the audited consolidated financial statements for the period ended December 31, 2005.

Selected Quarterly Information

	June 30, 2006	**March 31, 2006**	**December 31, 2005**	**September 30, 2005**
Revenues (in thousands)	$ 77,478	$ 44,687	$ 49,590	$ 63,530
EBITDA[1] (in thousands)	5,258	949	1,348	2,904
Net earnings (loss) (in thousands)	3,913	(188)	580	2,592
Basic earnings (loss) per unit	$ 0.65	$(0.03)	$ 0.14	$ 0.60
Diluted earnings (loss) per unit	$ 0.61	$ (0.03)	$ 0.13	$ 0.59
Units outstanding (in thousands)	6,175	5,956	4,411	4,299
Fully diluted units outstanding	6,310	6,175	4,615	4,425

	June 30, 2005	**March 31, 2005**	**December 31, 2004**	**September 30, 2004**
Revenues (in thousands)	$ 49,582	$ 19,747	$ 31,684	$ 47,681
EBITDA[1] (in thousands)	2,541	(351)	617	2,028
Net earnings (loss) (in thousands)	2,284	(587)	496	1,890
Basic earnings (loss) per unit	$ 0.55	$(0.15)	$ 0.14	$ 0.60
Diluted earnings (loss) per unit	$ 0.54	$ (0.14)	$ 0.13	$ 0.59
Units outstanding (in thousands)	4,207	4,051	4,017	3,917
Fully diluted units outstanding	4,333	4,138	4,159	4,059

[1] EBITDA is earnings before depreciation and amortization, interest and income taxes. EBITDA is a non-GAAP measure.

Revenue

Revenue was $77.48 million for the three months of operations ended June 30, 2006 compared to $49.58 million for the three month period ended June 30, 2005, an increase of $27.9 million. The increase is due primarily to the addition of the contractors' equipment division through the purchase of AR Williams Contractors Equipment Ltd. ("ARW") on November 16, 2005 which has provided $25.22 million of revenue during the three months of operations ended June 30, 2006 and $nil in the same period in 2005. The agriculture equipment division increased its revenue by $2.68 million for the three month period ended June 30, 2006 when compared to the same period in 2005 due to internal growth.

New and used equipment sales were $98.26 million representing 80.43% of gross sales compared to $55.84 million representing 80.54% of gross sales in the same period last year. Parts and service sales were $21.56 million representing 17.65% of gross sales compared to $13.19 million representing 19.0% of gross sales for the comparative period. Rental revenue was $2.03 million or 1.7% of gross sales compared to $nil in the same period last year.

The increase in equipment sales in the Agriculture segment is a result of continued market share growth of approximately 12% over the prior year as well as the addition of ARW and the construction equipment division.

Cost of Sales

Cost of sales was $64.26 million and $101.21 million for the three and six month period ended June 30, 2006 respectively, compared to $42.19 million and $58.31 million for the comparative periods of 2005. This increase is directly related to the increase in sales activity. The strengthening Canadian dollar compared to the U.S. dollar has caused the LP to take a write-down of its used equipment inventories. In addition, the LP is experiencing higher than market exchange rates from its U.S. manufacturer of construction equipment. As a result, the LP has included in cost of sales, $1.21 million of used equipment write-downs for the first six months of 2006 compared to $19,825 for the same period during 2005.

Gross Profit Margins

Gross profit was 17.2% and 17.1% of sales for the three and six month period ended June 30, 2006 respectively compared to 15.9% and 14.9% for the same periods during 2005. The increase in gross profit margin of 1.3% is primarily due to a change in the sales mix through the purchase of ARW. The construction segment is experiencing higher gross profit margins than those experienced in the agriculture segment. Factors that have affected gross margin, other than those mentioned above, are increased parts and service sales which provide higher gross margins, aggressive market strategy to reduce inventory levels, increased competition and conservative valuation of used inventories.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $8.26 million and $15.06 million or 10.7% and 12.3% of gross sales for the three and six month period ended June 30, 2006 respectively, compared with $4.96 million and $9.00 million or 10% and 12.99% of gross sales for the same period of 2005. The increase of $6.06 million for the six month period ended June 30, 2006 is attributed to an increase of approximately $4.94 million related to the purchase of ARW and $1.12 million related to the Agriculture division. The primary reasons for the increase in the Agriculture division are general increases in salaries, wages and benefits and increased professional fees and regulatory expenses.

Interest

Interest expense was approximately $484,000 and $927,000 for the three and six month period ended June 30, 2006 respectively compared to approximately $201,000 and $392,000 for the comparative periods during 2005. The increase is primarily due to the addition of ARW which accounted for an increase in term debt of $5 million when compared to the same period in 2005, increase in bank indebtedness for operations and related interest charges and increase in floor plan financing to fund increased inventory levels.

Depreciation and amortization

Depreciation and amortization was approximately $861,000 and $1.56 million for the three and six month period ended June 30, 2006 respectively, compared to approximately $66,000 and $121,000 for the same periods in 2005. The increase in depreciation and amortization is primarily due to the purchase of ARW which comprised $559,000 and $1.22 million for the three and six month period ended June 30, 2006 respectively, of which $165,000 and $330,000 respectively related to intangible assets from the purchase of ARW. The remaining increase in depreciation and amortization is attributed to the agriculture segment through the purchase of equipment in the normal course of business and from equipment purchased from Proventure Income Fund in 2005.

Income Taxes

Income taxes are the responsibility of the individual partners except for the LP's corporate subsidiaries. Therefore, no income taxes have been provided for in the first six months of 2006 and 2005 as the taxable income is passed through to the limited partners.

Net Earnings

Net earnings were approximately $3.91 million and $3.72 million for the three and six month period ended June 30, 2006 respectively, compared to approximately $2.28 million and $1.70 million for the same periods during 2005. The increase of approximately $2.02 million over 2005 for the six month period ended June 30, 2006 is primarily a result of the addition of ARW which provided for a $2.84 million increase in net income and a decrease of approximately $878,000 experienced in the agriculture segment. The construction segment has experienced strong results due to a strong Alberta construction economy. The agriculture segment continues to be optimistic in Alberta and Central Saskatchewan through a strong regional economy; however, South Eastern Saskatchewan and Western Manitoba are experiencing losses due to pessimistic customer outlooks and tight customer cash flow due to poor weather conditions and lower than expected yields in 2005. The agriculture segment has also experienced losses due to the LP's more conservative approach to used inventory valuations as explained above.

Inventories

At June 30, 2006, inventories have increased by $15.92 million to $76.94 million from $61.0 million at December 31, 2005. New equipment inventories account for $5.8 million and used equipment accounts for $8.8 million of the increase. As discussed above, the LP has increased its market share in the agriculture division by approximately 12% which is measured by the increase in new equipment sales. The majority of new equipment sales include trade-ins of older pieces of equipment which has resulted in an increase in used equipment inventories. In the Agriculture division, management has reviewed its inventory by region and combined with the strength of the Canadian dollar in comparison to the US dollar, the LP has taken certain write-downs to properly reflect the market value of the used equipment. Market value of used equipment has been affected due to the stronger Canadian dollar providing for less expensive new equipment, causing downward pressure on used equipment pricing. Write-downs in used equipment recorded in the financial statements for the six month period ended June 30, 2006 aggregated $1.21 million in comparison to only $19,825 in the same period during 2005.

Investment in significantly influenced companies

Investment in significantly influenced companies increased by $308,043 to $789,217 at June 30, 2006 compared to $481,174 at December 31, 2005. The increase is attributable to the LP's equity earnings in the underlying companies for the six month period ended June 30, 2006.

Buildings and equipment

Buildings and equipment net carrying value increased to $10.61 million at June 30, 2006 from $8.97 million at December 31, 2005. This increase is attributed to approximately $2.87 million of equipment additions during the six month period ended June 30, 2006, consisting primarily of rental equipment which accounted for $2.21 million of additions and automotive and trucks accounting for $342,000. The LP recorded $696,000 and $1.23 million of amortization for the three and six month period ended June 30, 2006 respectively.

Other assets

Other assets is comprised of $7.2 million of intangible assets related to the purchase of ARW which included $5.2 million allocated to dealer distribution agreements, $1.1 million to customer lists and $900,000 to non-competition agreements. Amortization is provided for at 20 years straight-line for the dealer distribution agreements and 5 years straight-line for customer lists and non-competition agreements. $165,000 and $330,000 of amortization has been recorded for the three and six month period ended June 30, 2006 compared with $nil in the same periods during 2005.

Finance reserve

The finance reserve is related to funds held by John Deere Credit Inc. equal to 1% of the face value of finance or lease contracts entered into by customers of the LP. The reserve is capped at between 1% and 2% of the amount of contracts outstanding. The reserve is used to fund potential defaults made by customers to cover shortfalls in the outstanding contracts. The change in the finance reserve is directly related to increases or decreases in finance contracts entered into by the LP's customers.

Floor plan payables

Floor plan payables are financing arrangements for the LP's inventories. At June 30, 2006, floor plan payables have increased $12.71 million to $53.16 million from $40.44 million at December 31, 2005. The increase in floor plan payables is directly linked to the increases in new and used equipment inventories.

Notes payable and advances to Proventure Income Fund

At June 30, 2006, notes payable and advances outstanding with Proventure Income Fund (the "Fund") were approximately $2.28 million compared to $5.03 million at December 31, 2005. The LP repaid the advances and an additional $1.7 million on the notes payable during the six months ended June 30, 2006. On August 3, 2006, the LP closed a private placement (see subsequent events) and used the funds received to repay all notes payable and advances to the Fund. The LP reported interest

expense of $37,974 and $87,531 for the three and six month period month period ended June 30, 2006 related to amounts payable to the Fund.

Unitholders Equity

As of June 30, 2006, the LP had 6,175,343 partnership units outstanding, compared to 4,411,421 at December 31, 2005. The LP declared monthly distributions from January through April 30, 2006 of $0.08 per unit and May and June 2006 of $0.09 per unit. Total distributions have been $2,998,222 during the six month period ended June 30, 2006 of which $1,402,226 has been reinvested through the Distribution Reinvestment Plan ("DRIP"). Subsequent to June 30, 2006, an additional $265,560 was reinvested from the June 30, 2006 distribution payable of $555,781. 47% of total cash distributions have been reinvested under the LP's DRIP during the first six months of 2006 versus 58% during the first six months of 2005.

The DRIP was implemented in 2004 and allows Unitholders to reinvest monthly distributions into additional Fund units. Unitholders who elect to participate will see their periodic cash distributions automatically reinvested in Fund units at a price equal to 95% of the volume-weighted average price of all units traded on the TSX Venture Exchange for the ten trading days preceding the applicable record date. Eligible Unitholders may participate in the DRIP by directing their broker, dealer, or investment advisor holding their Fund units to notify the plan administrator, Computershare Fund Company of Canada Ltd., through the Canadian Depository for Securities Inc. ("CDS").

Lines of Credit, Liquidity and Debt

Bank indebtedness

The LP has an agreement to borrow by means of an operating loan, subject to certain limitations, of up to $10 million. The indebtedness bears interest at the rate of between prime to prime plus 0.5%.

Bank term loan

The LP has a term loan with the bank for $5 million that was drawn on in late 2005 for the purpose of acquiring ARW. The term loan is a two year term loan requiring interest only payments at rates ranging from prime plus 0.25% to prime plus 0.75% and is due in full on December 23, 2007. The term loan and bank indebtedness are subject to certain financial and negative covenants of which, certain of these were in violation at June 30, 2006 and December 31, 2005. Therefore, the term loan has been classified as a current liability at both of these dates. Management is in the process of amending these covenant violations for future periods. Except for the capital asset purchase covenant, subsequent to June 30, 2006, management has remedied the other financial covenants through the private placement that closed on August 3, 2006. Management is in the process of amending the capital asset purchase limitation to better reflect the ongoing operations of the LP.

Term debt

During the six months ended June 30, 2006, the LP increased its term debt by $2.6million. The increase is primarily related to the LP's increase in its rental equipment fleet. The term debt consists of various finance contracts and a bank term loan requiring monthly instalments of $17,292 and $147,126 respectively and bear interest at rates ranging from 0% to 7.25%. Principal repayments required for 2007 is $1.13 million; 2008, $5.79 million; 2009, $93,000; 2010; $60,000.

Cash Flows from Operations

Cash flows provided by operations were approximately $195,000 and $916,000 million used in operations for the three and six month period ended June 30, 2006 respectively versus $2.60 million and $2.26 million used in operations for the same periods during 2005. The primary use of cash was in the non-cash working capital which had a net change of $4.28 million and $5.89 million during the three and six month period ended June 30, 2006 respectively versus $4.83 million and $3.91 million for the same periods during 2005. Of the non-cash working capital changes for the first six months ended June 30, 2006, the most significant included $15.92 million increase in inventories, offset by a $12.71 million increase in floor plan payables. In addition, $1.14 million was used to pay current income taxes for ARW.

Cash Flows from Financing

In the first six months of 2006, $3.45 million was used for financing activities compared to $480,000 million in the first six months of 2005. The most significant uses of cash included $1.5 million of note repayment from the ARW purchase, $2.75 million of advances and notes repaid to Proventure Income Fund, $810,000 of repayments to related parties, and $1.08 million of cash distributions, net of the DRIP to limited partners, $204,000 of cash distributions to senior equity partners and proceeds from term debt amounted to $2.62 million primarily to finance the increase in the rental fleet.

Cash Flows from Investing

In the first six months of 2006, $2.87 million was used for investing activities compared to $277,000 in the first six months of 2005. Equipment additions aggregated approximately $2.87 million.

Business Risks and Uncertainties

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

Cervus also has dealership agreements in place with Bobcat, JCB and JLG. These agreements are one year agreements; however the agreements are normally renewed on a year by year basis.

There can be no guarantee that circumstances will not arise which gives these equipment manufacturers the right to terminate their dealership agreements.

Dependence on Industry Sectors

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

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

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

The construction segment sells light and medium construction equipment and is comprised of several companies manufacturing and selling various lines of equipment. The major competitors are Caterpillar, Komatsu, CNH (Case), John Deere, Volvo, Hitachi and Liebherr. The light and medium

construction equipment market is very much dependant upon residential construction of new housing. Over the past few years the residential construction markets in Alberta have been very strong and we believe that this will continue over the near term. However, there can be no guarantee that factors could not arise that would change the housing starts quickly and suddenly.

Presently the majority of Contractors revenue is derived from the sale of Bobcat equipment and products. Bobcat has established itself as an industry leader in the Alberta market for the manufacture and delivery of light construction equipment. Bobcat has the largest market share in this niche in the Alberta market. There can be no assurance however that Bobcat will continue to manufacture high quality, competitively priced products or maintain its market share in the future

Subsequent events

On June 15, 2006, the LP issued a letter of intent to purchase 100% of the issued and outstanding shares of Westby Holdings Co. Ltd. and Westby Tractor & Equipment Ltd. (collectively "Westby Tractor"). The aggregate purchase price for Westby Tractor is approximately $3,409,000 consisting of approximately $1,109,000 of cash, $1,175,000 through the issuance of Limited Partnership Units and $1,125,000 by way of a promissory note bearing interest at the rate of 6% per annum. It is estimated that the purchase will close in August 2006.

On August 3, 2006, the LP closed a private placement with the issuance of 400,000 limited partnership units for an aggregate amount of $4,800,000. The subscription agreement includes a warrant to purchase one-half of one partnership unit at an exercise price of $13 per unit subscribed and expires on January 31, 2008. Net cash proceeds from the private placement were $2,626,080 and consisted of; commissions for the private placement totaled $25,920; units issued to Proventure Income Fund to repay loans and fixed value units totaled $1,639,320; and units issued to employees by way of stock purchase plans aggregated $508,680. Of the net cash proceeds received, $1,449,262 was provided to Proventure Income Fund to repay all remaining amounts owing at June 30, 2006. The balance of the funds has been used for working capital purposes.

Outlook

Lower than expected grain yields due to precipitation and hotter than normal weather, pressures on grain prices due to world supply and the strong Canadian dollar, combined with increased fuel prices, have suppressed the demand for new and used equipment. The strength of the Canadian dollar in comparison to the US dollar has also placed downward pressure on the valuation of used equipment. As the LP receives most of its new equipment from US manufacturers, the value of the used equipment market has been significantly impacted for items that have remained in LP's inventories. In addition, the LP is experiencing pressure from the U.S manufacturer of construction equipment to purchase the equipment at higher than market exchange rates. Management is in the process of continuing to focus on decreasing used equipment inventories, controlling variable expenses, particularly in our South Eastern Saskatchewan dealership as well as performing detail process reviews to reduce selling, general and administrative costs. The strong Alberta economy continues to provide increased revenues and net income in the construction segment. The LP continues to monitor the labour market and remain competitive in the service component of the operations; however, this may have an impact on service sales as well as providing for downward pressure on the gross margins reported in the future. The addition of Westby will provide the LP with increased gross sales in the agriculture segment as well as provide for increased net income.