

MANAGEMENT'S DISCUSSION & ANALYSIS

for the year ended December 31, 2006



The following Management's Discussion & Analysis ("MD&A") was prepared as of March 30, 2007 and is provided to assist readers in understanding Cervus LP's financial performance for the year ended December 31, 2006 and significant trends that may affect future performance of Cervus LP. This MD&A should be read in conjunction with the accompanying consolidated financial statements for the year ended December 31, 2006 and the notes contained therein. The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and Cervus LP's reporting currency is the Canadian dollar. Cervus LP is a reporting issuer in the provinces of Alberta and British Columbia, Canada. Cervus LP's units trade on the TSX Venture Exchange under the symbol "CVL.UN"

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

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ thousands, except per unit amounts	December 31, 2006	December 31, 2005	December 31, 2004
Revenues	269,134	182,450	141,617
Gross profit	44,104	27,869	21,157
Gross margin	16.4%	15.3%	14.9%
EBITDA	12,950	6,617	4,724
EBITDA margin ¹	4.8%	3.6%	3.3%
Per Unit - diluted	1.94	1.43	1.2
Net earnings	8,597	4,850	3,701
Per unit - Basic	1.38	1.15	0.97
Per unit - Diluted	1.29	1.05	0.94
Cash flow from operations	3,847	4,639	1,804
Funds from operations ¹	11,652	5,424	3,741
Per unit - diluted	1.75	1.17	0.95
Distributions declared	7,048	4,282	321
Per unit	1.04	0.96	0.08
Weighted average units outstanding			
Basic	6,245	4,204	3,823
Diluted	6,661	4,614	3,925
Total assets	107,515	89,212	33,434
Long-term liabilities	9,276	7,653	7,649
Unitholders' equity	36,160	25,036	7,726

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

HIGHLIGHTS OF THE YEAR 2006



- We completed the purchase of the remaining minority interest in Farm & Garden Centre located in Saskatoon and Rosthern, Saskatchewan.
- We completed the purchase of a John Deere dealership in Watrous, Saskatchewan, adding another store to the Farm & Garden dealership group.
- We completed a private placement of 400,000 units to liquidate certain outstanding debt and to raise capital for the purchase of the John Deere dealership in Watrous, Saskatchewan.
- We wrote down used agriculture equipment inventory by \$3.1 million as a result of the shift in demand for the equipment and due to the strengthening Canadian/US dollar exchange rate.
- Revenue has increased to \$269.1 million for the year ended December 31, 2006, an increase of \$86.7 million or 47% over gross revenue of \$182.4 million in 2005.
- Net earnings have increased to \$8.6 million in 2006, an increase of \$3.7 million or 76% over net earnings of \$4.9 million in 2005. The agricultural equipment segment contributed \$1.5 million and the construction equipment segment contributed \$7.1 million of the 2006 net earnings available to partners.
- Basic net earnings per unit increased to \$1.38 per unit for 2006 compared to \$1.15 per unit for 2005.
- Effective January 1, 2007, we closed a dealership store in Wawota, Saskatchewan in response to changing market conditions in south-eastern Saskatchewan.

OVERALL PERFORMANCE

Since becoming a publicly traded limited partnership in 2003, we have been able to accelerate our growth strategy by completing strategic business acquisitions. In November 2005, we were also able to achieve sector diversification by purchasing and investing in our construction equipment segment. We also completed the purchase of another John Deere dealership in Watrous, Saskatchewan in June 2006, and though we closed our dealership in Wawota, Saskatchewan, at the end of 2006, we believe we have been able to achieve net growth by accommodating changing market conditions. These investments have been critical in achieving our mission.

We are pleased with our progress towards our objectives and in 2006; we achieved revenues of \$269 million compared to \$182 million in 2005. This was an increase of 47% over the 2005 results. In addition, we increased our EBITDA (see "Non-GAAP Financial Measures") to \$12.95 million from \$6.62 million in 2005, an increase of 96% and increased our net earnings to \$8.6 million from \$4.8 million in 2005, an increase of 77%. These results show a significant improvement over those reported in 2005.

Our successful growth depends on our ability to provide accretive cash flow and earnings growth to our Unitholders on a per unit basis. We were successful in achieving this goal in 2006. Our EBITDA per unit – diluted (see "Non-GAAP Financial Measures") was \$1.94 per unit compared to \$1.43 per unit in 2005 and our earnings per unit – diluted increased to \$1.29 per unit from \$1.05 per unit in 2005, an increase of 23%.

We expect our growth to continue in 2007 due to a strong Western Canada economy, especially in Alberta for our construction equipment segment and a strengthening agriculture base due to anticipated higher crop prices. The key to our success has been and will continue to be our employees. Through the dedication and hard work of our employees we have successfully grown the business over the past years.

OUR BUSINESS

Cervus LP is in the business of acquiring and operating authorized agricultural and construction equipment dealerships. Cervus LP is the owner of the largest group of John Deere agricultural equipment dealers in Canada. With the recent acquisition of the Bobcat, JCB and JLG dealerships in Alberta, Cervus LP now also has a significant presence in the construction equipment sector. Cervus LP does business through 15 dealer stores in 13 locations across Alberta, Saskatchewan and western Manitoba.

The manufacturers of products enter into dealership agreements providing the dealer the right to sell their products within a specified geographical territory. These agreements include performance criteria such as market share, customer satisfaction and financial objectives.

There is a growing need among first and second generation owners of dealerships for viable exit strategies. However, the cost and complexity of owning and operating a dealership has increased considerably over the years. With access to capital markets, experienced managers, stable operating results and effective incentive programs, Cervus LP is able to provide a means by which these owners can realize their investments while at the same time provide a strong succession plan for the dealership. These owners can become equity holders of Cervus LP. The consolidation of dealerships is a strategy encouraged by the manufacturers. We see this trend among all equipment dealership sectors, regardless of the type of equipment that is sold.

We are dedicated to ensuring the advancement of these brands through partnership with the manufacturers and facilitating dealership succession. Cervus LP is divided into two divisions, the Agriculture Division and the Construction Division. We have done this to better focus on the various markets. Wherever feasible, Cervus LP is committed to having a separate store for each major product line as a means to enhance brand commitment and focus. We believe that increased focus on the market and specific brand line has a direct, positive impact on sales.



MISSION, VALUES AND PHILOSOPHY

OUR MISSION

Cervus LP is in the business of acquiring and operating authorized agricultural and construction equipment dealerships by facilitating dealer succession and providing capital, resources, training and opportunity for the next generation of dealers to effectively position them for profitability and growth.

OUR VALUES

- Teamwork and shared achievement.
- Continuous improvement and innovation.
- Customer centric approach to the design and delivery of our products and services.
- Genuine customer value at the dealership level.
- Workmanship that is of the highest quality.
- Personal and corporate growth.
- Employee safety, pride and integrity.

OUR PHILOSOPHY

- Open information sharing.
- Decision making as close to the customer as possible.
- Personal challenge, accountability and trust.
- Accepting risk as a key component of innovation and competition.
- Celebration of accomplishments.
- Our team members are owners of Cervus.

MANAGED GROWTH

We intend to grow the business organically and through acquisitions. Over the last number of years, Cervus LP has undertaken a series of business acquisitions which have played a key role in achieving our growth strategies. Below is a summary of key business acquisitions of Cervus LP.

2003

- We created Cervus LP through the transfer of the Calgary, Trochu, Stettler, Coronation, and Ponoka Alberta dealerships.
- We purchased the John Deere dealerships in Saskatoon and Rosthern, Saskatchewan.

2004

- We acquired a majority interest in Greenline Equipment Ltd with dealerships located in Moosomin and Wawota, Saskatchewan and Russell, Manitoba..

2005

- We completed a private placement of units and raised \$16,500,000 for the purchase of A.R. Williams Contractors Equipment Ltd.
- Cervus LP purchased the remaining minority interest in Greenline Equipment Ltd.

2006

- We completed a private placement of 400,000 units to eliminate certain outstanding debt and raise capital for the purchase of the Watrous, Saskatchewan dealership.
- We completed the purchase of the John Deere dealership in Watrous, Saskatchewan, adding another store to the Farm & Garden dealership group.
- We purchased the remaining minority interest in Farm & Garden Centre located in Saskatoon and Rosthern, Saskatchewan.
- We closed the dealership in Wawota, Saskatchewan in response to changing market conditions in south-eastern Saskatchewan.

OUR BUSINESS GROWTH STRATEGY IS COMPRISED OF THE FOLLOWING KEY ELEMENTS:

1. **STICK TO WHAT WE DO BEST**; our success has come from being efficient and effective operators of dealerships. We believe that our greatest potential for sustainable growth comes from leveraging this experience. We intend to stick close to what we do best.

2. **LEVERAGING OUR RESOURCES THROUGH CLUSTERING**; we believe that the largest impact to the bottom line will be realized through acquisitions that can either be joined with an existing cluster and thereby realize immediate synergies as they are integrated into those operations, or by acquiring existing clusters possessing existing economies of scale and leverage of resources. In keeping with this strategy we acquired the John Deere Dealership in Watrous, Saskatchewan, a contiguous dealership area to our existing dealership cluster operated out of Saskatoon, Saskatchewan.

3. **MITIGATE OVERALL RISK THROUGH DIVERSIFICATION**; our core business of agricultural and construction dealerships possesses intrinsic geographical and market risks. We intend to mitigate those risks through acquisitions that provide diversification.



4. PROVEN SUCCESS; Each business we acquire must have a proven track record of success. We target value in our acquisitions. We acquire businesses that have generated strong profits over consecutive years and have demonstrated an ability to grow successfully. We are committed to this strategic indicator long after the acquisition has taken place and constantly review our holdings to ensure they continue to perform as expected. Where an investment is proving not to provide consistent returns we will take corrective action and, if necessary, divest, as we did with the closing of our dealership in Wawota, Saskatchewan at the end of 2006.

5. SKILLED, KNOWLEDGEABLE PEOPLE; We believe that our most important resource is our people. As we continue to grow the business we have an ever increasing need for skilled, knowledgeable, motivated individuals to run the operations. This is a key consideration when evaluating a potential acquisition and critical to the ongoing growth and success of the organization.

Our people truly are our most valuable resource. It has proven to be a challenging labour market this past year, due mainly to the booming Alberta economy. However, the store managers, who are themselves owners of Cervus LP, have built and maintained a positive work environment which has allowed us to retain and attract the skilled labour needed to meet market demands.

In a continued effort to attract and retain great people, Cervus introduced an Employee Stock Purchase Plan in 2006 which allows our employees to participate in the ownership of Cervus LP. The partnership provides a matching component based on the past year's performance of the individual dealerships. The participation, though not mandatory, has been strong, and is indicative of our employee's commitment to be involved and participate in the success of the organization.

6. EFFECTIVE DUE DILIGENCE AND INTEGRATION PLANNING; we review all potential acquisitions carefully to ensure they complement our existing operations and to avoid surprises. Time is also spent identifying integration issues to ensure that the merger into existing operations will take place as smoothly as possible. We are currently in the process of updating our operating process and procedure documentation, with the intent of not only identifying improvements within our current operations but as a means to facilitate quick integration of acquired dealerships.

Much effort and energy was expended in 2006 understanding the construction equipment segment we had acquired in late 2005. The accounting and administration for these dealerships continued to be performed by the vendor until we were able to create a new administrative team in a new location in Calgary that would serve the administrative needs of the entire organization. The administrative functions for our Contractors Equipment division transitioned to the newly formed Cervus Shared Resources team in January 2007. Although there is more work to be done, we are experiencing many of the administrative synergies we expected when we acquired this group of dealerships.

7. DO NOT OVERPAY; a business acquisition must provide long-term value. It must be accretive to EBITDA (see "non-GAAP Financial Measures") and earnings per unit. We will not acquire a company just for the sake of growth.

EXECUTING OUR GROWTH STRATEGY IN 2006

ORGANIC GROWTH

We experienced approximately 2.6% organic growth in 2006 in our Agricultural Equipment Division, as measured by gross sales. The average sales growth in our Alberta John Deere stores was 10%, with approximately a 7.3% increase in our central Saskatchewan stores and an approximately 22% average decrease in our southeast Saskatchewan and Manitoba stores.

The Contractors Equipment Division was purchased in late 2005. Gross sales for this segment for 2006 compared to the unaudited gross sales for the twelve months of 2005 showed an increase of approximately 31.3%.

EXPANSION THROUGH ACQUISITION

Cervus LP completed the purchase of all of the outstanding shares of Westby Tractor and Equipment Ltd. ("Westby"), a Saskatchewan corporation, in 2006. Westby is an exclusive distributor of John Deere agricultural equipment operating out of Watrous Saskatchewan. The dealership contributed 2.4% of the consolidated sales growth experienced during the year.

CAPITAL INVESTMENT

We invested approximately \$3.7 million, net of disposals, in operational capital expenditures in 2006, including \$3.8 million in rental equipment. We anticipate the 2007 capital expenditure needs to be approximately \$5.5 million, \$3.5 million of which is for the further expansion of our construction equipment rental fleet, \$2.0 million for equipment and leasehold improvements

KEY SUCCESS FACTORS

EFFECTIVE, EFFICIENT OPERATIONS

We are migrating to a system of centralized processing and administration in order to realize on the efficiencies now available through centralized processing. Our Cervus Shared Resources team has been set up in Calgary and the majority of the administration was transitioned to this team during 2006. The remainder of the transition is expected to be completed in early 2007.

In addition, we have completed a selection process and entered into an agreement with a software provider that will supply us with an integrated business system for all our dealerships. Currently our agricultural equipment dealerships are on a separate system than our construction equipment dealerships. We are working with this provider to modify their existing program to better meet our needs. We anticipate the implementation of this new system sometime in the fourth quarter of 2007. We are intentionally taking a very cautious approach to this transition. We are not willing to in anyway risk our ability to provide continued excellent service to our customers.

ATTRACTING AND RETAINING SKILLED, QUALITY EMPLOYEES

Our employees are critical to our long-term success and viability. Due mainly to the high growth of the Alberta economy, we are experiencing a very high demand for skilled labour. Our future success depends heavily on our ability to attract and retain key personnel.

To attract and retain quality employees, we need to offer competitive wages, opportunities for personal growth and development, and ensure that our employees are engaged as partners in Cervus LP's future. We have a strong commitment to employee ownership. This ensures our employees have a vested interest in Cervus LP's performance and enjoy the fruits of their labour. This approach is somewhat unique to the owner-operator model prevalent in our industry and we believe it provides us with a competitive advantage.

As of March 30, 2007 Cervus LP's officers and senior managers owned approximately 45% of Cervus LP's outstanding LP units. We believe this is important because it ensures management's interests are aligned with those of our Unitholders.

DIVERSIFIED, WELL CAPITALIZED DEALERSHIP NETWORKS

We need to grow in order to enhance the range and depth of services we offer our customers and keep pace with the consolidation that is taking place in the agriculture sector. There are significant growth opportunities that we need to take advantage of including the following:

- Consolidation of equipment dealerships: The equipment dealership business is relatively mature and generally owner operated. The increasing price of equipment over the years has resulted in the need for significant capital investment in inventories. This has made it more difficult for young entrepreneurs to step into an ownership position of a dealership. As a result, these owner-operators find they have very limited opportunities for divesting of their investment in these dealerships. We have the opportunity to lever our access to capital markets and management experience to provide a viable exit strategy for these dealer owners and entry for young entrepreneurs. While there is growth potential in each of the dealerships we currently own, the opportunity for consolidation also remains very high.
- Geographical and market diversification: Many of the risks inherent in our core business such as weather, seasonality and regional economic conditions can be mitigated through diversification into other regions or markets. Our intention is to continue to seek out opportunities that complement our current business while mitigating these inherent risks in our core business.

ENSURING OUR GROWTH IS PROPERLY FINANCED

We must have sufficient capital to realize the growth opportunities. We obtain this financing through operating cash flows that we retain, the private placement of Cervus LP units, through debt financing and through the dividend reinvestment plan.

In addition, we have floor plan facilities in place for financing our inventory requirements. The facilities are assessed on a periodic basis and the availability adjusted as required.

Our equity offerings and credit facilities have provided us the financial flexibility that we have needed to pursue and take advantage of growth opportunities. However, we will need to obtain additional growth capital from both internal and external resources in the future to achieve our on-going growth opportunities.



MANAGING THE COMPETITIVE ENVIRONMENT

Our dealerships operate in very competitive environments. We believe that in order for Cervus LP to have sustainable earnings we must answer the competitive threat on three levels: attention to our customers, partnering with our suppliers, and strong market presence.

Our product brands are among the strongest in the marketplace which has contributed to strong market share in the areas we serve. However, there is a balance that must be struck between maintaining strong market share for new equipment sales, healthy margins and inventory risk. The vast majority of our new equipment sales in the agriculture sector are accompanied with trade-ins of used equipment. As we focus on market share, as measured by new equipment sales, we must constantly be aware of the used equipment market in order to ensure that we can sell the trade-in at an acceptable margin in an acceptable timeframe. Without proper attention to both markets we could find ourselves with a growing used equipment inventory and increased risk.

CUSTOMER FOCUS

Customer satisfaction is a key performance criteria used in evaluating dealership performance. Customer input is obtained formally and informally and is used to modify dealership processes to improve our customer service.

PARTNERING WITH SUPPLIERS

A strong relationship with our manufacturers is critical to ensuring product delivery, price competition and quick response to competitive pressures. We enjoy a good relationship with all of our manufacturer suppliers.

ANALYSIS OF OPERATING AND FINANCIAL RESULTS

MEASURING FINANCIAL SUCCESS

At the end of the day, investors will evaluate how successful we were in meeting our goals. A key measure is our corporate growth and profitability. So how do we measure financial success?

We measure it over the long-term. We do not measure success based on what our financial results looked like yesterday or what they will look like tomorrow, but what our financial performance will be over the long-term. This is because both our vision and unit holders are focused on the long-term. We measure the success of our growth strategies by tracking our performance using key financial and non-GAAP financial measures.

REVENUE

Revenue growth drives all of our other financial performance measures. Cervus LP has achieved year over-year revenue growth and we believe this trend will continue. We believe that continuing to achieve strong year-over-year revenue growth will allow us to be the dominant service supplier in our territories.

CASH FLOWS FROM OPERATIONS

Cash flows from operations before changes in non-cash operating working capital are important as they provide us with an indication of our ability to grow our operations and to distribute income.

EBITDA

EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization) provides us 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. We also use EBITDA as a key performance measure in assessing the profitability and value of potential business acquisitions (see "non-GAAP Financial Measures").

NET EARNINGS

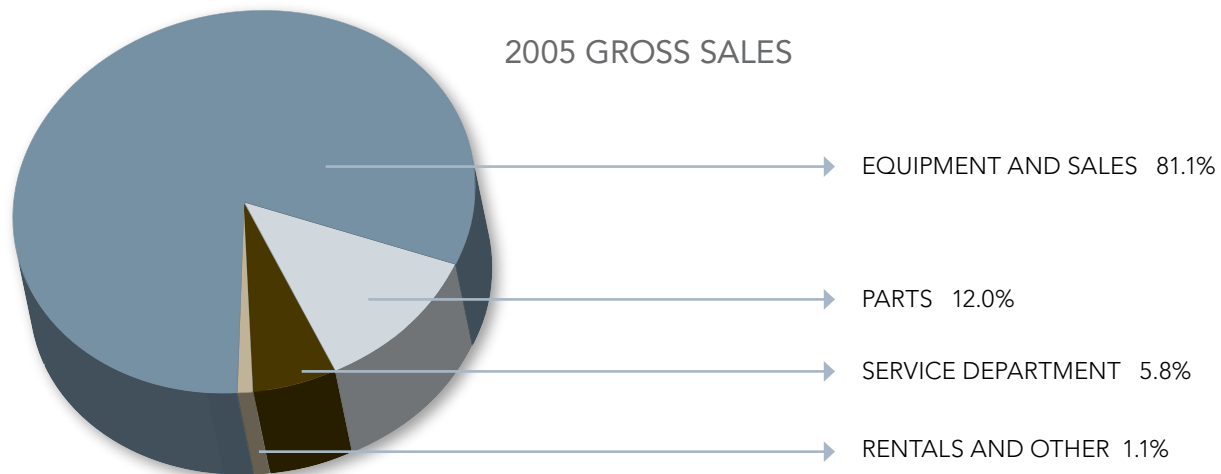
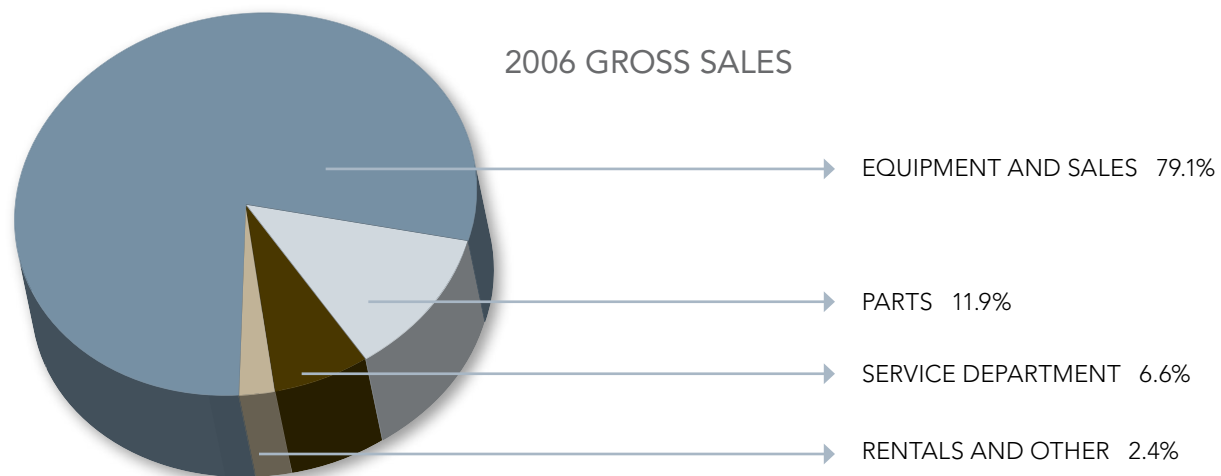
Growing our revenue, EBITDA, and cash flow should contribute to an increase in our net earnings. Net earnings represent our bottom line, and growing our net earnings per unit drives Unit holder value.

RESULTS FROM OPERATIONS

REVENUE

Revenue has increased to \$269.1 million from \$182.4 million for the year ended December 31, 2006 when compared to the same period during 2005. This is an increase of \$86.7 million or 47% over the prior year. The addition of the construction equipment division on November 16, 2005 accounted for \$78.1 million and the agricultural equipment division accounted for \$8.6 million of the increase. The increase in the agriculture division was mainly due to \$4.1 million from the acquisition of the Watrous dealership and a \$3.8 million increase in the lawn and garden equipment sales. During 2006, the agricultural equipment division accounted for 67% and the construction equipment division accounted for 33% of overall gross revenue.

Revenue is comprised of new and used equipment sales, parts, service and rental and other. The LP has seen increases in all department revenues and their contributions to gross revenue during 2006 are consistent with 2005. Equipment sales increased to \$212.9 million in 2006 from \$148.0 million during 2005, an increase of 44%. Parts revenue increased to \$32.1 million in 2006 from \$22.0 million in 2005, an increase of 46%. Service revenue increased to \$17.8 million during 2006 compared to \$10.6 million in 2005, an increase of 67%, and rentals and other revenue increased to \$6.3 million in 2006 from \$1.8 million in 2005, an increase of \$5.2 million or 473%.



COST OF SALES

Cost of sales was \$225.0 million for the year ended December 31, 2006 compared to \$154.6 million for the same period during 2005. The agricultural equipment segment accounted for \$154.4 million (2005 - \$146.1 million) and the construction equipment segment accounted for \$70.6 million (2005 - \$8.5 million). Included in cost of sales is \$1.7 million (2005 - \$219,000) of amortization related to the construction equipment division rental equipment. In addition, the agricultural equipment segment included \$3.1 million (2005 - \$839,000) of used equipment write-downs.



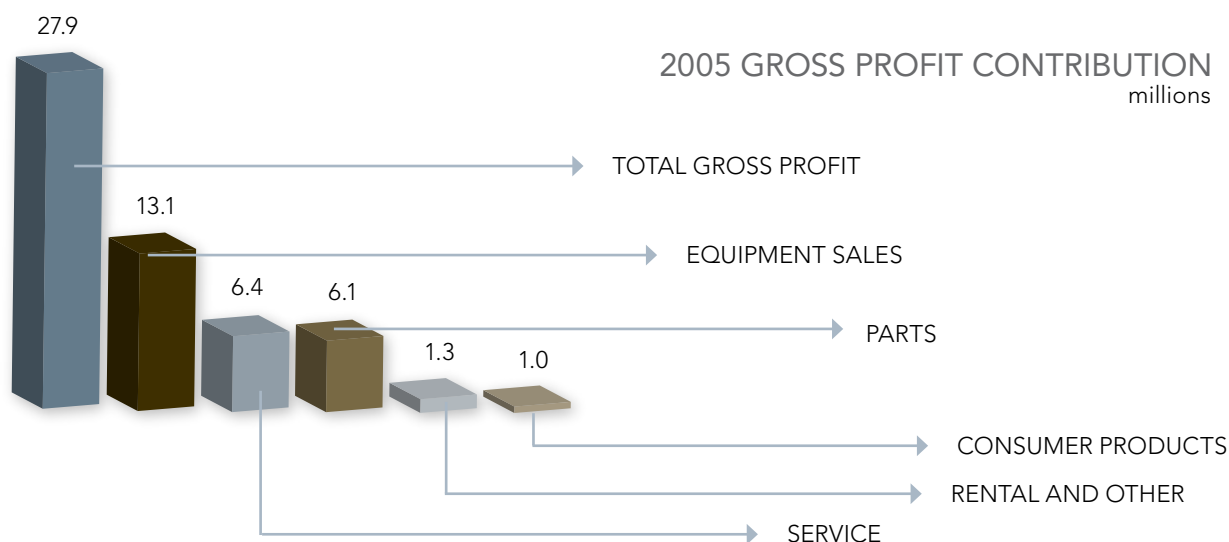
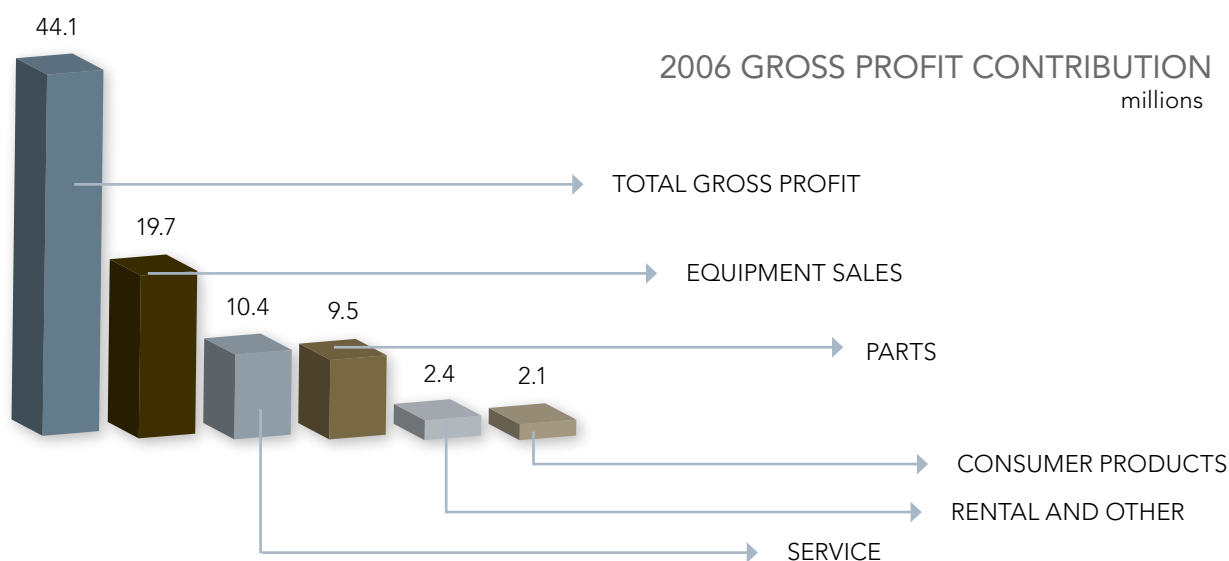
The strengthening Canadian dollar compared to the U.S. dollar has caused a lower relative price for new equipment, which has resulted in downward pressure on the new and used equipment values. The ease with which customers can compare prices and purchase equipment from the U.S. has applied further pressure to equipment prices in our territories. This cross-border activity had become a greater threat with the changes in the exchange rates. As a result, management believed that a used equipment write-down was warranted and has included in cost of sales, \$3.1 million of used equipment write-downs for 2006 compared to \$839 thousand for 2005.

GROSS PROFIT MARGINS

Gross profit margin was \$44.1 million or 16.4% of gross sales during 2006 compared to \$27.9 million or 15.3% of gross sales for 2005. The agricultural equipment segment contributed \$25.5 million (2005 - \$25.1 million) and the construction equipment segment contributed \$18.6 million (2005 - \$2.8 million) to the LP's gross margin.

The agricultural equipment segment experienced an overall decrease in gross margin of 0.5% to 14.2% in 2006 from 14.7% in 2005. The primary reason for the decrease was caused by the write-downs in used equipment recorded during 2006 as explained above. Gross margin as a percentage of gross sales in the agricultural equipment segment consisted of 4.6% (2005 - 6.2%) for equipment sales, 54.7% (2005 - 56.1%) for service, 28.8% (2005 - 26.8%) for parts, and 15.4% (2005 - 13.6%) for consumer products. Rental and other income was negligible for the both 2006 and 2005. During 2006, the Alberta labour market and increased cost of labour was the primary reason for decreasing margins in the service department.

The construction equipment segment experienced an overall increase in gross margin of 0.6% to 20.8% in 2006 compared to 20.2% in 2005. Gross margin as a percentage of gross sales was 14.3% (2005 - 14.8%) for equipment sales, 66.1% (2005 - 59.5%) for service, 32.6% (2005 - 28.7%) for parts and 35.7% (2005 - 32.8%) for rental and other.



SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$33.0 million (2005 - \$21.4 million) or 12.3% of gross sales in 2006 compared to 11.7% of gross sales in 2005. The agricultural equipment segment accounted for \$22.5 million or 68% and the construction equipment segment accounted for \$10.5 million or 32% of the total expenditures during 2006.

The agricultural equipment segment had an increase in selling, general and administrative expenses of approximately \$2.7 million from 2005 to 2006. The primary reason for the increase was due to an increase in personnel costs of approximately \$2.2 million due to general wage and benefit increases and increased commission expenses to sales people due to higher sales volume, and an increase of approximately \$500 thousand in each of general operating and occupancy costs from 2005 to 2006. General operating costs increased as a direct result of increased gross sales, requiring more administrative costs to be incurred. Occupancy costs have increased primarily due to changes in lease amounts for the LP's operating premises due to a new facility in one location and the addition of Watrous, SK during the year. This also provided for increases in insurance and related utility costs. This segment is experiencing approximately 13% of selling, general and administrative expenses as a percentage of gross sales.

The construction equipment segment has completed its first full year of operations in the LP and its overall selling, general and administrative expenses have increased to approximately \$10.5 million in 2006 compared to \$1.5 million in 2005. This segment incurred approximately 12% of selling, general and administrative expenses as a percentage of gross sales.

INTEREST

Interest expense is comprised primarily of the LP's financing of its short-term operating loan debt and long-term debt related to certain equipment financing arrangements entered into during the current and prior year. Total interest expense was \$1.1 million during 2006 compared to \$1.0 million during 2005. Though the LP is experiencing a higher short-term borrowings under its operating line of credit, the LP has been able to reduce other interest costs related to equipment financing through the use of bonus pool funds provided by its equipment supplier John Deere. These bonus pool funds are provided by the supplier based on new equipment sales, primarily combines, and the LP has earned significantly more funds from John Deere during 2006 when compared to 2005. The LP is able to utilize these funds to reduce costs of floor plan financing related to specified types of equipment. In addition, the LP's private placement completed during the year was utilized to repay loans and notes payable to Proventure Income Fund, thereby reducing interest paid to the related party during the year.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization is comprised of systematic charges to the statement of earnings for the LP's investment in capital assets which are comprised primarily of automotive and trucks, furniture and fixtures, parts and shop equipment, computers and software and leasehold improvements as well as the amortization of other assets comprised of dealership distribution agreements, customer lists and non-competition agreements. As explained earlier, the LP's investment in its short term rental equipment is depreciated and expensed through cost of sales.

Depreciation and amortization were approximately \$3.2 million (\$1.7 million recorded in cost of sales) during 2006 and approximately \$758,048 (\$219,000 recorded in cost of sales) in 2005, an increase of \$2.4 million. \$676,000 (2005 - \$32,100) of the increase in depreciation and amortization relates to other asset amortization.

The agricultural equipment segment accounted for approximately \$355,701 and the construction equipment segment accounted for approximately \$2.3 million of the increase during 2006. The increase in the agricultural equipment segment is primarily due to an increase in overall capital asset additions during the year and the increase in the construction equipment segment is primarily due to an increase in the short term rental equipment of approximately \$1.5 million and a full year of operations included in 2006.

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 2006 and 2005 as the taxable income is passed through to the limited partners. The LP calculates the taxable income which flows through to the partners based on their proportionate share of the units owned by each partner at December 31 of each taxation year. Any difference between taxable income allocations and the distributions received during they year is considered to be on account of capital.

On October 31, 2006, the Government of Canada announced proposed changes in income tax legislation that will affect future distributions from publicly traded income trusts and limited partnerships. The proposed tax changes would treat Cervus LP's taxable income in a similar manner as the taxable income of corporations. The proposal includes a four year transition delay for Cervus LP and will be effective in the 2011 taxation year. Given these proposed rules have not been substantively enacted into law, there has been no adjustment to future income taxes in regards to this announcement. We continue to monitor the effect of the proposed changes on the LP's operations.



NET EARNINGS

Net earnings per unit increased to \$1.38 in 2006 from \$1.15 in 2005. Fully diluted earnings per unit also increased to \$1.29 per unit in 2006 from \$1.05 in 2005. Net earnings were \$8.6 million for the year ended December 31, 2006 compared to \$4.9 million for the year ended December 31, 2005. The agricultural segment contributed \$1.5 million (2005 - \$3.9 million) and the construction equipment segment has contributed \$7.1 million (2005 - \$10 million) of net earnings to the LP for the year.

The construction equipment segment continues to be a strong performer due to the strong Alberta economy since its purchase in November 2005 contributing approximately 7.9% return on total sales and the agriculture equipment segment contributing 0.8% of total sales to net earnings. The primary reason for the decrease in the agriculture equipment segment is due to used equipment write-downs totaling approximately \$3.1 million during 2006 and overall decrease in gross margins on new and used equipment sales.

EBITDA

For the year ended December 31, 2006, EBITDA (see "Non-GAAP Financial Measures") has increased to \$12.9 million or 4.8% of gross revenue from \$6.6 million or 3.6% of gross revenue for the year ended December 31, 2005. The agricultural equipment segment contributed \$3.1 million (2005 - \$5.4 million) and the construction equipment segment contributed \$9.8 million (2005 - \$1.2 million) of EBITDA. The decrease in the agricultural equipment segment is primarily related to decreased gross profit margins being earned on new and used equipment sales, complemented by an increase in the used equipment write-downs recorded during 2006. The construction equipment segment increase is a combination of increased revenues caused by increases in gross sales and the fact that the operations have been included for a full year in 2006 versus a month and one-half for 2005.

ASSETS

Total assets have increased to \$107.5 million at December 31, 2006 from \$89.2 million at December 31, 2005, an increase of \$18.3 million during the year. The contributing factors to the increase in assets are primarily a result of increases in inventories, accounting for \$11.1 million of the increase and accounts receivable, accounting for \$4.2 million of the increase. Of the \$107.5 million in total assets, the agricultural segment is approximately \$64.5 million and the construction equipment segment is approximately \$43 million.

ACCOUNTS RECEIVABLE

Accounts receivable is primarily comprised of customer accounts receivable, contracts in transit and warranty receivables. Accounts receivable at December 31, 2006 totaled \$10.7 million (2005 - \$6.5 million). The agricultural equipment segment accounts for \$4.2 million of the total consisting of \$1.6 million of customer and warranty receivables and \$2.6 million of contracts in transit from John Deere. The construction equipment segment accounts for \$6.5 million of the total accounts receivable and this primarily consists of customer trade receivables. We have provided for approximately \$467 thousand (2005 - \$315 thousand) of allowance for doubtful collections at December 31, 2006, representing approximately 5% of the total customer and warranty accounts receivable outstanding at December 31, 2006 and 2005.

INVENTORIES

At December 31, 2006, inventories have increased by \$11.1 million to \$72.1 million from \$61.0 million at December 31, 2005. The most significant increases are in new equipment inventories, accounting for approximately \$6 million (a decrease of approximately \$1.8 million in the agricultural equipment segment and an increase of approximately \$7.8 million in the construction equipment segment) and used equipment inventories, accounting for \$4.4 million increase (\$3.2 million from the agricultural equipment segment and \$1.2 million from the construction equipment segment).

The general increases seen in new equipment inventories for the construction equipment segment are primarily related to the need, which we believe necessary, to sustain the current level of operations in the Alberta construction segment. Used equipment inventories have primarily increased in the Agricultural equipment segment due to increased new equipment market share achieved by the LP during the current year and overall increased sales activity. Market share is measured by new equipment sales and as most new equipment sales in the agricultural sector have trade-ins of used equipment, the increased market share has had a direct impact on the LP's carrying amounts for used equipment inventories.

The market value of used equipment in the agricultural equipment segment has been affected due to the stronger Canadian dollar throughout the year, providing for less expensive new equipment, causing downward pressure on used equipment pricing. We believe that the write-downs recorded during 2006 were warranted based on current market conditions and have reacted to changes observed in the used equipment market to properly value the used equipment inventories.

PROPERTY AND EQUIPMENT

Buildings and equipment net carrying value increased to \$10.6 million at December 31, 2006 from \$8.9 million at December 31, 2005, an increase of approximately \$1.7 million during the year. This increase can be attributed to approximately \$6.6 million of equipment additions and \$2.9 million of equipment disposals during the year for a net purchase of approximately \$3.7 million during 2006. This amount is decreased by the depreciation recorded of approximately \$2.6 million related to the assets. In addition, there was approximately \$650 thousand of non-cash additions to property and equipment through the purchase of Westby.

The most significant increase in equipment additions was due primarily to the LP's increase in its short term rental equipment fleet in the construction equipment segment. This accounted for approximately \$3.8 million of the net increase in the cost of equipment during 2006. The balance of the additions to cost of equipment is directly attributed to the LP's capital replacement and ongoing normal business operations.

GOODWILL

Goodwill increased \$0.3 million during the year to \$2.6 million at December 31, 2006 from \$2.3 million at December 31, 2005. The increase in goodwill is attributed to the LP's purchase of the remaining 20.2% in Farm & Garden Centre of Saskatoon Ltd. on June 29, 2006, accounting for approximately \$159,000 of the increase and the LP's purchase of Westby in Watrous, Saskatchewan on July 1, 2006 accounting for approximately \$167,000 of the increase. Based on our assessment of the ongoing operations included in goodwill, we believe that no impairment of the carrying amounts is required and therefore, no write-down to the carrying value of goodwill has been recorded during the year.

OTHER ASSETS

Other assets is comprised of \$9.1 million of intangible assets related to the purchase of A.R. Williams Contractors Equipment Ltd. ("AR Williams"), Westby and the minority interest in Farm & Garden which included \$6.7 million allocated to dealer distribution agreements, \$1.4 million to customer lists and \$1.0 million 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. \$676 thousand of amortization has been recorded for the year ended December 31, 2006 compared with \$31.25 thousand in 2005.

INVESTMENTS

Our investments primarily consist of investments in John Deere sprayer companies in Alberta and Saskatchewan in which we hold a 27% to 38% equity interest. The increase in investments during 2006 is primarily related to equity earnings of approximately \$277,000 (2005 - \$126,433) recorded during the year. We also increased our investment in Greenway Sprayers (a Saskatchewan company) to 38% from 19% with the purchase of Westby.

NOTES PAYABLE AND ADVANCES TO PROVENTURE INCOME FUND

Proventure Income Fund ("Proventure") is a related party due to a common board of directors, common senior management personnel and a controlling Unitholder. During 2006, the LP satisfied all obligations to Proventure through a combination of cash and the issuance of 136,610 partnership units aggregating \$1.64 thousand as part of the August 3, 2006 private placement. At December 31, 2006, the LP has approximately \$110 thousand due from Proventure (2005 - \$nil). The notes payable repaid during the year bore interest at the rate of 8% per annum. Advances are unsecured, bear no interest and are repayable on demand. At December 31, 2005, the LP had \$1.01 million of advances and \$4.02 million of notes payable due to Proventure. During the year, the LP paid approximately \$87 thousand (2005 - \$287 thousand) of interest on the notes payable to Proventure.

UNIT PURCHASE FINANCING

On August 3, 2006, the LP issued partnership unit purchase loans to key employees and/or companies controlled by key employees as part of a private placement. Provided the employees remain as officers or employees of the LP, the loans will be forgiven under the principal portion repayment terms of the related agreements. The loans are repayable on a straight-line basis over terms of two to five years and bear interest at the rate of 4% per annum. The loans are secured by Hypothecation Agreements. The employee loans, less earned forgiveness outstanding, are accounted for in the accompanying balance sheet as unit purchase financing and as a result are deducted from Partners' Equity. The related earned forgiveness will be accounted for as compensation expense in the statement of earnings. No compensation expense was incurred in 2006 and the current portion of the related forgiveness, assuming contractual obligations are met, will be approximately \$173,000 during 2007.

UNITHOLDERS EQUITY

As of December 31, 2006, the LP had 6,863,379 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 through December 2006 of \$0.09 per unit. Total distributions have been \$6.6 million to limited partners during the year ended December 31, 2006 of which 47.3% or \$3.1 million has been reinvested through the LP's Distribution Reinvestment Plan ("DRIP").

During 2006, the LP has added 2,451,958 partnership units to its outstanding amount. Of these, 1,484,600 of the units were added from the exercise of subscription receipts on the completion of the 2005 private placement for the purchase of AR Williams, 155,924 units were incurred for the purchase of Farm & Garden, 112,655 units were added due to the purchase of Westby, 400,000 units were issued as part of the August 2006 private placement, 289,779 units were attributed to our DRIP plan, and 9,000 units were issued for the settlement of an employee stock option agreement.



DISTRIBUTIONS

DISTRIBUTION POLICY

Cervus LP, in accordance with its Limited Partnership Agreement, is entitled, at the discretion of the Board of Directors, to make cash distributions to its Limited Partnership Unit Holders. It is the intention of the Board of Directors to distribute the net earnings of Cervus LP earned in the current fiscal period, over the subsequent fiscal period after accounting for such items as maintenance capital expenditures (see – “Non-GAAP Financial Measures) and principal repayments of debt agreements and other discretionary funding requirements. We have continued to distribute \$0.09 per unit for the periods January through March 2007.

The following table summarizes our distributions during the year ended December 31, 2006 (\$ thousands, except per unit amounts):

Record Date	Distribution per Unit	Distribution Payable	Distribution Reinvested	Net Distributions Paid
January 31, 2006	0.08	473	225	248
February 28, 2006	0.08	475	227	248
March 30, 2006	0.08	476	228	248
April 29, 2006	0.08	478	231	247
May 31, 2006	0.09	540	265	275
June 30, 2006	0.09	556	266	290
July 29, 2006	0.09	558	263	295
August 31, 2006	0.09	597	279	318
September 30, 2006	0.09	609	280	329
October 31, 2006	0.0	612	283	329
November 30, 2006	0.09	615	285	330
December 31, 2006	0.09	618	294	324
	1.04	6,607	3,126	3,481
Fixed Value Units		20		20
General Partner		31		31
Preferred Units		390		390
Total Distributions		7,048	3,126	3,922

Cash distributions are normally paid by Cervus LP on a monthly basis to Unitholders of record on the last business day of each month. Distributions are payable on or about the 15th day of the month following the record date.

DISTRIBUTION REINVESTMENT PLAN

During the year we declared total distributions to the Unitholders of \$1.04 per unit for an aggregate distribution of \$6.6 million. In addition, we paid \$20 thousand to the holders of the fixed value units; \$390 thousand to the holders of the preferred units and \$31 thousand to the General Partner. Of the \$6.6 million to issued to the Unitholders, \$3.1 million was reinvested in the LP’s DRIP plan resulting in the issuance of approximately 290 thousand units.

The DRIP was implemented in 2004 and allows Unitholders to reinvest monthly distributions into additional Cervus LP units. Unitholders who elect to participate will see their periodic cash distributions automatically reinvested in Cervus LP 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 Trust Company of Canada Ltd., through CDS Clearing and Depository for Services Inc. (“CDS”).

TAXATION OF DISTRIBUTIONS

Our distributions can consist of taxable and non-taxable components. The taxable amount of our distributions in 2006 was based on the taxable income of the LP for the year ended December 31, 2006. For the year ended December 31, 2006, the taxable income amounted to approximately \$1.50 per unit. The difference between the taxable income per unit and the cash distribution was caused by the timing of recording certain amounts for accounting purposes versus deducting them for tax purposes.

CAUTIONARY NOTE REGARDING DISTRIBUTIONS

Although we intend to continue making monthly distributions to our Unitholders, cash distributions are not assured and may be reduced or suspended. Our ability to continue making cash distributions and the actual amount distributed 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 units may decline if we were unable to meet our cash distribution targets in the future, and that decline may be significant.

As terms under our credit facilities, we are restricted from declaring distributions or distributing cash if the LP is in breach of its debt covenants.

DISTRIBUTABLE CASH CALCULATED:

\$ thousands, except per unit amounts	Year ended December 31, 2006	Year ended December 31, 2005
Cash flow from operations	3,847	4,639
Add (deduct):		
Net change in non-cash operating working capital	7,805	785
Maintenance capital expenditures ¹	(2,066)	(977)
Cash available for distribution and growth (a)	9,586	4,447
Per unit – diluted	1.44	0.96
Gross distributions declared to all equity holders (b)	7,047	4,297
Payout ratio (b)/(a)	73%	97%
Net distributions declared, net of DRIP (c)	3,128	2,528
Payout ratio (c)/(a)	33%	56%

Notes: 1. These terms are identified and defined under the section “Non-GAAP Financial Measures)

Our distribution policy is to maintain an annual payout equal to the prior year’s net earnings. Cash available for distribution and growth in excess of distributions we declare reflects our reserves for such things as future working capital requirements and future capital expenditures. In additions, cash retained through the participation of Unitholders in our DRIP is also used to fund future capital expenditures.

Our payout ratio for the current year of 73%, a decrease of 24% from 2005 included the results of operations from our contractor’s equipment segment as if it was included in operations for the entire year of 2005 as we believed the current year’s operations would provide the funding requirements to include those amounts.

Cash available for distribution and growth reported for the years ended December 31, 2006 and 2005 are net of maintenance capital expenditures. Maintenance capital expenditures are the capital expenditures incurred during the period to maintain our existing levels of service. This includes capital expenditures used to replace buildings and equipment and enhance the operational life of existing equipment. These capital expenditures can fluctuate significantly, year-to-year depending on our identified needs. If maintenance capital expenditures increase in future periods, our cash available for distribution and growth would be negatively impacted.

We estimate our unfunded maintenance capital expenditures to be approximately \$2 million for the year ended December 31, 2007 (see “Note Regarding Forward-Looking Statements). We based this estimate on our preliminary replacement expectations for equipment, net of funding resources received. The actual timing of the replacements is subject to a number of variables that cannot necessarily be predicted and though we believe these estimates to be appropriate, our actual maintenance capital expenditures may differ materially from our original estimates.



SUMMARY OF QUARTERLY INFORMATION

\$ thousands, except per unit amounts	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Revenues	67,335	79,634	77,478	44,687
EBITDA ¹	2,293	4,450	5,258	949
Cash flow ²	2,366	4,314	4,479	493
Net earnings (loss)	970	4,002	3,813	(188)
Basic earnings (loss) per unit	0.16	0.67	0.65	(0.03)
Diluted earnings (loss) per unit	0.15	0.62	0.60	(0.03)
Actual Units outstanding	6,863	6,767	6,175	5,956
Fully diluted units outstanding	6,661	6,367	6,310	6,175

\$ thousands, except per unit amounts	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Revenues	49,590	63,530	49,582	19,748
EBITDA ¹	1,490	2,937	2,541	(351)
Cash flow ²	1,161	2,624	2,237	(598)
Net earnings	561	2,592	2,284	(587)
Basic earnings (loss) per unit	0.14	0.61	0.55	(0.15)
Diluted earnings (loss) per unit	0.13	0.59	0.54	(0.14)
Actual Units outstanding	4,411	4,156	4,106	4,051
Fully diluted units outstanding	4,614	4,223	4,195	4,138

Notes: 1. EBITDA is earnings before depreciation and amortization, interest and income taxes. EBITDA is a non-GAAP measure. (see "Non-GAAP Financial Measures")

2. Cash flows from operations before changes in non-cash working capital.

FINANCIAL CONDITION AND LIQUIDITY

\$ thousands, except ratio amounts	December 31, 2006	December 31, 2005
Current assets	83,672	69,008
Total assets	107,515	89,212
Current liabilities	62,079	56,523
Long-term liabilities	9,276	7,653
Unitholders' equity	36,160	25,036
Working capital	21,593	12,485
Working capital ratio ¹	1.35	1.22

Notes: 1. Working capital is calculated as current assets minus current liabilities. Working capital ratio is calculated as current assets divided by current liabilities (see "Non-GAAP Financial Measures).

WORKING CAPITAL

Our working capital (see "Non-GAAP Financial Measures) improved to \$21.6 million at December 31, 2006 compared to \$12.5 million at December 31, 2005. The increase in working capital during 2006 was a result of strong cash flows from operations during 2006, combined with an increase in equity in our financed inventories (inventories financed with floor plans) which have gone from 66% financed in 2005 to 64% financed in 2006.

BANK INDEBTEDNESS

At December 31, 2006 the LP has an operating bank line of credit in the amount of \$12 million (2005 - \$10 million). The operating line of credit bears interest at rates ranging from prime plus 0.25% to prime plus 0.75% based on certain financial covenants and is secured by a general security agreement, a priority agreement, trade accounts receivable, unencumbered inventories, assignment of insurance and guarantees from the LP's subsidiaries and Cervus GP Ltd. At December 31, 2006 the LP had drawn \$4,063,783 (2005 - \$Nil) on this operating line.

The bank indebtedness is also subject to certain financial and negative covenants in which we are in compliance with at December 31, 2006 and to the date of this report.

FLOOR PLAN PAYABLES

Floor plan payables consist of financing arrangements for the LP's inventories. At December 31, 2006, floor plan payables are \$46.1 million (2005 - \$40.4 million), an increase of \$5.7 million during the year. The increase in floor plan payables is directly linked to the increases in new and used equipment inventories and represents approximately 64% (2005 - 66%) of the carrying value of our inventories.

Our floor plan facilities are provided by our equipment manufacturers directly or through partnering arrangement that they have with third party lenders. We currently have an aggregate facility of approximately \$80 million available for equipment inventory financing, which we believe is sufficient to meet our market share targets for 2007.

TERM DEBT

Term debt consists of financing arrangements for our short term rental equipment financing, agricultural equipment segment rental fleet and to finance some of our automotive and truck purchases. Term debt also consists of a \$5 million term loan acquired when we purchased AR Williams. The term debt carries interest at rates ranging from 0% to 7.25%. Term debt increased approximately \$1.76 million during 2006 and this is primarily related to an increase in the construction equipment segments short term rental equipment. In addition, the \$5 million term loan was interest bearing only during 2006 and will require monthly principal payments of \$104,167 beginning in January 2007.



CASH FLOWS FROM OPERATIONS

Cash flows provided by operations were approximately \$11.6 million for the year ended December 31, 2006 versus \$5.4 million for the year ended December 31, 2005. Working capital adjustments required a use of operating cash of \$7.8 million at December 31, 2006 (2005 - \$784,000) resulting in net cash flows from operating activities to be \$3.8 million for the year ended December 31, 2006 (2005 - \$4.6 million). The significant working capital changes included cash flows used for increases in accounts receivable (\$4.2 million), increases in inventories (\$11.1 million) and the payment of 2005 income taxes related to the acquisition of AR Williams (\$1.1 million) and cash flows provided by increasing floor plan payables (\$5.7 million).

CASH FLOWS FROM FINANCING

During the year ended December 31, 2006, we used \$5.4 million in financing activities versus \$9.5 million provided by financing activities for the year ended December 31, 2005. The primary sources of cash were the issuance of limited partnership units through the business acquisition of Westby and Saskatoon Farm & Garden Ltd. and the private placement and the proceeds from long-term debt to finance increases in the construction equipment segment rental fleet. The primary uses of cash were distributions to limited partners and the repayment of loans and notes payable to Proventure Income Fund.

CASH FLOWS FROM INVESTING

During the year ended December 31, 2006, we used \$4.5 million of cash flow for investing activities versus \$12.9 million for the year ended December 31, 2005. The use of cash for investment activities was for the purchase of equipment comprised primarily of short term rental equipment.

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.

Currently all of our dealership contracts are in good standing with our suppliers.

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

DEPENDENCE ON INDUSTRY SECTORS

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

The retail farm equipment industry is very competitive. 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 communities surrounding 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 the construction equipment divisions 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.

CONTRACTUAL OBLIGATIONS

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

\$ in thousands	Total	Due 2007	Due 2008 through 2010	Due 2011 through 2012	Due thereafter
Long-term debt	11,208	3,206	7,896	106	-
Operating leases	9,335	2,456	4,590	1,280	1,009
Total contractual obligations	20,543	5,662	12,486	1,386	1,009

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 Unitholder value is to use a combination of equity and debt financing to leverage our operations.

We invested \$3.7 million, net of capital disposals in operational capital expenditures in 2006. The primary capital expenditure was \$3.8 million in rental equipment. We have budgeted 2007 capital needs to be approximately \$5.5 million, \$3.5 million of which is for the further expansion of our construction equipment rental fleet through floor plan financing of terms up to 4 years and \$1.5 million for equipment and leasehold improvements through operating funds and long-term debt.



OFF-BALANCE SHEET ARRANGEMENTS

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

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the LP's customers. A portion of this financing is with recourse to the LP if the amounts are uncollectible. At December 31, 2006, payments in arrears by such customers aggregated \$878,225 (2005 - \$508,000). In addition, the LP 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, 2006, the net residual value of such leases aggregated \$27,747,308 (2005 - \$23,700,000).

The LP is liable for a portion of the deficiency in the event that the customer defaults on their lease obligation. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the LP owes Deere Credit under this obligation. The deposits are capped at 3% of the total dollar amount of the lease finance contracts outstanding. The maximum liability that may arise related to these arrangements is limited to the deposits of \$1,287,120 (2005 - \$1,255,494). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the LP.

TRANSACTIONS WITH RELATED PARTIES

During the years ended December 31, 2006 and 2005, the LP had the following transactions with Proventure Income Fund:

	2006	2005
Equipment and real estate rentals	\$ 1,043,982	\$ 901,770
Interest on notes payable	87,491	287,110
Interest on fixed value units	20,100	40,200
Guarantee fees	145,500	145,500
	\$ 1,297,073	\$ 1,374,580

The Chief Executive Officer ("CEO") of the LP is the CEO of the general partner and the CEO of Proventure, a publicly traded fund. In addition, the CEO is the single largest equity holder of each of these entities. Under an agreement between the LP and Proventure, Proventure is entitled to reimbursement for costs incurred and allocation of insurance costs, allocation of data services, guarantee fees based on 3% of the guarantee amounts to John Deere payable to either Proventure or the individual providing the guarantees, interest on any overdraft balances, interest on any outstanding indebtedness, building lease charges based on lease agreements, and other direct expenses reimbursable with no handling fees or markup.

Certain officers and dealer managers of the LP have provided guarantees to John Deere aggregating \$5,650,000 (2005 - \$5,200,000). During 2006, the LP paid these individuals \$73,500 (2005 - \$156,000) for providing these guarantees; these transactions were recorded at the amount agreed to by the parties.

During the year, equipment and real estate rentals of \$nil (2005 - \$250,836) were paid to officers, directors and unit holders of the LP. These transactions are recorded at the amount agreed to by the parties.

The general partner of Cervus LP is Cervus GP Ltd., a private company. Cervus GP Ltd is owned by the major shareholders of the LP. Under the amended and restated limited partnership agreement, Cervus GP Ltd. is entitled to reimbursement of all reasonable direct and indirect costs incurred on behalf of the LP and to 1% of the net earnings. For the year ended December 31, 2006, this amounted to \$86,575 (2005-\$31,731)

Notes payable to other related parties:

	2006	2005
6% notes payable, unsecured	\$ 1,125,000	\$ -
5% notes payable, unsecured, repaid	-	511,620
Notes payable, non-interest bearing and unsecured, repaid	-	298,652
	\$ 1,125,000	\$ 810,272

6% unsecured notes payable are owed to certain individuals that became related parties pursuant to employment agreements entered into with the LP as part of the acquisition of the net assets of Westby (see note 3).

During the year, interest in the amount of \$28,125 (2005: \$21,545) was paid on the notes payable to related parties.



FOURTH QUARTER RESULTS

\$ thousands, except per unit amounts	Three months ended December 31, 2006	Three months ended December 31, 2005
Revenues	67,335	49,590
Cost of sales, includes amortization of \$470 (2005 - \$219)	56,671	41,531
Gross profit	10,664	8,059
Gross margin	15.8%	16.3%
Administrative and general	8,809	6,711
Amortization	596	354
Interest	257	356
Loss on disposal of property and equipment	51	-
Equity earnings of significantly influenced companies	(19)	77
Net earnings	970	561
Net earnings		
Per unit - Basic	0.16	0.14
Per unit - Diluted	0.15	0.13
EBITDA ¹	2,293	1,490
EBITDA margin ¹	3.4%	3.0%
Per Unit - diluted	0.34	0.32
Cash flow from operations	2,366	1,161
Per unit - diluted	0.36	0.25
Distributions declared	1,845	1,049
Per unit	0.27	\$0.24
Weighted average units outstanding		
Basic	6,245	4,204
Diluted	6,661	4,614

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

REVENUE

Revenue for fourth quarter of 2006 was \$67.3 million compared to \$49.6 million for the fourth quarter of 2005. This was an increase of \$17.7 million or 36%. The increase in revenue was primarily due to an increase in the construction equipment segment which accounted for \$15.7 million of the increase while the agricultural equipment segment accounted for \$2.0 million of the increase. Revenues for the construction equipment segment increased due primarily to having three months of operations included in the fourth quarter of 2006 compared to one and one-half months included in the fourth quarter of 2005.

GROSS MARGIN

Gross margin for the fourth quarter of 2006 was 15.8% compared to 16.3% in the fourth quarter of 2005. The primary reason for the decrease in the margin was due to lower margins in the agricultural equipment segment caused by Cervus LP trying to decrease its used equipment inventories.

ADMINISTRATIVE AND GENERAL

Administrative and general expenses were \$8.8 million in the fourth quarter of 2006 compared to \$6.7 million in the fourth quarter of 2005. This is an increase of \$2.1 million or 31%. \$1.9 million of the increase was due to having a full quarter's results included for the contractors equipment segment compared to only half of a quarter's results included in the fourth quarter of 2005.

NET EARNINGS AND EBITDA

Net earnings increased to \$970 thousand in the fourth quarter of 2006 from \$561 thousand in the fourth quarter of 2005. The primary reason for the increase was due to the full quarter inclusion in operations of the construction equipment segment compared to only one-half of a quarter's inclusion in operations in 2005.

CRITICAL ACCOUNTING ESTIMATES

Preparation of consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the 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 unit-based awards; asset retirement obligations; the fair value of reporting units for goodwill impairment testing purposes; and estimates of various taxation matters. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results.

PROVISION FOR DOUBTFUL ACCOUNTS RECEIVABLE

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

DEPRECIATION AND AMORTIZATION OF INTANGIBLE ASSETS AND PROPERTY AND EQUIPMENT

Our intangible assets and property, plant, and equipment are depreciated and amortized based upon estimated useful lives and salvage values. We review our historical experience with similar assets to help 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 ASSETS AND LIABILITIES ACQUIRED IN BUSINESS COMBINATIONS

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

ASSET IMPAIRMENT

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



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

TAXATION MATTERS

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

FAIR VALUE OF UNIT-BASED AWARDS

The fair value of unit options granted is determined at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected unit 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 unit options granted.

INTERNAL CONTROLS OVER DISCLOSURE AND FINANCIAL REPORTING

EVALUATION OF DISCLOSURE CONTROLS

Cervus LP maintains a Disclosure Committee (the "Committee") that is responsible for ensuring that all public and regulatory disclosures are sufficient, timely and appropriate, and that disclosure controls and procedures are operating effectively. The Committee includes select members of senior management, including the Chief Executive Officer and the Chief Financial Officer. As at the end of the period covered by this report, under the supervision of the Committee, the design and operating effectiveness of Cervus LP's disclosure controls were evaluated. According to this evaluation, we have concluded that Cervus LP's disclosure controls and procedures are effective to ensure that any material, or potentially material, information is made known to a member of the Committee and is appropriately included in this report.

FINANCIAL REPORTING

Canadian Securities Administrators are proposing significant changes regarding CEO and CFO certification of internal controls. The CEO and CFO are now required to certify the design of the Cervus LP's internal controls over financial reporting for the current reporting year and, under the proposal, these certifications are expanding to include an evaluation of the effectiveness of Cervus LP's internal control over financial reporting. The proposed changes also require disclosure in the Cervus LP's MD&A as of the end of the financial year regarding the effectiveness of internal control as well as a description of the evaluation process followed. The required expanded certification on the effectiveness of internal control may be implemented as early as fiscal years ending in 2008.

With regard to the design of the Cervus LP's internal controls over financial reporting, there have been no material weaknesses noted other than those arising from the lack of segregation of duties that exist because of the size of our dealership operations. We designed our control environment to achieve a balance of preventative and detective controls and believe that these inherent weaknesses are mitigated through the use of detective controls such as the active involvement of store managers in the supervision of staff and the review of financial results and key operating measurements by management. We used a risk based approach in the assessment of the effectiveness of the design of internal controls over financial reporting.

As a result of the work conducted, the CEO and CFO have certified that Cervus LP's internal controls over financial reporting have been appropriately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Notwithstanding the foregoing, due to the inherent limitation of internal control over financial reporting, including the possibility of collusion, omission of information, or improper management override of controls, we cannot provide absolute assurance that our internal control over financial reporting systems will detect or prevent all material misstatements from occurring.

During the next year we plan to work towards improving the operation of certain preventative controls, including controls over segregation of duties, to achieve an efficient, cost effective mix of controls over financial reporting.

NON-GAAP FINANCIAL MEASURES

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

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

The following is a reconciliation of EBITDA to net earnings for each of the three years ended December 31:

\$ thousands, except per unit amounts	December 31, 2006	December 31, 2005	December 31, 2004
Net earnings	8,596	4,850	3,701
Add:			
Income taxes	-	-	(38)
Interest	1,102	1,008	805
Amortization	3,252	759	256
EBITDA margin ¹	12,950	6,617	4,723
Per Unit - diluted	1.94	1.43	1.20
Net earnings	8,597	4,850	3,701
Per unit - Basic	1.38	1.15	0.97

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



CASH FLOW FROM OPERATIONS BEFORE CHANGES IN NON-CASH OPERATING WORKING CAPITAL; cash flow from operations before changes in non-cash operating working capital is derived from the consolidated statements of cash flows and is calculated as cash provided from operating activities before changes in non-cash operating working capital. Per unit amounts refer to cash flow from operations before changes in non-cash operating working capital divided by the weighted average number of units outstanding during the period.

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

MAINTENANCE CAPITAL EXPENDITURES; maintenance capital expenditures are the capital expenditures incurred during the period to maintain our existing levels of service. This includes capital expenditures used to replace buildings and equipment and enhance the operational life of existing equipment.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

SUBSEQUENT EVENTS

We are not aware of any significant subsequent events as of the date of this report.

OUTLOOK FOR 2007

The volatility of the Canadian dollar in comparison to the US dollar had placed downward pressure on the valuation of used equipment during 2006. As the Canadian dollar has weakened over the last quarter of 2006, we have not incurred the same pressures as endured during the previous 3 quarters of 2006. 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. We are uncertain as to the outlook on the foreign currency market, particularly the Canadian to US dollar exchange rate and until these factors are known, it is uncertain whether further adjustments to our used equipment inventories will be required.

We will continue to focus on decreasing used equipment inventories, controlling variable expenses, particularly in our southeastern Saskatchewan dealership as well as performing detail process reviews to reduce selling, general and administrative costs.

AGRICULTURE SECTOR:

There are certain macro-economic factors that are coming to the forefront that indicate a potential long term positive fundamental shift in future agricultural related commodities:

Largest and most immediate factor is the demand for grains that can produce ethanol and bio diesel related products. Ethanol production alone is expected to increase significantly with the number of current plants that are being built. There is a world wide political push in favor of ethanol production to reduce the demand for fossil fuels. Targets for percentage usage in the U.S. of ethanol currently exceed current corn production in US when combined with current domestic use. This demand spills over to other crops as more acreage is diverted to corn production.

Current inventories of grains are at lows not seen since the 70's and any spike in demand could exhaust current inventories very quickly.

Cash flows from farming operations appear to be improving due to crop qualities and conditions which are generally ahead of the prior year. We have recently experienced a significant increase in demand for tractors and 4 wheel drive tractors resulting in part to the greater optimism that is evident with our customers today. Our current levels of used inventories for those products is decreasing

CONSTRUCTION SECTOR:

The construction equipment segment appears to remain strong primarily based on the construction and housing market in Calgary and Edmonton, Alberta, combined with an overall strong economy for the entire Province. We believe that the segment will continue to provide strong financial performance in the near future.