



# MANAGEMENT'S DISCUSSION & ANALYSIS

for the year ended December 31, 2007

The following Management's Discussion & Analysis ("MD&A") was prepared as of March 17, 2008 and is provided to assist readers in understanding Cervus LP's financial performance for the year ended December 31, 2007 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, 2007 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](http://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".

# 2007 HIGHLIGHTS OF THE YEAR

- Peter Lacey, CEO, was a finalist in the Prairies Ernst & Young Entrepreneur of the Year Awards.
- Cervus ranked 111th in the Alberta Venture's top 100 & Next 100 which is the authoritative ranking of Alberta's biggest private, public and crown corporations and 465th in the Report on Business Top 1000 Public Companies.
- Agro Calgary, a division of Cervus LP, placed 5th in the Canadian John Deere Manager's Club and was also chosen Western Canadian Dealer of the Year by the Western Producer magazine.
- Effective May 31, 2007 we purchased a John Deere dealership in Olds, Alberta.
- Completed a private placement of 384,616 units to raise capital for cash acquisitions.
- Revenue for 2007 was \$305 million, an increase of 13.3% compared to 2006 revenue of \$269 million.
- Net earnings were \$11.4 million or \$1.55 per unit in 2007. This represents an increase of 32.4% over net earnings of \$8.6 million or \$1.38 per unit for 2006.
- The construction equipment segment continues to show strong performance and has contributed \$8.3 million of net earnings to the LP during 2007 compared to \$7.1 million in 2006, an increase of approximately \$1.2 million or 16.9%.
- The agriculture equipment segment reported earnings of \$3.1 million during 2007, an increase of approximately \$1.6 million over our income of \$1.5 million for 2006.
- There was a significant increase in our cash flow from operations providing \$18.1 million during 2007, an increase of approximately 376% over cash flow from operations of \$3.8 million for 2006.
- Used agricultural equipment inventory has been significantly reduced on a store by store basis resulting in increased cash flow.
- Cervus was ranked 17th for Best Performance on the TSX Venture Exchange by Alberta Venture Magazine, February 2008
- Three members of our Cervus Contractors Equipment (Edmonton) sales team were recognized as being among the Top 10 JCB sales professionals in North America for 2007

## OVERALL PERFORMANCE

In 2007 we achieved revenues of \$305 million compared to \$269 million in 2006, an increase of 13.3% over the 2006 results. The purchase of Olds, Alberta John Deere dealership added \$12.9 million to our gross revenues. In addition, we increased our EBITDA (see “Non-GAAP Financial Measures”) to \$17.1 million from \$13.8 million in 2006, an increase of 24% and increased our net earnings to \$11.4 million from \$8.6 million in 2006, an increase of 33%. These results show a significant improvement over those reported in 2006.

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 these goals in 2007. Our EBITDA per unit – diluted (see “Non-GAAP Financial Measures”) was \$2.26 per unit compared to \$2.07 per unit in 2006 and our earnings per unit – diluted increased to \$1.50 per unit from \$1.29 per unit in 2006, an increase of 16.3%.

We experienced a significant improvement in our cash flows mainly as a result of our focus on increased sales of used agriculture equipment inventory. This initiative resulted in a reduction in our used equipment inventory of approximately \$11.3 million on a same store basis and contributed significantly to the positive cash position at the end of the year.

We expect our growth to continue in 2008 due to a strong Western Canada economy, especially in Alberta for our construction equipment segment and a strengthening agriculture sector. This is due to positive worldwide conditions due mainly from growing economic prosperity in developing countries and the demand for renewable fuels, resulting in healthy commodity prices. Our success will continue to be measured by the growth of our current business through improving our overall market share, satisfying our customer’s needs, controlling expenditures and the pursuit of acquisitions that are accretive to our unit holders

# SELECTED CONSOLIDATED FINANCIAL INFORMATION

<b>\$ thousands, except per unit amounts</b>	<b>December 31 2007</b>	December 31 2006	December 31 2005
Revenues	304,984	269,134	182,450
Gross profit	53,984	44,103	27,869
Gross margin	17.7%	16.3%	15.3%
EBITDA <sup>1</sup>	17,106	13,771	6,617
EBITDA margin <sup>1</sup>	5.6%	5.1%	3.6%
Per Unit - diluted	2.26	2.07	1.43
Net earnings	11,385	8,597	4,850
Per unit - Basic	1.55	1.38	1.15
Per unit - Diluted	1.50	1.29	1.05
Cash flow from operations	18,138	3,847	4,639
Funds from operations <sup>1</sup>	15,060	11,652	5,424
Per unit – diluted	1.99	1.75	1.17
Distributions declared	8,458	7,048	4,282
Per unit	1.08	1.04	0.96
Weighted average units outstanding			
Basic	7,352	6,245	4,204
Diluted	7,568	6,661	4,614
Actual units outstanding	7,862	6,863	4,411
Closing market price per share	16.30	8.65	12.00
Price earnings ratio <sup>1</sup> – basic	10.52	6.27	10.43
Total assets	113,292	107,515	89,212
Long-term liabilities	8,901	9,076	7,653
Unitholders' equity	48,401	36,160	25,036
Net book value per unit - diluted	6.27	5.43	5.42

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

## 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. Cervus LP does business through 17 dealer stores in 14 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. 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 industrial 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 acquired the five Bobcat/JCB dealerships in Alberta.
- Cervus LP purchased the remaining minority interest in Greenline Equipment Ltd.

## 2006

- We completed the purchase of the John Deere dealership in Watrous, Saskatchewan, adding another store to the Farm & Garden Centre dealership group.
- We purchased the remaining minority interest in Farm & Garden Centre.
- We closed the dealership in Wawota, Saskatchewan in response to changing market conditions in south-eastern Saskatchewan.

## 2007

- We completed the purchase of the John Deere dealership in Olds, Alberta, adding another store to the Agro dealership group.

## 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.

**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. STRATEGIC GROWTH** we target value in our acquisitions that have the potential to generate strong profits and demonstrate the ability to grow. 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.

**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.

**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.

**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 2007

### ORGANIC GROWTH

Overall we experienced a 6.6% organic sales growth in 2007 as measured by same store sales. Contributing to this growth was a 26.3% increase in gross sales in our Construction Equipment division and a 3.7% decrease in gross sales in our Agricultural Equipment division when compared on a same store basis.

Our John Deere stores in central Saskatchewan realized 22.4% organic growth while our Alberta and southeast Saskatchewan/Manitoba stores experienced decreases of 9.0% and 14.0% respectively.

### EXPANSION THROUGH ACQUISITION

Cervus LP completed the purchase of all of the outstanding shares of Greenline Equipment Sales Ltd. (“Greenline Olds”), an Alberta corporation operating as an exclusive distributor of John Deere agricultural equipment operating out of Olds, Alberta.

## 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 since September 2006 and though much of our centralized processes have been developed and implemented during 2007, we still believe there some greater efficiency that can be accomplished. We will continue to monitor, change and develop our centralized processes into the near future.

### TRAINED, EXPERIENCED, ENGAGED 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. To encourage investment by our employees we have introduced an employee stock purchase plan, employee stock purchase loans, and a deferred unit purchase plan.

As of March 17, 2008 Cervus LP’s officers and senior managers owned approximately 38% 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 consolidation. 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, specialized tools and equipment, rental fleets and facilities. 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.

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.

#### 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. In addition to our current customer support, initiatives are currently underway to improve our customer focus and interactions, including customer surveys and employee training focused on 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 need to provide focus on the products that we sell, high levels of customer satisfaction, modern dealership facilities and the capital and human resources required to successfully operate efficient dealerships. We view our equipment suppliers as our partners and we enjoy a good relationship with all of them.

#### STRONG MARKET PRESENCE

We believe that a strong market presence is a key factor in driving top and bottom line results. We accomplish this by providing world class products and services to our customers at competitive prices.

## 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.



## FUNDS 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”)

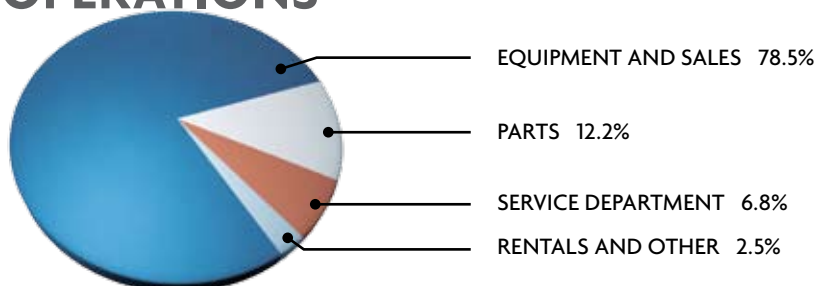
### NET EARNINGS

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 Unitholder value.

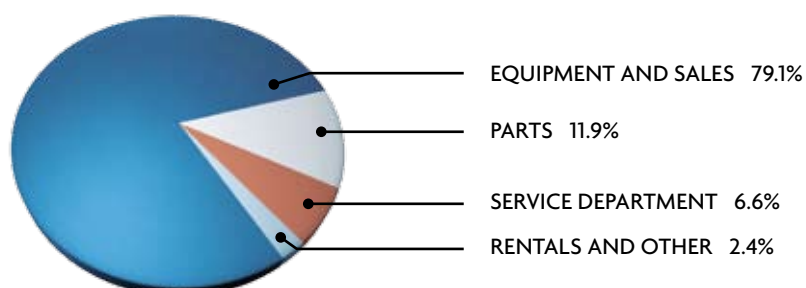
# RESULTS FROM OPERATIONS

## REVENUES

### 2007 GROSS SALES



### 2006 GROSS SALES



\$ thousands	December 31 2007	December 31 2006	% change
<b>Revenues by segment:</b>			
Equipment:	152,765	144,455	5.8
<i>New</i>	88,325	84,576	
<i>Used</i>	64,440	59,879	
Parts	24,824	22,292	11.4
Service	13,876	12,073	14.9
Rental and other	888	1,106	(19.7)
<b>Agricultural equipment</b>	<b>192,353</b>	<b>179,926</b>	<b>6.9</b>
Equipment	86,713	68,528	26.5
<i>New</i>	77,832	59,900	
<i>Used</i>	8,881	8,628	
Parts	12,259	9,796	25.1
Service	6,941	5,712	21.5
Rental and other	6,718	5,171	29.9
<b>Construction equipment</b>	<b>112,631</b>	<b>89,207</b>	<b>26.3</b>
<b>Total</b>	<b>304,984</b>	<b>269,133</b>	<b>13.3</b>

## AGRICULTURAL EQUIPMENT

Revenue for our agricultural equipment segment increased by \$12.4 million for the year ended December 31, 2007 when compared to 2006. The primary factor for the increase in gross revenue was the addition of the Olds, Alberta dealership in May 2007 which provided for \$12.9 million of gross sales for the last seven months of 2007.

The total increase in revenue of \$12.4 million was made up of a decrease in same store sales of \$6.3 million offset by the \$18.7 million net effect of the addition of the Olds and Watrous stores and the closure of the store in Wawato.

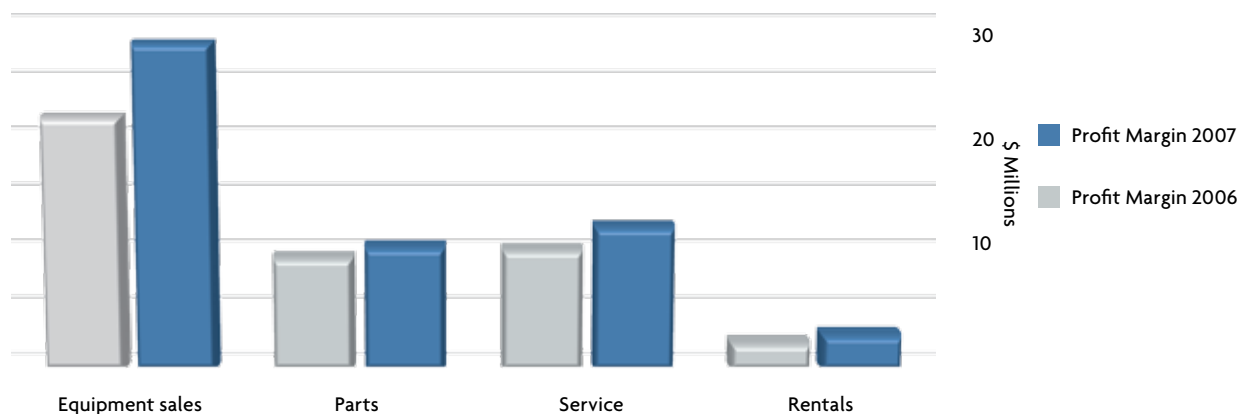
The \$8.3 million increase in our equipment sales was made up of an increase in new and used consumer products equipment sales of \$3.5 million, new agriculture equipment sales of \$0.2 million, and used agriculture equipment sales of \$4.6 million. Parts and service revenues also contributed to our increase in sales by adding \$2.5 million and \$1.8 million to gross sales, an increase of 11.4% and 14.9% respectively over 2006 results.

Same store sales decreased by \$6.3 million during 2007 when compared to 2006. Same store sales exclude acquisitions and divested dealerships in both 2007 and 2006. The most significant factors for the decrease in same store sales was new equipment sales which decreased by \$6.6 million, used equipment sales which decreased by \$3.9 million and consumer and commercial equipment increased by \$3.7 million. Parts, service and rental sales increased by \$557 thousand. The primary reason for the decreased sales of new and used agriculture equipment was the strengthening Canadian dollar which decreased the overall retail pricing.

## CONSTRUCTION EQUIPMENT

Revenue in 2007 for our construction equipment segment increased by \$23.4 million over the revenue reported in 2006. The increases in revenue continue to be attributed to the strong housing and construction market in Alberta, the addition of new mulcher product lines during the year and market share gains in certain equipment categories. New and other equipment sales accounted for \$17.9 million, used equipment sales were constant, up \$254 thousand, parts sales increased by \$2.5 million, service sales increased \$1.2 million and rental revenue increased \$1.5 million. Our four Bobcat dealerships contributed \$17.8 million of the increased new and other equipment sales while our JCB dealership contributed \$5.6 million to the increase. The increases in parts and service revenues are a direct result of continued high unit sales in prior years which have increased the machine population for aftermarket sales and support. Rental income has continued to increase due to the LP's continued investment as well as increased economic benefits being enjoyed in Alberta.

## GROSS PROFIT



## GROSS PROFIT MARGINS

\$ thousands	December 31, 2007	December 31, 2006	% change
<b>Gross profit margin by segment:</b>			
Agricultural equipment	15.8%	14.2%	11.3
Construction equipment	20.9%	20.8%	0.5
Total	17.7%	16.4%	7.9

## AGRICULTURAL EQUIPMENT

The increase in gross profit dollars of \$4.9 million in 2007 was an increase of 19.2% compared to 2006, and primarily included a 36.2% increase in equipment sales gross profit, a decrease of 2.6% from parts and an increase of 16.4% from service.

We have adjusted our processes in 2007 to better track changes in used equipment values due to fluctuations in the Canadian dollar. As a result, our 2007 used equipment margins are more in line with expectations. For 2007, pricing adjustments for used equipment was approximately \$2.3 million (1.5% of equipment sales) compared to \$3.5 million (2.4% of equipment sales) in 2006. Between 2007 and 2006, the Canadian dollar strengthened against the U.S. dollar by approximately 11.6% and 6.4% between 2006 and 2005. Our 2007 write-downs were primarily due to aged used equipment purchased in periods of a lower value Canadian dollar. Our 2006 write-downs were driven by two factors, the strengthening Canadian dollar and too much used equipment inventories due to high new equipment sales in 2006.

Our parts gross profit decrease was due mainly to a write off of parts inventory in one of our stores of approximately \$1 million due to a former store manager's override of internal controls.

## CONSTRUCTION EQUIPMENT

Our gross profit increased by \$5.0 million compared to 2006, a 26.7% increase. Equipment sales gross profit increased by 19.7%, parts increased by 34.3%, service increased by 23.4%, and our rental gross profit increased by 57.8%. The increase in our rental equipment gross profit is primarily due to our increased gross rental revenues and from disposing of under utilized equipment.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

\$ thousands	December 31, 2007	December 31, 2006	% change
<b>Selling, general and administrative expenses by segment:</b>			
Agricultural equipment	26,996	22,500	20.0
Construction equipment	13,702	10,491	30.6
<b>Total</b>	<b>40,698</b>	<b>32,991</b>	<b>23.4</b>
<b>% of revenue</b>			
Agricultural equipment	14.0	12.5	12.0
Construction equipment	12.2	11.8	3.4
<b>Total</b>	<b>13.3</b>	<b>12.3</b>	<b>8.1</b>

## AGRICULTURAL EQUIPMENT

During 2007, the agricultural equipment segment reported an increase in selling, general and administrative expenses of \$4.3 million when compared to 2006. Contributing to the overall increase was the addition of the Olds, Alberta dealership on May 31, 2007 which accounted for approximately \$2.0 million, the full year of operations of Watrous, Saskatchewan dealership which had a net increase of approximately \$843 thousand and the closure of the Wawota, Saskatchewan dealership which accounted for a decrease of approximately \$593 thousand. Also, bad debt losses incurred during 2007 aggregated \$1.1 million (0.8% of sales) compared to \$443 thousand (0.2% of sales) for 2006. This increase was a result of larger than normal repossession on equipment which was recourse financed through John Deere of approximately \$600 thousand and increased accounts receivable exposure experienced in one of our locations in the amount of \$570 thousand due to a former store manager's override of internal controls. Marketing expenses also increased by \$435 thousand or 0.2% as a percentage of sales. This increase was primarily due to larger than expected after sales costs related to equipment sales. Personnel costs increased by \$865 thousand but remained consistent with 2007 as a percentage of sales.

Same store selling general and administration expense when compared to gross sales was consistent with the overall results at 14.1% for 2007 and 12.3% for 2006.

## CONSTRUCTION EQUIPMENT

The construction equipment segment's selling, general and administrative expenses increased \$3.2 million in 2007 when compared to 2006. As a percentage of sales, selling, general and administrative costs have also increased by 3.4% during 2007 to 12.2% from 11.7%. Personnel expenses have increased by approximately \$2.4 million over the prior year which represents 8.5% of gross sales in 2007 compared to 8.0% in 2006. The segment experienced an increase in bad debts of approximately \$305 thousand over the prior year (0.4% of sales in 2007 and 2006) as a result of the increased sales activity and repossession costs. All other categories of selling general and administration expenses, including occupancy, marketing and general operating expenses were relatively consistent as a percentage of sales to the previous year.

## 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 and is netted with interest income earned on cash in bank and accounts receivable. Total interest expense was \$1.8 million during 2007 (including \$302 thousand in costs of sales) compared to \$1.9 million (including \$236 thousand in cost of sales) during 2006. The LP experienced lower short-term borrowings under its operating line of credit during 2007 when compared to 2006 due to increased cash flows as well as lower floor plan interest due to reduced used equipment inventories through 2007.

## INCOME TAXES

The excess of the carrying values of our net assets and liabilities over their tax bases was approximately \$7.5 million at December 31, 2007 (2006 - \$509,000).

On June 12, 2007, the Government of Canada enacted legislation to impose additional income taxes on publicly traded income trusts and limited partnerships (Specified Investment Flow-Through Entities or "SIFT"), effective January 1, 2011. Prior to June 2007, we estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and income tax. Under this new legislation, we now estimate the effective income tax rate on the post 2010 reversal of these temporary differences to range from 28.0% to 29.5%. Temporary differences reversing before 2011 will still give rise to \$149,000 of future income taxes. The new legislative changes have no effect on how we account for temporary differences within its incorporated subsidiaries.

Based on our assets and liabilities at December 31, 2007, we have estimated the amount of our temporary differences and the periods in which these differences will reverse. We plan to maximize the amount of income tax pools that can be carried forward to reduce and defer, as much as possible, its income tax exposure beginning in 2011. We expect the application of this policy will reverse essentially all of the taxable temporary differences associated with its property, plant and equipment and other intangible assets prior to January 1, 2011.

While we believe we will be subject to additional income tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax liability. The amount and timing of reversals of temporary differences will also depend on our future operating results, acquisitions and dispositions of assets and liabilities.

## NET EARNINGS

	December 31 2007	December 31 2006	% change
<b>Net earnings contribution (\$ thousands):</b>			
Agricultural equipment	3,071	1,542	99.2
Construction equipment	8,314	7,055	17.8
<b>Total</b>	<b>11,385</b>	<b>8,597</b>	<b>32.4</b>
<b>% of revenue</b>			
Agricultural equipment	1.6	0.9	77.8
Construction equipment	7.4	7.9	(6.3)
<b>Total</b>	<b>3.7</b>	<b>3.2</b>	<b>15.6%</b>
<b>Net Earnings Per Unit:</b>			
Units outstanding – diluted (\$ thousands)	7,568	6,661	13.6
Agricultural equipment	0.41	0.23	78.3
Construction equipment	1.09	1.06	2.8
<b>Total</b>	<b>1.50</b>	<b>1.29</b>	<b>16.3</b>

The primary reason for the \$2.8 million increase in earnings during the period was the increase of \$9.9 million in gross margin to 17.7% from 16.4%, increases in equity earnings of significantly influenced companies of \$281 thousand and the difference in the gain on disposal of asset in 2007 versus the loss on disposal of assets in 2006 of \$252 thousand. These increases were offset by increases in selling, general and administrative expenses of \$7.7 million, thousand, increase in depreciation and amortization of \$343 thousand.

## EBITDA

\$ thousands	December 31 2007	December 31 2006	\$ change
<b>EBITDA by segment:</b>			
Agricultural equipment	5,060	3,681	1,379
Construction equipment	12,046	10,090	1,956
<b>Total</b>	<b>17,106</b>	<b>13,771</b>	<b>3,335</b>
% of revenue	5.6	5.1	

For the year ended December 31, 2007, our EBITDA (see “Non-GAAP Financial Measures”) grew by \$3.3 million or 1.1% of gross revenue when compared to the same period during 2006. The increase in EBITDA can be attributed to a \$2.8 million increase in earnings and a \$696 thousand increase in amortization.

## DEPRECIATION AND AMORTIZATION

\$ thousands	December 31 2007	December 31 2006	\$ change
<b>Depreciation and amortization by segment:</b>			
Agricultural equipment	975	638	337
Construction equipment	2,973	2,614	359
<b>Total</b>	<b>3,948</b>	<b>3,252</b>	<b>696</b>

### AGRICULTURAL EQUIPMENT

The agricultural equipment segment depreciation and amortization increased by \$337 thousand during 2007 when compared to 2006. The primary factor for the increased depreciation and amortization was the amortization of other assets from the purchase of the John Deere dealerships in Olds, Alberta and from the 2006 purchase of Watrous, Saskatchewan. This amounted to \$170 thousand of the increase in 2007. The balance of the increase is due to general equipment additions during the year.

### CONSTRUCTION EQUIPMENT

The construction equipment segment reported an increase of \$359 thousand during 2007 compared to 2006. The increase was primarily caused by an increase in the rental fleet during 2007 which accounted for \$354 thousand increase in depreciation and amortization recorded in cost of sales.

## BALANCE SHEET DISCUSSION

### ASSETS

Total assets have increased to \$113.3 million at December 31, 2007 from \$107.5 million at December 31, 2006, an increase of \$5.8 million during the year. The primary factors for the increase include an increase in cash and short-term investments of \$11.7 million, an increase in accounts receivable of \$2.3 million, a decrease in inventories of \$7.9 million, an increase in buildings and equipment of \$1.7 million and an increase in other intangible assets and goodwill of \$2.1 million. Of the \$113.3 million in total assets, the agricultural segment represents approximately \$53.9 million (2006 - \$57.4 million) and the construction equipment segment is approximately \$59.4 million (2006 - \$50.1 million).

### ACCOUNTS RECEIVABLE

Accounts receivable is primarily comprised of customer accounts receivable, contracts in transit and warranty receivables. Accounts receivable at December 31, 2007 totaled \$13.0 million (2006 - \$10.7 million). The agricultural equipment segment accounts for \$5.5 million of the total consisting of \$1.6 million of customer and warranty receivables and \$3.9 million of contracts in transit and advance deposits from John Deere. The construction equipment segment accounts for \$7.6 million of the total accounts receivable and this primarily consists of customer trade receivables. We have provided for approximately \$800 thousand (2006 - \$467 thousand) of allowance for doubtful collections at December 31, 2007, representing approximately 8.7% compared to 5% of the total customer and warranty accounts receivable outstanding at December 31, 2007 and 2006.

### INVENTORIES

At December 31, 2007, inventories have decreased by \$7.9 million to \$64.3 million from \$72.2 million at December 31, 2006. The most significant decrease was used equipment which accounted for \$7.6 million of the decrease. The agriculture equipment segment decreased its used equipment by \$9.1 million in total and approximately \$11.3 million on a same store basis when compared to 2006. The addition of the Olds, Alberta dealership accounted for \$2.2 million of used equipment at December 31, 2007. The construction equipment segment increased its used equipment by approximately \$1.7 million at December 31, 2007 when compared to 2006.

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

The market value of used equipment in the agricultural equipment segment has been affected by the strengthening Canadian dollar throughout the year, providing for less expensive new equipment, causing downward pressure on used equipment pricing. We believe that the carrying value of the used equipment inventories at December 31, 2007 is realizable.

#### PROPERTY AND EQUIPMENT

Buildings and equipment net carrying value increased to \$12.3 million at December 31, 2007 from \$10.6 million at December 31, 2006, an increase of approximately \$1.7 million during the year. This increase can be attributed to approximately \$4.1 million of equipment additions, net of disposals in 2007 and offset by amortization recorded of \$2.4 million during the year. The addition of the Olds, Alberta dealership accounted for an increase in buildings and equipment of \$470 thousand. The most significant increases in buildings and equipment were the addition of approximately \$3.2 million in rental fleet equipment for the contractor's equipment segment. All other additions to our assets, including automotive, computer equipment, furniture and fixtures were considered replacement property and required in the normal course of operations.

#### GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other assets increased \$3.1 million during the year to account for the purchase of the Olds, Alberta John Deere dealership. \$2.6 million of the purchase price was allocated to other intangible assets which included dealership distribution agreements (\$1.9 million), customer lists (\$390 thousand) and non-competition agreements (\$320 thousand). The remaining is goodwill which amounted to \$542 thousand. 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. 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. \$961 (2006 - \$676 thousand) of amortization has been recorded for the year ended December 31, 2007.

#### INVESTMENTS AND OTHER ASSETS

Our investments primarily consist of investments in three John Deere sprayer companies in Alberta and Saskatchewan in which we hold a 33% to 38% equity interest, an investment in cash surrender value of life insurance and an employee loan provided for relocation assistance. The increase in investments during 2007 is primarily related to equity earnings of approximately \$558 thousand (2006 - \$277 thousand) recorded during the year offset by repayments received of \$123 thousand. We increased our investment in DeerStar Systems Inc. by 6.66% (\$82 thousand) through the purchase of the Olds, Alberta John Deere dealership. In addition, during the year, we purchased the life insurance policy held by Proventure Income Fund, a related party, on the President of the LP, for approximately \$93 thousand being the cash surrender value of the policy at the time of purchase and increased its value by \$10 thousand during the year. The employee loan provided for relocation assistance amounted to \$360 thousand at December 31, 2007. This loan is non-interest bearing, secured by a promissory note and caveat on the subject property and is due in full on December 31, 2009.

#### ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND CUSTOMER DEPOSITS

Accounts payable, accrued liabilities and customer deposits increased by approximately \$4.9 million at December 31, 2007 when compared to December 31, 2006. The primary cause of the increase was advance customer deposits received on future equipment purchases which amounted to \$4.9 million at the end of 2007 (2006 - \$2.6 million). This increase is due primarily to an increase in early order program payments received in advance on new John Deere equipment. Also included in accounts payable and accrued liabilities are bonuses payable to the previous owners of the Olds John Deere dealership in the amount of \$635 thousand. The balance of the increase is primarily due to differences in the year end balances of general accounts payable, Goods and Services Taxes, accrued salaries, commissions and vacation pay.

#### UNITHOLDERS EQUITY

As of December 31, 2007, the LP had 7,862,409 partnership units outstanding compared to 6,863,379 at December 31, 2006, an increase of 14.6%. The LP declared monthly distributions from January through December 2007 of \$0.09 per unit totaling \$1.08 for the year compared to \$1.04 in 2006. Total distributions declared were \$8.5 million during 2007 which included \$8.0 million to regular unit holders, \$329 thousand to preferred partnership unit holders and \$125 thousand to the general partner of the limited partnership. Of the \$8.0 million distributed to the limited partners during the year, \$2.9 million or 36.4% (2006 - 47.3%) has been reinvested through the LP's Distribution Reinvestment Plan ("DRIP") resulting in the issuance of approximately 278 thousand units.

As at December 31, 2007, the LP had 200,000 preferred units valued at \$1.6 million, outstanding, all of which were converted to regular partnership units in January 2008.

# 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. The following table summarizes our distributions during 2007 (\$ thousands, except per unit amounts):

<b>Record Date</b>	<b>Distribution per Unit</b>	<b>Distribution Payable</b>	<b>Distributions Reinvested</b>	<b>Net Distributions Paid</b>
January 31, 2007	0.09	621	294	327
February 28, 2007	0.09	628	302	326
March 31, 2007	0.09	631	278	353
April 30, 2007	0.09	640	280	360
May 31, 2007	0.09	642	311	331
June 30, 2007	0.09	644	316	328
July 31, 2007	0.09	690	328	362
August 31, 2007	0.09	694	329	365
September 30, 2007	0.09	696	128	568
October 31, 2007	0.09	704	129	575
November 30, 2007	0.09	707	125	582
December 31, 2007	0.09	707	93	614
	1.08	8,004	2,913	5,091
General Partner		125	-	125
Preferred Units		329	-	329
<b>Total Distributions</b>		<b>8,458</b>	<b>2,913</b>	<b>5,545</b>

## DISTRIBUTION REINVESTMENT PLAN

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 Services Inc. ("CDS"), or directly where they hold the certificates personally.

## 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, 2007. For the year ended December 31, 2007, the taxable income amounted to approximately \$1.45 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. We have continued to distribute \$0.09 per unit through March 2008.

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	December 31 2007	December 31 2006
Cash flow from operations	18,138	3,847
Add (deduct):		
Net change in non-cash operating working capital	(3,078)	7,805
Maintenance capital expenditures <sup>1</sup>	(927)	(2,066)
Cash available for distribution and growth (a) <sup>1</sup>	14,133	9,586
Per unit – diluted	1.86	1.44
Gross distributions declared to all equity holders (b)	8,458	7,047
Payout ratio (b)/(a)	60%	73%
Net distributions declared, net of DRIP (c)	5,545	3,128
Payout ratio (c)/(a)	39%	33%

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

Net Earnings for the year ended December 31, 2007 was \$11.4 million and cash from operations was \$18.1 million. The excess of net earnings and cash flow from operations was \$2.9 million and \$9.6 million over gross distributions declared respectively. This excess cash available for distribution and growth reflects reserves we believe are necessary for such things as future working capital requirements and future capital expenditures. In addition, cash retained through the participation of Unitholders in our DRIP is also used to fund future capital expenditures.

Cash available for distribution and growth reported for the years ended December 31, 2007 and 2006 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 for the year ended December 31, 2008 to be \$1.1 million (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

<b>\$ thousands except per unit amounts</b>	<b>December 31 2007</b>	<b>September 30 2007</b>	<b>June 30 2007</b>	<b>March 31 2007</b>
Revenues	59,790	98,002	86,953	60,239
EBITDA <sup>1</sup>	1,762	7,415	6,237	1,692
Funds from operations <sup>2</sup>	1,830	6,726	5,420	1,084
Net earnings	755	5,641	4,833	156
Basic earnings per unit	0.10	0.78	0.69	.02
Diluted earnings per unit	0.10	0.77	0.65	.02
Weighted average units outstanding				
Basic	7,516	7,205	7,003	6,937
Fully diluted	7,725	7,494	7,392	7,335

<b>\$ thousands except per unit amounts</b>	<b>December 31 2006</b>	<b>September 30 2006</b>	<b>June 30 2006</b>	<b>March 31 2006</b>
Revenues	67,335	79,634	77,478	44,687
EBITDA <sup>1</sup>	2,293	4,723	5,532	1,223
Funds from operations <sup>2</sup>	2,366	4,314	4,479	493
Net earnings	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	0.61	(0.03)
Weighted average units outstanding				
Basic	6,245	6,072	5,834	5,543
Fully diluted	6,661	6,495	6,258	6,079

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

<b>\$ thousands except ratio amounts</b>	<b>December 31 2007</b>	<b>December 31 2006</b>
Current assets	85,138	83,672
Total assets	113,292	107,515
Current liabilities	55,990	62,079
Long-term liabilities	8,901	9,276
Unitholders' equity	48,401	36,160
Working capital	29,148	21,593
Working capital ratio <sup>1</sup>	1.52	1.35

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 \$29.1 million at December 31, 2007 compared to \$21.6 million at December 31, 2006. The increase in working capital during 2007 was a direct result of decreasing used equipment inventories and their offsetting floor plan payables which increased our cash flow from operations during the year. Floor plan payables as a percentage of our whole goods inventories have decreased to 69% at December 31, 2007 compared to 72% at December 31, 2006.

## BANK INDEBTEDNESS

At December 31, 2007 the LP has an operating bank line of credit in the amount of \$15 million (2006 - \$12 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, 2007 the LP had no drawings on the credit line (2006 - \$4,063,783).

The bank indebtedness is also subject to certain financial and negative covenants in which we are in compliance with at December 31, 2007 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, 2007, floor plan payables are \$38.9 million (2006 - \$46.1 million), a decrease of \$7.2 million during the year. This decrease is a direct result of reducing used equipment inventories during 2007.

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 2008.

## TERM DEBT

Term debt consists primarily of financing arrangements for our short term rental equipment fleet, financing of our automotive and truck purchases, and a term loan from our 2005 equipment dealer purchase. The term debt carries interest at rates ranging from 0% to 7.5%. Term debt increased approximately \$460 thousand during 2007, net of repayments. This increase is a result of increasing our rental equipment fleet in our construction equipment segment.

## CASH FLOWS FROM OPERATIONS

Funds provided by operations (see non-GAAP financial measures) were approximately \$15.1 million for the year ended December 31, 2007 versus \$11.6 million for the year ended December 31, 2006. Working capital adjustments provided operating cash of \$3.1 million at December 31, 2007 (2006 – use of cash of \$7.8 million) resulting in net cash flows from operating activities to be \$18.1 million for the year ended December 31, 2007 (2006 - \$3.8 million), an increase of \$14.3 million from our 2006 results. Contributing to the increase in operating cash flow was our increase in net earnings of \$2.8 million, depreciation and amortization increased by \$696 thousand, gain on disposal of assets changed by \$251 thousand (gain of \$154 thousand in 2007 versus a loss of \$98 thousand in 2006), and earnings from significantly influenced companies increased by \$281 thousand. The most significant working capital changes included cash flows used for increases in accounts receivable (\$2.4 million) and floor plan payables (\$7.2 million) and cash flows provided by increased accounts payable and accrued liabilities (\$4.9 million) and decreased inventories (\$7.9 million).

## CASH FLOWS FROM FINANCING

During the year ended December 31, 2007, our financing activities provided for \$1.5 million in increased cash flow versus using \$5.4 million in financing activities for the year ended December 31, 2006. The primary sources of cash were the issuance of limited partnership units which provided \$8.9 million, proceeds of long-term debt, net of repayments which provided \$460 thousand, reduction in deposits with John Deere of \$614 thousand and repayment of notes payable of \$200 thousand. The primary use of cash was the distributions to limited partners which amounted to \$8.4 million for the year ended December 31, 2007.

## CASH FLOWS USED IN INVESTING

During the year ended December 31, 2007, we used \$12.9 million of cash flow for investing activities versus \$4.5 million for the year ended December 31, 2006, an increase of \$8.4 million. The primary uses of our cash for investing was comprised of \$3.6 million for the purchase of Olds, Alberta John Deere dealership, \$4.9 million to fund a short-term loan, \$4.1 million, for the purchase of capital assets, net of proceeds and \$360 thousand for the advance of a related party loan.

We invested our excess cash in a loan to an unrelated private company involved in the development of commercial real estate in Kelowna, British Columbia. The loan bears interest at 20% and is secured against land through guarantees and a pledge of the shares of the company that holds a 50% beneficial interest in the land. Subsequent to the year end a further advance was made on the short term loan of \$3.4 million from surplus cash. We expect the full amount of the loans to be repaid in the second quarter of 2008.

## 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:

<b>\$ in thousands</b>	<b>Total</b>	<b>Due 2008</b>	<b>Due 2009 through 2011</b>	<b>Due 2012 through 2013</b>	<b>Due thereafter</b>
Long-term debt	11,669	3,642	7,878	29	120
Notes payable	1,325	600	725	-	-
Operating leases	7,274	2,112	3,415	1,110	637
<b>Total contractual obligations</b>	<b>20,268</b>	<b>6,354</b>	<b>12,018</b>	<b>1,139</b>	<b>757</b>

## 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

#### AGRICULTURAL EQUIPMENT

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.

#### CONSTRUCTION EQUIPMENT

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 New Holland), 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.

On July 29, 2007, Doosan Infracore announced that it entered into a definitive agreement to acquire three businesses of Ingersoll-Rand Company Limited ("Ingersoll Rand"), comprising the Bobcat equipment business. According to Doosan's press release, "Doosan Infracore's primary objective of the acquisition was to enhance its overall product portfolio by adding compact construction equipment to its existing medium and large-scale construction equipment product lines and to help expand and strengthen Doosan Infracore's global manufacturing and sales networks." We anticipate the change in ownership to not negatively impact our business, and in fact may provide opportunities for growth in the future.

Presently the majority of the construction equipment division's 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.

## FOREIGN CURRENCY FLUCTUATIONS

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 due to somewhat volatile and ever changing foreign currency adjustments. It is anticipated for 2008 that the Canadian dollar will remain relatively stable as compared to the U.S. dollar and therefore, limit the impact on the valuation of our used equipment inventories. Though we believe the outlook on the foreign currency market may be stable during 2008 in relation to the Canadian/U.S. dollar, it is uncertain whether further adjustments to our used equipment inventories will be required if significant changes occur.

## WORKFORCE AVAILABILITY

Our ability to provide high quality services to our customers depends on our ability to attract and retain well trained, experienced employees. Our industry continues to experience a very high demand for and corresponding shortage of quality employees. We need to attract and retain quality employees, or our long-term success and ability to take advantage of growth opportunities could be threatened.

We have established a number of human resource initiatives and compensation strategies to address this risk.

## SEASONAL AND CYCLICAL

Weather has a direct impact on our customers' earnings which in turn affects their need and ability to purchase equipment. The construction and agriculture business are also cyclical in nature and can fluctuate based on market factors beyond our control.

## FAILURE TO REALIZE ANTICIPATED BENEFITS FROM ACQUISITIONS

Achieving the benefits of business acquisitions depends, in part, on successfully consolidating functions and integrating operations, equipment and procedures in a timely and efficient manner. Failure to successfully integrate acquisitions in the future may have an adverse effect on our earnings.

## INTEREST RATE FLUCTUATION

Interest rate fluctuations may adversely affect our customer's ability to finance their purchases and negatively impact our revenue. In addition, the cash flow required to service our long-term debt and our operating and floor plan lines will fluctuate as a result of changes in market rates.

## 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 approximately \$4.1 million, net of disposals, in operational capital expenditures in 2007, including \$2.4 million in rental equipment. We anticipate the 2008 capital expenditure needs to be approximately \$2.7 million, \$1.6 million of which is for the further expansion of our construction equipment rental fleet and \$1.1 million for equipment and leasehold improvements. We anticipate funding our rental fleet additions through term debt additions and funding our equipment and leasehold improvements through operating cash flow.

## 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. 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, 2007, payments in arrears by such customers aggregated \$551,639 (2006 - \$878,225). In addition, the LP is responsible for assuming all lease obligations held by its customers with Deere Credit, Agrifinance and Irwin Commercial Finance Canada Corporation for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2007, the net residual value of such leases aggregated \$40,068,365 (2006 - \$27,747,308). Based on our past experience and our assessment of the portfolio, we do not expect there to be a significant loss arising from these leases.

# TRANSACTIONS WITH RELATED PARTIES

- (a) During the years ended December 31, 2007 and 2006, the LP had the following additional transactions with Proventure Income Fund (see note 5):

	2007	2006
Equipment and real estate rentals	\$ 1,341,135	\$ 1,043,982
Management fees	30,000	-
Interest on notes payable	-	87,491
Interest on fixed value units	-	20,100
Guarantee fees	114,000	145,500
	\$ 1,485,135	\$ 1,297,073

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. Proventure has provided guarantees to John Deere and is entitled to guarantee fees based on 3% of \$2,750,000 (December 31, 2006 - \$4,850,000), building lease charges based on lease agreements, and a monthly fee of \$2,500 for administrative service provided by the LP on behalf of Proventure

- (b) Certain officers and dealer managers of the LP have provided guarantees to John Deere aggregating \$7,150,000 (2006 - \$5,650,000). During 2007, the LP paid these individuals \$77,250 (2006 - \$73,500) for providing these guarantees; these transactions were recorded at the amount agreed to by the parties.
- (c) In 2007, the LP assumed a key-man life insurance policy that was held by Proventure. The LP reimbursed Proventure \$92,966, being the cash surrender value of the policy at the time of the transaction.
- (d) The general partner is Cervus GP Ltd., a private company. Cervus GP Ltd.’s shareholders own approximately 35 percent of the outstanding units 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, 2007, this amounted to \$113,846 (2006-\$81,867).
- (e) Notes payable to other related parties:

	2007	2006
6% notes payable, unsecured, repayable at \$200,000 per annum	\$ 925,000	\$ 1,125,000
Notes payable, unsecured, bearing interest at prime plus 1%, due April 2008	400,000	-
	1,325,000	1,125,000
Less current portion	600,000	200,000
	\$ 725,000	\$ 925,000

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). The notes payable bearing interest at prime plus 1% are owed to individuals from the purchase of Greenline Equipment Sales Ltd.

During the year, interest in the amount of \$67,898 (2006: \$28,125) was paid on the notes payable to related parties.

- (f) In 2007, Proventure Income Fund repaid a \$109 million advance from Cervus LP.

# FOURTH QUARTER RESULTS

\$ thousands, except per unit amounts	Three months ended December 31, 2007	Three months ended December 31, 2006	% Change
Revenues	59,790	67,335	(11.2)
Cost of sales, includes amortization of \$512 (2006 - \$470) and interest expense of \$112 (2006 - \$133)	47,883	56,671	(15.5)
Gross profit	11,907	10,664	11.7
Gross margin	19.9%	15.8%	25.9
Administrative and general	10,783	8,809	22.4
Amortization	498	596	(16.4)
Interest (income)	(3)	257	-
Loss (gain) on disposal of property and equipment	(85)	51	-
Equity earnings of significantly influenced companies	(41)	(19)	115.8
Net earnings	755	970	(22.2)
Net earnings			
Per unit - Basic	0.10	0.16	(37.5)
Per unit - Diluted	0.10	0.15	(33.3)
EBITDA <sup>1</sup>	1,762	2,293	(23.2)
EBITDA margin <sup>1</sup>	2.9%	3.4%	(14.7)
Per Unit - diluted	0.23	0.34	(32.4)
Cash flow from operations	1,829	2,366	(22.7)
Per unit - diluted	0.24	0.36	(33.3)
Distributions declared	2,172	1,845	17.7
Per unit	0.27	0.27	-
Weighted average units outstanding			
Basic	7,352	6,245	20.4
Diluted	7,568	6,661	16.0

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

## REVENUE

Revenue for fourth quarter of 2007 was down \$7.5 million compared to the fourth quarter of 2006. Revenue for the agriculture equipment segment decreased by \$6.5 million while the construction equipment segment revenue decreased by \$1.1 million in the fourth quarter of 2007 when compared to the same period during 2006. The decrease in the agriculture and construction equipment segments were due to lower equipment sales which combined for a reduction of \$9.9 million in the fourth quarter of 2007 compared to 2006 (\$7.4 million for agriculture and \$2.5 million for construction). This was offset by increases in our parts revenues of \$1 million, service revenues of \$1.2 million.

## GROSS MARGIN

Gross margin for the fourth quarter of 2007 was up 11.7% from the same period in 2006. The increase in margin was due to higher margins experienced in our agricultural equipment segment for equipment sales improving by approximately 7% and our construction equipment for equipment sales by 2% when compared to overall year to date results.

## SELLING, GENERAL, AND ADMINISTRATIVE

Selling, general, and administrative expenses were 18.0% of gross sales for the fourth quarter of 2007 versus 13.1% in the fourth quarter of 2006 and increased by \$1.9 million in the fourth quarter of 2007 when compared to the same period of 2006. This increase was due primarily to \$800 thousand increase caused by the addition of Olds, Alberta dealership in 2007, additional bad debts expense of \$400 thousand and additional personnel costs for bonuses payable.

## NET EARNINGS AND EBITDA

Net earnings for the fourth quarter of 2007 were \$755 thousand, comprised of \$1.6 million contributed by the construction equipment segment and a loss of \$825 thousand by the agriculture equipment segment. For the fourth quarter of 2006, the construction equipment segment contributed \$2.5 million and the agriculture equipment segment had a loss of \$1.6 million. The fourth and first quarter of the year, between harvest and spring planting, are traditionally the slowest sales quarters of the year for the agriculture segment.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates.

Significant areas requiring the use of management estimates relate to the valuation allowance for trade accounts receivable, the net realizable value of inventories, recovery of other assets and goodwill, the useful life of buildings and equipment for depreciation purposes, the residual value of leases, and the recognition and recovery of future income tax assets and liabilities. Consequently, actual results could differ from those estimates.

## 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.

## INVENTORY VALUATIONS

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific identification method for new and used equipment, average cost for parts and a specific job basis for work-in-progress. Used equipment realizable values can change based on market conditions such as the supply and demand for the equipment, customer disposable income, technological changes, competitive pressures, and changes in the price of new equipment. There can be no assurance that there will not be downward price adjustments in the future as a result of changes in market conditions.

## 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. (Refer to the earlier discussion on SIFT taxation changes.)

## 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. Since 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.

## ADOPTION OF NEW ACCOUNTING POLICIES

### FINANCIAL INSTRUMENTS:

On January 1, 2007, we adopted the new accounting standards regarding recognition, measurement, disclosure and presentation of financial instruments. Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when we become a party to the contractual provisions of the financial instrument or non-financial derivative contract. All financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods is dependent upon the classification of the financial instrument as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. The held-for-trading classification is applied when an entity is "trading" in an instrument or alternatively the standard permits that any financial instrument be irrevocably designated as held-for-trading. The held-to-maturity classification is applied only if the asset has specified characteristics and the entity has the ability and intent to hold the asset until maturity. For financial instruments classified as other than held-for-trading, transaction costs are added to the initial fair value of the related financial instrument. Transaction costs related to the revolving line of credit which are not drawn are deferred and amortized straight line over the term of the credit facility.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in non-operating income (expense). Financial assets classified as held-to-maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in Other Comprehensive Income ("OCI"), as described below.

Derivative instruments are recorded on the consolidated statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts. Changes in the fair values of derivative instruments are recognized in non-operating income.

For financial instruments measured at amortized cost, transaction costs or fees, premiums or discounts earned or incurred are recorded, at inception, net against the fair value of the financial instrument. Interest expense is recorded using the effective interest method. For any guarantee issued that meets the definition of a guarantee pursuant to Accounting Guideline 14, Disclosure of Guarantees, the inception fair value of the obligation relating to the guarantee is recognized and amortized over the term of the guarantee. It is our policy to not re-measure the fair value of the financial guarantee unless it qualifies as a derivative.

We have implemented the following classifications:

- Cash and cash equivalents are classified as held-for-trading and any period change in fair value is recorded through net income.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method. Interest income is recorded in net income, as applicable.
- Accounts payable, credit facilities, and bank loans are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest income is recorded in net income, as applicable.



## COMPREHENSIVE INCOME

OCI represents changes in Partners' equity during a period arising from transactions and other events with non-owner sources that are recognized in Comprehensive income, but excluded from net income. Cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"), which is presented as a new category within Shareholders' equity on the consolidated statement of financial position. OCI and AOCI are presented net of tax. We have no items affecting OCI and therefore, there are no transitional adjustments required and OCI and AOCI are not presented.

Impact of Adoption of CICA accounting handbook sections 3855, 3861, 3865, 1530, and 3251. In accordance with the transitional provisions of the standards, prior periods have not been restated for the adoption of CICA Sections 3855, Financial Instruments – Recognition and Measurement, 3861, Financial Instruments – Disclosure and Presentation, section 3865 – Hedges, section 1530, Comprehensive Income, and 3251 – Equity.

We had no transition adjustments attributable to the re-measurement of financial assets and financial liabilities at fair value.

## RECENT ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

### INVENTORY

In June 2007, the CICA issued Handbook Section 3031 – Inventories. This standard replaces Section 3030 by increasing guidance regarding the scope, measurement and allocation of costs to inventories. Under this section, inventory is to be measured at the lower of cost and net realizable value. Net realizable value approximates the estimated selling price less all estimated costs of completion and the necessary costs to complete the sale. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

### INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the CICA's Accounting Standards Board (AcSB) formally adopted the strategy of replacing Canadian GAAP with International Financial Reporting Standards (IFRS) for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. Accordingly, we will begin to assess the potential impact this framework will have on our consolidated financial statements.

## 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 material, or potentially material, information is adequately disclosed on a timely basis.

It should be noted that while our Chief Executive Officer and Chief Financial Officer believe that the disclosure controls and procedures provide a reasonable level of assurance that material, or potentially material, information would be disclosed, they do not expect that the disclosure controls and procedures or internal controls over financial reporting would prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met. There has been no material change in the disclosure controls and procedures over financial reporting.

## FINANCIAL REPORTING

Canadian Securities Administrators introduced significant changes regarding CEO and CFO certification of internal controls in late 2007. The CEO and CFO of companies traded on the TSX Venture Exchange are no longer required to certify as to the design of their internal controls over financial reporting or to evaluate and certify as to the operating effectiveness of their internal controls over financial reporting. Nevertheless, Cervus LP has elected to continue to expend the necessary resources to ensure that the design and operating effectiveness of the internal controls over financial reporting are sufficient 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.

As a result of work performed during the first quarter of 2007, irregularities were discovered in the processing of parts inventory transactions at one of our agricultural equipment dealerships. This resulted in changes being made in the management of the store and to adjustments being recorded aggregating approximately \$1.5 million. Our investigation revealed this to be a weakness in the operating effectiveness of our internal controls due to the management override. The controls surrounding these transactions, including authorization of credits on customer accounts and inventory adjustments, have been modified to improve the internal controls in these areas.

We designed our control environment to achieve a balance of preventative and detective controls as well as manual and automated controls. We used a risk based approach in the assessment of the effectiveness of the design of internal controls over financial reporting.

In 2007 we relied on the design of key controls, along with the enhancements discussed earlier, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our consolidated financial statements in accordance with GAAP. In the fourth quarter of 2007 we engaged an outside accounting firm to advise us on the documentation and design of our internal controls over financial reporting. During 2008, we plan to use the recommendations from their work to improve the design of certain preventative and detective controls, including controls over segregation of duties, to achieve an effective and efficient control environment. Further, it is our intent to test the operating effectiveness of these controls during 2008.

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.

## OUTSTANDING UNIT DATA

We had 8,128,447 units outstanding as at the date of this report compared to 7,862,409 on December 31, 2007.

## 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 2007	December 31 2006	December 31 2005
Net earnings	11,385	8,597	4,850
Add:			
Interest	1,773	1,922	1,008
Amortization	3,948	3,252	759
EBITDA	17,106	13,771	6,617
EBITDA margin <sup>1</sup>	5.6%	5.1%	3.6%
Per Unit - diluted	2.26	2.07	1.04
Net earnings	11,385	8,597	4,850
Per unit - Basic	1.55	1.38	1.15

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

Funds from operations; Funds from operations 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.

\$ thousands, except per unit amounts	December 31 2007	December 31 2006
Purchase of property and equipment during the year, net of disposals	4,098	3,680
Purchases funded by term debt	(3,171)	(1,614)
Maintenance capital expenditures	927	2,066

Price earnings ratio; Price earnings ratio is calculated as market value per unit divided by earnings per share.

Cash available for distribution and growth; this is calculated as cash provided by operating activities before changes in non-cash operating working capital less maintenance capital expenditures. Per unit amounts refer to cash available for distribution and growth divided by the weighted average number of units – diluted. We believe this to be a good supplemental measure of cash available for distribution to our unitholders.

## 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 other than the short term loan made by the company.

## OUTLOOK FOR 2008

### AGRICULTURE SECTOR:

Our agriculture equipment segment is poised to benefit from the favourable world agriculture trends.

The production of biofuels is experiencing rapid growth in a number of countries. Growth in biodiesel demand is a key factor underlying gains in global vegetable oils and oilseeds demand. Economic growth in developing countries is also a significant factor as food consumption and feed use are particularly responsive to income growth in those countries, with movement away from staple foods and increased diversification of diets, world consumption of many grain, oilseed, and meat commodities has exceeded world production in the past several years, which in turn has reduced global stocks. These factors contribute to a tightening market condition and are projected to persist for many commodities over most of the coming decade, keeping agricultural commodity prices high. The higher commodity prices will translate into increased farm income which provides increased disposable income to our agriculture customers for the purchase of equipment.

The following is excerpts from John Deere Limited on market conditions and growth.

“Company equipment sales are projected to increase by about 12 percent for the fiscal year and to be up approximately 25 percent for the first quarter of 2008, compared to the same periods in 2007. The company’s sales are expected to receive further support from the planned introduction of a number of advanced new products globally. On an industry basis, sales of farm machinery in the U.S. and Canada are forecast to be up 10 to 15 percent for the year, due in part to a substantial jump in farm cash receipts.”

We are already experiencing the impact of increased customer cash flow and increased demand. We participate in the John Deere “early order program” for the pre-season sale of new combines and 4 wheel drive tractors. The 2008 program concluded last October, two months earlier than the prior year, and resulted in almost twice as many pre-sold new combines compared to the previous year. Although this is very positive, there continued to be significant in-line competition and our ability to capitalize on the increasing demand for equipment will depend to a great extent on John Deere’s ability to manufacture sufficient units to meet the demand. We expect that we will have sufficient quantities of new and used equipment to meet customer demand in 2008 and are working with John Deere to ensure that this continues.

### 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. The construction equipment segment relies on a variety of market conditions that indicate potential for growth. These include housing starts, industrial construction projects, Alberta Infrastructure projects and the general economic climate experienced in Alberta.

Preliminary figures from Statistics Canada indicate that the amount of commercial construction in Alberta continues to climb with investment increasing by 7.8 per cent in the third quarter from the second quarter of 2007, from \$1.5 billion to \$1.6 billion. Third-quarter investment in 2006 was \$1 billion, 59.3 per cent lower than 2007.

The factors behind the continued growth of the sector are no secret: A soaring dollar and rising oil prices combined with a tight labour market and low vacancy rates form the foundation for solid growth. Although provincial economic growth fell from 6.8 per cent in 2006 to a projected rate of 5 per cent in 2007, Alberta remains among the fastest growing provinces in the nation

We expect Alberta will continue to lead the country in economic growth for at least the next several years. The high-speed growth of the past couple of years may have come to an end, but with almost \$7 billion worth of commercial and retail projects either under construction or in the planning stages listed on the Inventory of Major Alberta Projects, the commercial construction sector has its work cut out for it. We believe we will be able to continue to capitalize on this growth in the construction segment of our business.