# Cervus Equipment Corporation Management's Discussion + Analysis

## For the period from January 1, 2018 to June 30, 2018

The following Management's Discussion & Analysis ("MD&A") was prepared as of August 8, 2018 and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or the "Company") financial performance for the three and six month periods ended June 30, 2018, and significant trends that may affect the future performance of Cervus. This MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2018 and notes contained therein, and the 2017 annual consolidated financial statements and MD&A. The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Cervus' functional and reporting currency is the Canadian dollar. Cervus' common shares trade on the Toronto Stock Exchange under the symbol "CERV".

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

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

## Overview of Cervus

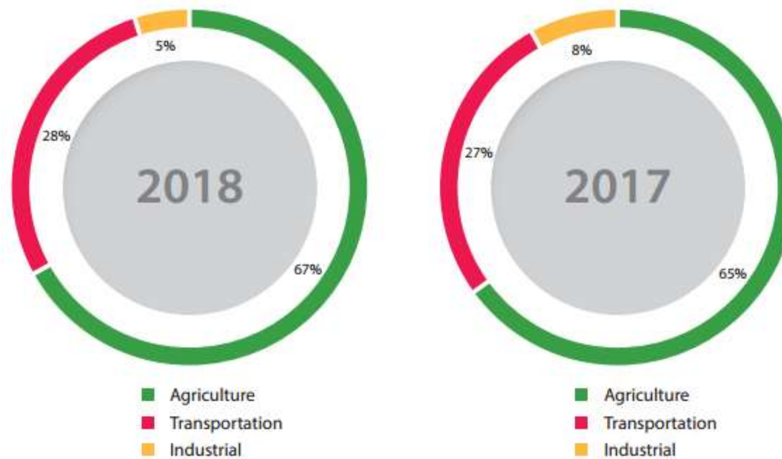
Cervus operates under three segments: Agriculture, Transportation, and Industrial, based on the industries which they serve. These segments are managed separately, and strategic decisions are made on the basis of their respective operating results.

The Agricultural segment consists of interests in 35 John Deere dealership locations with 14 in Alberta, 5 in Saskatchewan, 1 in British Columbia, 9 in New Zealand and 6 in Australia.

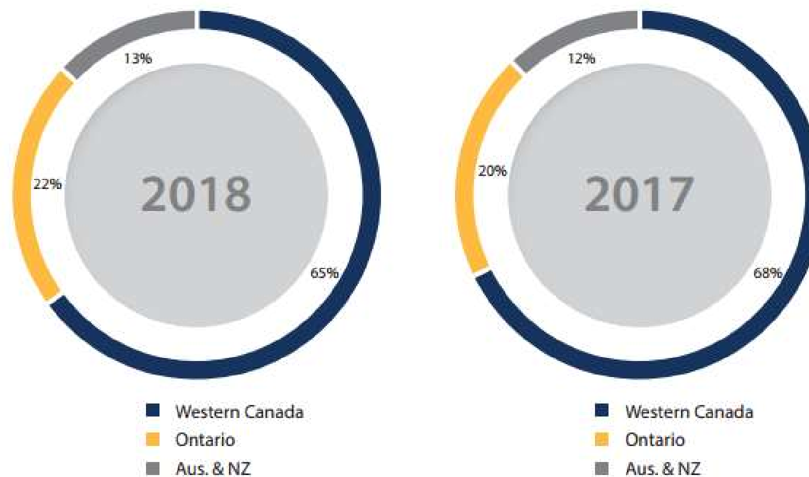
The Transportation segment consists of 19 dealership locations with 4 Peterbilt truck dealerships and 1 Collision Centre operating in Saskatchewan, 12 Peterbilt truck dealerships operating in Ontario, and 2 parts and service locations operating in Ontario.

The Company's Industrial segment operates 8 Clark, Sellick, and Doosan material handling and forklift equipment dealerships, 5 in Alberta, 2 in Saskatchewan and 1 in Manitoba. The results of the Industrial segment include the results of four light construction dealerships up to March 16, 2018, the date Cervus completed the sale of these four dealerships.

**Revenue by Segment**




**Revenue by Geography**




## Note Regarding Forward-Looking Statements

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

The most recent quarterly dividend payment of $0.10 per share was made on July 16, 2018 to the shareholders of record as of June 29, 2018. See "Capital Resources - Cautionary Note Regarding Dividends" for a cautionary note regarding future dividends.

## Highlights of the Quarter

- Income in the second quarter of 2018 was $9.5 million, a $1.1 million improvement compared to income of $8.4 million for the same period of 2017.

- For the three months ended June 30, 2018, adjusted income before income tax expense[1] was $13.6 million, a $3.2 million improvement compared to $10.4 million of adjusted income before income tax expense in the second quarter of 2017.

- The Company reported income per basic share of $0.61 in the second quarter of 2018, a $0.08 per share improvement compared to income of $0.53 per basic share in the second quarter of 2017.

- The Transportation segment achieved a $1.1 million improvement in adjusted income before income tax expense[1], due to a $1.3 million improvement in the Ontario Transportation dealerships.

- Cervus achieved record second quarter new equipment sales in our Agriculture segment, increasing 24% compared to the second quarter of 2017.

- Selling, general, and administrative ("SG&A") as a percentage of revenue improved to 10.7% in the current quarter, compared to 12.6% in the second quarter of 2017.

- Dividends of $0.10 per share were declared to shareholders of record as of June 29, 2018.

(1) Refer to Non-IFRS Measures herein

## Second Quarter Consolidated Performance

The Company's results for the six months ended June 30, 2018, include the financial operating results of the four construction dealerships up to the transaction closing date of March 16, 2018.

| | Three month periods ended June 30 | | | Six month periods ended June 30 | | |
|---|---|---|---|---|---|---|
| **($ thousands, except per share amounts)** | **2018** | **% Change Compared to 2017** | **2017** | **2018** | **% Change Compared to 2017** | **2017** |
| Revenue | **408,584** | 14% | 357,361 | **657,290** | 12% | 588,471 |
| Cost of sales | **(350,738)** | 17% | (300,602) | **(557,651)** | 13% | (491,325) |
| **Gross profit** | **57,846** | 2% | 56,759 | **99,639** | 3% | 97,146 |
| Other income | **789** | 57% | 504 | **2,027** | 94% | 1,043 |
| Unrealized foreign exchange (loss) gain | **(38)** | (106%) | 633 | **(673)** | (182%) | 823 |
| Total other income | **751** | (34%) | 1,137 | **1,354** | (27%) | 1,866 |
| Selling, general and administrative expense | **(43,655)** | (3%) | (44,856) | **(85,342)** | (1%) | (86,033) |
| **Income from operating activities** | **14,942** | 15% | 13,040 | **15,651** | 21% | 12,979 |
| Finance income | **144** | 5% | 137 | **280** | 21% | 231 |
| Finance costs | **(1,629)** | (3%) | (1,680) | **(2,972)** | (11%) | (3,329) |
| Share of income of equity accounted investees, net of tax | **124** | 100% | - | **124** | 100% | - |
| **Income before income tax expense** | **13,581** | 18% | 11,497 | **13,083** | 32% | 9,881 |
| Income tax expense | **(4,067)** | 30% | (3,132) | **(3,714)** | 18% | (3,149) |
| **Income for the period** | **9,514** | 14% | 8,365 | **9,369** | 39% | 6,732 |
| **Income attributable to shareholders** | **9,514** | 14% | 8,365 | **9,369** | 39% | 6,737 |
| **EBITDA**[1] | **19,383** | 11% | 17,478 | **24,519** | 14% | 21,530 |
| **EBITDA margin**[1] | **4.7%** | | 4.9% | **3.7%** | | 3.7% |
| **Ratios as a percentage of revenue:** | | | | | | |
| Gross profit margin | **14.2%** | | 15.9% | **15.2%** | | 16.5% |
| Selling, general and administrative | **10.7%** | | 12.6% | **13.0%** | | 14.6% |
| **Income per share** | | | | | | |
| Adjusted - Basic[1] | **0.61** | 33% | 0.46 | **0.61** | 74% | 0.35 |
| Basic | **0.61** | 15% | 0.53 | **0.60** | 40% | 0.43 |
| Diluted | **0.58** | 16% | 0.50 | **0.57** | 39% | 0.41 |
| **Reconciliation of adjusted loss before income tax expense:** | | | | | | |
| Income before income tax expense | **13,581** | 18% | 11,497 | **13,083** | 32% | 9,881 |
| Adjustments: | | | | | | |
| Unrealized foreign currency loss (gain) | **38** | (106%) | (633) | **673** | (182%) | (823) |
| (Gain) on sale of Commercial operations | **-** | 0% | - | **(480)** | 100% | - |
| (Gain) on sale of land and building | **-** | (100%) | (423) | **-** | (100%) | (423) |
| **Adjusted income before income tax expense**[1] | **13,619** | 30% | 10,441 | **13,276** | 54% | 8,635 |

(1) - Refer to Non-IFRS Measures herein

**Operating Summary – Three Months Ended June 30, 2018**
Adjusted income before income tax expense[1] improved $3.2 million in the second quarter of 2018 compared to 2017. This was comprised of a $3.1 million increase in the Agriculture segment, a $1.1 million increase in the Transportation segment, partially offset by a $1.0 million decrease in the Industrial segment. The results of the Industrial segment reflect non-continuance of the four construction dealerships in the quarter, along with inventory valuation adjustments related to inventory retained from the construction sale. Income before income tax expense increased $2.1 million in the second quarter of 2018 compared to the same period in 2017.

In our Agriculture segment, the $3.1 million increase in adjusted income before income tax reflected a $3.7 million increase in parts and service revenue compared to the second quarter of 2017, combined with record second quarter equipment sales. Equipment sales continue to reflect the financial strength of Canadian farmers combined with our focused sales efforts, while parts and service revenues initially delayed by a late seeding were ultimately realized as seeding activity shifted to the second quarter.

The $1.1 million increase in adjusted income before income tax in our Transportation segment was achieved through quarter over quarter stability in our Saskatchewan operations, combined with a $1.3 million increase in our Ontario dealerships. A strong Ontario transportation market accelerated equipment sales 34%, while efficiencies reduced SG&A expenses as a percent of revenue from 13.4% in the second quarter of 2017 to 11.8% in the current quarter.

Within our Industrial segment, service and parts department revenue stability along with increased material handling equipment sales were the principal drivers of sound financial results for the eight continuing Industrial dealerships, following the sale of four construction dealerships in the first quarter. The primary cause of the $1.0 million decrease in adjusted income before income tax expense for the segment in the second quarter of 2018 compared to 2017, is the non-continuance of the four construction dealerships combined with $0.3 million of allowances on inventory withheld from the construction sale.

For the six months ended June 30, 2018, income before income tax increased $3.2 million, compared to the same period of 2017. This is attributed to the $2.2 million and $1.2 million increase in the Agriculture and Transportation segments, respectively. Increased new equipment sales contributed incremental gross margin dollars, while SG&A expenses decreased as a percentage of revenue compared to the same period in 2017. In our Industrial segment, net income before income tax decreased $0.2 million, due to non-continuance of four construction dealerships offset by the gain on sale of these dealerships.

**Sale of Construction Dealership Group**
On March 16, 2018, the Company completed its previously announced agreement to sell the construction dealership group, composed of four dealership locations in Calgary, Red Deer, Edmonton, and Fort McMurray, Alberta. The sale of these dealerships generated gross proceeds of $14.2 million, resulting in a gain on sale of $0.5 million. Subsequently, an allowance of $0.3 million has been made for inventory withheld from the sale of the construction dealerships, which has been recorded in the results of the Industrial segment in the second quarter of 2018.

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[1] Refer to Non-IFRS measures herein. Adjusted income before income tax expense excludes gains and losses from the sale of real estate and minority interests, as well as unrealized gains and losses on foreign exchange. Management believes this non-IFRS measure is useful for comparing the period to period financial performance of our underlying dealership operations.

## Second Quarter Business Segment Performance

The Company has three reportable segments: Agricultural, Transportation, and Industrial, each supported by a single shared resources function. The Company allocates the expenditures of shared resources to each individual segment according to specific identification and metrics to estimate use as outlined in Note 15 of the accompanying unaudited condensed interim consolidated financial statements.

### Agricultural Segment Results

| ($ thousands, except per share amounts) | Three month periods ended June 30 | | | Six month periods ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2018** | **% Change Compared to 2017** | **2017** | **2018** | **% Change Compared to 2017** | **2017** |
| Equipment | | | | | | |
| New equipment | **161,283** | 24% | 130,384 | **252,460** | 25% | 201,509 |
| Used equipment | **77,444** | 11% | 69,630 | **118,374** | 3% | 115,100 |
| Total equipment revenue | **238,727** | 19% | 200,014 | **370,834** | 17% | 316,609 |
| Parts | **26,192** | 14% | 22,914 | **43,455** | 3% | 42,315 |
| Service | **10,791** | 4% | 10,407 | **19,538** | 1% | 19,377 |
| Rental and other | **1,130** | (8%) | 1,232 | **2,273** | (7%) | 2,445 |
| Total revenue | **276,840** | 18% | 234,567 | **436,100** | 15% | 380,746 |
| Cost of sales | **(239,782)** | 20% | (199,919) | **(376,921)** | 16% | (324,066) |
| Gross profit | **37,058** | 7% | 34,648 | **59,179** | 4% | 56,680 |
| Total other income | **307** | (5%) | 322 | **585** | 110% | 278 |
| Selling, general and administrative expense | **(25,785)** | 0% | (25,777) | **(49,039)** | 2% | (47,902) |
| Income from operating activities | **11,580** | 26% | 9,193 | **10,725** | 18% | 9,056 |
| Share of income of equity accounted investees, net of tax | **124** | 100% | - | **124** | 100% | - |
| Income before income tax expense | **11,039** | 32% | 8,380 | **9,609** | 29% | 7,432 |
| EBITDA(1) | **13,617** | 21% | 11,218 | **14,697** | 14% | 12,907 |
| Ratios as a percentage of revenue: | | | | | | |
| Gross profit margin | **13.4%** | | 14.8% | **13.6%** | | 14.9% |
| Selling, general and administrative | **9.3%** | | 11.0% | **11.2%** | | 12.6% |
| **Reconciliation of adjusted income before income tax expense:** | | | | | | |
| Income before income tax expense | **11,039** | 32% | 8,380 | **9,609** | 29% | 7,432 |
| Adjustments: | | | | | | |
| (Gain) on sale of land and building | - | (100%) | (423) | - | (100%) | (423) |
| **Adjusted income before income tax expense(1)** | **11,039** | 39% | 7,957 | **9,609** | 37% | 7,009 |

(1) - Refer to Non-IFRS Measures herein

**Operating Summary – Three Months Ended June 30, 2018**
Within our Agriculture segment, income before income tax expense increased $2.7 million compared to 2017, while adjusted income before income tax increased $3.1 million. The Company achieved record second quarter equipment sales supported by positive farm fundamentals, while delayed seeding in the first quarter shifted associated parts and service revenue into the second quarter of 2018.

The 24% growth in new agricultural equipment sales in the quarter reflects the underlying financial health of

producers, combined with the delivery of orders placed during periods of favorable exchange rates in 2017. Used equipment and parts sales increased 11% and 14%, respectively, as weather factors shifted the 2018 seeding season and related revenue into the second quarter of 2018. The increase in equipment sales shifted sales mix, which reduced overall gross profit percentage to 13.4% compared to 14.8% in the second quarter of 2017. SG&A expenses remained consistent with the second quarter of 2017 on a dollar basis, while decreasing as a percentage of revenue from 11.0% to 9.3% period over period.

For the six months ended June 30, 2018, adjusted income before income tax expense and income before income tax expense increased $2.6 million and $2.2 million, respectively, compared to the same period of 2017. This was achieved on the 25% increase in new equipment sales, combined with controlling SG&A expenses as a percent of revenue. Parts and service revenue increased slightly compared to the same period of 2017, as slower parts and service sales in the first quarter were ultimately recovered in the second quarter, mirroring the timing of 2018 seeding activity.

**Transportation Segment Results**

| ($ thousands, except per share amounts) | Three month periods ended June 30 | | | Six month periods ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2018** | **% Change Compared to 2017** | **2017** | **2018** | **% Change Compared to 2017** | **2017** |
| Equipment | | | | | | |
| New equipment | **78,230** | 35% | 58,044 | **115,070** | 33% | 86,840 |
| Used equipment | **3,121** | 27% | 2,466 | **4,890** | 1% | 4,848 |
| Total equipment revenue | **81,351** | 34% | 60,510 | **119,960** | 31% | 91,688 |
| Parts | **24,891** | (1%) | 25,021 | **47,987** | (2%) | 48,914 |
| Service | **7,720** | 1% | 7,610 | **15,799** | 6% | 14,935 |
| Rental and other | **1,774** | (11%) | 1,994 | **3,321** | (17%) | 4,003 |
| Total revenue | **115,736** | 22% | 95,135 | **187,067** | 17% | 159,540 |
| Cost of sales | **(99,070)** | 23% | (80,298) | **(156,584)** | 18% | (132,657) |
| Gross profit | **16,666** | 12% | 14,837 | **30,483** | 13% | 26,883 |
| Other income (loss) | **361** | | (22) | **539** | | 251 |
| Unrealized foreign exchange (loss) gain | **(93)** | | 633 | **(704)** | | 823 |
| Total other income (loss) | **268** | (56%) | 611 | **(165)** | (115%) | 1,074 |
| Selling, general and administrative expense | **(13,632)** | 7% | (12,751) | **(26,852)** | 3% | (25,956) |
| Income from operating activities | **3,302** | 22% | 2,697 | **3,466** | 73% | 2,001 |
| Income before income tax expense | **2,480** | 19% | 2,088 | **2,039** | 149% | 820 |
| EBITDA[(1)] | **5,178** | 17% | 4,415 | **7,315** | 38% | 5,285 |
| Ratios as a percentage of revenue: | | | | | | |
| Gross profit margin | **14.4%** | | 15.6% | **16.3%** | | 16.9% |
| Selling, general and administrative | **11.8%** | | 13.4% | **14.4%** | | 16.3% |
| **Reconciliation of adjusted loss before income tax expense:** | | | | | | |
| Income before income tax expense | **2,480** | 19% | 2,088 | **2,039** | 149% | 820 |
| Adjustments: | | | | | | |
| Unrealized foreign currency loss (gain) | **93** | (115%) | (633) | **704** | (186%) | (823) |
| **Adjusted income before income tax expense[(1)]** | **2,573** | | 1,455 | **2,743** | | $ (3) |

(1) - Refer to Non-IFRS Measures herein

**Operating Summary – Three Months Ended June 30, 2018**
Within our Transportation segment, adjusted income before income tax expense increased $1.1 million, due to the performance of our Ontario dealerships and consistent quarter over quarter results in our Saskatchewan locations. Income before income tax expense mirrored these trends, increasing $0.4 million compared to the second quarter of 2017, which includes a $0.7 million reduction of unrealized foreign exchange gains in the period.

The results of the quarter were driven by our Ontario dealerships, through increased gross profit and limited increases in SG&A expenses in the quarter. Equipment sales have been bolstered by the positive Ontario transportation market, while our 2017 reorganization efforts have been instrumental in facilitating growth while controlling costs. The 35% and 27% increases in new and used truck sales increased gross profit by $1.8 million, while SG&A decreased as a percentage of revenue.

Within our two transportation geographies, second quarter adjusted income before income tax expense was comprised of $0.7 million in Saskatchewan (Q2 2017 – $0.8 million), and $1.9 million in Ontario (Q2 2017 – $0.6 million).

For the six months ended June 30, 2018, income before income tax and adjusted income before income tax expense increased $1.2 million and $2.7 million, respectively, compared to the same period of 2017. A 17% increase in revenue contributed a 13% increase in gross profit, while expense control limited SG&A increases to 3%. Parts revenue has decreased 2% from the same period of 2017, while service revenue increased 6%. Within our two transportation geographies, adjusted income before income tax expense for the six months ended June 30, 2018 was comprised of $0.8 million in Saskatchewan (2017 – $0.7 million), and $1.9 million in Ontario (2017 – $0.7 million loss).

## Industrial Segment Results

| | Three month periods ended June 30 | | | Six month periods ended June 30 | | |
|---|---|---|---|---|---|---|
| **($ thousands, except per share amounts)** | **2018** | **% Change Compared to 2017** | **2017** | **2018** | **% Change Compared to 2017** | **2017** |
| Equipment | | | | | | |
| New equipment | **7,741** | (43%) | 13,503 | **14,119** | (39%) | 22,967 |
| Used equipment | **969** | (64%) | 2,709 | **2,600** | (37%) | 4,124 |
| Total equipment revenue | **8,710** | (46%) | 16,212 | **16,719** | (38%) | 27,091 |
| Parts | **2,941** | (52%) | 6,147 | **8,338** | (31%) | 12,006 |
| Service | **3,138** | (24%) | 4,142 | **6,772** | (4%) | 7,088 |
| Rental and other | **1,219** | 5% | 1,158 | **2,294** | 15% | 2,000 |
| Total revenue | **16,008** | (42%) | 27,659 | **34,123** | (29%) | 48,185 |
| Cost of sales | **(11,886)** | (42%) | (20,385) | **(24,146)** | (30%) | (34,602) |
| Gross profit | **4,122** | (43%) | 7,274 | **9,977** | (27%) | 13,583 |
| Other income | **121** | (41%) | 204 | **903** | 76% | 514 |
| Unrealized foreign exchange gain | **55** | 100% | - | **31** | 100% | - |
| Total other income | **176** | (14%) | 204 | **934** | 82% | 514 |
| Selling, general and administrative expense | **(4,238)** | (33%) | (6,328) | **(9,451)** | (22%) | (12,175) |
| Income from operating activities | **60** | (95%) | 1,150 | **1,460** | (24%) | 1,922 |
| Income before income tax expense | **62** | (94%) | 1,029 | **1,435** | (12%) | 1,629 |
| EBITDA[1] | **588** | (68%) | 1,845 | **2,507** | (25%) | 3,338 |
| Ratios as a percentage of revenue: | | | | | | |
| Gross profit margin | **25.7%** | | 26.3% | **29.2%** | | 28.2% |
| Selling, general and administrative | **26.5%** | | 22.9% | **27.7%** | | 25.3% |
| **Reconciliation of adjusted income before income tax expense:** | | | | | | |
| Income before income tax expense | **62** | (94%) | 1,029 | **1,435** | (12%) | 1,629 |
| Adjustments: | | | | | | |
| Unrealized foreign currency (gain) | **(55)** | 100% | - | **(31)** | 100% | - |
| (Gain) on sale of Commercial operations | - | 100% | - | **(480)** | 100% | - |
| **Adjusted income before income tax expense[1]** | **7** | (99%) | 1,029 | **924** | (43%) | 1,629 |

(1) - Refer to Non-IFRS Measures herein

**Operating Summary – Three Months Ended June 30, 2018**
Within our Industrial segment, both adjusted income before income tax expense and income before income tax expense decreased $1.0 million, of which $0.6 million relates to the absence of four construction dealerships in the quarter, a $0.3 million inventory valuation adjustment, and a $0.1 million decrease in store profitability for the eight industrial dealerships.

Within our Industrial segment, service and parts department revenue stability along with increased material handling equipment sales were the principal drivers of sound financial results for the eight continuing Industrial dealerships, following the sale of four construction dealerships in the first quarter. The primary cause of the $1.0 million decrease in adjusted income before income tax expense for the segment in the second quarter of 2018

compared to 2017, is the non-continuance of the four construction dealerships combined with $0.3 million of allowances on inventory withheld from the construction sale.

For the six months ended June 30, 2018, adjusted income before income tax expense decreased $0.7 million, for reasons consistent with the second quarter above, while net income before income tax expense decreased $0.2 million as this metric includes the gain on sale of the construction dealerships.

Cervus completed the sale of its four construction dealerships on March 16, 2018. As such, these four construction stores are no longer included within, or contribute to, the results of the Industrial segment beyond March 16, 2018. The following chart presents results of the eight industrial dealerships for the second quarter of 2018 and 2017, which continue to be owned by Cervus, and excludes the inventory valuation adjustment associated with inventory withheld from the construction sale.

**Same Store Highlights**

| | Three month periods ended June 30 | | | Six month periods ended June 30 | | |
|---|---|---|---|---|---|---|
| **($ thousands, except per share amounts)** | **2018** | **% Change Compared to 2017** | **2017 Same Store** | **2018** | **% Change Compared to 2017** | **2017 Same Store** |
| Equipment | | | | | | |
| New equipment | **5,832** | 46% | 4,007 | **8,568** | 24% | 6,898 |
| Used equipment | **969** | 34% | 721 | **1,447** | 11% | 1,300 |
| Total equipment revenue | **6,801** | 44% | 4,728 | **10,015** | 22% | 8,198 |
| Parts | **2,902** | 0% | 2,900 | **5,552** | (3%) | 5,704 |
| Service | **3,138** | (0%) | 3,147 | **5,949** | 16% | 5,143 |
| Rental and other | **1,219** | 5% | 1,158 | **2,294** | 15% | 2,000 |
| Total revenue | **14,060** | 18% | 11,933 | **23,810** | 13% | 21,045 |
| Cost of sales | **(9,640)** | 23% | (7,868) | **(15,722)** | 14% | (13,750) |
| Gross profit | **4,420** | 9% | 4,065 | **8,088** | 11% | 7,295 |
| Other income | **120** | (59%) | 291 | **262** | (37%) | 417 |
| Unrealized foreign exchange gain | **55** | 100% | - | **63** | 100% | - |
| Total other income | **175** | (40%) | 291 | **325** | (22%) | 417 |
| Selling, general and administrative expense | **(4,006)** | 10% | (3,649) | **(7,609)** | 4% | (7,307) |
| Income from operating activities | **589** | (17%) | 707 | **804** | 99% | 405 |
| Income before income tax expense | **598** | (9%) | 654 | **811** | 187% | 283 |
| EBITDA[1] | **1,115** | (10%) | 1,233 | **1,844** | 24% | 1,490 |
| Ratios as a percentage of revenue: | | | | | | |
| Gross profit margin | **31.4%** | | 34.1% | **34.0%** | | 34.7% |
| Selling, general and administrative | **28.5%** | | 30.6% | **32.0%** | | 34.7% |
| **Reconciliation of adjusted income before income tax expense:** | | | | | | |
| Income before income tax expense | **598** | (9%) | 654 | **811** | 187% | 283 |
| Adjustments: | | | | | | |
| Unrealized foreign currency (gain) | **(55)** | 100% | - | **(63)** | 100% | - |
| **Adjusted income before income tax expense[1]** | **543** | (17%) | 654 | **748** | 164% | 283 |

(1) - Refer to Non-IFRS Measures herein

Within the eight industrial dealerships, revenue increased by 18% and gross profit margin increased by 9%, offset by a 10% increase in SG&A expenses. As a result, income before income tax expense remained consistent with the second quarter of 2017.

# Second Quarter Cash Flows

### Cash and Cash Equivalents – Six Months Ended June 30, 2018

Cervus' primary sources and uses of cash flow for the six months ended June 30, 2018, are as follows:

### Operating Activities

Net cash used in operating activities was $15.6 million for the six months ended June 30, 2018, compared to cash provided from operating activities of $11.1 million for the same period of 2017, a decrease of $26.7 million. The decrease in net cash provided from operating activities primarily resulted from a $33.5 million increase in net cash used in working capital items, related to the timing and quantity of seasonal inventory receipt from the original equipment manufacturer ("OEM") in our Agriculture segment.

### Investing Activities

During the six months ended June 30, 2018, the Company's investing activities was a net source of cash of $12.1 million, compared to cash provided of $4.0 million for the same period in 2017. The source of this variance is mainly due to the sale of the Commercial operations in the first quarter of 2018, which generated gross proceeds of $14.2 million.

### Financing Activities

During the six months ended June 30, 2018, the Company used $9.6 million of cash related to financing activities, compared to $17.6 million for the same period in 2017, a net reduction in use of cash for financing activities of $8.0 million.

# Consolidated Financial Position & Liquidity

| ($ thousands, except ratio amounts) | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Current assets | **448,580** | 384,835 |
| Total assets | **573,203** | 514,055 |
| Current liabilities | **292,234** | 236,262 |
| Long-term financial liabilities | **39,427** | 42,586 |
| Shareholders' equity | **232,303** | 225,253 |
| Working capital[1] | **156,346** | 148,573 |
| Working capital ratio[1] | **1.54** | 1.63 |

(1) - Refer to Non-IFRS Measures herein

### Working Capital

Cervus' working capital increased by $7.8 million to $156.3 million at June 30, 2018, primarily due to inventory seasonality compared to December 31, 2017. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at June 30, 2018, the Company had the ability to floor plan an additional $34.8 million of inventory and held $428.3 million of undrawn floor plan capacity.

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

## Inventories

The nature of the business has a significant impact on the amount of equipment that is owned by our various dealerships. The majority of our Agricultural equipment sales come with a trade-in, a limited portion of our Transportation sales come with a trade-in, and our Industrial equipment sales usually do not have trade-ins. This results in a higher amount of used Agriculture equipment than used Transportation and Industrial equipment. In addition, the majority of our new John Deere equipment is on consignment from John Deere, whereas we purchase the new equipment from our other manufacturers. These factors directly impact the amount of new and used equipment in inventory. The majority of our product lines, in all segments, are manufactured in the US with pricing based in US dollars, but invoiced in Canadian dollars. Inventory by segment for the period ended June 30, 2018, compared to December 31, 2017, is as follows:

| **($ thousands)** | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Agricultural | **255,501** | 226,664 |
| Transportation | **94,695** | 56,211 |
| Industrial | **9,457** | 7,649 |
| **Total** | **359,653** | 290,524 |

As at June 30, 2018, inventories increased by $69.1 million to $359.7 million when compared to $290.5 million at December 31, 2017. Of the $69.1 million increase, $35.5 million relates to new inventory in our Transportation segment due to increased customer orders, and a $38.8 million increase in used equipment primarily on timing of used agricultural sales. Due to seasonality of sales activity in our operating segments, comparability to inventory levels at December 31, 2017, may be limited. Therefore, we have provided inventory by segment for the period ended June 30, 2018, compared to June 30, 2017. A summary of the movement is as follows:

| **($ thousands)** | **June 30, 2018** | June 30, 2017 |
|---|---|---|
| Agricultural | **255,501** | 210,752 |
| Transportation | **94,695** | 62,316 |
| Industrial | **9,457** | 24,356 |
| **Total** | **359,653** | 297,424 |

Inventory has increased $62.2 million when compared to June 30, 2017. Of the $62.2 million increase, new and used inventory increased by $10.5 million and $53.7 million, respectively. Used inventory levels within the Agricultural segment increased $54.8 million from the same period of 2017 as a result of an increase in trade-in's on new equipment sales. The Transportation segment's new inventory increased $30.8 million, while inventory in the Industrial segment decreased $14.9, mainly due to the sale of the Commercial operations.

At June 30, 2018, the Company believes that the recoverable value of new and used equipment inventories exceeds its respective carrying value. For the three and six months ended June 30, 2018, the Company recognized inventory valuation adjustments through cost of goods sold of $3.5 million and $5.8 million expense, respectively (2017 - $2.1 million and $1.9 million expense).

### Accounts Receivable

The calculated rolling twelve month average time to collect the Company's outstanding accounts receivables was approximately 15 days as at June 30, 2018, compared to 17 days for the same period in 2017. At June 30, 2018, no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on account aging, combined with specific customers' credit risk, historical trends, and other economic information.

The Company's allowance for doubtful collections was $1.1 million at June 30, 2018 (June 30, 2017 – $1.7 million), which represents 3.4% (June 30, 2017 – 3.7%) of outstanding trade accounts receivable and 0.2% (June 30, 2017 – 0.1%) of gross revenue on an annual basis. Bad debt expense for the six months ended June 30, 2018, amounted to a $0.3 million recovery (June 30, 2017 – $0.3 million expense).

## Capital Resources

We use our capital to finance current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize shareholder value is to use a combination of equity and debt financing to leverage our operations. A summary of the Company's available credit facilities as at June 30, 2018, are as follows:

| | June 30, 2018 | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ thousands) | Total Limits | Borrowings | Letters of Credit | Amount Available | Total Limits | Borrowings | Letters of Credit | Amount Available |
| Operating and other bank credit facilities | **101,915** | **23,077** | **2,400** | **76,438** | 101,925 | 25,589 | 2,400 | 73,936 |
| Capital facilities [(a)] | | **10,296** | | | | 12,082 | | |
| Floor plan facilities and rental equipment term loan financing [(b)] | | **198,297** | | | | 133,119 | | |
| **Total borrowing** | | **231,670** | | | | 170,790 | | |

(a) For capital facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of $55.7 million (December 31, 2017 – $55.8 million) or the available unencumbered assets which is estimated at $2.9 million as at June 30, 2018 (December 31, 2017 – $1.5 million).

(b) For floorplan facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of $428.3 million (December 31, 2017 – $453.0 million) or the available unencumbered assets which is estimated at $34.8 million as at June 30, 2018 (December 31, 2017 – $28.9 million).

### Operating and Other Bank Credit Facilities

At June 30, 2018, the Company has a revolving credit facility with a syndicate of underwriters. The principal amount available under this facility is $100 million. The facility was amended and extended on December 19, 2016. The facility is committed for a three-year term, but may be extended on or before the maturity date with the consent of the lenders. The facility contains an $80.0 million accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at June 30, 2018, there was $22.5 million drawn on the facility and $2.4 million had been utilized for outstanding letters of credit to John Deere.

We believe that the credit facilities available to the Company outlined above are sufficient to meet our sales targets and working capital requirements for 2018.

The Company must meet certain financial covenants as part of its current credit facilities; as at the date of this report, the Company is in compliance with all its covenants as follows:

| | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| **Total liabilities to net worth ratio**[1] (not exceeding 4.0:1.0) | **2.70** | 2.55 |
| **Fixed charge coverage ratio**[2] (greater than or equal to 1.10:1.00) | **1.85** | 1.69 |
| **Asset coverage ratio**[3] (greater than 3.0:1.0) | **11.15** | 10.01 |

**(1) –** Calculated using an adjusted liability value over an adjusted equity value. Full definitions of adjusted liabilities and adjusted equity are defined in the Syndicate Credit Agreement filed as a material document on SEDAR.

**(2)** – Calculated as an adjusted EBITDA figure over the sum of interest expense, scheduled principal payments, operating lease payments and distributions paid to shareholders in the twelve months prior to the calculation date. Full definitions of this calculation are defined in the Syndicate Credit Agreement filed as a material document on SEDAR.

**(3)** – Calculated as net tangible total assets less consolidated debt excluding floorplan plan liabilities, plus debt due under the credit facility, over the amount due under the credit facility. Full definitions of this calculation are defined in the Syndicate Credit Agreement filed as a material document on SEDAR.

### Capital Facilities

Capital facilities consist of capital asset financing primarily through credit facilities with Farm Credit Canada and Affinity Credit Union. The Company's financial covenants under its mortgages with Farm Credit Canada were amended to align with certain of the Company's financial covenants under its committed operating facility, discussed above.

### Floor Plan Facilities

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Canada ULC, Wells Fargo Equipment Finance Company, ECN Capital Corp., PACCAR Financial Ltd., US Bank, and Canadian Imperial Bank of Commerce. At June 30, 2018, floor plan payables related to inventories were $192.1 million (December 31, 2017 – $125.6 million).

Floor plan payables at June 30, 2018, represented approximately 53.4% of our inventories (December 31, 2017 – 43.2%). Floor plan payables fluctuate significantly from quarter to quarter based on the timing between the receipt of equipment inventories and their actual repayment so that the Company may take advantage of any programs made available to the Company by its key suppliers.

Interest on floor plans at the contractual rate were largely offset by dealer rebates and interest free periods. Total Agricultural segment interest otherwise payable on John Deere floor plans approximates $0.7 million and $1.4 million for the three and six month periods ended June 30, 2018 (2017 – $0.4 million and $0.8 million). This amount was offset by rebates applied during the three and six month periods ended June 30, 2018, of $0.6 million and $1.1 million (2017 – $0.1 million and $0.4 million)). At June 30, 2018, approximately 72% (June 30, 2017 – 69%) of the Industrial segment's and 13% (June 30, 2017 – 14%) of the Transportation segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest free periods in place.

## Outstanding Share Data

As of the date of this MD&A, there are 15,682 thousand common shares and 816 thousand deferred shares outstanding.

On August 21, 2017, the Company announced a Normal Course Issuer Bid (the "Bid"), which commenced on August 23, 2017, to purchase up to a maximum of 806 thousand common shares (the "Shares") for cancellation before August 22, 2018. All purchases are made in accordance with the Bid at the prevailing market price of the Shares at the time of purchase. During the six months ended June 30, 2018, the Company had repurchased 51 thousand common shares under the Normal Course Issuer Bid, with a weighted average price per share of $13.46.

Subsequent to June 30, 2018, and prior to August 8, 2018, the Company repurchased one thousand three hundred common shares under the Normal Course Issuer Bid, with a weighted average price per share of $13.37.

As at June 30, 2018 and 2017, the Company had the following weighted average shares outstanding:

| (thousands) | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Basic weighted average number of shares outstanding | **15,680** | 15,776 |
| Dilutive impact of deferred share plan | **811** | 827 |
| Diluted weighted average number of shares outstanding | **16,491** | 16,603 |

The above table includes all deferred share units for the period ended June 30, 2018 (811 thousand) and for the period ended June 30, 2017 (827 thousand), as they are considered dilutive. In 2017, the above per share amounts do not include amounts associated with the Company's convertible debenture, as they are considered anti-dilutive.

## Dividends Paid and Declared to Shareholders

The Company, at the discretion of the Board of Directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid for the period ended June 30, 2018:

| ($ thousands, except per share amounts) Record Date | Dividend per Share | Dividend Payable | Dividends Reinvested | Net Dividend Paid |
|---|---|---|---|---|
| March 30, 2018 | 0.1000 | 1,570 | 217 | 1,353 |
| June 30, 2018 | 0.1000 | 1,567 | 229 | 1,338 |
| Total | **0.2000** | **3,137** | **446** | **2,691** |

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

## Dividend Reinvestment Plan ("DRIP")

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

During the three and six month period ended June 30, 2018, 16 thousand and 27 thousand (2017 – 17 thousand and 30 thousand) common shares were issued, respectively, through the Company's dividend reinvestment plan.

## Taxation

Cervus' 2018 dividends declared and paid through June 30, 2018, are considered to be eligible dividends for tax purposes on the date paid.

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

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

## Summary of Quarterly Results

| ($ thousands, except per share amounts) | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 |
|---|---|---|---|---|
| Revenues | **408,584** | 248,706 | 272,726 | 360,087 |
| Income (loss) attributable to the shareholders | **9,514** | (145) | 3,727 | 9,453 |
| Gross profit | **57,846** | 41,793 | 53,730 | 58,552 |
| Gross profit margin | **14.2%** | 16.8% | 19.7% | 16.3% |
| EBITDA[1] | **19,383** | 5,136 | 13,622 | 18,688 |
| Income (loss) per share: | | | | |
| Basic | **0.61** | (0.01) | 0.24 | 0.60 |
| Diluted | **0.58** | (0.01) | 0.23 | 0.57 |
| Adjusted income (loss) per share[1] | | | | |
| Basic | **0.61** | (0.00) | 0.25 | 0.58 |
| Diluted | **0.58** | (0.00) | 0.24 | 0.55 |
| Weighted average shares outstanding | | | | |
| Basic | **15,672** | 15,686 | 15,638 | 15,792 |
| Diluted | **16,483** | 15,686 | 16,335 | 16,614 |

| ($ thousands, except per share amounts) | June 30, 2017 | March 31, 2017 | December 31, 2016 | September 30, 2016 |
|---|---|---|---|---|
| Revenues | 357,361 | 231,110 | 271,943 | 334,682 |
| Income (loss) attributable to the shareholders | 8,365 | (1,628) | 8,753 | 10,741 |
| Gross profit | 56,759 | 40,387 | 46,488 | 57,571 |
| Gross profit margin | 15.9% | 17.5% | 17.1% | 17.2% |
| EBITDA[1] | 17,478 | 4,052 | 18,008 | 21,981 |
| Income (loss) per share: | | | | |
| Basic | 0.53 | (0.10) | 0.55 | 0.67 |
| Diluted | 0.50 | (0.10) | 0.52 | 0.64 |
| Adjusted income (loss) per share[1] | | | | |
| Basic | 0.46 | (0.12) | 0.03 | 0.66 |
| Diluted | 0.44 | (0.12) | 0.02 | 0.63 |
| Weighted average shares outstanding | | | | |
| Basic | 15,792 | 15,762 | 15,996 | 15,991 |
| Diluted | 16,619 | 15,762 | 16,740 | 16,761 |

(1) - Refer to Non-IFRS Measures herein

Sales activity for the Agricultural sector is normally highest between April and September during growing seasons in Canada and the impact on the growing seasons for New Zealand and Australia has not materially impacted the above results. Activity in the Transportation sector generally increases in winter months, while the Industrial sector generally slows in the winter months. As a result, income or losses may not accrue uniformly from quarter to quarter.

## MARKET OUTLOOK (see "Note Regarding Forward-Looking Statements")

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

### Alberta & Saskatchewan

Agriculture remains the driving variable in the Company's Western Canadian operations. Canadian producers manage complex, capital intensive businesses, and yet remain heavily influenced by seasonal weather conditions. In this environment, the availability of capital is critical for producers to invest in the equipment, systems, and capacity to optimize yields while minimizing costs. In turn, capital availability is generally determined by cumulative annual farm profitability. In this respect, Canadian agriculture is well positioned. Agriculture and Agri-Food Canada ("AAFC") is anticipating record Canadian net cash farm income for the 2017 growing year, while forecasting second highest net cash farm income for 2018.[2] Prior to 2017, the record Canadian net cash farm income occurred in 2016. Therefore, based on AAFC forecasts, the three highest years of Canadian net cash farm income will have been achieved in the three years ended 2016 through 2018 inclusive.

Raw material and manufacturing costs have increased for manufacturers, and are likely to impact the cost of new agricultural equipment, which may delay or defer new equipment purchasing decisions. Further, discussion of tariffs, if enacted, could accelerate inflationary pressures on equipment for Canadian producers.[3] If these factors materialize, Canadian producers are generally well positioned with the balance sheet strength to make required equipment replacements. Further, these factors could increase demand for the significant Canadian supply of late model used equipment. In this market, Cervus is focused on providing compelling used equipment solutions moving into the harvest window, and as producers plan equipment needs for the 2019 growing season.

The Saskatchewan component of our Transportation segment continues its stable performance, despite persistent uncertainty in the resource sector. In this market, we are focused on expanding Peterbilt's presence in on highway markets, while leveraging our standing as a trusted provider of equipment and solutions for the Saskatchewan transportation market. Turning to our Industrial segment, our current dealerships offer a wide breadth of value added services to customers, from initial equipment sales through to operator and safety training. We have also initiated establishing our new racking division, which provides storage, shelving, and warehouse organization solutions. This is a complimentary business line to our Industrial and Transportation divisions, which leverages our existing customer base while expanding our breadth of service to new customer markets. We anticipate long term opportunities to leverage the high customer interaction of the material handling markets, while focusing on maintaining internal efficiencies in the near term.

### Ontario

The North American trucking market ended 2017 with total class 8 truck sales of 218,000 units, a small increase compared to the 216,000 class 8 trucks sold in 2016. For 2018, PACCAR's second quarter outlook is anticipating North American class 8 truck demand to range between 265,000 and 285,000 trucks and has increased by 32% year-to-date.[4] This is consistent with the 33% increase in new truck sales within our Transportation segment for the six months ended June 30, 2018, compared to the same period in 2017. An element of pricing uncertainty has been introduced to the market with recent discussion of potential U.S. imposed auto-tariffs which, if enacted, could temper new truck sales. Existing market strength is a favorable tailwind for our transportation dealerships, while our focus remains on implementing the internal efficiencies and discipline to translate sales activity into efficient and mutually beneficial long-term customer relationships. The profitability of our Ontario dealership group for 2018 is our primary short-term objective in this regard, and sustainable profitability with growth remains a critical objective of the Company for our Ontario dealership footprint.

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[2] Agriculture and Agri-Food Canada, Canadian Agricultural Outlook, March, 2018, www.agr.gc.ca
[3] CIBC, Summer 2018 Ag. Equipment Outlook, July 24, 2018
[4] PACCAR, PACCAR Achieves Record Quarterly Revenue and Excellent Profits, July 24, 2018, www.paccar.com

**New Zealand & Australia**

The New Zealand outlook continues to remain firm although is tempered by uncertainty in global markets, particularly any significant escalation of trade disputes between the United States and China. The national forecaster is predicting an above normal to near normal rainfall in most regions, which has been tempered by the New Zealand government announcing an end to government funding for large irrigation programs. The dairy price remains comparable to last year, however a decline in sentiment towards global dairy markets amid international trade disputes will test farmer desire to invest in further expansion[5]. Harvest has progressed well, with all areas experiencing good conditions for harvest. Positive national economics have increased demand for labor, which has reduced harvest labour availability for producers, while also impacting competition for skilled trades. In this environment, we continue to see opportunities to provide equipment and support solutions for our customers, particularly through this harvest window.

In our Australian geography, several regions within the country received much needed rainfall during the month of June, after experiencing dry conditions during the first half of the calendar year which affected both livestock and grain farmers in the area[6]. Dry conditions have increased demand for supplement feed, and demand for hay is positive entering the haying season[7]. The dairy sector is benefitting from increased competition among milk processors, with a notable event being the acquisition of Murray Goulburn by Saputo which has been completed. Saputo is now Australia's largest milk processor and certainty around the future direction of the co-operative is largely seen as positive for the industry.

## Off-Balance Sheet Arrangements

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

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At June 30, 2018, payments in arrears by such customers aggregated $903 thousand (June 30, 2017 – $827 thousand). In addition, the Company is responsible for assuming the net residual value of all customer lease obligations held with Deere Credit, at the maturity of the contract, should the customer not elect to buy out the equipment at maturity. At June 30, 2018, the net residual value of such leases aggregated $275.2 million (June 30, 2017 – $251.0 million) of which the Company believes all are recoverable.

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the Company may owe Deere Credit under this obligation. The deposits are capped at between 1% and 3% of the total dollar amount of the lease and finance contracts outstanding. The maximum liability that can arise related to these arrangements is limited to the deposits of $2.4 million at June 30, 2018 (June 30, 2017 – $2.2 million). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

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

[5] Rabobank, Agribusiness Monthly, July 2018. New Zealand: https://www.rabobank.co.nz/knowledge/agribusiness-monthly/
[6] Rabobank, Agribusiness Monthly, July 2018. Australia: https://www.rabobank.com.au/knowledge/agribusiness-monthly/
[7] The Weekly Times, Colin Peace, *Hay Market Demand Ramps up Again*. April 25, 2018, https://www.weeklytimesnow.com.au/agribusiness

## Transactions with Related Parties

### Key Management Personnel Compensation

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

### Other Related Party Transactions

Certain officers and dealer managers of the Company have provided guarantees to John Deere as required by John Deere aggregating $6.8 million (June 30, 2017 – $6.4 million). During the three and six month periods ended June 30, 2018, the Company paid those individuals $51 thousand and $88 thousand (2017 – $40 thousand and $79 thousand), for providing these guarantees which represents a similar amount to guarantee fees otherwise paid to financial institutions. These transactions were recorded at the amount agreed to between the Company and the guarantors and are included in selling, general and administrative expenses.

## Critical Accounting Estimates and Judgments

Preparation of unaudited and audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the unaudited and audited consolidated financial statements. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results. Further information on our critical accounting estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2017, as filed on SEDAR at www.sedar.com. In preparing these unaudited condensed interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2017.

## Business Risks and Uncertainties

The Company's business risks and uncertainties remain unchanged from those discussed in our annual MD&A for the year ended December 31, 2017, as filed on SEDAR at www.sedar.com

## Subsequent Event

On July 22, 2018, a fire occurred at the Company's agriculture dealership in Rosthern, Saskatchewan. The estimated financial impact of the damages, net of potential insurance recoveries, is unknown.

## Changes in Significant Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements prepared for the year ended December 31, 2017, and as described in Note 3 in those financial statements.

### Business Segments

On February 26, 2018, the Company announced it had entered into a definitive agreement to sell its Commercial operations, composed of four dealership locations in Calgary, Red Deer, Edmonton and Fort McMurray, Alberta. The dealerships represent the construction brands Bobcat, CMI and JCB. The sale of the Company's Commercial operations closed on March 16, 2018. The Company continues to report under three operating segments: Agriculture, Transportation, and Industrial.

### IFRS 15 Revenue from Contracts with Customers, and IFRS 9 Financial Instruments

During the quarter, IFRS 15 and IFRS 9 were adopted by the Company and there was no material impact as a result of the adoption, as detailed in Note 3 of the accompanying unaudited condensed interim consolidated financial statements.

## Future Accounting Standards

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are required to be adopted in the future periods. The new standards and amendments to existing standards, which have not been applied in preparing the unaudited condensed interim consolidated financial statements as at June 30, 2018 are:

| Revised Standard | Description | Impact of Application | Effective Date |
|---|---|---|---|
| IFRS 16 - Leases | On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 Leases.<br><br>The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. There is less impact for lessor accounting under IFRS 16. | The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019, and is completing an assessment documenting the potential impact on its consolidated financial statements.<br><br>Under the application of this standard, the operating lease commitments are expected to be the primary source of changes to the consolidated statements of financial position and the timing of expenses in the consolidated statements of comprehensive income. | Annual periods beginning on or after January 1, 2019. |

# Responsibility of Management and Board

## Disclosure Controls

The CEO and the CFO are also responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P"). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and includes controls and procedures designed to ensure that information required to be disclosed in documents filed or submitted under securities legislation is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities. There have been no significant changes in the design of our DC&P during the six month period ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect the Company's DC&P.

## Internal Controls over Financial Reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Cervus are responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and the CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no significant changes in the design of our ICFR during the six month period ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

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

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

## Additional IFRS Financial Measures

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by IFRS. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. These measures are identified and defined below:

### Gross Profit

Gross profit refers to the Company's total revenue less costs directly attributed to generating the related sales revenue. This additional IFRS measure is identified in our unaudited interim consolidated financial statements on the statement of comprehensive income. Gross profit provides a measure to assess the Company's profitability and efficiency of revenue generated, prior to considering selling, general and administrative expenses.

Gross profit margin is the percentage resulting from dividing gross profit from a transaction by the revenue generated by the same transaction.

### Income (Loss) from Operating Activities

Income (loss) from operating activities refers to income (loss) excluding: general interest expense recognized outside of cost of goods sold, interest income, share of profit (loss) from equity investees, and income tax. This additional IFRS measure is identified in our unaudited interim consolidated financial statements on the statement of comprehensive income. Income from operating activities 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 the effects of earnings from equity investees.

## Non-IFRS Financial Measures

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

### Adjusted Income (Loss)

Adjusted income (loss) is provided to aid in the comparison of the Company's results from one period, to the Company's results from another period. The Company calculates adjusted income (loss) as follows:

*Adjusted Income Attributed to Shareholders*

| ($ thousands, except per share amounts) | Three month periods ended June 30 | | Six month periods ended June 30 | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Income attributed to shareholders | **9,514** | 8,365 | **9,369** | 6,737 |
| Adjustments: | | | | |
| Unrealized foreign currency loss (gain)[1] | **38** | (633) | **673** | (823) |
| (Gain) on sale of Commercial operations | **-** | - | **(480)** | - |
| (Gain) on sale of land and building | **-** | (423) | **-** | (423) |
| Tax impact of adjustments | **(10)** | 356 | **(52)** | 407 |
| Adjusted income attributed to shareholders | **9,542** | 7,665 | **9,510** | 5,898 |
| Adjusted income per share: | | | | |
| Basic | **0.61** | 0.49 | **0.61** | 0.37 |
| Diluted | **0.58** | 0.46 | **0.58** | 0.36 |

*Adjusted Income Before Income Tax Expense*

**Three Months Ended June 30, 2018**

| **Reconciliation of Adjusted Income Before Income Tax Expense ($ thousands)**<br>**Three months ended June 30, 2018** | Total | Agricultural | Transportation | Industrial |
|---|---|---|---|---|
| Income before income tax expense | **13,581** | 11,039 | 2,480 | 62 |
| Adjustments: | | | | |
| Unrealized foreign currency loss (gain)[1] | **38** | - | 93 | (55) |
| **Adjusted income before income tax expense** | **13,619** | 11,039 | 2,573 | 7 |

**Six Months Ended June 30, 2018**

| **Reconciliation of Adjusted Income Before Income Tax Expense ($ thousands)**<br>**Six months ended June 30, 2018** | Total | Agricultural | Transportation | Industrial |
|---|---|---|---|---|
| Income before income tax expense | **13,083** | 9,609 | 2,039 | 1,435 |
| Adjustments: | | | | |
| Unrealized foreign currency loss (gain)[1] | **673** | - | 704 | (31) |
| (Gain) on sale of Commercial operations | **(480)** | - | - | (480) |
| **Adjusted income before income tax expense** | **13,276** | 9,609 | 2,743 | 924 |

**Three Months Ended June 30, 2017**

| Reconciliation of Adjusted Income Before Income Tax Expense ($ thousands)<br><br>Three months ended June 30, 2017 | Total | Agricultural | Transportation | Industrial |
|---|---|---|---|---|
| Income before income tax expense | **11,497** | 8,380 | 2,088 | 1,029 |
| Adjustments: | | | | |
| Unrealized foreign currency (gain) [1] | **(633)** | - | (633) | - |
| (Gain) on sale of land and building | **(423)** | (423) | - | - |
| **Adjusted income before income tax expense** | **10,441** | 7,957 | 1,455 | 1,029 |

**Six Months Ended June 30, 2017**

| Reconciliation of Adjusted Income (Loss) Before Income Tax Expense ($ thousands)<br><br>Six months ended June 30, 2017 | Total | Agricultural | Transportation | Industrial |
|---|---|---|---|---|
| Income before income tax expense | **9,881** | 7,432 | 820 | 1,629 |
| Adjustments: | | | | |
| Unrealized foreign currency (gain) [1] | **(823)** | - | (823) | - |
| (Gain) on sale of land and building | **(423)** | (423) | - | - |
| **Adjusted income (loss) before income tax expense** | **8,635** | 7,009 | (3) | 1,629 |

**(1)** –Unrealized foreign exchange gains and losses are due to period close translation of floorplan payables and cash denominated in US dollars, and changes in fair value in our derivative financial asset. The unrealized foreign currency gains and losses are treated as an adjustment to the Company's adjusted income calculation as these foreign currency gains and losses are not realized until settlement. Until settlement occurs, there may be large fluctuations period to period on movement of the foreign exchange rate, making comparison of operating performance period over period difficult.

## EBITDA

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

***Three Months Ended June 30, 2018***

| **EBITDA ($ thousands)**<br>**Three months ended June 30, 2018** | **Total** | **Agricultural** | **Transportation** | **Industrial** |
|---|---|---|---|---|
| Net income attributable to shareholders | **9,514** | 7,294 | 1,590 | 630 |
| Add: | | | | |
| Interest | **1,886** | 822 | 1,026 | 38 |
| Income taxes | **4,067** | 3,745 | 890 | (568) |
| Depreciation and Amortization | **3,916** | 1,756 | 1,672 | 488 |
| EBITDA[(1)] | **19,383** | 13,617 | 5,178 | 588 |
| | | | | |
| **Reconciliation of adjusted EBITDA[(1)]:** | | | | |
| EBITDA[(1)] | **19,383** | 13,617 | 5,178 | 588 |
| Adjustments: | | | | |
| Unrealized foreign currency loss (gain) | **38** | - | 93 | (55) |
| **Adjusted EBITDA[(1)]** | **19,421** | 13,617 | 5,271 | 533 |

***Six Months Ended June 30, 2018***

| **EBITDA ($ thousands)**<br>**Six months ended June 30, 2018** | **Total** | **Agricultural** | **Transportation** | **Industrial** |
|---|---|---|---|---|
| Net income attributable to shareholders | **9,369** | 6,881 | 1,460 | 1,028 |
| Add: | | | | |
| Interest | **3,574** | 1,550 | 1,922 | 102 |
| Income taxes | **3,714** | 2,728 | 579 | 407 |
| Depreciation and Amortization | **7,862** | 3,538 | 3,354 | 970 |
| EBITDA[(1)] | **24,519** | 14,697 | 7,315 | 2,507 |
| | | | | |
| **Reconciliation of adjusted EBITDA[(1)]:** | | | | |
| EBITDA[(1)] | **24,519** | 14,697 | 7,315 | 2,507 |
| Adjustments: | | | | |
| Unrealized foreign currency loss (gain) | **673** | - | 704 | (31) |
| (Gain) on sale of Commercial operations | **(480)** | - | - | (480) |
| **Adjusted EBITDA[(1)]** | **24,712** | 14,697 | 8,019 | 1,996 |

***Three Months Ended June 30, 2017***

| **EBITDA ($ thousands)**<br>**Three months ended June 30, 2017** | **Total** | **Agricultural** | **Transportation** | **Industrial** |
|---|---|---|---|---|
| Net income attributable to shareholders | **8,365** | 6,023 | 1,840 | 502 |
| Add: | | | | |
| Interest | **2,079** | 1,048 | 873 | 158 |
| Income taxes | **3,132** | 2,357 | 248 | 527 |
| Depreciation and Amortization | **3,902** | 1,790 | 1,454 | 658 |
| EBITDA[1] | **17,478** | 11,218 | 4,415 | 1,845 |
| **Reconciliation of adjusted EBITDA[1]:** | | | | |
| EBITDA[1] | **17,478** | 11,218 | 4,415 | 1,845 |
| Adjustments: | | | | |
| Unrealized foreign currency (gain) | **(633)** | - | (633) | - |
| (Gain) on sale of land and building | **(423)** | (423) | - | - |
| **Adjusted EBITDA[1]** | **16,422** | 10,795 | 3,782 | 1,845 |

***Six Months Ended June 30, 2017***

| **EBITDA ($ thousands)**<br>**Six months ended June 30, 2017** | **Total** | **Agricultural** | **Transportation** | **Industrial** |
|---|---|---|---|---|
| Net income attributable to shareholders | **6,737** | 5,070 | 559 | 1,108 |
| Add: | | | | |
| Interest | **4,131** | 1,994 | 1,752 | 385 |
| Income taxes | **3,149** | 2,367 | 261 | 521 |
| Depreciation and Amortization | **7,513** | 3,476 | 2,713 | 1,324 |
| EBITDA[1] | **21,530** | 12,907 | 5,285 | 3,338 |
| **Reconciliation of adjusted EBITDA[1]:** | | | | |
| EBITDA[1] | **21,530** | 12,907 | 5,285 | 3,338 |
| Adjustments: | | | | |
| Unrealized foreign currency (gain) | **(823)** | - | (823) | - |
| (Gain) on sale of land and building | **(423)** | (423) | - | - |
| **Adjusted EBITDA[1]** | **20,284** | 12,484 | 4,462 | 3,338 |

EBITDA is defined as profit before interest, taxes, depreciation, and amortization. We believe, in addition to income (loss), 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.

Adjusted EBITDA is defined as profit before interest, taxes, depreciation, and amortization, adjusted for unrealized (gains) losses from foreign currency, and (gains) losses from sale of minority interests and real estate.

### EBITDA Margin

EBITDA margin is calculated as EBITDA divided by gross revenue.

**Working Capital**

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