



People. Power. Service.

# **Cervus Equipment Corporation**

## **2015 ANNUAL REPORT**

# Dear fellow shareholders,

Cervus started the year with 19 additional Canadian dealerships. Despite a challenging economic climate in 2015, welcoming and integrating these dealerships under the Cervus brand and values has been a significant theme of 2015, and I am proud of the efforts by all employees in what we have built together. In 2015 we surpassed a significant milestone of \$1 billion of revenue, 3 years ahead of the target we set in 2010. This achievement is made more meaningful in light of how it was achieved: as a trusted advisor to our customers' business in partnership with our OEMs. This success is evidenced by our Alberta and Saskatchewan agriculture dealership groups being selected as two of the four Top Canadian John Deere dealers for 2015. Further, our Peterbilt group was recognised by Peterbilt as one of their top ten "Best-In-Class" North American dealers in 2015.

Market conditions also presented some challenges as we navigated the impact of a stronger U.S dollar and depressed oil prices. We took action to scale our operations and costs, particularly in our Commercial and Industrial ("C&I") segment, and our transportation stores located in Saskatchewan. However, we continue to make targeted investments for the future and have expanded our service efficiency team, and are beginning see strong results from these efforts. We also continue to develop our organization around precision agriculture, brokering the interface of the technology that John Deere brings to market to improve our customers' equipment performance, and ultimately, their business results. Investments like these align with our long term view of the industries and businesses we serve, and are foundational to our market positioning across economic cycles.

Looking into 2016, we see opportunities to improve performance in our Ontario Peterbilt dealerships and take advantage of a strong Ontario market. Oil prices combined with an elevated US dollar will continue to weigh on demand in our C&I segment and Saskatchewan Peterbilt dealerships. We remain focused on supporting our customers in these geographies, while scaling costs in line with demand. Within agriculture, Canadian farmers ultimately achieved record results in 2015, and we look to increased opportunity in our Agricultural segment in 2016.

To our employees and Board of Directors, thank you for your tireless effort in 2015 to grow our Company as we serve our customers. To our original equipment manufacturers, customers, and shareholders thank you for your ongoing support as we continue to realize our mission to enable our customer's success by providing practical and reliable equipment solutions and support.

Sincerely,

Graham Drake  
President & Chief Executive Officer  
Cervus Equipment Corporation

# Q & A

With Graham Drake  
President & Chief Executive Officer

---

## As you reflect on 2015, what do you consider to be the highlights?

Our commitment and response to local markets and integration of our newly acquired stores was the focus for 2015. Our Agricultural acquisitions generated \$1.7 million of income from operating activities in the first full year of operations and we continue to see strength in these stores for future growth. Our Ontario Peterbilt dealerships improved parts and service offerings, expanded into additional locations to better serve the market, and maintained consistent levels of SG&A expenses while increasing operating income over the same store period in 2014.

The resiliency and dedication of our teams in markets impacted by oil prices was also a highlight. The sharp and prolonged decline in resource prices was a significant headwind for our C&I and Transportation Saskatchewan operations. Despite these market factors, the local teams took action, reducing same store SG&A expenses by \$12.6 million, while continuing to exceed our customer's expectations.

## Profitability has decreased in 2015 overall and on a same store basis. What should shareholders expect looking forward?

I am proud of the dedication and effort of our employees integrating the 19 dealerships acquired in late 2014, during a year with significant economic headwinds. However, as a Company we are not satisfied with 2015's financial performance. Despite increased diversification, our industries are cyclical and we anticipate the economic impact of low oil prices will continue through 2016. In this environment we have identified opportunities which will be a focus of the upcoming year, particularly in our segments most sensitive to resource prices. Improved profitability in the current market is focused on: (i) increasing efficiencies within our service departments (ii) continued examination of expenses,

and (iii) opportunities in the Canadian agricultural sector supported by strong farm balance sheets.

## As you look back on the first full year of operations for the 13 Ontario Peterbilt stores, what are your priorities in achieving target profitability in 2016?

Ontario is a new landscape for Cervus. Due to high purchase volume, buyers hold significant negotiating leverage. This reflects distinct opportunities compared to the smaller western Canadian transportation market. The high truck population drives significant parts and service demand. We will establish our brand in the Ontario market by partnering with our customers in ensuring uptime for their trucking operations. We have seen progress in our efforts around parts and service efficiency, and have more to achieve. This will be the focus in Ontario for 2016, building on the processes and training delivered in 2015.

## Is your liquidity sufficient to meet the demands of the business?

Yes. The Company extended and amended its \$100 million revolving credit facility, providing committed general borrowing through to December 2017. At this time, there are no known factors that management is aware of that would affect its short and long-term objectives of meeting the Company's obligations as they come due. Of the \$100 million syndicated credit facility, \$53 million was drawn at December 31, 2015. We remain committed to maintaining a strong balance sheet, and ensuring we are well positioned to weather industry cycles to take advantage of opportunities as they arise.

## Has your relationship with your key OEMs been affected by recent macroeconomic shifts?

Our key suppliers (OEMs) have long standing business histories that have weathered numerous economic cycles. Our relationships with our OEMs are based on a longer term vision of partnering with them to meet customer needs. The alignment in values between Cervus and our OEM's is evident in the recognition we received in 2015 from both John Deere and Peterbilt, based on the mutual success of our Customers, Cervus, and manufacturer.

# **Cervus Equipment Corporation MANAGEMENT'S DISCUSSION + ANALYSIS**

**For the period from January 1, 2015 to December 31, 2015**

The following Management's Discussion & Analysis ("MD&A") was prepared as of March 15, 2015 and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or the "Company") financial performance for the three and twelve month periods ended December 31, 2015 and significant trends that may affect future performance of Cervus. This MD&A should be read in conjunction with the accompanying consolidated financial statements for the period ended December 31, 2015 and notes contained therein. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Cervus' functional and reporting currency is the Canadian dollar. Cervus' common shares trade on the Toronto Stock Exchange under the symbol "CVL".

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

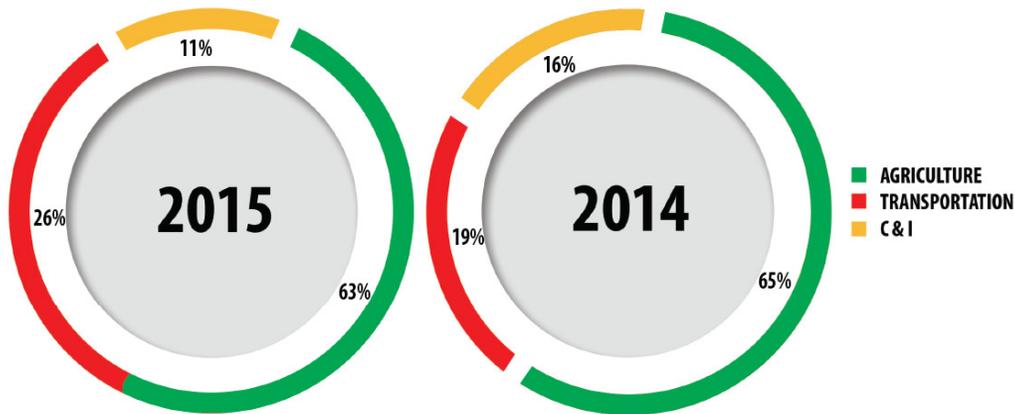
Cervus operates under three segments: Agriculture, Commercial and Industrial, and Transportation based on the industries which they serve. These segments are managed separately, and strategic decisions are made on the basis of their respective operating results.

The Agricultural equipment segment consists of interests in 42 John Deere dealership locations with 14 in Alberta, 11 in Saskatchewan, 1 in British Columbia, 1 in Manitoba, 9 in New Zealand and 6 in Australia. Of the 42 John Deere Dealerships, 35 are wholly owned, and the Company holds a minority interest in 7.

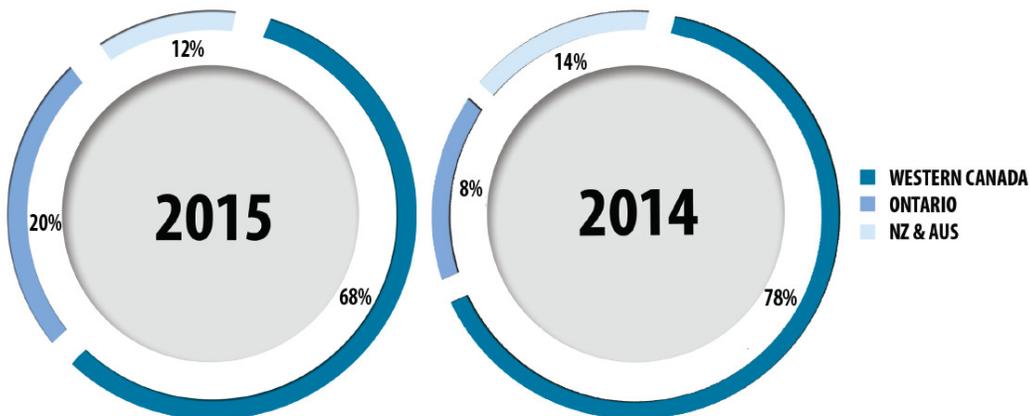
The Commercial and Industrial ("C&I") equipment segment consists of 13 dealership locations with 10 Bobcat/ JCB, Clark, Sellick, and Doosan material handling and forklift equipment dealerships operating in Alberta, 2 Clark, Sellick, and Doosan material handling and forklift equipment dealerships operating in Saskatchewan and 1 in Manitoba.

The Transportation segment consists of 17 dealership locations with 4 Peterbilt truck dealerships and 1 collision repair centre operating in Saskatchewan, and 12 Peterbilt truck dealerships operating in Ontario.

### 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 \$0.2125 per share was made to the shareholders of record as of December 31, 2015 on January 15, 2016. See “Capital Resources - Cautionary note regarding dividends” section within.

## HIGHLIGHTS OF THE YEAR

- The Company generated adjusted earnings<sup>1</sup> of \$13.3 million for the year ended December 31, 2015, and adjusted basic earnings per share<sup>1</sup> of \$0.86. For the comparable period in 2014, the Company generated adjusted earnings of \$20.2 million and adjusted basic earnings per share of \$1.33.
- The Company generated a loss of \$27.4 million in 2015, including the \$36.9 million non-cash settlement with the Canada Revenue Agency, compared to net income of \$18.5 million in 2014.
- The Company generated \$1.1 billion revenues in 2015, exceeding the 2018 strategic revenue goal three years earlier than target. Total revenues increased \$154.3 million and gross profit dollars increased \$20.3 million compared to 2014.
- Targeted cost reduction initiatives achieved a \$12.6 million reduction in same store selling general and administrative (“SG&A”) expenses, compared to 2014.
- Acquisitions contributed \$5.9 million of earnings before interest, taxes, depreciation, and amortization (“EBITDA”)¹. Same store¹ EBITDA was \$40.4 million during the year compared to \$50.8 million in 2014.
- The Company extended and amended its revolving credit facility, extending maturity to December 2017. The \$100 million syndicated credit facility provides stability for our existing operations and maintains capital flexibility for the future.
- The Company reached an agreement with Canada Revenue Agency, confirming the eligibility of approximately \$44.3 million of tax savings claimed by the company through December 2014. The agreement resulted in a non-cash charge of \$33.4 million related to the write-off of a portion of the Company’s deferred tax asset.
- The Company completed a review of branch capacity resulting in construction and relocation to a new Agriculture equipment facility in Ponoka, Alberta, as well as the relocation of our Cranbrook, BC dealership to Creston, BC. We closed our Grande Prairie C&I dealership, and relocated the Essex, Ontario Transportation dealership to a new location in Windsor, Ontario. We also opened a new dealership in Barrie, Ontario to better serve the Ontario market.
- Dividends of \$0.85 per share were declared to shareholders during 2015.
- The Company climbed to #66 from #72 on the Alberta Venture’s 2015 Venture 250 ranking.
- The Saskatoon Peterbilt branch was awarded Peterbilt’s Platinum Oval award for the third consecutive year, highlighting their outstanding performance as a dealership. Further, Cervus Equipment Peterbilt (Saskatchewan and Ontario) was one of ten North American dealer groups to earn Peterbilt’s Best in Class award for 2015.

Throughout this MD&A, same store results are disclosed to assist the reader in identifying year over year trends in operations. Same store results reflect operations in the current period, for which the same operations existed in the comparative period. Same store results for our Agricultural segment exclude the 2015 results of six John Deere dealerships for the periods they were not owned by the Company in 2014. Four of these dealerships were acquired in October of 2014, and therefore 2015 same store results exclude the operations of these four dealerships prior to October 2015. Two of the dealerships were acquired in December of 2014, and 2015 same store results exclude their operating results for the period prior to December 2015. Agricultural segment same store results also exclude the consolidated results of Deer Star Systems Inc. (“Deer Star”), prior to October 2015 as Cervus did not own a majority interest Deer Star’s operations during the comparative period in 2014. For the Transportation segment, same store results for the year ended December 31, 2015 exclude the January 1, 2015 to August 15, 2015 results of our Ontario Peterbilt dealerships acquired in August 2014.

---

<sup>1</sup> Refer to Non-IFRS Measures herein

## ANNUAL CONSOLIDATED RESULTS

(\$ thousands, except per share amounts)	Total 2015		2015 Same Store <sup>2</sup>		2014
	2015	% Change Compared to 2014	2015 Same Store	% Change Compared to 2014	
Revenue	1,133,878	16%	889,211	(9%)	979,609
Cost of sales	(926,937)	17%	(720,257)	(9%)	(792,936)
<b>Gross profit</b>	<b>206,941</b>	11%	168,954	(9%)	186,673
Other income	1,091	(77%)	1,679	(64%)	4,667
Unrealized foreign exchange (loss)	(2,810)	195%	(1,826)	92%	(952)
Total other (loss) income	(1,719)	(146%)	(147)	(104%)	3,715
Selling, general and administrative expense	(179,583)	14%	(145,121)	(8%)	(157,678)
<b>Income from operating activities</b>	<b>25,639</b>	(22%)	23,686	(28%)	32,710
Finance income	195	(49%)	193	(50%)	384
Finance costs	(11,428)	49%	(9,279)	21%	(7,656)
Share of profit of equity accounted investees, net of income tax	542	(24%)	542	(24%)	712
<b>Income before income tax expense</b>	<b>14,948</b>	(43%)	15,142	(42%)	26,150
Income tax expense <sup>1</sup>	(42,327)	453%			(7,654)
<b>Income (loss) for the period</b>	<b>(27,379)</b>	(248%)			18,496
<b>Income (loss) attributable to shareholders</b>	<b>(27,421)</b>	(249%)			18,362
<b>EBITDA<sup>2</sup></b>	<b>46,330</b>	(9%)	40,444	(20%)	50,811
<b>EBITDA margin<sup>2</sup></b>	<b>4.1%</b>		4.5%		5.2%
<b>Ratios as a percentage of revenue:</b>					
Gross profit margin	<b>18.3%</b>		19.0%		19.1%
Selling, general and administrative	<b>15.8%</b>		16.3%		16.1%
<b>Earnings per share</b>					
Basic - Adjusted <sup>2</sup>	<b>0.86</b>	(35%)			1.33
Basic	<b>(1.77)</b>	(246%)			1.21
Diluted	<b>(1.77)</b>	(254%)			1.15

[1] – Includes impact of \$36.9 million non-cash settlement with the CRA.

[2] - Refer to Non-IFRS Measures herein

**Operating Summary:**

Total EBITDA decreased \$4.5 million compared to 2014 while income from operating activities decreased \$7.1 million. Extended uncertainty in oil prices reduced demand for new equipment, particularly in the Commercial and Industrial (C&I) segment and the western Canadian locations of our Transportation segment. Within our Agriculture segment, early season uncertainty and appreciation of the U.S. dollar reduced demand for new equipment sales. The impact of lower new equipment demand across these segments was offset by relatively stable after-market activity and targeted expense control, which reduced same store SG&A expenses by \$12.6 million in the year.

**Same store highlights:**

On a same store basis, operating income decreased \$9.0 million compared to 2014. The C&I segment, and Transportation dealerships located in Saskatchewan were the primary cause of this decrease, resulting from the steep reduction in oil prices. The impact of the economic slowdown affecting our Saskatchewan transportation dealerships were offset by increased sales volumes and margin dollars in our Ontario dealerships within the Transportation segment. New Agriculture equipment sales during the year were impacted by negative early season outlook for the 2015 crop, combined with the impact of U.S. exchange on equipment pricing. The decrease in Agriculture new sales were partially offset by increased late season demand for used equipment as an average crop yield materialized. Parts and service activity across all segments were less volatile than new sales, as equipment continues to operate and require servicing. Further, the Company's cost reduction initiatives reduced SG&A by \$12.6 million in the year compared to 2014.

**Acquisition performance:**

Acquisitions contributed \$3.7 million of incremental adjusted<sup>2</sup> operating income. Agriculture acquisitions contributed \$2.1 million of income from adjusted operating activities on \$108.5 million of revenue, while Transportation acquisitions generated adjusted operating income of \$1.6 million.

---

<sup>2</sup> Excluding \$1.0 million of unrealized foreign exchange loss on the conversion of U.S. dollar denominated floorplans and \$0.8 million of non-recurring acquisition and integration related costs.

## ANNUAL BUSINESS SEGMENT RESULTS

The Company has three reportable segments: Agricultural, Transportation, and Commercial 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 27 of the accompanying Consolidated Annual Financial Statements.

### Agricultural Segment Results

(\$ thousands, except per share amounts)	Total 2015		2015 Same Store		2014
	2015	% Change Compared to 2014	2015 Same Store	% Change Compared to 2014	
Equipment					
New equipment	356,445	4%	302,010	(12%)	343,473
Used equipment	229,265	25%	191,183	5%	182,745
Total equipment revenue	585,710	11%	493,193	(6%)	526,218
Parts	82,045	24%	70,149	6%	66,341
Service	39,260	14%	35,623	3%	34,444
Rental and other	4,328	(7%)	3,896	(17%)	4,670
Total revenue	711,343	13%	602,861	(5%)	631,673
Cost of sales	(590,638)	13%	(499,342)	(5%)	(524,246)
Gross profit	120,705	12%	103,519	(4%)	107,427
Other income	2,885	(20%)	2,903	(20%)	3,609
Selling, general and administrative expense	(97,129)	15%	(81,702)	(3%)	(84,352)
Income from operating activities	26,461	(1%)	24,720	(7%)	26,684
EBITDA	36,491		32,889		34,095
Ratios as a percentage of revenue:					
Gross profit margin	17.0%		17.2%		17.0%
Selling, general and administrative	13.7%		13.6%		13.4%

#### Operating Summary:

EBITDA increased \$2.4 million and income from operating activities was within 1% of the comparable period in 2014, as acquisition performance offset the decrease in our same store results. Same store results were impacted by lower early season equipment demand due to early season weather concerns, while late season demand was negatively impacted by the appreciation of the U.S. dollar. The impact of lower new equipment sales was offset by used equipment sales, parts and service activity and targeted SG&A expense control.

#### Same store highlights:

Income from operating activities decreased \$2.0 million compared to 2014, primarily due to reduced new equipment demand on factors consistent with those experienced in the overall results above. As harvest outlook improved, demand for used equipment accelerated assisted by attractive used equipment pricing relative to new, with used equipment sales increasing 5% compared to 2014. Parts and service sales have increased over prior year on strong machine population in our geographies and parts price increases due to the higher U.S. dollar. Cost reduction initiatives and expense control reduced SG&A expenses by \$2.7 million, resulting in operating income decreasing \$2.0 million despite a \$3.9 million decrease in gross profit.

**Acquisition performance:**

Acquisitions contributed \$1.7 million of operating income on \$108.5 million of revenue for the period not included in same store results above.<sup>3</sup> Operating income of \$1.7 million was generated despite acquisition geography being significantly impacted by below average rainfall in 2015. Included in acquisition performance are operating activities generated by Deerstar Systems Inc., which the company acquired a controlling interest in as a result of the Evergreen acquisition. Deerstar Systems sells crop sprayers and the sales season for this equipment is typically early summer, which coincided with the period of uncertainty regarding overall crop yield leading to breakeven income from operating activities for this acquired entity.

---

<sup>3</sup> Same store results exclude the January - mid October 2015 results for the Evergreen acquisition, and the January through November results for the Deer Country acquisition. Results for these periods are reported within the Acquisition Performance section.

## Transportation Segment Results

	Total 2015		2015 Same Store		2014
	2015	% Change Compared to 2014	2015 Same Store	% Change Compared to 2014	
(\$ thousands, except per share amounts)					
Equipment					
New equipment	157,836	52%	78,901	(24%)	104,051
Used equipment	12,387	88%	7,435	13%	6,589
Total equipment revenue	170,223	54%	86,336	(22%)	110,640
Parts	93,048	69%	55,392	1%	54,927
Service	28,291	55%	18,250	(0%)	18,281
Rental and other	9,017	81%	4,416	(12%)	4,990
Total revenue	300,579	59%	164,394	(13%)	188,838
Cost of sales	(246,930)	61%	(131,546)	(14%)	(153,223)
Gross profit	53,649	51%	32,848	(8%)	35,615
Other income	(2,392)	(931%)	(1,822)	(733%)	288
Unrealized foreign exchange (loss)	(2,810)	195%	(1,826)	92%	(952)
Total other (loss)	(5,202)		(3,648)		(664)
Selling, general and administrative expense	(50,203)	45%	(31,168)	(10%)	(34,505)
(Loss) income from operating activities	(1,756)	(494%)	(1,968)	(541%)	446
EBITDA	5,000		2,716		4,574
Ratios as a percentage of revenue:					
Gross profit margin	17.8%		20.0%		18.9%
Selling, general and administrative	16.7%		19.0%		18.3%

### Operating Summary:

EBITDA for the segment increased \$2.3 million (41%), and income from operating activities decreased \$0.3 million excluding the impact of unrealized foreign exchange. Our Ontario dealerships generated a \$2.4 million improvement in operating income on a same store basis due to increased revenues and improved process from integration efforts. The reduction in oil prices had a significant impact on equipment demand for our Saskatchewan dealerships, resulting in a \$4.8 million decrease in operating income. Within Saskatchewan, the retention of parts and service revenues have supported gross margin dollars, due to maintenance of customer relationships and additional focus on internal efficiencies.

### Same store highlights:

Saskatchewan equipment sales have been impacted by persisting low resource prices, compounded by the higher price of new equipment due to the appreciation of the U.S. dollar in the year. Saskatchewan equipment sales decreased \$35.4 million compared to 2014, while parts and service revenues remained resilient due to continuing utilization of existing equipment. The decrease in parts and service was limited to 6% compared to the 58% decrease in equipment sales. Further, we have scaled the cost structure in our Saskatchewan dealerships, eliminating \$3.4 million of SG&A compared to 2014.

Same store operations include the results of Peterbilt of Ontario for August 16, 2015 through to December 31, 2015. For this period, the Ontario dealerships generated a \$2.0 million improvement in operating income. This improvement resulted from increased sales volume across all Ontario revenue streams, including a number of larger fleet sales, increased parts and service volumes, and improved parts and service margins. This was achieved despite SG&A dollars increasing \$0.1 million as we continue to invest in developing the management team and implementing the framework to support operations.

**Acquisition performance:**

Excluding the portion of Ontario's results already included in same store results above, Ontario recorded adjusted operating income of \$1.6 million for the eight months ended August 15, 2015.<sup>4</sup> During this period, Ontario achieved sales of \$136.2 million, while profitability was impacted by margin pressures on reducing acquired inventory in the first quarter combined with implementing process and structural efficiencies post acquisition.

For the twelve months ended December 31, 2015, Ontario's income from operating activities was \$1.9 million excluding unrealized foreign exchange losses and acquisition costs.

---

<sup>4</sup> Excluding \$1.0 million of unrealized foreign exchange loss and \$0.5 million of non-recurring acquisition and integration related costs

## Commercial and Industrial Segment Results

	Total 2015		2014
	2015	% Change Compared to 2014	
(\$ thousands, except per share amounts)			
Equipment			
New equipment	65,191	(32%)	95,681
Used equipment	8,798	3%	8,533
Total equipment revenue	73,989	(29%)	104,214
Parts	26,767	(9%)	29,414
Service	14,737	(12%)	16,810
Rental and other	6,463	(25%)	8,660
Total revenue	121,956	(23%)	159,098
Cost of sales	(89,369)	(23%)	(115,467)
Gross profit	32,587	(25%)	43,631
Other income	598	(22%)	770
Selling, general and administrative expense	(32,251)	(17%)	(38,821)
Income from operating activities	934	(83%)	5,580
EBITDA	4,839		12,142
Ratios as a percentage of revenue:			
Gross profit margin	26.7%		27.4%
Selling, general and administrative	26.4%		24.4%

### Operating Summary:

EBITDA decreased \$7.3 million in the C&I segment, and income from operating activities decreased \$4.6 million, due to the economic impact of reduced oil prices. Resource prices have had a significant impact on the light construction industry in Alberta, and is most apparent in our customers' demand for new construction equipment which decreased 32% year over year.

Income from operating activities decreased in the C&I segment on lower volume of equipment sales in our construction operations. The impact of reduced oil prices has been less significant for our industrial customers.

Across the segment, parts and service revenues were less volatile than equipment revenue during the year, decreasing 10% over prior year compared to the 29% decrease in equipment revenue. Revenue and gross margin decreases were offset by a \$6.6 million reduction in SG&A costs, a result of cost reduction initiatives enacted early in the year.

**Cash and cash equivalents – Year Ended December 31, 2015**

---

Cervus' primary sources and uses of cash flow for the year ended December 31, 2015 are as follows:

**Operating activities**

---

Net cash provided by operating activities was \$23.7 million for the year ended December 31, 2015 when compared to \$61.6 million for the same period of 2014, a decrease of \$37.9 million. The primary reason for this decrease is cash taxes paid in 2015 of \$7.8 million, higher interest paid of \$5.9 million, and \$7.9 million of net cash used from working capital items, compared to \$13.9 million provided by working capital items in 2014. Net cash change in working capital items was primarily due to a \$22.7 million use of cash for accounts payables and accruals (a decrease in accounts payable of \$1.8 million in 2015 compared to an increase of \$20.8 million in 2014).

**Investing activities**

---

During the year ended December 31, 2015, the Company used \$21.4 million of net cash from investing activities compared to a use of cash of \$93.7 million for the same period in 2014, for a net use of \$72.3 million. There were several events in 2014 which were non-recurring in 2015, one of which related to the purchase of Transportation Ontario operations and two Agriculture acquisitions in 2014 totaling \$76.9 million. In 2015, amounts were paid for final holdback payments of \$8.0 million on business acquisitions in 2014, these amounts were accrued as payable in 2014.

**Financing activities**

---

During the year ended December 31, 2015, the Company used \$9.6 million for financing activities, compared to cash provided by financing activities of \$36.1 million in 2014, a net change of \$45.7 million. The primary driver of the change compared to 2014 was the \$50.9 million source of cash from financing used for acquisitions in 2014, compared to the \$8.7 million source of cash from financing in 2015.

## FOURTH QUARTER CONSOLIDATED RESULTS

For the fourth quarter consolidated results, same store results in the Agricultural segment exclude the 2015 results of Evergreen acquisitions until October 15, 2015 and Deer Country to December 10, 2015, as these operations were acquired during 2014 in the months of October and December.

(\$ thousands, except per share amounts)	Total Q4 2015		Q4 2015 Same Store		2014
	2015	% Change Compared to 2014	2015 Same Store	% Change Compared to 2014	
Revenue	257,726	(11%)	251,504	(13%)	289,040
Cost of sales	(205,631)	(12%)	(200,575)	(14%)	(233,086)
<b>Gross profit</b>	<b>52,095</b>	<b>(7%)</b>	<b>50,929</b>	<b>(9%)</b>	<b>55,954</b>
Other income	145	(90%)	79	(94%)	1,398
Unrealized foreign exchange (loss)	(1,083)	9%	(1,083)	9%	(992)
Total other (loss) income	(938)	(331%)	(1,004)	(347%)	406
Selling, general and administrative expense	(42,486)	(8%)	(41,548)	(10%)	(45,966)
<b>Income from operating activities</b>	<b>8,671</b>	<b>(17%)</b>	<b>8,377</b>	<b>(19%)</b>	<b>10,394</b>
Finance income	48	(73%)	48	(73%)	181
Finance costs	(2,823)	39%	(2,810)	39%	(2,028)
Share of profit of equity accounted investees, net of income tax	246	(370%)	247	(371%)	(91)
<b>Income before income tax expense</b>	<b>6,142</b>	<b>(27%)</b>	<b>5,862</b>	<b>(31%)</b>	<b>8,456</b>
Income tax expense	(2,267)	(10%)			(2,528)
<b>Income for the period</b>	<b>3,875</b>	<b>(35%)</b>			<b>5,928</b>
<b>Income attributable to shareholders</b>	<b>3,768</b>	<b>(36%)</b>			<b>5,870</b>
<b>EBITDA</b>	<b>15,034</b>	<b>(6%)</b>	<b>14,714</b>	<b>(8%)</b>	<b>15,909</b>
<b>EBITDA margin</b>	<b>5.8%</b>		<b>5.9%</b>		<b>5.5%</b>
<b>Ratios as a percentage of revenue:</b>					
Gross profit margin	<b>20.2%</b>		20.2%		19.4%
Selling, general and administrative	<b>16.5%</b>		16.5%		15.9%
<b>Earnings per share</b>					
Basic - Adjusted	<b>0.32</b>				0.49
Basic	<b>0.24</b>	(37%)			0.38
Diluted	<b>0.23</b>	(38%)			0.37

**Operating Summary:**

Fourth quarter EBITDA decreased \$0.9 million compared to prior year and operating income decreased \$1.7 million. Reduced new equipment demand across the segments were offset by comparative resilience in the remaining revenue streams combined with a \$4.4 million reduction in same store SG&A expenses. Of particular note, our Ontario dealerships generated an additional \$2.4 million of operating income compared to the same period in 2014.

**Same store highlights:**

Fourth quarter same store EBITDA decreased \$1.2 million (8%) due to trends consistent with the year, particularly in the C&I segment. Of the \$1.2 million decrease in EBITDA, there was \$1.7 million of improved EBITDA from the Transportation segment, offset by a \$2.4 million and \$0.4 million reduction in EBITDA in the C&I segment and Agriculture segment, respectively. Across all divisions, the reduction of scalable operating costs reduced same store SG&A by \$4.4 million.

**Acquisition performance:**

For the fourth quarter, acquisition performance reflects the 2015 results of Evergreen acquisitions prior to October 15, 2015 and the operating results of Deer Country prior to December 10, 2015.<sup>5</sup> During this period, these acquisitions contributed \$0.3 million of EBITDA on \$6.2 million of incremental revenue. Transportation Ontario results are included in same store discussion above, as Peterbilt of Ontario was acquired in August 2014.

---

<sup>5</sup> Operating results for Evergreen and Deer Country for the period between October 15, 2015 and December 10, 2015 (respectively) through to December 31, 2015, are included in same store results. The acquisition performance section discusses the 2015 performance of acquired entities, for the period of 2015 the stores were not owned in the comparable period in 2014.

## FOURTH QUARTER SEGMENT RESULTS

### Agricultural Segment Results

(\$ thousands, except per share amounts)	Total Q4 2015		Q4 2015 Same Store		2014
	2015	% Change Compared to 2014	2015 Same Store	% Change Compared to 2014	
Equipment					
New equipment	75,362	(11%)	71,202	(16%)	84,506
Used equipment	51,463	2%	50,858	0%	50,648
Total equipment revenue	126,825	(6%)	122,060	(10%)	135,154
Parts	15,853	(3%)	14,957	(9%)	16,417
Service	9,907	(2%)	9,375	(7%)	10,082
Rental and other	1,297	(51%)	1,268	(52%)	2,634
Total revenue	153,882	(6%)	147,660	(10%)	164,287
Cost of sales	(122,540)	(8%)	(117,484)	(12%)	(132,869)
Gross profit	31,342	(0%)	30,176	(4%)	31,418
Other income	1,027	(26%)	961	(30%)	1,382
Selling, general and administrative expense	(23,308)	0%	(22,370)	(4%)	(23,232)
Income from operating activities	9,061	(5%)	8,767	(8%)	9,568
EBITDA	11,707		11,387		11,825
Ratios as a percentage of revenue:					
Gross profit margin	20.4%		20.4%		19.1%
Selling, general and administrative	15.1%		15.1%		14.1%

#### Operating Summary:

Fourth quarter EBITDA decreased \$0.1 million, while income from operating activities decreased \$0.5 million on reduced new equipment demand associated with U.S. exchange and reduced parts and service volume. Parts and service revenues were lower primarily due to an earlier harvest in 2015 compared to 2014, combined with the more favorable weather of the 2015 harvest reducing service demand in the period.

#### Same store highlights:

Income from operating activities decreased \$0.8 million compared to the fourth quarter of 2014. The decline in activity is primarily related to lower new equipment sales, attributable to U.S. exchange rates as previously discussed. Decreased parts and service in the fourth quarter was influenced by an earlier and easier harvest in 2015 compared to 2014. Gross margin percentage has increased over prior year on higher parts and service sales as a percent of overall revenue, as well as increased used equipment margins for equipment taken on trade when the Canadian dollar was stronger. SG&A expenses decreased \$0.9 million in the quarter on expense control initiatives.

#### Acquisition performance:

Acquisition performance includes the results of Evergreen acquisitions prior to October 15, 2015 and Deer Country prior to December 10, 2015. For this period, acquisitions contributed \$0.3 million of income from operating activities on \$6.2 million of incremental revenue.

## Transportation Segment Results

(\$ thousands, except per share amounts)	Total Q4 2015		2014
	2015	% Change Compared to 2014	
Equipment			
New equipment	40,897	(18%)	50,007
Used equipment	3,127	60%	1,954
Total equipment revenue	44,024	(15%)	51,961
Parts	22,222	3%	21,634
Service	6,753	1%	6,715
Rental and other	3,004	14%	2,627
Total revenue	76,003	(8%)	82,937
Cost of sales	(62,545)	(10%)	(69,798)
Gross profit	13,458	2%	13,139
Other (loss)	(1,192)	751%	(140)
Unrealized foreign exchange (loss)	(1,083)	9%	(992)
Total other (loss)	(2,275)	101%	(1,132)
Selling, general and administrative expense	(12,117)	(10%)	(13,508)
Loss from operating activities	(934)	(38%)	(1,501)
EBITDA	1,865		173
Ratios as a percentage of revenue:			
Gross profit margin	17.7%		15.8%
Selling, general and administrative	15.9%		16.3%

### Operating Summary:

Fourth quarter EBITDA and operating income increased \$1.7 million and \$0.6 million, respectively. Operating improvements in Ontario more than offset the resource related decreases in Saskatchewan. For the segment, higher gross margin dollars of \$1.3 million within our Ontario parts and service departments combined with \$0.4 million of SG&A cost reductions in our Saskatchewan dealerships, wholly offset the 57% decrease in Saskatchewan equipment sales.

Consistent with trends explained in the year to date period, Saskatchewan equipment sales continued to be significantly impacted by low resource prices and the appreciation of the U.S. dollar over prior year. In the fourth quarter, Saskatchewan equipment sales decreased \$8.4 million (57%) compared to the same period in 2014. The decrease in Saskatchewan's parts and service revenues was limited to 3% compared to the 57% decrease in equipment sales, demonstrating the focus on servicing equipment which remains in use. SG&A reductions of \$0.4 million were achieved by our Saskatchewan operations when compared to 2014.

Ontario parts and service revenue increased by \$1.1 million, as oil prices have not been a significant factor on Ontario trucking activity. This additional revenue combined with process improvements in our service departments generated \$1.7 million of incremental gross margin in Ontario. SG&A dollars have decreased due to the non-recurrence of \$0.2 million of acquisition and integration costs incurred in the fourth quarter of 2014. The increase in gross margin dollars combined with reduced SG&A expenses resulted in \$0.2 million of income from operating activities in the fourth quarter 2015 compared to a loss of \$2.2 million in the fourth quarter of 2014.

## Commercial and Industrial Segment Results

(\$ thousands, except per share amounts)	Total Q4 2015		2014
	2015	% Change Compared to 2014	
Equipment			
New equipment	14,394	(43%)	25,061
Used equipment	2,464	(2%)	2,509
Total equipment revenue	16,858	(39%)	27,570
Parts	6,531	(18%)	7,932
Service	3,277	(20%)	4,108
Rental and other	1,175	(47%)	2,206
Total revenue	27,841	(33%)	41,816
Cost of sales	(20,546)	(32%)	(30,419)
Gross profit	7,295	(36%)	11,397
Other income	310	99%	156
Selling, general and administrative expense	(7,061)	(23%)	(9,226)
Income from operating activities	544	(77%)	2,327
EBITDA	1,462		3,911
Ratios as a percentage of revenue:			
Gross profit margin	26.2%		27.3%
Selling, general and administrative	25.4%		22.1%

### Operating Summary:

Fourth quarter EBITDA decreased \$2.4 million and income from operating activities decreased \$1.8 million primarily due to a 43% decrease in new equipment sales. Action taken to scale operations in response to the market reduced SG&A by \$2.2 million (23%) and maintained positive income from operating activities in the quarter.

The economic impact from the decline in oil prices had a significant impact to equipment sales in the fourth quarter. In addition, a warmer start to winter reduced demand for snow removal equipment and contributed to the decline in equipment and rental revenue compared to the fourth quarter of 2014.

During 2015, parts and service revenues were less volatile than equipment revenue, indicating equipment continues to operate and require servicing. This trend continued into the fourth quarter, with parts and service decreasing 18.5% compared to the 39% decrease in equipment revenue. However, the impact of lower market activity became more significant to parts and service revenues in the fourth quarter, as the decrease in parts and service was 18.5% in the current quarter, compared to 13% decrease in the third quarter of 2015. Continuous monitoring and action around costs is a key focus in this sector during market cycles, and \$2.2 million has been eliminated from SG&A costs quarter over quarter.

## FOURTH QUARTER CASH FLOWS

Cervus' primary sources and uses of cash flow for the three month period ended December 31, 2015 are as follows:

### Operating activities

Net cash provided in operating activities was \$20.6 million, compared to cash provided of \$19.4 million for the same period of 2014, a decrease of \$1.2 million. The primary reason for this decrease is cash taxes paid in fourth quarter 2015 of \$5.3 million and higher interest paid of \$2.8 million. These changes were partly offset by \$14.8 million of net cash received from working capital items, compared to \$3.3 million in 2014. The \$11.5 million increase in cash from working capital items is primarily due to cash provided by net change in inventories and floor plan payables.

### Investing activities

The Company used \$3.4 million in net cash for investing activities, compared to a use of \$48.7 million in 2014. In 2014 there were several events which were non-recurring in 2015, the most significant use of cash for investing activities was the purchase of Evergreen Equipment Ltd. and Deer-Country Equipment (1996) Ltd in 2014 totaling \$42.3 million.

### Financing activities

Financing activities used \$11.1 million in cash flows in the period, primarily from \$5.8 million advanced under the Company's debt facilities and the payment of dividends of \$3.0 million.

## CONSOLIDATED FINANCIAL POSITION

### LIQUIDITY

(\$ thousands, except ratio amounts)	December 31, 2015	December 31, 2014
Current assets	405,778	410,214
Total assets	629,785	669,303
Current liabilities	287,891	290,838
Long-term financial liabilities	136,953	142,553
Shareholders' equity	193,293	229,491
Working capital (see "Non-IFRS Measures")	117,887	119,376
Working capital ratio (see "Non-IFRS Measures")	1.41	1.41

### Working capital

Cervus' working capital decreased slightly by \$1.5 million to \$117.9 million at December 31, 2015 when compared to \$119.4 million at December 31, 2014. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at December 31, 2015, the Company had the ability to floor plan an additional \$34.9 million of inventory, and \$225.0 million of undrawn floor plan capacity.

The Company's ability to maintain sufficient liquidity is primarily driven by revenue, gross profit realization, and judicious allocation of resources. At this time, there are no known factors that management is aware of that would affect its short and long-term objectives of meeting the Company's obligations as they come due. Working capital may fluctuate from time to time based primarily on the use of cash and cash equivalents to fund future business acquisitions, as well as due to the seasonal nature of our business. Cash resources can normally be restored by accessing floor plan monies from unencumbered 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.

## Liquidity risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the ability to raise funds to meet purchase commitments, financial obligations, and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. The Company's contractual obligations at December 31, 2015 are described below.

The Company has bank credit facilities available for its current use as follows:

(\$ thousands)	2015		2014	
	Total Limits	Borrowings	Total Limits	Borrowings
Operating and other bank credit facilities	\$ 100,832	\$ 52,832	\$ 103,284	\$ 42,707
Capital facilities	64,131	42,800	64,169	44,546
Floor plan facilities and rental equipment term loan financing	479,243	182,959	507,927	195,596
Total borrowing	\$ 644,206	\$ 278,591	\$ 675,380	\$ 282,849

The Company has guaranteed the net residual value of certain customer leases, for leases between customers and John Deere Financial ("JDF") as set out in Note 28 to the consolidated financial statements. The Company regularly assesses the residual value of the JDF lease portfolio relative to wholesale values for comparable equipment. On the maturity of customer's leases, the equipment is returned to the Company and sold as used equipment. Upon the return of equipment, JDF will provide the Company floor planning based on John Deere's pricing guide. Of the lease portfolio at December 31, 2015, leases with a residual value of \$14.2 million are scheduled to mature in 2016.

## Contractual obligations

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

(\$ thousands)	Total carrying value	Due 2016	Due 2017 through 2018	Due 2018 through 2019	Due thereafter
Term debt payable	109,615	17,917	84,476	7,555	-
Finance lease obligation	22,064	5,713	4,850	10,341	1,160
Convertible debenture	32,941	-	34,500	-	-
Operating leases	-	6,161	4,760	3,281	10,678
Total	164,620	29,791	128,586	21,177	11,838

## 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 Commercial and Industrial equipment sales usually do not have trade-ins. This results in a higher amount of used agricultural equipment than used Transportation and Commercial and Industrial equipment. In addition, the majority of our new John Deere equipment is on consignment from John Deere, whereas we purchase the new equipment from our other manufacturers. These factors directly impact the amount of used and new equipment carried on our books. The majority of our product lines, in all segments, are manufactured in the U.S. with pricing based in U.S. dollars, but invoiced in Canadian dollars.

Inventory by segment for the period ended December 31, 2015 compared to December 31, 2014 is as follows:

(\$ thousands)	December 31, 2015	December 31, 2014
Agricultural	204,071	200,374
Transportation	69,708	68,024
Commercial & Industrial	43,947	56,227
<b>Total</b>	<b>317,726</b>	324,625

As at December 31, 2015, inventories decreased by \$6.9 million when compared to \$324.6 million at December 31, 2014. The \$6.9 million decrease compared to December 31, 2014 is comprised of an \$11.1 million decrease in used equipment, partly offset by an increase in parts of \$3.1 million and a \$1.8 million increase in new equipment. Appreciation in the U.S. dollar has increased the carrying value of inventory, as inventory was replaced during the year at higher Canadian dollar costs. The following analysis of inventory discusses the dollar value of inventory, and is not necessarily indicative of the number of units held in inventory, as inventory dollar values and inventory unit counts have diverged due to the exchange related increases on per unit cost during the year. The annual average USD/CAD exchange rate for 2015 was 1.2787, a 9% average increase over the \$1.1728 rate in effect at the beginning of the year.<sup>6</sup>

The carrying value of same store inventory within the Agriculture segment is above prior year, due to increased parts inventory, as increased new inventory was offset by decreases in used. This has been achieved through continued focus in managing inventory levels throughout the year and acceleration in used demand in the second half of 2015.

The increase in our Transportation inventory is due to increased new inventory in Saskatchewan offset by decreased new inventory in Ontario. Saskatchewan new equipment inventory increased due to stocking new equipment inventory at the beginning of the year in expectation of typical western Canadian equipment demand. This demand did not materialize to the economic implications of significantly lower resource prices. The decrease in our C&I inventory is due to targeted reductions of new inventory during the year.

As at December 31, 2015, the Company believes that the recoverable amounts of its equipment inventory exceed its respective carrying values and no general impairment reserve is required or has been recorded.

### Accounts Receivable

For the year ended December 31, 2015 the average time to collect the Company's outstanding accounts receivable was approximately 19 days as compared to 18 days for the year ended December 31, 2014. At December 31, 2015 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 ongoing 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 has increased to \$2.0 million (2014 - \$1.4 million) at December 31, 2015, which represents 4.4% (2014 - 2.4%) of outstanding trade accounts receivable and 0.1% (2014 - 0.1%) of gross revenue on an annual basis. Bad debt expense for the year ended December 31, 2015 amounted to a \$0.8 million (2014 - \$0.8 million).

<sup>6</sup> Bank of Canada, <http://www.bankofcanada.ca/rates/exchange/10-year-converter/>

## CAPITAL RESOURCES

We use our capital to finance our current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize our shareholder value is to use a combination of equity and debt financing to leverage our operations. A summary of the Company's available credit facilities as at December 31, 2015 is as follows:

(\$ thousands)	Total Amount	Borrowings	Letters of Credit	Consigned Inventory	Amount Available
Operating and other bank credit facilities	100,832	52,832	2,556	-	45,444
Floor plan facilities and rental equipment					
floor plan facilities	479,243	182,959	-	71,213	225,071
Capital facilities	64,131	42,800	-	-	21,331
Total	644,206	278,591	2,556	71,213	291,846

### Operating and other bank credit facilities

At December 31, 2015, the Company has a revolving credit facility with a syndicate of underwriters. The principal amount available under this facility is \$100,000 thousand. The facility was amended and extended on December 21, 2015. The facility is committed for a two year term, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an \$80,000 thousand accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2015 there was \$52,000 thousand drawn on the facility and \$2,400 thousand 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 market share targets and working capital requirements for 2016.

The Company must meet certain financial covenants as part of its current Canadian credit facility, all of which the Company was in compliance as at December 31, 2015. The relating three core covenants are summarized as:

- Maintaining "total liabilities to tangible net worth ratio" not exceeding 4.0:1.0 calculated from adjusted total liabilities over adjusted equity.
- Maintaining "fixed charge coverage ratio" greater to or equal to 0.95:1.0, calculated as adjusted EBITDA net of any Canadian debt or equity financing utilized 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. The fixed charge coverage ratio will increase to 1.00:1 commencing on December 31, 2016 until March 30, 2017, and to 1.10:1 for the period from March 31, 2017 onwards.
- Maintaining "asset coverage ratio" greater than 3.0:1.0, calculated as North American adjusted net tangible total assets less consolidated debt excluding floor plan liabilities, plus debt due under the Canadian credit facility, divided by the amount due under the Canadian credit facility.

### Floor plan facilities

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Canada ULC, GE Canada Equipment Financing G.P., General Electric Canada Equipment Financing G.P., GE Commercial Distribution Finance Canada, De Lage Landen Financial Services Canada Inc., PACCAR Financial Ltd., US Bank, and Canadian Imperial Bank of Commerce. At December 31, 2015, floor plan payables related to inventories was \$168.6 million. Floor plan payables at December 31, 2015 and December 31, 2014 represented approximately 53.1% and 56% of our inventories, respectively. Floor plan payables fluctuate significantly from quarter to quarter based on the timing between the receipt of equipment inventories and their actual repayment so that the Company may take advantage of any programs made available to the Company by its key suppliers. 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 \$2.1 million for the year ended December 31, 2015. This amount was offset by rebates applied during the year ended December 31, 2015 of \$1.3 million. At December 31, 2015 approximately 41% (2014 – 30%) of the C&I and 93% (2014 – 94%) of the Transportation segment's outstanding floor plan balances were interest bearing.

### Outstanding Share Data

As of the date of this MD&A, there are 15,626 thousand common shares, 39 thousand share options, and 688 thousand deferred shares outstanding. The Company also has convertible debentures with a face value of \$34.5 million, convertible at the holder's option, into common shares prior to the maturity date at a conversion price of \$26.15 per common share see "Contractual Obligations"). As at December 31, 2015 and 2014, the Company had the following weighted average shares outstanding:

<b>(thousands)</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Basic weighted average number of shares outstanding	<b>15,481</b>	15,147
Dilutive impact of deferred share plan	-	745
Dilutive impact of share options	-	11
Diluted weighted average number of shares outstanding	<b>15,481</b>	15,903

The above table excludes all deferred share units and options for the year ended December 31, 2015 (677 thousand) 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 year ended December 31, 2015 (\$ thousands, except per share amounts):

<b>(\$ thousands, except per share amounts)</b>				
<b>Record Date</b>	<b>Dividend per Share</b>	<b>Dividend Payable</b>	<b>Dividends Reinvested</b>	<b>Net Dividend Paid</b>
March 31, 2015	0.2125	3,287	292	2,995
June 30, 2015	0.2125	3,293	282	3,011
September 30, 2015	0.2125	3,306	270	3,036
December 31, 2015	0.2125	3,316	230	3,086
<b>Total</b>	<b>0.8500</b>	<b>13,202</b>	<b>1,074</b>	<b>12,128</b>

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

During the year ended December 31, 2015, 71 thousand common shares were issued through the Company's dividend reinvestment plan.

## Taxation

Cervus' dividends declared and paid to December 31, 2015 are considered to be eligible dividends for tax purposes on the date paid.

The Alberta corporate income tax rate increase announced June 18, 2015 increased Alberta provincial income tax to 12% from 10% for current and future periods. We estimate that our overall corporate tax rate for current and future periods will increase approximately 0.75% to 1.0%, compared to the tax rates in effect prior to the Alberta tax increase.

On May 4, 2015, the Company announced an agreement with the Canada Revenue Agency (CRA) regarding their objection to the tax consequences of the conversion of the Company from a limited partnership structure into a corporation in October 2009. The agreement resulted in a non-cash charge of \$33.4 million related to the write-off of a portion of the Company's deferred tax asset and \$3.6 million of provincial cash taxes payable for the tax years ended December 31, 2013 and 2014. Under the agreement, the Company had \$1.9 million of unused federal tax attributes which have been applied to reduce 2015 income taxes payable. Total expense recognized due to the CRA settlement was \$36.9 million.

### 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 RESULTS

### Annual Results Summary

(\$ thousands, except per share amounts)	2015	2014	2013
Total Revenues	1,133,878	979,609	861,138
(Loss) profit for the year	(27,379)	18,496	23,326
(Loss) profit for the year attributable to shareholders	(27,421)	18,362	23,090
Net (loss) earnings per share - basic	(1.77)	1.21	1.54
Net (loss) earnings per share - diluted	(1.77)	1.15	1.48
Cash provided by operating activities	23,674	61,577	30,480
EBITDA	46,330	50,811	51,883
Total assets	629,785	669,303	426,230
Total long-term liabilities	148,601	143,752	78,540
Total liabilities	436,492	439,812	207,810
Shareholders' equity	193,293	229,491	218,420
Net book value per share - diluted	12.49	14.43	13.95
Dividends declared to shareholders	13,202	12,583	11,759
Dividends declared per share	0.850	0.825	0.785
Weighted average shares outstanding			
Basic	15,481	15,147	14,968
Diluted	15,481	15,903	15,653
Actual shares outstanding	15,606	15,325	15,012

## Quarterly Results Summary

(\$ thousands, except per share amounts)	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Revenues	257,726	334,742	302,988	238,422
Profit (loss) attributable to the shareholders	3,768	3,910	(32,203)	(2,896)
Gross profit dollars	52,095	55,278	55,256	44,312
Gross margin percentage	20.2%	16.5%	18.2%	18.6%
EBITDA	15,034	14,863	12,305	4,128
Earnings (loss) per share:				
Basic	0.24	0.25	(2.08)	(0.19)
Diluted	0.23	0.24	(2.08)	(0.19)
Adjusted earnings (loss) per share <sup>1</sup>				
Basic	0.32	0.43	0.19	(0.08)
Diluted	0.31	0.41	0.18	(0.08)
Weighted average shares outstanding				
- Basic	15,578	15,519	15,446	15,382
- Fully diluted	16,255	16,222	15,446	15,382

(\$ thousands, except per share amounts)	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Revenues	289,040	286,192	237,488	166,889
Profit (loss) attributable to the shareholders	5,870	7,707	5,618	(833)
Gross profit dollars	55,954	52,345	45,253	33,121
Gross margin percentage	19.4%	18.3%	19.1%	19.8%
EBITDA	15,909	17,599	13,247	4,053
Earnings (loss) per share:				
Basic	0.38	0.51	0.37	(0.06)
Diluted	0.37	0.49	0.35	(0.06)
Adjusted earnings (loss) per share <sup>1</sup>				
Basic	0.49	0.57	0.39	(0.10)
Diluted	0.47	0.55	0.37	(0.10)
Weighted average shares outstanding				
- Basic	15,273	15,148	15,130	15,034
- Fully diluted	16,023	15,884	15,835	15,034

Sales activity for the Agricultural segment is normally highest between April and September during growing seasons in Canada and the impact on the growing seasons for New Zealand and Australia has not materially impacted the above results. Activity in the Transportation sector generally increases in winter months, while the Commercial and Industrial sector generally slows in the winter months. As a result, earnings or losses may not accrue uniformly from quarter to quarter. The reason for the change in net profit for the four most recent quarters when compared to prior quarters, is primarily the impact of resource prices on western Canadian Transportation and C&I operations, followed by our Ontario Peterbilt operations generating operating losses during integration.

## 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.

### Alberta & Saskatchewan

---

Agriculture outlook remains the driving variable in the Company’s western Canadian operations, due to the strength of the agriculture sector, as well as oil prices significant impact on our C&I and western Canadian transportation operations.

Despite weather related concerns through the first half of the 2015 growing season, 2015 ended strong for Canadian farmers. Canadian estimated crop yield for 2015 is second only to the record 2013 crop<sup>7</sup>, while 2015 farm net cash income set a record high.<sup>8</sup> Combined with the strength in Canadian agriculture over the last decade, farm net worth is also at record highs.<sup>9</sup> These factors place Canadian farmers in a solid position to navigate the broader market factors currently forecast for 2016. AAFC is forecasting grain inventory to weigh on global crop pricing, although Canadian producers will benefit from depreciation of the Canadian dollar while lower oil prices have reduced input costs of fuel. However, equipment related input costs have increased due to the Canadian pricing impact of U.S. dollar based foreign exchange. Increased equipment cost associated with foreign exchange could continue to temper some aspects of new equipment demand in 2016, particularly for discretionary equipment purchases outside of planned replacement cycles.

The increased cost of new equipment has supported the carrying value of our used agricultural inventory and we are well positioned to support overall equipment demand with well-priced quality used inventory. Our parts and service activity remains a critical link to our customers, and is a core business line within our dealerships. The significant equipment population in our geography drives parts and service revenues, as our customers plant, maintain, and harvest a crop each year. We see opportunities to continue to refine our service process to further increase efficiencies and partner with our customers in the time and weather sensitive Canadian growing season.

Our western Canadian Commercial and Industrial segment and our Saskatchewan transportation dealerships have been heavily impacted by reduced oil prices and associated market trends. Our customers curtailed capital spending on new equipment in 2015, and we do not anticipate an acceleration of equipment demand in these segments until such time that resource activity resumes. However, industry activity continues related to interprovincial logistical transport and material handling, agricultural transportation demand, and construction tied to major capital projects already underway. Our focus in these markets in the current cycle is continued support of our customers, while prudently managing resources. We have achieved significant reductions in SG&A expenses while retaining our ability to service our customers effectively. This theme will be a sustained focus in these markets through 2016.

### Ontario

---

Our Ontario Transportation operations ended the year with a small operating profit. This is a significant turnaround from the losses incurred earlier in the year, although still well below our expectation for this group. Market fundamentals in Ontario are positive, with a provincial economy expected to be a national leader in 2016.<sup>10</sup> In these conditions, our focus is continued building of customer relationships, developing our team, and implementing processes to support responsive and profitable business. Supported by our Original Equipment Manufacturer (“OEM”), 2015 was a year of significant investment in providing the tools and building the team required to deliver

---

<sup>7</sup> Agriculture and Agri-Food Canada *Outlook for Principal Field Crops*, January 25, 2016, <http://www.agr.gc.ca/eng>

<sup>8</sup> Agriculture and Agri-Food Canada *2016 Canadian Agricultural Outlook*, February 19, 2016, <http://www.agr.gc.ca/eng>

<sup>9</sup> Agriculture and Agri-Food Canada *2016 Canadian Agricultural Outlook*, February 19, 2016, <http://www.agr.gc.ca/eng>

<sup>10</sup> TD Economics, *Quarterly Economic Forecast – Canada*, December 17, 2015, <https://www.td.com/economics>

results commensurate with our investment. We have been pleased with the engagement of the team to embrace the challenge, and the fourth quarter of 2015 provided indications that these initiatives are bearing fruit. Through 2016 we continue to focus on branch profitability, and see the largest opportunities in building efficient parts and service departments, supported by a capable high volume equipment sales team.

### **New Zealand & Australia**

---

The New Zealand Agriculture outlook continues to be dominated by the dairy sector. At time of writing, milk payout is \$4.15/kg and bank forecasts are for this to drop below \$4.00/kg. These are ten year lows for dairy prices, and have impacted the capital investment of dairy farmers, as the national dairy herd has contracted. Other sectors within New Zealand agriculture have provided some broader relief, as cattle and sheep prices remain strong, combined with a positive outlook for fruit and vegetable crops. Under such circumstances, we expect farmers to be cautious with investments in equipment, although existing equipment population will continue to drive parts and service requirements.

In our Australian geography, farmers experienced a mixed year. Grain prices were stable, and although El Nino conditions resulted in lower than average rainfall, farmers are expecting to cover their costs for the year. For dairy farmers, recovery of global dairy prices has been slow, while a drier season has increased their input costs. Sheep and beef farmers have benefited from low national herd numbers generating strong prices, supported by a decline in the Australian dollar relative to the U.S. dollar. The diversified agriculture in our dealership area has supported overall demand in the year, and is a positive factor looking ahead to 2016. Median rainfall is a significant driver, and was a headwind in 2015. With the El Nino year passed, general expectation of higher precipitation in 2016 is providing farmers a positive outlook for the coming year, one indicator of equipment demand.

### **OFF-BALANCE SHEET ARRANGEMENTS**

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

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2015, payments in arrears by such customers aggregated \$376 thousand. In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2015, the net residual value of such leases aggregated \$195.0 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% to 2% of the face amount of the finance or lease contract for amounts that the Company owes Deere Credit under this obligation. The deposits are capped at 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 \$2.7 million at December 31, 2015. 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.

## 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. In addition, no directors or executive officers are part of the share option plan.

Total remuneration of key management personnel and directors during the year ended December 31, 2015 and 2014 was:

(\$ thousands)	2015	2014
Short-term benefits	3,096	2,684
Share-based payments	387	573
Total	3,483	3,257

### Key management personnel and director transactions

Key management and directors of the Company control approximately 27% of the common voting shares of the Company.

### Other related party transactions

Certain officers and dealer managers of the Company have provided guarantees to John Deere as required by John Deere aggregating \$6.5 million. The guarantees are kept in place until released by John Deere. During the twelve month periods ended December 31, 2015 and 2014, the Company paid those individuals \$195 thousand and \$184 thousand, respectively, 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.

## BUSINESS RISKS AND UNCERTAINTIES

### Risk management framework

The Board of Directors ("Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board, together with the Audit Committee are responsible for monitoring and oversight of the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict innovation

and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk.

The following are considered the primary categories of business risks and uncertainties faced by the business:

### **Market risk**

---

Market risk is the risk that changes in the market place such as foreign exchange rates, interest rates and commodity prices that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return.

### **Commodity price**

The Company is primarily a business to business equipment retailer. Many of our customers' businesses are very capital intensive, and can be significantly affected by swift changes to external market factors beyond their control. Commodity prices can be one of the most significant factors to our customers' businesses, as rapid changes in food input pricing, cattle pricing, or petroleum product pricing can have a material adverse effect on a large number of our customers. The Company's financial success can be largely impacted by changes in these business cycle factors in its customer base. These factors would potentially impact the Company's operating results through eroding margins on the products it sells, and valuation concerns over the inventory it holds.

Monitoring inventory levels, periodic review of inventory valuation across segments, and increasing the geographic distribution and industry alignments of our dealer network assist in reducing the impact of a significant market downturn in one particular region or industry. However, the majority of sales continue to be derived from the Agricultural sector. Consequently, market factors affecting the liquidity and outlook for our Agriculture customers can significantly impact demand for equipment sales, parts & service. Ongoing focus on internal efficiencies and excellence in after-market service to our customers assist in maintaining gross margin in periods where our customers are not focused on capital investment.

### **Foreign currency exposure**

Many of our products, including equipment and parts, are based on a U.S. dollar price as they are supplied primarily by U.S. manufacturers but are settled in Canadian dollars as they are received. This may cause fluctuations in the sales values assigned to equipment and parts inventories, as inventory is recorded based on Canadian dollar cost at the time of receipt, but is sold to the customer based on market pricing prevailing at time of sale. Both sales revenues and gross profit margins may fluctuate based on differences in foreign exchange rates between the purchase of inventory and sale of inventory. Certain of the Company's manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on the Company's new equipment inventory purchases.

Further, a portion of the Company's owned inventory is floor planned in U.S. dollars. As such, U.S. dollar denominated floor plan payables are exposed to fluctuations in the U.S. dollar exchange rate until the unit is sold and the floorplan is repaid. At the time of sale, the Company determines a margin based on the replacement cost of the inventory at the time of sale, not the initial cost of the inventory at the time of purchase. In so doing, the Company's objective is to obtain a target margin on the sale of inventory, by calculating the sale margin based on the cost of repaying the U.S. dollar floorplan as at the sale date. If the Company was unable to recapture fluctuations in the U.S./CAD dollar in the sales price for equipment floor planned in U.S. dollars, a \$0.01 change in the U.S. exchange rate would have increased (decreased) profit or loss by \$264 thousand (2014 - \$260 thousand), based on the U.S. dollar floor plan balances at December 31, 2015. From time to time the Company also enters into foreign exchange forward contracts to manage exposure on timing difference between the payout of floorplan and receipt of funds from a customer.

In addition, the Company is exposed to foreign currency fluctuation related to translation adjustments upon consolidation of its Australian and New Zealand operations. These foreign subsidiaries report operating results in Australia and New Zealand dollars, respectively. Movements in these currencies relative to the Canadian dollar will impact the consolidated results of these operations. Based on the Company's results reported from its foreign

subsidiaries, a strengthening or weakening of the Canadian dollar by 5% against the New Zealand dollar at December 31, 2015 would have increased (decreased) profit or loss by \$559 thousand (2014 - \$54 thousand). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2015 would have increased (decreased) profit or loss by \$172 thousand (2014 -\$20 thousand).

**Interest rate risk**

The Company's cash flow is exposed to changes in interest rates on its floor plan arrangements and certain term debt which bear interest at variable rates. The cash flows required to service these financial liabilities will fluctuate as a result of changes in market interest rates. The Company mitigates its exposure to interest rate risk by utilizing excess cash resources to buy-down or pay-off interest bearing contracts, and by managing its floor plan payables and inventory levels (turnover) to maximize the benefit of interest-free periods, where available.

Based on the Company's outstanding long-term debt at December 31, 2015, a one percent increase or decrease in market interest rates would impact the Company's annual interest expense by approximately \$2.6 million (2014 - \$2.0 million).

**Reliance on our key manufacturers and dealership arrangements**

---

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

The dealership agreements with John Deere obligate the Company to assume leased equipment at residual value upon the maturity of Customer's leases with John Deere. This equipment is then sold by Cervus as used equipment. In the unlikely event of a severe market shock, residual values set at the beginning of a 5 year lease term may exceed market value of the equipment upon lease maturity. Cervus routinely reviews the residual values and maturity of customers' leases with John Deere, and is satisfied with the residual values reflected in the leases and the Company's ability to profitably market the equipment as leases mature. At December 31, 2015, customer equipment leases with John Deere represented residual values of \$194,987 thousand, maturing over the next five years.

The Company also has dealership agreements in place with Peterbilt, Bobcat, JCB, CMI, Clark, Sellick, and Doosan. These agreements are one to three year agreements and are normally renewed annually, except for unusual situations such as bankruptcy or fraud.

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

**Industry competitive factors**

---

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

The Transportation equipment group primarily sells transport equipment through PACCAR, which manufacturers Peterbilt and Kenworth trucks. The major competitors to Peterbilt are Kenworth, International, Freightliner, Volvo,

and Mack trucks. The segment is highly dependent on consumer and commercial transportation of goods, as well as service based industries including oil and gas in western Canada, and manufacturing in eastern Canada. This diverse customer base does mitigate the risks inherent in any one of those customer segments.

The Commercial and Industrial segment sells light and medium construction equipment and is comprised of several lines of commercial equipment from major manufacturers, Bobcat and JCB. The major competitors are Caterpillar, Komatsu, CNH (Case), John Deere Industrial, Volvo, Hitachi and Liebherr. The light and medium commercial equipment market is very much dependent upon residential and commercial construction. The segment also sells industrial equipment from several manufacturers, Clark, Sellick, and Doosan being the major suppliers. Their major competitors are Toyota, Hyster, Crown, and Caterpillar. Industrial equipment is primarily sold to building supply companies, warehousing, food processors, oilfield supply companies, and the grocery industry. This customer diversity mitigates to some degree the risks inherent in any one of these customer segments.

Presently the majority of the Transportation, and Commercial and Industrial equipment segment revenues are derived from the sale of Peterbilt, Bobcat, JCB, Sellick, and Doosan equipment and products. All these equipment manufacturers have established themselves as industry leaders in our markets for the manufacture and delivery of on-highway, vocational and medium duty Transportation equipment and light Commercial and Industrial equipment. There can be no assurance however that these suppliers will continue to manufacture high quality, competitively priced products or maintain its market share in the future.

---

### **Seasonality and Cyclical**

Weather has a direct impact on our customers' earnings, particularly in the agricultural segment, which in turn affects their need and ability to purchase equipment. The transportation and construction and industrial sectors are not as seasonal when compared to the agricultural business on an annual basis, but can fluctuate based on market factors beyond our control.

---

### **Human resources**

The ability to provide high quality services to our customers depends on our ability to attract and retain well trained, experienced employees. Certain of the geographic areas in which we operate are experiencing 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.

---

### **Legislative**

The Company is subject to comply with a broad range of legislation, regulation and government policies. A change in existing legislation could negatively impact operations.

---

### **Environmental risks**

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

---

### **Acquisition and integration risks**

Strategic acquisitions have been an important element of Cervus' business strategy, and Cervus expects to continue to pursue such acquisitions in the future. Although Cervus engages in discussions with, and submits proposals to acquisition candidates, suitable acquisitions may not be available in the future on reasonable terms. If Cervus does identify an appropriate acquisition candidate, Cervus may not be able to successfully negotiate the terms of the acquisition, finance the acquisition or, if the acquisition occurs, effectively integrate the acquired business into Cervus' existing business. In addition, the negotiation of a potential acquisition and the integration of an acquired business may require a disproportionate amount of management's attention and resources.

Cervus' inability to successfully identify, execute, or effectively integrate future or previous acquisitions may negatively affect its results of operations. Even though Cervus performs a due diligence review of the businesses it acquires that it believes is consistent with industry practices, such reviews are inherently incomplete. Even an in-depth due diligence review of a business may not necessarily reveal existing or potential problems or permit Cervus to become familiar enough with the business to fully assess its deficiencies and potential. Even when problems are identified, Cervus may assume certain risks and liabilities in connection with the acquired business.

### **Credit risk**

---

By granting credit sales to customers, it is possible these customers may experience financial difficulty and be unable to fulfill their repayment obligations. The Company's revenue is generated from customers in the farming, construction, industrial, and transportation industries, resulting in a concentration of credit risk from customers in these industries. The strength of our Agricultural segment is influenced by the prices of crop inputs, commodity prices, as well as local and global weather patterns in a growing season. Our Commercial and Industrial equipment sector is influenced by general economic and construction activity, and due to location, oil prices for Western Canadian crude oil. Our Transportation segment is influenced by regional, national, and North American economic activity, particularly factors impacting oil and gas activity, manufacturing and the demand for, and transportation of, consumer and industrial goods.

A significant decline in economic conditions within these industries would increase the risk that customers will experience financial difficulty and be unable to fulfill their obligations to the Company. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable, and deposits and guarantees with John Deere. The Company's revenues are normally invoiced with payment terms of net, 30 days. The average time to collect the Company's outstanding accounts receivable was approximately 19 days for the year ended December 31, 2015 (18 days for the year ended December 31, 2014) and no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on specific customers credit risk, historical trends, and other economic information.

### **Capital risk management**

---

The Company's objective when managing its capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders and to provide an adequate return to Shareholders by pricing products and services commensurately with the level of risk. In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (i.e. shares issued, accumulated earnings, shareholder distributions and dilutive instruments).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares/units to facilitate business combinations and or retire term debt or may adjust the amount of distributions paid to the Shareholders.

The Company uses the following ratios in determining its appropriate capital levels; a) a debt to total capital ratio (total interest bearing debt divided by total interest bearing debt plus book value of equity); b) an adjusted debt to adjusted EBITDA ratio (adjusted debt divided by adjusted EBITDA); c) an adjusted debt to adjusted assets ratio (calculated as adjusted debt divided by adjusted assets); d) a fixed charge coverage ratio (calculated as adjusted EBITDA divided by contractual principal, interest, dividend, and operating lease payments); and e) an asset coverage ratio (tangible assets divided by specific drawn amounts under certain credit facilities). Adjusted assets comprise all components of assets other than other intangible assets and goodwill. Adjusted equity comprises of all components of shareholders' equity and is reduced by other intangible assets and goodwill.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of unaudited and audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the unaudited and audited consolidated financial statements. 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.

### **Determination of fair values**

---

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

### **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. These estimates have been discussed further below.

#### ***Property, plant and equipment***

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

#### ***Intangible assets***

The fair value of dealership distribution agreements and trade names acquired in a business combination is based on the incremental discounted estimated cash flows enjoyed post acquisition, or expenditures avoided, as a result of owning the intangible assets. The fair value of customer lists acquired in a business combination is determined using income based approaches, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of other intangible assets including non-competition agreements is based on the discounted cash flows expected to be derived from the use and any residual value of the assets.

#### ***Inventories***

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

#### ***Trade and other receivables***

The fair value of trade and other receivables is estimated at the present value of the future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes or when such assets are acquired in a business combination.

#### ***Other non-derivative financial liabilities***

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability

component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

### ***Derivative financial instruments***

The fair value of foreign currency derivative financial instruments is calculated based on market comparison technique. The fair value is based on similar contracts in an active market and based on quotes using the prevailing foreign exchange translation rate from the Bank of Canada or similar sources.

### **Taxation matters**

---

Income tax provisions, including current and future income tax assets and liabilities, require estimates and interpretations of federal and provincial income tax rules and regulations, and judgements as to their interpretation and application to our specific situation. Estimates are also made as to the availability of future taxable profit against which carryforward tax losses can be used.

### **Lease arrangements**

---

In determining classification of leases as an operating or finance lease, the Company applies judgement to determine whether substantially all of the significant risks and rewards of ownership are transferred to the customer or remain with the Company; or where the Company is the lessee, whether substantially all the significant risks and rewards of ownership are transferred to the Company or remain with the lessor. These judgements can be significant as to how the Company classifies amounts related to the arrangements as rental equipment, net investment in finance lease, or lease obligation of these arrangements.

### **Net realizable value of inventories**

---

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

### **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.

Judgement is used in identifying impairment triggers and the cash generating unit or group of cash generating units at which goodwill, intangible assets, and property and equipment are monitored for internal management purposes and identifying an appropriate discount rate for these calculations.

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

## 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 current or future periods. The new standards, amendments to existing standards effective for annual periods beginning on or after January 1, 2016 and have not been applied in preparing these consolidated financial statements are set out below.

Effective January 1, 2016, the Company will be required to adopt amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets for clarification on acceptable methods of depreciation and amortization. The amendments are to be applied prospectively for the annual period commencing January 1, 2016. The Company does not expect the amendments to have a material impact on the Company's financial statements.

On September 25, 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

On December 18, 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company intends to adopt these amendments in its financial statements for annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

On May 6, 2014 the IASB issued Accounting for Acquisitions of Interests in Joint Operations. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The Company does not intend to early adopt these amendments in its financial statements for the annual period beginning January 1, 2016, as the effective date for these amendments has been deferred indefinitely.

Effective January 1, 2018, the Company will be required to adopt IFRS 15 related to revenue from contracts with customers. Revenue from Contracts with Customers, was issued in May 2014 and replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The extent of the impact of adoption of the standard has not yet been determined.

The IASB has released updates to IFRS 9, related to the accounting and presentation of financial instruments and applies a principal-based approach to the classification and measurement of financial assets and financial liabilities, including an expected credit loss model for calculating impairment, and includes new requirements for hedge accounting. The mandatory effective date is January 1, 2018; however, early adoption is permitted. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 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 evaluated, or caused to be evaluated under their supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and the CFO concluded that, as of December 31, 2015, Cervus’ disclosure controls and procedures are effective.

### 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.

The CEO and the CFO evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2015, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), (2013). Based on this assessment, the CEO and the CFO concluded that, as of December 31, 2015, Cervus’ internal control over financial reporting are effective.

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.

## 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 Earnings

Adjusted earnings 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 Earnings as follows:

(\$ thousands, except per share amounts)	Three month period ended December 31		Year ended December 31	
	2015	2014	2015	2014
Income (loss) attributed to shareholders	3,768	5,870	(27,421)	18,362
Adjustments:				
CRA settlement	-	-	36,948	-
Unrealized foreign currency (gain) loss	1,083	992	2,810	952
Acquisition and integration costs	170	632	998	1,525
Loss (gain) on sale of land and building	-	-	-	(680)
Adjusted income attributed to shareholders	5,021	7,494	13,335	20,159
Adjusted earnings per share:				
Basic	0.32	0.49	0.86	1.33
Diluted	0.31	0.47	0.83	1.27

### 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:

EBITDA (\$ thousands)					
Three months ended December 31, 2015	Total	Agricultural	Transportation	Commercial & Industrial	Other <sup>1</sup>
Net profit (loss)	3,768	4,800	(1,165)	133	-
Add:					
Interest	4,400	1,670	2,345	385	-
Income taxes	2,267	2,889	(692)	70	-
Depreciation and Amortization	4,599	2,348	1,377	874	-
EBITDA	15,034	11,707	1,865	1,462	-

<b>EBITDA (\$ thousands) - Same Store Three months ended December 31, 2015</b>	<b>Total</b>	<b>Agricultural</b>	<b>Transportation</b>	<b>Commercial &amp; Industrial</b>
Net profit (loss) before tax	5,755	7,409	(1,857)	203
Add:				
Interest	4,388	1,658	2,345	385
Depreciation and Amortization	4,571	2,320	1,377	874
<b>EBITDA</b>	<b>14,714</b>	<b>11,387</b>	<b>1,865</b>	<b>1,462</b>

<b>EBITDA (\$ thousands) Three months ended December 31, 2014</b>	<b>Total</b>	<b>Agricultural</b>	<b>Transportation</b>	<b>Commercial &amp; Industrial</b>
Net profit (loss)	5,870	5,828	(1,371)	1,413
Add:				
Interest	2,287	1,272	569	446
Income taxes	2,528	2,497	(564)	595
Depreciation and Amortization	5,224	2,228	1,539	1,457
<b>EBITDA</b>	<b>15,909</b>	<b>11,825</b>	<b>173</b>	<b>3,911</b>

<b>EBITDA (\$ thousands) Year ended December 31, 2015</b>	<b>Total</b>	<b>Agricultural</b>	<b>Transportation</b>	<b>Commercial &amp; Industrial</b>	<b>Other<sup>1</sup></b>
Net profit (loss)	(27,421)	13,288	(3,470)	(291)	(36,948)
Add:					
Interest	13,571	6,758	5,172	1,641	-
Income taxes	42,327	7,494	(1,952)	(163)	36,948
Depreciation and Amortization	17,853	8,951	5,250	3,652	-
<b>EBITDA</b>	<b>46,330</b>	<b>36,491</b>	<b>5,000</b>	<b>4,839</b>	<b>-</b>

<b>EBITDA (\$ thousands) - Same Store Year ended December 31, 2015</b>	<b>Total</b>	<b>Agricultural</b>	<b>Transportation</b>	<b>Commercial &amp; Industrial</b>
Net profit (loss) before tax	15,100	20,019	(4,465)	(454)
Add:				
Interest	11,423	5,779	4,003	1,641
Depreciation and Amortization	13,921	7,091	3,178	3,652
<b>EBITDA</b>	<b>40,444</b>	<b>32,889</b>	<b>2,716</b>	<b>4,839</b>

<b>EBITDA (\$ thousands) Year ended December 31, 2014</b>	<b>Total</b>	<b>Agricultural</b>	<b>Transportation</b>	<b>Commercial &amp; Industrial</b>
Net profit	18,362	16,061	(876)	3,177
Add:				
Interest	8,352	4,980	1,927	1,445
Income taxes	7,654	6,703	(362)	1,313
Depreciation and Amortization	16,443	6,351	3,885	6,207
<b>EBITDA</b>	<b>50,811</b>	<b>34,095</b>	<b>4,574</b>	<b>12,142</b>

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

**EBITDA margin**

---

EBITDA margin is calculated as EBITDA divided by gross revenue.

**Same store**

---

Same store illustrates the current period results for stores that were included in the comparable period for the prior year. Excluded from same store are the incremental results for newly acquired stores for the period they were not owned in the prior year, including any current year acquisition related costs and amortization of intangibles.

**Price earnings ratio**

---

Price earnings ratio is calculated by dividing the Company's market capitalization by its total annual profit.

**Working capital**

---

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

**Market capitalization**

---

Market capitalization is calculated as current common shares outstanding at a particular time multiplied by the market value of those respective shares at that time.

**Net book value per share – diluted**

---

Net book value per share – diluted is calculated as shareholders' equity divided by the weighted average number of shares outstanding on a diluted basis.

Consolidated Financial  
Statements of

**CERVUS EQUIPMENT  
CORPORATION**

For the years ended December 31, 2015 and 2014



**KPMG LLP**  
205 - 5<sup>th</sup> Avenue SW  
Suite 3100, Bow Valley Square 2  
Calgary AB  
T2P 4B9

Telephone (403) 691-8000  
Fax (403) 691-8008  
www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cervus Equipment Corporation

We have audited the accompanying consolidated financial statements of Cervus Equipment Corporation, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cervus Equipment Corporation as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants

March 15, 2016  
Calgary, Canada

**CERVUS EQUIPMENT CORPORATION**

Consolidated Statements of Financial Position

As at December 31, 2015 and 2014

(\$ thousands)	Note	2015	2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	\$ 11,955	\$ 18,787
Trade and other accounts receivable	6	59,071	58,462
Inventories	7	317,726	324,625
Current portion finance lease receivables	8	584	1,600
Derivative financial asset	17	7,195	6,559
Assets held for sale	9	9,247	181
<b>Total current assets</b>		<b>405,778</b>	410,214
<b>Non-current assets</b>			
Long-term receivables		1,287	1,702
Long-term finance lease receivables	8	878	1,433
Investments in associates, at equity	10	5,762	5,268
Deposits with manufacturers	11	2,657	3,479
Property and equipment	12	141,799	148,948
Deferred tax asset	13	-	24,518
Intangible assets	14	51,008	54,009
Goodwill	14	20,616	19,732
<b>Total non-current assets</b>		<b>224,007</b>	259,089
<b>Total assets</b>		<b>\$ 629,785</b>	\$ 669,303

The accompanying notes are an integral part of these consolidated financial statements.

## CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Financial Position (continued)

As at December 31, 2015 and 2014

(\$ thousands)	Note	2015	2014
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other accrued liabilities	15	\$ 77,938	\$ 81,237
Customer deposits		3,004	8,594
Floor plan payables	16	168,643	181,801
Dividends payable		3,317	3,233
Income taxes payable		142	-
Current portion of term debt	16	17,917	8,430
Derivative financial liability	17	7,180	6,590
Current portion of finance lease obligation	8	5,713	6,175
Liabilities associated with assets held for sale	9	4,037	-
<b>Total current liabilities</b>		<b>287,891</b>	296,060
<b>Non-current liabilities</b>			
Term debt	16	87,661	92,154
Finance lease obligation	8	16,351	18,334
Debenture payable	16	32,941	32,065
Deferred income tax liability	13	11,648	1,199
<b>Total non-current liabilities</b>		<b>148,601</b>	143,752
<b>Total liabilities</b>		<b>436,492</b>	439,812
<b>Equity</b>			
Shareholders' capital	18	88,270	83,814
Deferred share plan	19	7,098	7,559
Other reserves	18	5,182	6,433
Accumulated other comprehensive income		1,831	192
Retained earnings		89,413	130,036
<b>Total equity attributable to equity holders of the Company</b>		<b>191,794</b>	228,034
<b>Non-controlling interest</b>		<b>1,499</b>	1,457
<b>Total equity</b>		<b>193,293</b>	229,491
<b>Total liabilities and equity</b>		<b>\$ 629,785</b>	\$ 669,303

Approved by the Board:

"Peter Lacey" Director

"Angela Lekatsas" Director

The accompanying notes are an integral part of these consolidated financial statements.

## CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Comprehensive Income  
For the year ended December 31, 2015 and 2014

(\$ thousands)	Note	2015	2014
<b>Revenue</b>			
Equipment sales		\$ 829,922	\$ 741,072
Parts		201,860	150,682
Service		82,288	69,535
Rentals		19,808	18,320
Total revenue		1,133,878	979,609
Cost of sales	20, 22	(926,937)	(792,936)
<b>Gross profit</b>		206,941	186,673
Other (loss) income	21	(1,719)	3,715
Selling, general and administrative expense	22	(179,583)	(157,678)
<b>Income from operating activities</b>		25,639	32,710
Finance income		195	384
Finance costs		(11,428)	(7,656)
<b>Net finance costs</b>	23	(11,233)	(7,272)
Share of profit of equity accounted investees, net of income tax	10	542	712
<b>Income before income tax expense</b>		14,948	26,150
Income tax expense	13	(42,327)	(7,654)
<b>(Loss) income for the period</b>		(27,379)	18,496
<b>Other comprehensive income:</b>			
Foreign currency translation differences for foreign operations		1,639	53
<b>Total comprehensive (loss) income for the period</b>		(25,740)	18,549
<b>(Loss) income attributable to:</b>			
Shareholders of the Company		(27,421)	18,362
Non-controlling interest		42	134
<b>(Loss) income for the period</b>		(27,379)	18,496
<b>Total comprehensive (loss) income attributable to:</b>			
Shareholders of the Company		(25,782)	18,415
Non-controlling interest		42	134
<b>Total comprehensive (loss) income for the period</b>		\$ (25,740)	\$ 18,549
<b>Net (loss) income per share attributable to shareholders of the Company:</b>			
Basic	24	\$ (1.77)	\$ 1.21
Diluted	24	\$ (1.77)	\$ 1.15

The accompanying notes are an integral part of these consolidated financial statements.

## CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Changes in Equity  
For the Years Ended December 31, 2015 and 2014

<b>Attributable to equity holders of the Company</b>										
(\$ thousands)	Note	Share capital	Deferred share plan	Other reserves	Cumulative translation account	Retained earnings	Total	Non-controlling interest	Total equity	
<b>Balance December 31, 2013</b>		\$ 78,126	\$ 6,426	\$ 5,176	\$ 139	\$ 124,982	\$ 214,849	\$ 3,571	\$ 218,420	
<b>Comprehensive loss for the period</b>										
Profit		-	-	-	-	18,362	18,362	134	18,496	
<b>Other comprehensive income</b>										
Foreign currency translation adjustments		-	-	-	53	-	53	-	53	
Total comprehensive income (loss) for the period		-	-	-	53	18,362	18,415	134	18,549	
<b>Transactions with owners, recorded directly in equity</b>										
Dividends to equity holders		-	-	-	-	(12,583)	(12,583)	-	(12,583)	
Distributions to non-controlling interests		-	-	-	-	-	-	(44)	(44)	
Issuance of common shares		1,530	-	-	-	-	1,530	-	1,530	
Shares issued through DRIP		1,040	-	-	-	-	1,040	-	1,040	
Shares issued through deferred share plan		359	(359)	-	-	-	-	-	-	
Shares issued through option plan		69	-	(17)	-	-	52	-	52	
Share-based payment transactions		-	1,492	258	-	-	1,750	-	1,750	
Shares issued for business acquisitions		2,690	-	-	-	-	2,690	-	2,690	
Acquisition of non-controlling interests without a change in control		-	-	-	-	(725)	(725)	(3,603)	(4,328)	
Shares issued in reserve		-	-	1,016	-	-	1,016	-	1,016	
Transactions with owners		5,688	1,133	1,257	-	(13,308)	(5,230)	(3,647)	(8,877)	
Non-controlling interest identified on acquisition		-	-	-	-	-	-	1,399	1,399	
<b>Balance December 31, 2014</b>		\$ 83,814	\$ 7,559	\$ 6,433	\$ 192	\$ 130,036	\$ 228,034	\$ 1,457	\$ 229,491	
<b>Comprehensive loss for the period</b>										
Profit (loss)		-	-	-	-	(27,421)	(27,421)	42	(27,379)	
<b>Other comprehensive income</b>										
Foreign currency translation adjustments		-	-	-	1,639	-	1,639	-	1,639	
Total comprehensive income (loss) for the period		-	-	-	1,639	(27,421)	(25,782)	42	(25,740)	
<b>Transactions with owners, recorded directly in equity</b>										
Dividends to equity holders	18	-	-	-	-	(13,202)	(13,202)	-	(13,202)	
Shares issued through reserve	18	1,524	-	(1,524)	-	-	-	-	-	
Shares issued through DRIP	18	1,133	-	-	-	-	1,133	-	1,133	
Shares issued through deferred share plan	18	1,226	(1,226)	-	-	-	-	-	-	
Shares issued through option plan	18	573	-	(202)	-	-	371	-	371	
Share-based payment transactions		-	765	475	-	-	1,240	-	1,240	
Transactions with owners		4,456	(461)	(1,251)	-	(13,202)	(10,458)	-	(10,458)	
<b>Balance December 31, 2015</b>		\$ 88,270	\$ 7,098	\$ 5,182	\$ 1,831	\$ 89,413	\$ 191,794	\$ 1,499	\$ 193,293	

**CERVUS EQUIPMENT CORPORATION**  
Consolidated Statement of Cash Flows  
For the years ended December 31, 2015 and 2014

(\$ thousands)	Note	2015	2014
<b>Cash flows from operating activities</b>			
Income (loss) for the period		\$ (27,379)	\$ 18,496
Income tax expense	13	42,327	7,654
Depreciation	12	13,033	10,610
Amortization of intangibles	14	4,820	5,833
Equity-settled share-based payment transactions	19	1,077	1,526
Net finance costs	23	13,376	7,968
Unrealized foreign exchange loss (gain)	21	2,810	952
Gain on sale of property and equipment	21	(1,358)	(1,337)
Impairment loss on long term receivables	21	-	472
Non-cash write-down of inventories	7	4,661	1,828
Share of profit of equity accounted investees, net of tax	10	(542)	(712)
Proceeds from investments, at equity, net of purchases	10	-	2,063
Change in non-cash working capital		(7,993)	13,857
		<b>44,832</b>	69,210
Cash taxes paid		(7,760)	(88)
Interest paid		(13,398)	(7,545)
<b>Net cash provided from operating activities</b>		<b>23,674</b>	61,577
<b>Cash flows from investing activities</b>			
Interest received	23	195	384
Purchase of property and equipment	12	(19,539)	(24,777)
Payments for intangible assets	14	(1,479)	(882)
Business acquisitions		-	(76,862)
Final working capital payments on business combination	14	(7,997)	-
Proceeds from disposal of property and equipment		7,255	4,688
Proceeds from asset held for sale		150	3,775
<b>Net cash used in investing activities</b>		<b>(21,415)</b>	(93,674)
<b>Cash flows from financing activities</b>			
Net proceeds from term debt		8,696	50,910
Proceeds from issue of share capital		-	1,530
Proceeds from exercise of share options		371	52
Acquisition of non-controlling interests		-	(3,354)
Cash dividends paid	18	(11,987)	(11,358)
Payment of finance lease liabilities		(7,472)	(1,363)
Increase in deposits with John Deere		838	(639)
Increase in notes payable		-	282
<b>Net cash (used in)/provided from financing activities</b>		<b>(9,554)</b>	36,060
Net increase (decrease) in cash and cash equivalents		(7,295)	3,963
Effect of foreign currency translation on cash		463	146
Cash and cash equivalents, beginning of period		18,787	14,678
Cash and cash equivalents, end of period	5	\$ 11,955	\$ 18,787

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **1. Reporting Entity**

Cervus Equipment Corporation (“Cervus” or the “Company”) is an incorporated entity under the Canada Business Corporations Act and is domiciled in Canada. The registered office of the Company is situated at 5201 – 333, 96<sup>th</sup> Avenue N.E., Calgary, Alberta, Canada, T3K 0S3. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise of the Company and its subsidiaries (“the Group”). The Company is primarily involved in the sale, after-sale service and maintenance of agricultural, transportation, construction, and industrial (“C&I”) equipment. The Company also provides equipment rental, primarily in the construction and industrial equipment segment. The Company wholly owns and operates 64 John Deere agricultural equipment, Bobcat and JCB construction equipment and Clark, Sellick, Doosan material handling equipment and Peterbilt truck dealerships in 38 locations in Western Canada, 11 locations in Ontario, 9 locations on the north island of New Zealand and 6 locations in Victoria, Australia. The Company also holds a 21.4% investment in seven John Deere agricultural equipment dealerships operating in Western Canada. The Company’s shares are listed on the Toronto Stock Exchange (“TSX”) and trade under the symbol “CVL”.

### **2. Basis of Preparation**

#### **Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

The Board of Directors authorized the issue of these consolidated financial statements on March 15, 2016.

#### **Basis of measurement**

The consolidated financial statements have been prepared under a going concern assumption on a historical cost basis, with the exception of items that IFRS requires to be measured at fair value.

#### **Functional currency**

These consolidated financial statements are presented in Canadian dollars which is the Company’s functional currency. All financial information has been rounded to the nearest thousand except for per share amounts.

#### **Basis of consolidation**

These consolidated financial statements include the accounts of the parent company Cervus Equipment Corporation and its wholly-owned subsidiaries.

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Non-controlling interests in subsidiaries are identified separately from the Company’s equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquirees’ identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests’ share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 2. Basis of Preparation (continued)

Details of the Company's subsidiaries at December 31, 2015 and December 31, 2014 are as follows:

Proportion of ownership interest and voting power held	2015	2014
Cervus AG Equipment LP	100%	100%
Cervus AG Equipment Ltd	100%	100%
Cervus Collision Center LP	100%	100%
Cervus Contractors Equipment LP	100%	100%
Cervus Contractors Equipment Ltd	100%	100%
Cervus Equipment NZ Ltd.	100%	100%
Cervus Rental & Leasing NZ Ltd., a wholly-owned subsidiary of Cervus NZ Equipment Ltd.	100%	100%
DeerStar Systems Inc.	57.1%	57.1%
101169185 Saskatchewan Ltd	100%	100%
520781 Alberta Ltd	100%	100%
Cervus Equipment Holdings Australia Pty Ltd.	100%	100%
Cervus Equipment Australia Pty Ltd.	100%	100%
PPJ Investments Pty	-	100%

### Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, revenues and expenses. By their very nature, estimates may differ from actual future results and the impact of such changes could be material.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions to accounting estimates recognized prospectively.

### Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in these consolidated financial statements are included in the following notes:

- Classification of a lease arrangement as an operating or finance lease; judgement is required to determine whether substantially all of the significant risks and rewards of ownership are transferred to the customer or remain with the Company; or where the Company is the lessee, whether substantially all the significant risks and rewards of ownership are transferred to the Company or remain with the lessor. (Note 8 & 25)
- Impairment tests; judgement is used in identifying impairment triggers and the cash generating unit or group of cash generating units at which goodwill, intangible assets, and property and equipment are monitored for internal management purposes and identifying an appropriate discount rate for these calculations.

### Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties which could have a significant effect on the carrying amounts of assets and liabilities within the next fiscal year are included in the following notes:

- Recoverability of inventories and key assumptions in the net realizable value of inventory (Note 7)
- Impairment tests (including intangible assets and goodwill); estimates on key assumptions related to the future operating results and cash generating ability of the assets. (Notes 14);
- Assets held for sale; estimates of when the sale will be completed and estimates on future cash flows less costs to sell the asset (Note 9)
- Depreciation and amortization expense; assumptions on the useful lives of property and equipment and intangible assets (Note 12 and 14)

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **2. Basis of Preparation (continued)**

#### **Determination of fair values**

A number of the groups accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods outlined below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### ***Property, plant and equipment***

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

#### ***Intangible assets***

The fair value of dealership distribution agreements and trade names acquired in a business combination is based on the incremental discounted estimated cash flows enjoyed post acquisition, or expenditures avoided, as a result of owning the intangible assets. The fair value of customer lists acquired in a business combination is determined using income based approaches, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of other intangible assets including non-competition agreements is based on the discounted cash flows expected to be derived from the use and any residual value of the assets.

#### ***Inventories***

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

#### ***Trade and other receivables***

The fair value of trade and other receivables is estimated at the present value of the future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes or when such assets are acquired in a business combination.

#### ***Other non-derivative financial liabilities***

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

#### ***Derivative financial instruments***

The fair value of foreign currency derivative financial instruments is calculated based on market comparison technique. The fair value is based on similar contracts in an active market and based on quotes using the prevailing foreign exchange translation rate from the Bank of Canada or similar sources.

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **3. Significant Accounting Policies**

---

The accounting policies set out below have been applied consistently by all the Group's entities and to all years presented in these consolidated financial statements.

#### **Business segments**

The Company operates three distinct business segments, agricultural, transportation and commercial and industrial segments based on the industry which they serve. These segments are managed separately and strategic decisions are made on the basis of their respective operating results.

The Agricultural equipment segment consists of John Deere dealership locations in Alberta, Saskatchewan, British Columbia, New Zealand, and Australia. The Transportation equipment segment consists of Peterbilt dealership locations in Saskatchewan and Ontario. The Commercial and Industrial equipment segment consists of Bobcat, JCB, Clark, Sellick, and Doosan dealership locations in Alberta, Saskatchewan, and Manitoba.

Each of these business segment operations are supported by a single corporate head office. Certain corporate head office expenses are allocated to the business segments according to both specific identification and metrics to estimate usage. The corporate head office also incurs certain costs which are not considered directly related to store level operations, such as interest cost on general corporate borrowings, corporate personnel costs, and public company costs. These corporate costs are allocated to the segments based on respective gross profit dollars of the Canadian operations.

#### **Business combinations**

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities and contingent liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Transaction costs are expensed as incurred. The fair value of identifiable assets acquired, if any, are determined using various valuation techniques including income based approaches. The valuation technique involves estimating the future net cash flows and applying the appropriate discount rate to those future cash flows to determine the fair value of the identifiable intangible assets acquired. Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the consideration of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Where a business combination is achieved in stages, previously held interests in the acquired entity are remeasured to fair value immediately prior to the date of acquisition. If any resulting gain or loss should arise from the remeasurement, it is recognized in net income during the period.

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **3. Significant Accounting Policies (continued)**

#### **Foreign currency translation**

##### ***Foreign currency transactions***

The individual financial statements of each subsidiary are stated in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than companies' functional currency are recorded at the rate of exchange at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in a currency other than subsidiaries' functional currency, are translated into the subsidiaries' functional currency at the rates of exchange prevailing at that date. Foreign currency differences are recognized in profit or loss.

##### ***Foreign operations***

For the purpose of presenting consolidated financial statements, the results of entities and equity components denominated in currencies other than Canadian dollars are translated at the rate of exchange at the date of the transactions and their assets and liabilities at the rates ruling at the balance sheet date. Foreign exchange differences are recognized in other comprehensive income and accumulated in the cumulative translation account.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances with banks, and short-term deposits with original maturities of three months or less.

#### **Inventories**

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. Net realizable value approximates the estimated selling price less all estimated cost of completion and necessary cost to complete the sale. Previous write-downs of inventory are reversed when economic changes support an increased value. The amount of the write-down is reversed, and the reversal is limited to the amount of the original write-down, so that the new carrying amount is the lower of the cost and the revised net realizable value.

#### **Property and equipment**

Items of property and equipment are recorded at cost, less any accumulated depreciation and accumulated impairment losses. Properties under construction are measured at cost less any accumulated impairment. Assets are moved from the construction phase and begin depreciation when the asset is available for use. Assets under finance leases are measured initially at an amount equal to the lower of their fair value and the present value of minimum lease payments.

Any gain or loss arising on the disposal or retirement of an item of property and equipment is recognized in profit or loss.

Depreciation is provided for using both the declining balance and straight-line methods at annual rates intended to depreciate the cost of each significant component of an asset, less its residual values over its estimated useful lives. Assets under finance leases are depreciated on the same basis as owned assets, or where shorter, the term of the lease. Land is not depreciated.

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

### 3. Significant Accounting Policies (continued)

The following methods and rates are used in the calculation of depreciation:

<b>Assets</b>	<b>Method</b>	<b>Estimated useful life</b>
Buildings	Straight-line	15 to 40 years
Leasehold improvements	Straight-line	Over period of lease
Short-term rental equipment	Straight-line	5 to 10 years
Automotive and trucks and computers and software	Declining balance	30%
Furniture and fixtures, parts and shop equipment	Declining balance	20%

#### **Intangible assets**

##### ***Intangible assets***

Intangible assets includes software, dealership distribution agreements, customer lists and non-competition agreements and are recorded at cost less accumulated amortization and any accumulated impairment losses. Software costs under development are measured at cost less any accumulated impairment, software moves from the development phase and amortization commences when the asset is available for use.

Costs of internally generated intangible assets are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to complete development to use the asset. Otherwise, it is recognized in profit or loss as incurred.

The estimated useful life and amortization method are reviewed at the end of each period, with the effect of any changes in estimate being accounted for on a prospective basis. At each year end, the Company reviews the carrying amounts of the intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The following are the typical useful lives that are used in the calculation of amortization for each intangible asset.

Dealership distribution agreements	20 years
Customer lists and non-competition agreements	5 years
Software costs	5 years

#### **Goodwill**

Goodwill is the excess of the consideration of a business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. Goodwill is measured at cost less accumulated impairment.

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **3. Significant Accounting Policies (continued)**

#### **Investments in associates**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company transacts with an associate of the Company, profit and losses are eliminated to the extent of the Company's interest on the relevant associate.

#### **Assets held for sale**

Non-current assets are classified as held for sale when it is highly probable that an asset in its present condition will be recovered principally through sale instead of its continued use. Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell. Once classified as held-for-sale plant and equipment are no longer depreciated.

#### **Lease arrangements**

At the inception of an arrangement, the Company considers whether the arrangement, is or contains, a lease. The Company must determine whether the fulfilment of the arrangement is dependent on the use of a specific asset and if the arrangement conveys the right to use the asset. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either an operating or finance lease dependent on whether substantially or all of the risks or rewards of ownership of the asset have been transferred.

##### **a) The Company as the lessee**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

At the inception of a finance lease, the asset and finance lease liability is recorded at the lower of its fair value and the present value of minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### 3. Significant Accounting Policies (continued)

b) The Company as the lessor

An operating lease effectively establishes that the lessor shall retain the rewards and associated risks of ownership of that asset for a period of time or use. Where the Company's equipment rentals and leases to customers are classified as operating leases, the payments received are included in revenue on a straight-line basis over the term of the lease.

Revenue related to lease arrangements accounted for as finance leases are recognized using an approach for a constant rate of return on the net investment in the lease. The net investment in the finance lease is the aggregate of net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net income over the lease term.

#### Impairment

##### *Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### 3. Significant Accounting Policies (continued)

#### ***Non-financial assets***

The amounts for property and equipment and intangible assets with finite useful lives are reviewed at each reporting period to identify if there are indicators of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The carrying values of intangible assets and goodwill with indefinite lives are periodically tested for impairment, and must be tested annually, at a minimum. We have selected December 31<sup>st</sup> as our annual impairment test date, although impairment tests are conducted more frequently if indicators of impairment are present at dates other than December 31<sup>st</sup>.

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. The CGU corresponds to the smallest identifiable group of assets whose continuing use generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company has determined that its CGUs comprise groups of stores which provide the same or similar product within a geographic market.

Goodwill acquired in a business combination is allocated to the CGU which it relates. Intangible assets with indefinite useful lives and assets held at the parent level are allocated to the CGU to which they relate.

Impairment losses are recognized in profit or loss. Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata based on the carrying amount of each asset in the CGU. An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which it belongs, exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### ***Reversals of previously recognized impairments***

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### 3. Significant Accounting Policies (continued)

#### Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Current income taxes are recorded based on the estimated income taxes payable on taxable income for the year and any adjustment to tax payable in respect of previous years. The Company's liability for current tax is calculated using tax rates that have been substantively enacted by the end of the reporting period.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized if it is more likely than not to be realized. The effect of a change in tax rates on future income tax assets and liabilities is recorded in the period in which the change occurs.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and measured reliably.

#### Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value and for the purpose of subsequent measurement; they are allocated into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. Derivative instruments are categorized as held for trading unless they are designated as hedges. The Company's financial assets and liabilities consist primarily of cash and cash equivalents, trade and other accounts receivable, trade and other accrued liabilities, dividends payable, floor plan payables, foreign currency hedging instruments, debenture payable, finance leases, and term debt and notes payable. The designated financial instruments are recognized and measured as follows:

- Financial assets at fair value through profit or loss, or held-for-trading instruments, are financial assets and liabilities typically acquired with the intention of generating revenues in the short-term. However, an entity is allowed to designate any financial instrument as held-for-trading on initial recognition even if it would otherwise not satisfy the definition. Financial assets and financial liabilities required to be classified or designated as held for-trading are measured at fair value, with gains and losses recorded in profit or loss for the period in which the change occurs. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred.
- Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost.

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **3. Significant Accounting Policies (continued)**

- Loans and receivables are measured at amortized cost using the effective interest method. Loans and receivables include trade and other accounts receivable, and deposits with manufacturers.
- Available-for-sale financial assets are non-derivative assets that are designated as available-for sale or that are not classified as loans and receivables, held-to-maturity investments or held for-trading. Available-for-sale financial assets are initially recognized at fair value plus any directly attributable transaction costs, and are carried at fair value with unrealized gains and losses included in other comprehensive income (OCI) until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Available-for-sale assets are measured at fair value, except for assets that do not have a readily determinable fair value which are recorded at cost and assessed for impairment when indicators for impairment exist.
- Other financial liabilities are measured at amortized cost using the effective interest method. The Company's other financial liabilities include trade and other accrued liabilities, dividends payable, floor plan payables, term debt, debenture payable, finance lease obligation and notes payable.

Derivative financial instruments are used to manage the Company's foreign currency exposure, utilizing forward currency contracts to lock the margin on certain customer orders where the customer has agreed to a price in Canadian dollars, and the Company will be invoiced in U.S Dollars. Derivatives are initially recognized at fair value, any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition derivatives are measured at fair value and changes therein are generally recognized in profit or loss.

#### **Revenue recognition**

Revenue is recognized when it is probable that future economic benefits will flow to the Company, and the amount of revenue can be reliably measured. Revenue is recorded based on the fair value of the consideration received or receivable. Revenue is not recognized before there is persuasive evidence that an arrangement exists, such as, delivery has occurred, the rate is fixed and determinable, and the collection of outstanding amounts is considered probable. The Company considers persuasive evidence to exist when a formal contract or purchase order is signed and required deposits have been received. Sales terms do not include provision for post service obligations.

Parts revenue is recognized when the part is delivered to the customer. Service revenue is recognized at the time the service is provided. For long-term service and maintenance contracts, revenue is recognized on a basis proportionate to the work performed. Rentals and operating lease revenue are recorded at the time the service is provided, recognized evenly over the term of the rental or lease agreement with the customer.

#### **Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial.

Finance costs comprise interest expense on borrowings and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the construction, acquisition or production of a qualifying asset are recognized in profit or loss as incurred.

Changes in the fair value of financial assets at fair value through profit or loss are included in Other Income or Loss.

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **3. Significant Accounting Policies (continued)**

#### **Earnings per share**

Basic earnings per share are computed by dividing earnings by the weighted average number of shares outstanding for the period. Diluted earnings per share are calculated giving effect to the potential dilution that would occur if share options or other dilutive instruments were exercised or converted to shares. The treasury stock method is used to determine the dilutive effect of share options, convertible preferred shares and other dilutive instruments. This method assumes that any proceeds upon the exercise or conversion of dilutive instruments, for which market prices exceed exercise price, would be used to purchase shares at the average market price of the shares during the period.

#### **Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### **Share-based payment transactions**

The grant date fair value as determined by the black-scholes model for share option awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. Amounts for share option payment transactions are recognized in contributed surplus as they vest, which is captured in other reserves.

Also included in other reserves are amounts for expired private placement warrants and conversion feature for convertible debenture.

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **4. Standards issued but not yet effective**

---

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are required to be adopted in the current or future periods. The new standards, amendments to existing standards effective for annual periods beginning on or after January 1, 2016 and have not been applied in preparing these consolidated financial statements are set out below.

Effective January 1, 2016, the Company will be required to adopt amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets for clarification on acceptable methods of depreciation and amortization. The amendments are to be applied prospectively for the annual period commencing January 1, 2016. The Company does not expect the amendments to have a material impact on the Company's financial statements.

On September 25, 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

On December 18, 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company intends to adopt these amendments in its financial statements for annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

On May 6, 2014 the IASB issued Accounting for Acquisitions of Interests in Joint Operations. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The Company does not intend to early adopt these amendments in its financial statements for the annual period beginning January 1, 2016, as the effective date for these amendments has been deferred indefinitely.

Effective January 1, 2018, the Company will be required to adopt IFRS 15 related to revenue from contracts with customers. Revenue from Contracts with Customers, was issued in May 2014 and replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The extent of the impact of adoption of the standard has not yet been determined.

The IASB has released updates to IFRS 9, related to the accounting and presentation of financial instruments and applies a principal-based approach to the classification and measurement of financial assets and financial liabilities, including an expected credit loss model for calculating impairment, and includes new requirements for hedge accounting. The mandatory effective date is January 1, 2018; however, early adoption is permitted. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

### 5. Cash and Cash Equivalents

(\$ thousands)	2015	2014
Bank and cash balances	\$ 11,685	\$ 18,518
Money market funds	270	269
	\$ 11,955	\$ 18,787

### 6. Trade and Other Accounts Receivable

(\$ thousands)	2015	2014
Trade receivables	\$ 44,916	\$ 42,391
Contracts in transit	9,467	10,777
Current portion of long-term finance contracts	608	789
Volume bonus	125	352
	55,116	54,309
Allowance for doubtful debts	(1,987)	(1,386)
	53,129	52,923
Prepaid expenses	5,942	5,539
	\$ 59,071	\$ 58,462

Movement in allowance for doubtful debts during the year has been recorded in selling, general and administrative expense, the details of which are disclosed in Note 26.

### 7. Inventories

(\$ thousands)	2015	2014
New equipment	\$ 165,660	\$ 163,815
Used equipment	100,412	111,505
Parts and accessories	50,195	47,047
Work-in-progress	1,459	2,258
	\$ 317,726	\$ 324,625

During the year ended December 31, 2015, included in costs of sales are amounts related to inventories of \$874,097 thousand (2014 - \$767,379 thousand). The total inventory write-downs recorded during the years ended December 31, 2015 and included in cost of goods sold was \$4,661 thousand (2014 - \$1,828 thousand). The Company's inventory has been pledged as security for floor plan payables under terms of the floorplan agreements and for long-term debt under general security agreements.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 8. Finance Leases

#### a) As Lessor - Finance Lease Receivables

The Company has entered into fixed term contractual arrangements to allow customers to have dedicated use of certain heavy trucks and equipment owned by the Company, where substantially all the risks and rewards of ownership are held by the customer. These arrangements are accounted for as finance leases.

The Company's net investment in finance lease receivables as at December 31, 2015 and 2014 are as follows:

(\$ thousands)	Gross investment in finance lease receivables		Future finance income		Present value of minimum lease payments receivable	
	2015	2014	2015	2014	2015	2014
Less than one year	\$ 610	\$ 1,686	\$ (26)	\$ (86)	\$ 584	\$ 1,600
Between one and five years	1,135	1,676	(268)	(369)	867	1,307
More than five years	20	237	(9)	(111)	11	126
<b>Total</b>	<b>\$ 1,765</b>	<b>\$ 3,599</b>	<b>\$ (303)</b>	<b>\$ (566)</b>	<b>\$ 1,462</b>	<b>\$ 3,033</b>

#### b) As Lessee - Finance Lease Liabilities

Finance lease liabilities reflect the total future payments on leases for heavy trucks and equipment, including final payments or buyouts. The finance lease assets are subsequently leased to customers, primarily under operating lease agreements. Based on the effective interest rate implicit in each lease these future payments are discounted to determine the net scheduled lease payments on each lease. The leases have terms typically between 1 and 7 years. On the maturity of the lease, the Company will sell the equipment. The difference between the Company's proceeds and the residual value per the lease agreement remains with the Company.

Finance lease liabilities as at December 31, 2015 and 2014 are payable as follows:

(\$ thousands)	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2015	2014	2015	2014	2015	2014
Less than one year	\$ 5,900	\$ 6,398	\$ (187)	\$ (223)	\$ 5,713	\$ 6,175
Between one and five years	17,902	20,844	(2,711)	(3,501)	15,191	17,343
More than five years	1,544	1,401	(384)	(410)	1,160	991
<b>Total</b>	<b>\$ 25,346</b>	<b>\$ 28,643</b>	<b>\$ (3,282)</b>	<b>\$ (4,134)</b>	<b>\$ 22,064</b>	<b>\$ 24,509</b>

### 9. Assets Held for Sale

In 2015, the Company committed to a plan to sell three buildings and land within Agricultural and C&I segments. Accordingly, these properties and related term debt has been presented as held for sale. The land and buildings with a net book value of \$9,247 thousand are classified as held for sale as is the term debt due at the time of sale of these properties of \$4,037 thousand. The operations located at these properties will be relocated to new facilities or serviced through surrounding areas.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 10. Equity Accounted Associates

(\$ thousands)	Ownership %	2015	2014
Prairie Precision Network Inc.	22.2%	\$ 29	\$ 29
JD Integrated Solutions Inc. (a)	26.9%	812	550
Maple Farm Equipment Partnership (b)	21.4%	4,921	4,689
		\$ 5,762	\$ 5,268

The Company's share of profit net of tax in its equity accounted investees for the year ended December 31, 2015 was \$542 thousand (2014 - \$712 thousand). All of the Company's investments in associates are measured under the equity method. During the year ended December 31, 2015, the Company did not receive any repayments from its investees (2014 - \$2,063 thousand).

(a) The Company has determined it has significant influence with respect to JD Integrated Solutions Inc. ("JDIS") as the Company holds a seat on JDIS's board of directors.

(b) Maple Farm Equipment Partnership ("Maple") holds investments in seven John Deere agricultural dealerships headquartered in Yorkton, Saskatchewan, and operates in similar markets and geography as the Company's Agricultural segment.

Summary financial information for the Company's equity accounted investees, had the Company owned 100% of investees, is as follows:

(\$ thousands)	2015	2014
Current Assets	\$ 60,772	\$ 57,932
Long-term assets	26,655	31,248
Current liabilities	34,136	34,910
Long-term liabilities	3,969	5,386
Revenue and other income	190,472	203,048
Expenses	189,299	196,466

### 11. Deposits with Manufacturers

John Deere Credit Inc. ("Deere Credit") provides and administers financing for retail purchases and leases of new and used equipment. Under the financing and lease plans, Deere Credit retains the security interest in the financed equipment. The Company is liable for a portion of the deficiency in the event that the customer defaults on their lease obligation. Deere Credit retains 1% to 2% of the face amount of the finance or lease contract for amounts that the Company may have to pay Deere Credit under this arrangement. The deposits are capped at 3% of the total dollar amount of the lease finance contracts outstanding.

The maximum liability that may arise related to these arrangements is limited to the deposits of \$2,657 thousand (December 31, 2014 - \$3,479 thousand). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 12. Property and Equipment

Cost	Land and Buildings	Short-term Rental Equipment	Automotive and Trucks	Furniture and Fixtures	Parts and Shop Equipment	Computers and Software	Leasehold Improvements	Total
<b>Balance at January 1, 2014</b>	74,664	22,990	13,836	4,107	5,690	3,453	1,327	\$ 126,067
Additions	8,515	9,219	4,205	982	726	621	509	24,777
Additions for finance lease	-	1,181	-	-	-	-	-	1,181
Additions from business acquisition	5,963	21,975	1,876	279	2,729	640	1,418	34,880
Disposals	-	(5,853)	(795)	(12)	(63)	(74)	(1)	(6,798)
Transfers	-	483	(21)	-	-	-	-	462
Effect of movements in exchange rates	(210)	44	280	2	(268)	15	3	(134)
<b>Balance at December 31, 2014</b>	88,932	50,039	19,381	5,358	8,814	4,655	3,256	180,435
Additions	<b>9,161</b>	<b>5,452</b>	<b>2,604</b>	<b>636</b>	<b>586</b>	<b>571</b>	<b>529</b>	<b>19,539</b>
Additions for finance lease	-	<b>5,026</b>	-	-	-	-	-	<b>5,026</b>
Disposals	<b>(2,668)</b>	<b>(5,152)</b>	<b>(1,555)</b>	<b>(109)</b>	<b>(53)</b>	<b>(76)</b>	<b>(98)</b>	<b>(9,711)</b>
Assets held for sale	<b>(10,361)</b>	-	-	-	-	-	-	<b>(10,361)</b>
Transfers	-	<b>(4,831)</b>	-	<b>1,120</b>	<b>(1,120)</b>	-	-	<b>(4,831)</b>
Effect of movements in exchange rates	<b>108</b>	<b>455</b>	<b>264</b>	<b>28</b>	<b>81</b>	<b>37</b>	<b>37</b>	<b>1,010</b>
<b>Balance at December 31, 2015</b>	<b>85,172</b>	<b>50,989</b>	<b>20,694</b>	<b>7,033</b>	<b>8,308</b>	<b>5,187</b>	<b>3,724</b>	<b>\$ 181,107</b>

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 12. Property and Equipment (continued)

Accumulated Depreciation and Impairment	Land and Buildings	Short-term Rental Equipment	Automotive and Trucks	Furniture and Fixtures	Parts and Shop Equipment	Computers and Software	Leasehold Improvements	Total
<b>Balance at January 1, 2014</b>	2,827	6,088	6,276	2,486	3,259	2,352	883	\$ 24,171
Depreciation expense	1,969	3,545	2,787	538	872	676	223	10,610
Disposals	-	(2,604)	(428)	(26)	(20)	(65)	(29)	(3,172)
Transfers	-	(128)	-	-	-	-	-	(128)
Effects of movements in exchange rates	(6)	25	(52)	2	1	10	26	6
<b>Balance at December 31, 2014</b>	4,790	6,926	8,583	3,000	4,112	2,973	1,103	31,487
Depreciation expense	<b>2,033</b>	<b>4,990</b>	<b>3,080</b>	<b>901</b>	<b>868</b>	<b>757</b>	<b>404</b>	<b>13,033</b>
Disposals	<b>(28)</b>	<b>(2,435)</b>	<b>(1,035)</b>	<b>(148)</b>	<b>(29)</b>	<b>(41)</b>	<b>(98)</b>	<b>(3,814)</b>
Assets held for sale	<b>(1,114)</b>	-	-	-	-	-	-	<b>(1,114)</b>
Transfers	-	<b>(456)</b>	-	-	-	-	-	<b>(456)</b>
Effects of movements in exchange rates	<b>34</b>	<b>(1)</b>	<b>36</b>	<b>58</b>	<b>11</b>	<b>24</b>	<b>10</b>	<b>172</b>
<b>Balance at December 31, 2015</b>	<b>5,715</b>	<b>9,024</b>	<b>10,664</b>	<b>3,811</b>	<b>4,962</b>	<b>3,713</b>	<b>1,419</b>	<b>\$ 39,308</b>

Carrying Value	Land and Buildings	Short-term Rental Equipment	Automotive and Trucks	Furniture and Fixtures	Parts and Shop Equipment	Computers and Software	Leasehold Improvements	Total
<b>Balance at December 31, 2014</b>	84,142	43,113	10,798	2,358	4,702	1,682	2,153	\$ 148,948
<b>Balance at December 31, 2015</b>	<b>79,457</b>	<b>41,965</b>	<b>10,030</b>	<b>3,222</b>	<b>3,346</b>	<b>1,474</b>	<b>2,305</b>	<b>\$ 141,799</b>

Depreciation expense has been recorded in cost of sales in the amount of \$4,900 thousand (2014 - \$3,509 thousand) and selling, general and administrative expenses of \$8,133 thousand (2014 - \$7,101 thousand). Included in total additions were amounts for short-term rental equipment relating to additions for lease arrangements classified as finance lease of \$5,026 thousand (2014 - \$1,181 thousand). At December 31, 2015, land and buildings included construction in progress costs of \$523 thousand. The Company's property and equipment has been pledged as security for its long-term debt.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 13. Income Taxes

On May 4, 2015, the Company announced that it had entered into an agreement with the Canada Revenue Agency (CRA) regarding their objection to the tax consequences of the conversion of the Company from a limited partnership structure into a corporation in October 2009.

The agreement resulted in a non-cash charge of \$33.4 million related to the write-off of a portion of the Company's deferred tax asset and recognition of \$3.6 million of provincial cash taxes payable for the tax years ended December 31, 2013 and 2014. Under the agreement, the Company had \$1.9 million of unused federal tax attributes which have been applied to reduce 2015 income taxes payable. Total expense recognized due to the CRA settlement was \$36.9 million.

The corporate income tax rate increase in Alberta for current and future periods that was enacted in the second quarter of the year resulted in an estimated increase in the deferred income tax expense for the year ended December 31, 2015 of \$0.4 million.

#### ***Tax expense***

(\$ thousands)	2015	2014
Current income tax expense	\$ 3,807	\$ 113
Deferred income tax expense	1,572	7,541
Derecognition of deferred tax asset due to CRA settlement	33,395	-
Provincial taxes payable due to CRA settlement	3,553	-
<b>Income tax loss recognized in statement of comprehensive income</b>	<b>\$ 42,327</b>	<b>\$ 7,654</b>

Using federal and provincial statutory rates of 26.4% (2014 – 25.9%), the income tax expense for the year can be reconciled to the statement of profit (loss) as follows:

(\$ thousands)	2015	2014
Profit before income tax expense	\$ 14,948	\$ 26,150
Expected income tax expense	3,946	6,773
Derecognition of deferred tax asset due to CRA settlement	33,395	-
Provincial taxes payable due to CRA settlement	3,553	-
Non-deductible costs and temporary differences between tax and accounting basis	1,433	881
<b>Income tax loss/(recovery) recognized in statement of comprehensive income</b>	<b>\$ 42,327</b>	<b>\$ 7,654</b>

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 13. Income Taxes (continued)

#### *Deferred tax assets and liabilities*

Continuity of the Company's tax balances in during the year are as follows:

(\$ thousands)	2014	Impact of CRA Agreement	Recognized in Comprehensive Income	2015
Tax values over carrying value of tangible assets	\$ (9,044)	\$ -	\$ (470)	\$ (9,514)
Carrying value over the tax value of convertible debenture liability	(479)	-	152	(327)
Carrying value over the tax value of intangible assets	(7,785)	-	736	(7,049)
Carrying value over the tax value of finance lease obligation	6,349	-	(443)	5,906
Federal investment tax credits	12,841	(12,960)	(403)	(522)
Non-capital losses	21,437	(20,435)	(1,144)	(142)
<b>Deferred tax asset (liability)</b>	<b>23,319</b>	<b>(33,395)</b>	<b>(1,572)</b>	<b>(11,648)</b>
<b>Reflected in the statement of financial position</b>				
Deferred tax asset	24,518	(24,518)	-	-
Deferred tax liability	(1,199)	(8,877)	(1,572)	(11,648)
<b>Deferred tax asset (liability), net</b>	<b>\$ 23,319</b>	<b>\$ (33,395)</b>	<b>\$ (1,572)</b>	<b>(11,648)</b>

The Company has not recognized the benefits associated with capital losses of \$39,690 thousand (2014 - \$74,025 thousand) and non-capital losses of \$941 thousand (2014 - \$943 thousand), as the timing and ultimate application of these tax loss carryforwards are uncertain.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 14. Intangible Assets and Goodwill

Intangible assets are comprised of the following:

Cost	Dealership Distribution Agreements	Trade Name	Customer Lists	Non- Competition Agreements	Software Costs	Total
<b>Balance at January 1, 2014</b>	26,447	4,715	10,019	2,081	- \$	43,262
Additions	-	-	-	-	882	882
Additions through business acquisitions	25,601	-	5,944	1,420	-	32,965
Effect of movements in exchange rates	(106)	-	(39)	1	-	(144)
<b>Balance at December 31, 2014</b>	51,942	4,715	15,924	3,502	882	76,965
Additions	-	-	-	-	1,479	1,479
Derecognized	-	(4,715)	-	-	-	(4,715)
Effect of movements in exchange rates	298	-	35	7	-	340
<b>Balance at December 31, 2015</b>	<b>52,240</b>	-	<b>15,959</b>	<b>3,509</b>	<b>2,361 \$</b>	<b>74,069</b>

Accumulated Depreciation and Impairment	Dealership Distribution Agreements	Trade Name	Customer Lists	Non- Competition Agreements	Software Costs	Total
<b>Balance at January 1, 2014</b>	5,676	2,356	7,143	1,948	- \$	17,123
Amortization expense	1,717	2,241	1,791	84	-	5,833
<b>Balance at December 31, 2014</b>	7,393	4,597	8,934	2,032	-	22,956
Amortization expense	2,673	118	1,635	322	72	4,820
Derecognized	-	(4,715)	-	-	-	(4,715)
<b>Balance at December 31, 2015</b>	<b>10,066</b>	-	<b>10,569</b>	<b>2,354</b>	<b>72 \$</b>	<b>23,061</b>

Carrying Value	Dealership Distribution Agreements	Trade Name	Customer Lists	Non- Competition Agreements	Software Costs	Total
<b>Balance at December 31, 2014</b>	44,549	118	6,990	1,470	882 \$	54,009
<b>Balance at December 31, 2015</b>	<b>42,174</b>	-	<b>5,390</b>	<b>1,155</b>	<b>2,289 \$</b>	<b>51,008</b>

Amortization expense of \$4,820 thousand (2014 - \$5,833 thousand) has been recorded in selling, general and administrative expense. Following completion of branding initiative, fully amortized trade name intangibles were derecognized during the year. As of December 2015, the Corporation performed impairment tests, based on value in use of intangible assets.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

### 14. Intangible Assets and Goodwill (continued)

The continuity of the Company's goodwill is as follows:

(\$ thousands)	
<b>Balance at January 1, 2014</b>	\$ 6,866
Additions through business acquisition	12,876
Impact of translation of goodwill held in foreign currencies	(10)
<b>Balance at December 31, 2014</b>	\$ 19,732
Valuation adjustment on business combination	480
Impact of translation of goodwill held in foreign currencies	404
<b>Balance at December 31, 2015</b>	<b>\$ 20,616</b>

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

(\$ thousands)	2015	2014
<b>Agricultural Segment</b>		
Agricultural - Alberta	\$ 11,988	\$ 11,509
Agricultural - Saskatchewan	327	327
Agricultural - New Zealand	2,274	1,946
Agricultural - Australia	1,287	1,210
<b>Commercial and Industrial Segment</b>		
Commercial	1,527	1,527
Industrial	666	666
<b>Transportation Segment</b>		
Transportation - Ontario	2,547	2,547
	<b>\$ 20,616</b>	<b>\$ 19,732</b>

As at December 31, 2014 the Company had accrued \$7,517 thousand for holdback payments for outstanding consideration for the acquisition of the shares of Evergreen Equipment Ltd. The Company had an adjustment to goodwill of \$480 thousand during the year ended December 31, 2015 upon payment of the final holdback amounts for the acquisitions of Deer-Country Equipment (1996) Ltd. and Evergreen Equipment Ltd.

The Company conducted the annual impairment test of goodwill at December 31, 2015. The recoverable amount of the cash generating units (CGUs) was determined using value in use calculations. Value in use was determined by discounting the future cash flow forecasts for a five-year period and applying discount rates ranging from 11.0% to 11.8% based on the Company's post-tax weighted average cost of capital and risks specific to the particular CGU. Future cash flow estimates were based on historical performance of the CGUs adjusted for prospective changes in the business and economic climate. No growth rate was applied to extrapolate these cash flows into perpetuity.

Sensitivity testing was conducted as part of the impairment test. Had the estimated cost of capital used in determining the post-tax discount rate been 1% higher than management's estimates the recoverable amount of the CGUs would continue to exceed their carrying amount. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any CGU or group of CGUs to exceed its recoverable amount. Management believes its assumptions are reasonable.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 14. Intangible Assets and Goodwill (continued)

The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets. Judgment is also used in identifying the CGUs or group of CGUs at which goodwill, intangible assets and property and equipment are monitored for internal management purposes and identifying an appropriate discount rate for these calculations.

### 15. Trade and Other Payables

(\$ thousands)	2015	2014
Trade and other payables	\$ 48,980	\$ 48,990
Non-trade payables and accrued expenses	28,958	32,247
	\$ 77,938	\$ 81,237

### 16. Loans and Borrowings

#### **Bank indebtedness**

At December 31, 2015, the Company has a revolving credit facility with a syndicate of underwriters. The principal amount available under this facility is \$100,000 thousand. The facility was amended and extended on December 21, 2015. The facility is committed for a two year term, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an \$80,000 thousand accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2015 there was \$52,000 thousand drawn on the facility and \$2,400 thousand had been utilized for outstanding letters of credit to John Deere. The Company's credit facility bears interest at the lender's prime rate plus the Applicable Margin (currently 1.50%). Applicable Margin can range from 0.25% to 2.00% (2014 – 0% to 1.50%) and is based on a liabilities to income ratio. The Canadian facility is secured by a general security agreement, a priority agreement; trade accounts receivable, unencumbered inventories, assignment of fire insurance and guarantees from the Company's subsidiaries. As terms under the Canadian credit facility, the Company must maintain certain leverage, income coverage, and asset coverage ratios, which the Company has complied with throughout 2015, see note 26 for further discussion on covenants. Costs directly attributable to the completion of the Syndicated Facility have been deferred and will be amortized over the two year term.

In addition, New Zealand has a \$1,500 thousand credit facility agreement which is secured by a general security agreement covering all property, at December 31, 2015 \$1,500 thousand was drawn against this facility (2014 - \$500 thousand).

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 16. Loans and Borrowings (continued)

#### Term Debt

(\$ thousands)	Year of Maturity	2015	2014
Revolving credit facility, lenders prime rate plus the Applicable Margin (currently 1.50%). Applicable Margin can range from 0.25% to 2.00% and is based on a liabilities to income ratio	2017	\$ 52,000	\$ 41,605
Farm Credit Corporation, mortgages payable in monthly instalments ranging from \$39 thousand to \$95 thousand including interest at a rate of lenders prime plus 1% per annum	2017	23,707	25,415
Farm Credit Corporation, mortgages payable in monthly instalments of \$36 thousand including interest at a rate of lenders prime plus 1% per annum	2019	4,962	4,962
Affinity Credit Union, mortgages payable in monthly installments ranging from \$8 thousand to \$17 thousand, including interest at lenders prime plus 1% per annum	2016	9,979	10,266
ANZ National Bank Ltd., New Zealand, mortgage payable, interest only at the rate of 6.88% per annum	2017	1,545	1,168
National Australian Bank, Australia, mortgage, payable monthly payments of \$25K and a floating interest rate (December 31, 2015 and 2014 - 6.44%)	2017	3,211	3,303
Finance contracts, payable in monthly interest instalments ranging up to \$4 thousand including interest of 90 day bankers acceptance plus 3.7%, secured by short-term rental equipment	Various	2,509	3,909
John Deere finance contracts, New Zealand, payable in monthly instalments including interest at the rate of 5.5% per annum, secured by related equipment	Various	8,757	7,429
Hire purchase contracts, Australia, finance contracts payable in monthly installments ranging up to AU\$5 thousand including interest at a rate of 5.85% to 9.75%, secured by related equipment	Various	1,340	1,279
Finance contracts, various, repayable in monthly instalments ranging per month including interest from 4.00% to 9.09%	Various	1,938	1,712
		<b>109,948</b>	101,048
Less current portion		<b>(17,917)</b>	(8,430)
Less liabilities held for sale		<b>(4,037)</b>	-
Less deferred debt issuance costs		<b>(333)</b>	(464)
		<b>\$ 87,661</b>	\$ 92,154

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 16. Loans and Borrowings (continued)

#### **Floor Plan Payables**

The Company utilizes floor plan financing arrangements with various suppliers for inventory purchases. The terms of these arrangements may include an interest-free period followed by a term during which interest is charged at rates ranging from 2.45% to 7.25% at December 31, 2015. Settlement of the floor plan liability occurs at the earlier of sale of the inventory, in accordance with terms of the financing arrangement, or based on management's discretion. Floor plan payables are secured by specific new and used equipment inventories.

(\$ thousands)	Interest Rate	2015	2014
John Deere Financial, Canada	3.95%	\$ 75,367	\$ 76,661
GE Capital Vendor Finance	3.00% - 5.19%	23,113	34,895
John Deere Financial, New Zealand and Australia	7.05 - 7.25%	11,835	9,124
PACCAR Financial	2.99% - 3.56%	47,600	47,557
CIBC Floor Plan Facility	2.45%	6,901	8,742
Other Floor Plan Facilities	3.00% - 6.44%	3,827	4,822
<b>Total Floor Plan Payable</b>		<b>\$ 168,643</b>	<b>\$ 181,801</b>

#### **Convertible Debenture**

On July 24, 2012, the Company issued \$34,500 thousand of convertible unsecured subordinated debentures with a face value of \$1,000 per debenture that mature on July 31, 2017 and bear interest at 6.0% per annum paid semi-annually on January 31 and July 31 of each year. The debentures are convertible at the option of the holder into shares of the Company at any time prior to the maturity date at a rate of \$26.15 (the "conversion price") per share. The Company may redeem the debentures at its option after July 31, 2015 if the current market price of the shares on the date of the notice of redemption exceeds 125% of the conversion price.

The convertible debentures are considered a compound financial instrument as they can be converted to a fixed number of common shares at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option, and subsequently accounted for under the effective interest rate method. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Aggregate interest and accretion and amortization expense recorded in finance costs to December 31, 2015 was \$2,946 thousand (2014 - \$2,870 thousand). Changes in the debenture liability are as follows:

(\$ thousands)	2015	2014
Face value of convertible debenture	\$ 34,500	\$ 34,500
Discount to face value at issuance under effective interest method	(4,251)	(4,251)
Cumulative amortization of discount through December 31	2,692	1,816
<b>Carrying value of debenture payable at December 31</b>	<b>\$ 32,941</b>	<b>\$ 32,065</b>

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

### 16. Loans and Borrowings (continued)

For these credit facilities, the amount available under which are limited to the lesser of pre-approved credit limits or the available unencumbered assets. A summary of the Company's maximum pre-approved credit limits on available credit facilities as at December 31, 2015 are as follows:

(\$ thousands)	2015		2014	
	Total Limits	Borrowings	Total Limits	Borrowings
Operating and other bank credit facilities	\$ 100,832	\$ 52,832	\$ 103,284	\$ 42,707
Capital facilities	64,131	42,800	64,169	44,546
Floor plan facilities and rental equipment term loan financing	479,243	182,959	507,927	195,596
Total borrowing	\$ 644,206	\$ 278,591	\$ 675,380	\$ 282,849
Total current portion long term debt		(17,917)		(8,430)
Total liabilities held for sale		(4,037)		-
Total inventory floor plan facilities		(168,643)		(181,801)
Deferred debt issuance costs		(333)		(464)
Total long term debt	\$ 644,206	\$ 87,661	\$ 675,380	\$ 92,154

### 17. Financial instruments

Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities.

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:  
Level 1: Reflects valuation based on quoted prices observed in active markets for identical assets or liabilities;  
Level 2: Reflects valuation techniques based on inputs other than quoted prices included in level 1 that are observable either directly or indirectly;  
Level 3: Reflects valuation techniques with significant unobservable market inputs, there were no level 3 instruments in current or prior year.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 17. Financial instruments (continued)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured a fair value if the carrying amount is a reasonable approximation of fair value.

(\$ thousands)	Category	2015		2014			
		Carrying value	Fair Value		Carrying value	Fair Value	
			Level 1	Level 2		Level 1	Level 2
<b>Financial Assets</b>							
Cash and cash equivalents <sup>(a)</sup>	Loans and receivable	\$ 11,955			\$ 18,787		
Trade and other accounts receivable <sup>(a)</sup>	Loans and receivable	59,071			58,462		
Derivative financial instruments	Held-for-trading	7,195		7,195	6,559		6,559
Long term receivables <sup>(a)</sup>	Loans and receivable	1,287			1,702		
Finance lease receivables	Loans and receivable	1,462		1,469	3,033		3,033
Deposits with manufacturers <sup>(a)</sup>	Loans and receivable	2,657			3,479		
<b>Financial Liabilities</b>							
Trade and other accrued liabilities <sup>(a)</sup>	Other liabilities	77,938			81,237		
Customer deposits <sup>(a)</sup>	Other liabilities	3,004			8,594		
Floor plan payables <sup>(a)</sup>	Other liabilities	168,643			175,035		
Dividends payable <sup>(a)</sup>	Other liabilities	3,317			3,233		
Term debt <sup>(b)</sup>	Other liabilities	105,578			100,584		
Derivative financial liability	Held-for-trading	7,180		7,180	6,590		6,590
Finance lease obligation	Other liabilities	22,064		22,606	24,509		24,881
Debenture payable <sup>(c)</sup>	Other liabilities	\$ 32,941	34,500		\$ 32,065	35,297	

(a) The carrying value approximates fair value for cash and cash equivalents, trade and other accounts receivable, trade and other accrued liabilities, floor plan payables, and dividends payable in the fair value hierarchy due to the immediate or short-term maturity.

(b) The carrying values of the current and long-term portions of term debt and notes payable approximate fair value because the applicable interest rates on these liabilities are fixed at rates similar to prevailing market rates.

(c) Debenture payable is measured at amortized cost using the effective interest method. The fair value of debenture payable at December 31, 2015 is the quoted market trading price for the debentures as at December 29, 2015, as the debentures did not trade on December 31, 2015.

For other financial liabilities where the carrying value does not approximate the fair value a discounted cash flows approach was used to determine the fair value. For derivative financial instruments, or forward exchange contracts, fair value is based on market comparison technique based on quoted prices.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

### 18. Capital and Other Components of Equity

The Company has unlimited authorized share capital without par value for all common shares. All issued common shares have been fully paid.

#### Share capital

(thousands)	Number of common shares	Total carrying amount
<b>Balance at January 1, 2014</b>	15,012	\$ 78,126
Issued under the DRIP plan	52	1,040
Issued under the deferred share plan	38	359
Issued common shares	67	1,530
Issued for business acquisitions	148	2,690
Issued under the share option plan	8	69
<b>Balance at December 31, 2014</b>	15,325	83,814
Issued under the DRIP plan	<b>71</b>	<b>1,133</b>
Issued under the deferred share plan	<b>113</b>	<b>1,226</b>
Issued under the share option plan	<b>30</b>	<b>573</b>
Issued from reserve	<b>67</b>	<b>1,524</b>
<b>Balance at December 31, 2015</b>	<b>15,606</b>	<b>\$ 88,270</b>

#### Common shares

Shareholders are entitled to: (i) dividends if, as and when declared by the Board of Directors of the Company; (ii) to one vote per share at meetings of the holders of Common Shares; and (iii) upon liquidation, dissolution or winding up of Cervus to receive pro rata the remaining property and assets of the Company, subject to the rights of shares having priority over the Common Shares.

#### Issuance of common shares

During the year ended December 31, 2015, the Company issued 71 thousand (2014 - 52 thousand) common shares to shareholders participating in the Company's dividend reinvestment plan ("DRIP"), 113 thousand (2014 - 38 thousand) common shares as a result of redemptions of vested shares from the deferred share plan, and 30 thousand (2014 - 8 thousand) common shares as a result of share options exercised, and 67 thousand (2014 - nil) common shares from other reserves.

#### Dividends declared

(\$ thousands)	2015	2014
\$0.85 per qualifying common share	\$ 13,202	\$ 12,583

Total dividends paid in cash during the year were \$11,987 thousand (2014 - \$11,358 thousand). Dividends payable as at December 31, 2015 was \$3,317 thousand (2014 - \$3,233 thousand), which includes amounts for DRIP of \$230 thousand (2014 - \$288 thousand).

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 18. Capital and Other Components of Equity (continued)

#### *Dividend reinvestment plan*

The Company has a Dividend Reinvestment Plan ("DRIP") entitling shareholders to reinvest cash dividends in additional common shares. The DRIP allows shareholders to reinvest dividends into new shares at 95 percent of the average share price of the previous 10 trading days prior to distribution. As at December 31, 2015, the company has 46 thousand shares reserved for issuance under this plan.

#### *Accumulated and Other Comprehensive Income*

Accumulated and Other Comprehensive Income is comprised of a cumulative translation account that comprises all foreign currency differences that arise on the translation of the financial statements of the Company's investment in its foreign operations, Cervus New Zealand Equipment Ltd. and Cervus Equipment Australia Pty Ltd.

#### *Other reserves*

Other reserves consists of contributed surplus of accumulated stock option expense less the fair value of the options at the grant date that have been exercised and reclassified to share capital. Also included in other reserves are amounts for expired private placement warrants, and conversion feature for convertible debenture. Changes in other reserves were as follows:

(\$ thousands)	2015	2014
<b>Balance at January 1</b>	<b>\$ 6,433</b>	<b>\$ 5,176</b>
Share-based compensation	475	258
Exercise of stock options	(202)	(17)
Shares issued in reserve	(1,524)	1,016
<b>Balance at December 31</b>	<b>\$ 5,182</b>	<b>\$ 6,433</b>

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

### 19. Share Based Payments

Included in share based payments are the following:

(\$ thousands)	2015	2014
Deferred share plan	\$ 602	\$ 1,267
Share options	475	259
	\$ 1,077	\$ 1,526

#### Deferred share plan

The Company has a deferred share plan available to officers, directors and employees whereby, if elected, certain payments to these individuals can be deferred, ranging in amounts up to \$50 thousand per individual, where the Company also matches the deferred portion. The deferred shares are granted as approved by the board of directors based on 95% of the 10-day average share price prior to the date of grant. The matched component of the plan vests over a period of 5 years (50% after 3 years, 25% after 4 years and 25% after 5 years) and is recorded as selling, general and administrative expense as it vests. As at December 31, 2015, the Company has 1,069 thousand shares reserved for issuance under this plan. As at December 31, 2015, 677 thousand (2014 – 745 thousand) deferred shares have been issued under the deferred share plan and remain outstanding. The total deferred share plan balance as at December 31, 2015, was \$7,098 thousand (2014 - \$7,559 thousand). As at December 31, 2015, the matching component of the plan to date has aggregated \$4,421 thousand (2014 - \$4,224 thousand) of which \$3,819 thousand (2014 - \$3,067 thousand) has been amortized into selling, general and administrative expense to date. Of the outstanding deferred shares, 572 thousand (2014 – 609 thousand) can be converted to common shares.

### 20. Cost of Sales

The following amounts have been included in cost of sales for the years ended December 31, 2015 and 2014:

(\$ thousands)	2015	2014
Depreciation of rental equipment	\$ 4,900	\$ 3,509
Interest paid on rental equipment financing	2,143	696
	\$ 7,043	\$ 4,205

### 21. Other income

Other income for the years ended December 31, 2015 and 2014 are comprised of the following:

(\$ thousands)	2015	2014
Net gain on sale of property and equipment	\$ 1,358	\$ 1,337
Net loss on acquiring controlling interest of subsidiary	-	(472)
Extended warranty commission	172	397
Financial compensation and consignment commissions	1,446	2,022
Unrealized foreign exchange (loss) (a)	(2,810)	(952)
Other (loss) income	(1,885)	1,383
	\$ (1,719)	\$ 3,715

(a) Unrealized foreign exchange loss is due to changes in fair value of our derivative financial asset and from period close translation of floorplan payables denominated in US dollars.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 22. Wages and Benefits

(\$ thousands)	2015	2014
Included in cost of sales:		
Wages and benefits	\$ 38,464	\$ 32,858
Included in selling, general and administrative expenses:		
Wages and benefits	105,654	92,766
Share-based payments	1,077	1,526
	106,731	94,292
	\$ 145,195	\$ 127,150

#### *Employee share purchase plan*

The Company has an employee share purchase plan available to all employees on a voluntary basis. Under the plan, employees are able to contribute 2% to 4% of their annual salaries, based on years of service. The Company contributes between 15% and 150% on a matching basis to a maximum of \$5,000 per year, per employee. The shares are purchased on the open market through a trustee; therefore, there is no dilutive effect to existing shareholders. Included in selling, general and administrative expenses are \$1,337 thousand (2014 - \$1,393 thousand) of expenses incurred by the Company to match the employee contributions.

#### *Mid-term management incentive plan*

The Company offers a mid-term incentive plan (the "MTIP") to certain senior key employees. Under the MTIP, participants receive annual grants of performance share units ("PSUs") which are settled in cash based on the achievement of performance targets at the end of a three year performance period. A liability for MTIP obligation is recognized at its fair value of cash payable, and is re-measured each reporting period until the liability is settled on the third anniversary of initial grant. Any changes in the liability are recognized in the statement of comprehensive income. For the year ended December 31, 2015 MTIP liability for executives was \$467 thousand (\$2014 - 1,081 thousand).

### 23. Finance income and Finance Costs

(\$ thousands)	2015	2014
<b>Finance Income</b>	\$ 195	\$ 384
Interest expense on convertible debenture	(2,946)	(2,870)
Interest expense on mortgage and term debt obligations	(3,897)	(1,750)
Interest expense on financial liabilities	(4,585)	(3,036)
<b>Finance Costs</b>	\$ (11,428)	\$ (7,656)
Net finance costs recognized separately	(11,233)	(7,272)
Net finance costs recognized in cost of sales	(2,143)	(696)
<b>Total Net Finance Costs</b>	\$ (13,376)	\$ (7,968)

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

### 24. Earnings per Share

#### *Per share amounts*

Both basic and diluted earnings per share have been calculated using the net earnings attributable to the shareholders of the Company as the numerator. No adjustments to net earnings were necessary for the years ended December 31, 2015 and 2014. The weighted average number of shares for the purposes of diluted earnings per share can be reconciled to the weighted average number of basic shares as follows:

(\$ thousands)	2015	2014
Issued common shares opening	15,325	15,012
Effect of shares issued under the DRIP plan	39	29
Effect of shares issued under the deferred share plan	57	22
Effect of shares issued under the share option plan	22	7
Effect of shares issued through reserve	38	-
Effect of shares issued for business acquisitions	-	25
Effect of shares issued through common shares issuance	-	52
<b>Weighted average number of common shares</b>	<b>15,481</b>	<b>15,147</b>

#### *Diluted earnings per share*

The calculation of diluted earnings per share at December 31, 2015 and 2014 was based on the profit attributable to common shareholders and the weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares which consist of the following:

(\$ thousands)	2015	2014
Weighted average number of common shares (basic)	15,481	15,147
Effect of dilutive securities:		
Deferred share plan	-	745
Share options	-	11
<b>Weighted average number of shares (diluted)</b>	<b>15,481</b>	<b>15,903</b>

The above table excludes all deferred share units and options for the year ended December 31, 2015 (677 thousand) as they are considered anti-dilutive.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### 25. Operating Leases

---

#### a) As Lessee

The Company leases a number of lands and building facilities, office equipment and vehicles. The leases typically run for a period of between 3 and 10 years with options to renew the leases on the lands and buildings after that date. The land and building leases do not include any provisions for transfer of title, nor does the Company participate in the residual value of the land and buildings. Therefore, it was determined that substantially all the risks and rewards of ownership of the land and buildings remains with the landlord. As such, the Company has determined that the leases are operating leases.

The Company is committed to the following minimum payments under operating leases for land and buildings, equipment and vehicles:

Less than 1 year	\$ 6,161
Between 1 and 5 years	15,206
More than 5 years	3,513
	<b>\$ 24,880</b>

#### b) As Lessor

The Company has entered into fixed term contractual arrangements to allow customers to have dedicated use of certain heavy trucks and equipment owned by the Company. The minimum payments for the non-cancellable operating leases for rental fleet is as follows:

Less than 1 year	\$ 4,495
Between 1 and 5 years	11,963
More than 5 years	1,701
	<b>\$ 18,159</b>

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **26. Financial Risk Management**

---

#### ***Overview***

The Company has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; and operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

#### ***Risk management framework***

The Board of Directors ("Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board, together with the Audit Committee are responsible for monitoring and oversight of the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

#### ***Credit risk***

##### **Trade and other receivables**

By granting credit sales to customers, it is possible these entities, to which the Company provides services, may experience financial difficulty and be unable to fulfill their obligations. A substantial amount of the Company's revenue is generated from customers in the farming, construction and industrial, and transportation equipment industries. This results in a concentration of credit risk from customers in these industries. A significant decline in economic conditions within these industries would increase the risk customers will experience financial difficulty and be unable to fulfill their obligations to the Company. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable, finance lease receivables, long-term receivables and deposits with manufacturers (see Note 6).

Goods are sold subject to retention of title clauses so that in the event of non-payment, the Company may have a secured claim. The Company will also register liens in respect to trade and other long-term receivables as deemed necessary and dependent on the value of the receivable.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

### 26. Financial Risk Management (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates was:

(\$ thousands)	2015	2014
Trade and other accounts receivables	\$ 55,116	\$ 54,309
Long term receivables	1,287	1,702
Long term lease receivables	1,462	3,033
Derivative financial asset	7,195	6,559
Deposits with manufacturers	2,657	3,479
	\$ 67,717	\$ 69,082

The maximum exposure to credit risk at the reporting date by geographic region was:

(\$ thousands)	2015	2014
Domestic	\$ 46,819	\$ 48,467
New Zealand	5,030	2,963
Australia	3,267	2,879
	\$ 55,116	\$ 54,309

The aging of loans and receivables at the reporting date was:

(\$ thousands)	2015	2014
Current - 60 days	\$ 46,964	\$ 45,871
Past due – 61-90 days	3,772	3,043
Past due – 91 to 120 days	3,132	2,808
Past due more than 120 days	1,248	2,587
	\$ 55,116	\$ 54,309

The Company recorded the following activity in its allowance for impairment of loans and receivables:

(\$ thousands)	2015	2014
Balance at January 1	\$ 1,386	\$ 681
Additional allowance recorded (recovery)	835	821
Amounts written-off as uncollectible	(234)	(116)
<b>Balance at December 31</b>	<b>\$ 1,987</b>	<b>\$ 1,386</b>

In our industries, customers typically pay invoices within 30 to 60 days. The average time to collect Company's outstanding accounts receivable was approximately 19 days for the year ended December 31, 2015 (2014 – 19 days). No single outstanding customer balance represented more than 10% of total accounts receivable.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 26. Financial risk management (continued)

The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding and establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information. For the year ended December 31, 2015 and 2014 all customer balances provided as bad debts were calculated based on 25% of accounts between 90 to 120 days outstanding and 85% on amounts over 120 days outstanding unless allowance for certain specified accounts requires a greater amount to be allowed for.

#### **Guarantees**

The Company has irrevocable standby letters of credit to John Deere in the amount of \$2,400 thousand (2014 - \$2,400 thousand). The letter of credit agreements allow for John Deere to draw upon it in whole or in part in the event of any default by the Company of any or all obligations.

#### **Liquidity risk**

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the ability to raise funds to meet purchase commitments and financial obligations and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. As described in Note 16, the Company has available for its current use, \$100,000 thousand and NZ\$1,500 thousand of operating credit facilities less \$2,400 thousand for irrevocable letters of credit issued to John Deere.

The Company believes that it has sufficient operating funds available as described above to meet expected operational expenses, including the services of financial obligations.

The following are the contractual maturities of financial liabilities existing as at December 31, 2015.

(\$ thousands)	Contractual					
	Carrying amount	principal maturities	12 months or less	1 – 2 Years	2 – 5 Years	5+ Years
Trade and other accrued liabilities	\$ 77,938	77,938	77,938	-	-	-
Floor plans payable	168,643	168,643	168,643	-	-	-
Dividends payable	3,317	3,317	3,317	-	-	-
Term debt payable	109,615	109,948	17,917	84,476	7,555	-
Derivative financial liability	7,180	7,180	7,180	-	-	-
Finance lease obligation	22,064	22,064	5,713	4,850	10,341	1,160
Debenture payable	32,941	34,500	-	34,500	-	-
	\$ 421,698	423,590	280,708	123,826	17,896	1,160

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### **26. Financial risk management (continued)**

#### **Market risk**

Market risk is the risk that changes in the market place such as foreign exchange rates, interest rates and commodity prices that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return.

#### **Currency risk**

Many of our products, including equipment and parts, are based on a U.S. dollar price as they are supplied primarily by U.S. manufacturers but are settled in Canadian dollars as they are received. This may cause fluctuations in the sales values assigned to equipment and parts inventories, as inventory is recorded based on Canadian dollar cost at the time of receipt, but is sold to the customer based on market pricing prevailing at time of sale. Both sales revenues and gross profit margins may fluctuate based on differences in foreign exchange rates between the purchase of inventory and sale of inventory. Certain of the Company's manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on the Company's new equipment inventory purchases.

Further, a portion of the Company's owned inventory is floor planned in U.S. dollars. As such, US dollar denominated floor plan payables are exposed to fluctuations in the U.S. dollar exchange rate until the unit is sold and the floorplan is repaid. At the time of sale, the Company determines a margin based on the replacement cost of the inventory at the time of sale, not the initial cost of the inventory at the time of purchase. In so doing, the company's objective is to obtain a target margin on the sale of inventory, by calculating the sale margin based on the cost of repaying the US dollar floorplan as at the sale date. If the Company was unable to recapture fluctuations in the US/CAD dollar in the sales price for equipment floor planned in US dollars, a \$0.01 change in the U.S. exchange rate would have increased (decreased) profit or loss by \$264 thousand (2014 - \$260 thousand), based on the U.S. dollar floor plan balances at December 31, 2015. From time to time the Company also enters into foreign exchange forward contracts to manage exposure on timing difference between the payout of floorplan and receipt of funds from a customer.

In addition, the Company is exposed to foreign currency fluctuation related to translation adjustments upon consolidation of its Australian and New Zealand operations. These foreign subsidiaries report operating results in Australia and New Zealand dollars, respectively. Movements in these currencies relative to the Canadian dollar will impact the consolidated results of these operations. Based on the Company's results reported from its foreign subsidiaries, a strengthening or weakening of the Canadian dollar by 5% against the New Zealand dollar at December 31, 2015 would have increased (decreased) profit or loss by \$559 thousand (2014 - \$54 thousand). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2015 would have increased (decreased) profit or loss by \$172 thousand (2014 - \$20 thousand).

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 26. Financial risk management (continued)

#### *Interest rate risk*

The Company's cash flow is exposed to changes in interest rates on its floor plan arrangements and certain term debt which bear interest at variable rates. The cash flows required to service these financial liabilities will fluctuate as a result of changes in market interest rates. The Company mitigates its exposure to interest rate risk by utilizing excess cash resources to buy-down or pay-off interest bearing contracts and by managing its floor plan payables by maximizing the interest-free periods. At the reporting dates, the interest bearing financial instruments were:

(\$ thousands)	2015	2014
<b>Fixed Rate</b>		
Debenture payable	\$ 32,941	\$ 32,065
Finance lease obligation	22,064	24,509
<b>Variable Rate</b>		
Floor plan payables		
Floor plan payables - interest bearing	149,750	145,947
Floor plan payables - interest free period <sup>(a)</sup>	18,893	35,854
Term debt	109,948	101,048
	<b>\$ 333,596</b>	<b>\$ 339,423</b>

(a) Various floor plan facilities include an interest free period, further certain incentives and rebates may be available to reduce interest expense otherwise due on interest bearing portions of floor plans.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. A change in 100 basis points in interest rates would have increased or decreased equity for the year ended December 31, 2015 by approximately \$2,590 thousand (2014 -\$2,027 thousand).

#### *Operational risk*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict innovation and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including maintaining insurance coverage.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

---

### 26. Financial risk management (continued)

Compliance with Company standards is supported by a program of periodic reviews in consultation with Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

#### *Capital risk management*

The Company's objective when managing its capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders and to provide an adequate return to Shareholders by pricing products and services commensurately with the level of risk. In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (i.e. shares issued, accumulated earnings, shareholder distributions and dilutive instruments).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares/units to facilitate business combinations and or retire term debt or may adjust the amount of distributions paid to the Shareholders.

The Company uses the following ratios in determining its appropriate capital levels; a) a debt to total capital ratio (total interest bearing debt divided by total interest bearing debt plus book value of equity); b) an adjusted debt to adjusted earnings ratio (adjusted debt divided by adjusted earnings); c) an adjusted debt to adjusted assets ratio (calculated as adjusted debt divided by adjusted assets); d) a fixed charge coverage ratio (calculated as adjusted earnings divided by contractual principle, interest, dividend, and operating lease payments); and e) an asset coverage ratio (tangible assets divided by specific drawn amounts under certain credit facilities). Adjusted assets comprise all components of assets other than other intangible assets and goodwill. Adjusted equity comprises of all components of shareholders' equity and is reduced by other intangible assets and goodwill.

The Company must meet certain financial covenants as part of its current Canadian credit facility, all of which the Company was in compliance as at December 31, 2015. The relating three core covenants are summarized as:

- Maintaining "total liabilities to tangible net worth ratio" not exceeding 4.0:1.0 calculated from adjusted total liabilities over adjusted equity.
- Maintaining "fixed charge coverage ratio" greater to or equal to 0.95:1.0, calculated as adjusted EBITDA net of any Canadian debt or equity financing utilized 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. The fixed charge coverage ratio will increase to 1.00:1 commencing on December 31, 2016 until March 30, 2017, and to 1.10:1 for the period from March 31, 2017 onwards.
- Maintaining "asset coverage ratio" greater than 3.0:1.0, calculated as North American adjusted net tangible total assets less consolidated debt excluding floor plan liabilities, plus debt due under the Canadian credit facility, divided by the amount due under the Canadian credit facility.

There were no changes in the Company's approach to capital management in the period. Neither the Company, nor any of its other subsidiaries are subject to externally imposed capital requirements, other than as identified in Note 16.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 27. Segment information

The Company operates under three segments: Agriculture, Commercial and Industrial, and Transportation 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. These three business segments are described in Note 3 and are considered to be the Company's three strategic business units. The three business segments offer different products and services and are managed separately as they operate in different markets and require separate strategies. For each of the strategic business units, the Company's key decision makers review internal management reports on a monthly basis.

Each of these business segment operations are supported by a single shared corporate head office. Certain corporate head office expenses are allocated to the business segments under either specific identification approach or a usage based metric. The corporate head office also incurs certain costs which are considered as public company costs, which are allocated to the segments based on the gross margin of the Canadian operations. Total corporate related expenditures, excluding income taxes, that have been allocated for the year ended December 31, 2015 are \$7,001 thousand (2014 - \$6,424 thousand).

The following is a summary of financial information for each of the reportable segments.

(\$ thousands)	Agricultural Equipment	Transportation Equipment	Commercial and Industrial Equipment	Other <sup>1</sup>	Total
<b>Segmented income figures</b>					
<b>Year ended December 31, 2015</b>					
Revenue	\$ 711,343	\$ 300,579	\$ 121,956		\$ 1,133,878
Income (loss) for the period attributable to shareholders	13,288	(3,470)	(291)	\$ (36,948)	(27,421)
Share of profit of equity accounted investees	542	-	-		542
Depreciation and amortization	8,951	5,250	3,652		17,853
Finance income	179	14	2		195
Finance expense including amounts in costs of sales	(6,758)	(5,172)	(1,641)		(13,571)
Capital additions, including finance leases	12,998	9,749	1,818		24,565
<b>Segmented assets as at December 31, 2015</b>					
Reportable segment assets	\$ 380,131	\$ 165,342	\$ 84,312		\$ 629,785
Reportable segment liabilities	254,510	120,447	61,535		436,492
Investment in associates	5,762	-	-		5,762
Intangible assets	28,767	14,985	7,256		51,008
Goodwill	15,876	2,547	2,193		20,616

[1] – The impact of the CRA settlement as discussed in Note 13 have not been allocated to the business segments.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

### 27. Segment information (continued)

(\$ thousands)	Agricultural Equipment	Transportation Equipment	Commercial and Industrial Equipment	Total
<b>Segmented income figures</b>				
<b>Year ended December 31, 2014</b>				
Revenue	\$ 631,673	\$ 188,838	\$ 159,098	\$ 979,609
Income (loss) for the period attributable to shareholders	16,061	(876)	3,177	18,362
Share of profit of equity accounted investees	712	-	-	712
Depreciation and amortization	6,351	3,885	6,207	16,443
Finance income	218	151	15	384
Finance expense including amounts in costs of sales	(4,980)	(1,927)	(1,445)	(8,352)
Capital additions, including finance leases	21,046	2,204	2,708	25,958
<b>Segmented assets as at December 31, 2014</b>				
Reportable segment assets	\$ 386,260	\$ 169,848	\$ 113,195	\$ 669,303
Reportable segment liabilities	231,500	139,009	69,303	439,812
Investment in associates	5,268	-	-	5,268
Intangible assets	29,665	16,640	7,704	54,009
Goodwill	14,992	2,547	2,193	19,732

The Company primarily operates in Canada but includes subsidiaries in Australia (Cervus Australia PTY Ltd.) and, in New Zealand (Cervus NZ Equipment Ltd.) which operate 15 agricultural equipment dealerships. Gross revenue and non-current assets for the geographic territories of New Zealand and Australia were \$133,736 thousand (2014 - \$139,487 thousand) and \$29,140 thousand (2014 - \$26,577 thousand) respectively.

### 28. Commitments and contingencies

#### Financing Arrangements

John Deere Credit Inc. ("Deere Credit") and other financing companies provide financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2015 payments in arrears by such customers aggregated \$376 thousand (2014 - \$304 thousand). In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit and other financing companies through recourse arrangements for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2015, the net residual value of such leases aggregated \$194,987 thousand (2014 - \$166,703 thousand). Management believes that the potential liability in relation to the amounts outstanding is negligible and consequently, no accrual has been made in these financial statements in relation to any potential loss on assumed lease obligations.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

### 29. Related party transactions

#### *Key management personnel compensation*

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers, and contributes to the deferred share plan and the employee share purchase plan, if enrolled, in accordance with the terms of the plans. The Company has no retirement or post-employment benefits available to its directors and executive officers. In addition, no directors or executive officers are part of the share option plan.

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

<b>(\$ thousands)</b>	<b>2015</b>	<b>2014</b>
Short-term benefits	\$ 3,096	\$ 2,684
Share-based payments	387	573
	<b>\$ 3,483</b>	<b>\$ 3,257</b>

#### *Key management personnel and director transactions*

Key management and directors of the Company control approximately 27% of the common voting shares of the Company.

#### *Other related party transactions*

Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating \$6,500 thousand. During the year ended December 31, 2015 and 2014, the Company paid those individuals \$195 thousand (2014 - \$184 thousand) for providing these guarantees. These transactions were recorded at the amount agreed to between the Company and the guarantors, are included in selling, general and administrative expense and have been fully paid during the year.