Cervus Equipment Corporation Management's Discussion + Analysis

For the period from January 1, 2018 to December 31, 2018

The following Management's Discussion & Analysis ("MD&A") was prepared as of March 14, 2019 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, 2018, and significant trends that may affect the future performance of Cervus. This MD&A should be read in conjunction with the accompanying Audited Consolidated Financial Statements for the year ended December 31, 2018, and notes contained therein. The accompanying Audited Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Cervus' functional and reporting currency is the Canadian dollar. Cervus' common shares trade on the Toronto Stock Exchange under the symbol "CERV".

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

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

Overview of Cervus

For the year ended December 31, 2018, Cervus operated under three segments: Agriculture, Transportation, and Commercial and Industrial, based on the industries which they serve. These segments are managed separately, and strategic decisions are made on the basis of their respective operating results. On February 26, 2018, the Company announced it had entered into a definitive agreement to sell its Commercial operations, composed of four dealership locations in Calgary, Red Deer, Edmonton and Fort McMurray, Alberta. The dealerships represent the construction brands Bobcat, CMI and JCB. In 2018, Cervus will continue to report under three operating segments: Agriculture, Transportation, and Industrial.

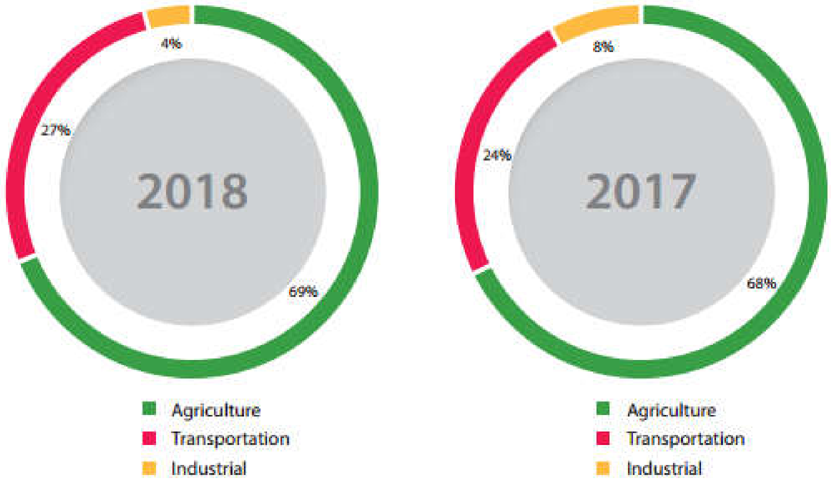
The Agricultural equipment segment consists of interests in 36 John Deere dealership locations with 15 in Alberta, 5 in Saskatchewan, 1 in British Columbia, 9 in New Zealand and 6 in Australia.

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

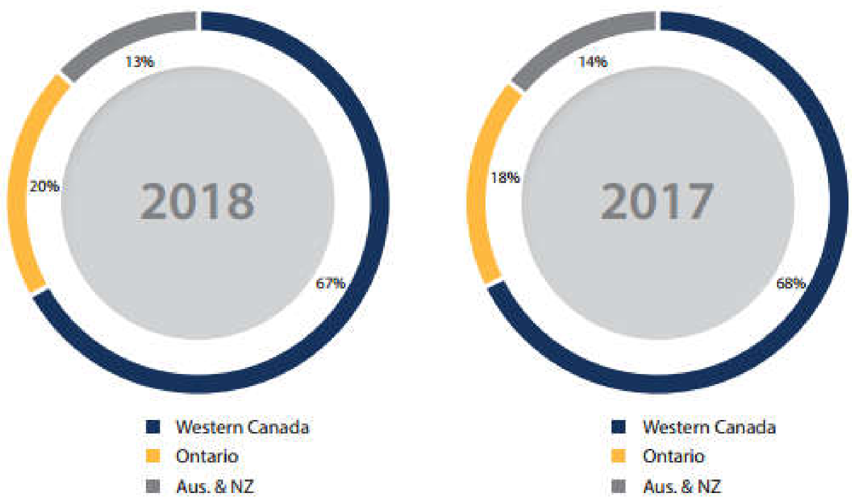
(1) - Refer to Non-IFRS Measures herein

For the year ended December 31, 2018, the Industrial equipment segment consisted of 8 dealership locations with 5 Clark, Sellick, Doosan, JLG, Baumann material handling and forklift equipment dealerships operating in Alberta, 2 Clark, Sellick, Doosan, JLG, Baumann dealerships operating in Saskatchewan and 1 Clark, Sellick, JLG, Baumann dealership in Manitoba.

Revenue by Segment



Revenue by Geography



Note Regarding Forward-Looking Statements

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

The most recent quarterly dividend payment of $0.10 per share was made to the shareholders of record as of December 31, 2018, on January 15, 2019. See "Capital Resources - Cautionary note regarding dividends" for a cautionary note regarding future dividends.

Highlights of the Year

- The Company generated adjusted income before income tax expense [(1)] of $36.5 million, an $8.8 million increase compared to $27.7 million of adjusted income before income tax expense [(1)] in 2017.
- The Company generated income of $26.6 million in 2018, a $6.7 million increase compared to income of $19.9 million in 2017.
- The Company reported income per basic share of $1.70 in 2018, a $0.43 per share increase compared to income of $1.27 per basic share in 2017.
- The Transportation segment achieved a $9.4 million increase in adjusted income before income tax expense[(1)] compared to 2017, largely due to the performance of our Ontario dealerships.
- Cervus achieved record new equipment revenue in our Agriculture segment, increasing 10% over the prior year, while marketing associated used equipment trades in season decreased used equipment margins by 2% in the year.
- Total service gross profit margin percentage increased by 3.4% compared to 2017, due to continued service optimization improvement.
- Selling, general, and administrative ("SG&A") expenses decreased $3.2 million in the year, despite a $128.8 million increase in revenue, decreasing to 12.8% as a percentage of revenue compared to 14.4% in 2017.
- Dividends of $0.40 per share were declared to shareholders of record during 2018.
- Cervus completed the acquisition of an adjacent John Deere dealership located in Red Deer, Alberta.
- Cervus' Saskatchewan John Deere dealerships were awarded John Deere's Leaders Club status, an award recognizing the top John Deere dealers in Canada.

(1) - Refer to Non-IFRS Measures herein

ANNUAL CONSOLIDATED RESULTS

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Revenue	**1,350,037**	11%	1,221,285
Cost of sales	**(1,138,517)**	13%	(1,011,857)
Gross profit	**211,520**	1%	209,428
Other income	**4,642**		222
Unrealized foreign exchange (loss) gain	**(1,199)**	(235%)	890
Total other income	**3,443**	210%	1,112
Selling, general and administrative expense	**(173,045)**	(2%)	(176,199)
Income from operating activities	**41,918**	22%	34,341
Finance income	**854**	76%	484
Finance costs	**(6,352)**	8%	(5,863)
Share of profit (loss) of equity accounted investees, net of income tax	**124**		(4)
Income before income tax expense	**36,544**	26%	28,958
Income tax expense	**(9,965)**	10%	(9,046)
Income for the year	**26,579**	33%	19,912
Income attributable to shareholders	**26,579**	33%	19,917
EBITDA[(1)]	**59,170**	10%	53,840
EBITDA margin[(1)]	**4.4%**		4.4%
Ratios as a percentage of revenue:			
Gross profit margin	**15.7%**		17.1%
Selling, general and administrative	**12.8%**		14.4%
Income per share			
Basic	**1.70**	34%	1.27
Diluted	**1.62**	35%	1.20
Basic - adjusted[(1)]	**1.70**	40%	1.21
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	**36,544**	26%	28,958
Adjustments:			
Unrealized foreign exchange loss (gain)	**1,199**	(235%)	(890)
Gain on sale of Commercial operations	**(480)**	100%	-
Gain on sale of land and building	**-**	(100%)	(417)
Insurance proceeds received in excess of building cost	**(765)**	100%	-
Adjusted income before income tax expense[(1)]	**36,498**	32%	27,651

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Year Ended December 31, 2018

Adjusted income before income tax expense[(1)] increased $8.8 million to $36.5 million compared to $27.7 million in 2017. This was achieved due to a $9.4 million increase in our Transportation segment, a $1.4 million increase in our Agriculture segment, partially offset by a $2.0 million decrease in the Industrial segment due to non-continuance of four construction dealerships. Income before income tax expense increased $7.6 million compared to 2017, comprised of a $7.6 million increase in our Transportation segment, and a $1.7 million increase in our Agriculture segment, partially offset by a $1.7 million decrease in our Industrial segment.

In analyzing financial results, Cervus considers adjusted income before income tax expense as a relevant supplementary non-IFRS measure of financial performance. Year over year fluctuations in unrealized foreign exchange gains and losses reduced income in 2018 by $2.1 million compared to 2017, while gains on insurance recoveries increased $0.8 million in 2018 compared to the year ended 2017. Adjusted income before income tax expense excludes gains and losses from the sale of real estate and insurance recoveries, as well as unrealized gains and losses on foreign exchange. It is our view that this non-IFRS measure is useful for comparing the period to period financial performance of our underlying dealership operations.

Adjusted income before income tax expense increased by $8.8 million in 2018, compared to 2017. The principal factor in this performance was the substantial increase in our Ontario transportation dealership profitability compared to 2017, increasing $8.2 million. The results of our Agriculture segment also improved, achieving record new equipment sales partially offset by a 2% reduction in used equipment gross margin percentage. Our Industrial segment also generated $0.6 million of additional adjusted income before income tax on a same store basis.

Within our Agriculture segment, adjusted income before income tax expense increased $1.4 million. This performance reflects the record agricultural equipment sales achieved in 2018, with new and used equipment increasing 13% overall compared to 2017. The overall results were comprised of a 10% increase in new equipment sales which accelerated the amount of used equipment taken on trade. In turn, focused sales efforts achieved a 19% increase in used equipment sales, compared to 2017, while marketing this increased used inventory in-season reduced used gross profit margin compared to 2017. Organic growth in parts and service revenue, along with improved gross profit, also positively contributed to the financial performance of the year. Income before income tax expense increased $1.7 million for the segment compared to 2017.

Our Transportation segment delivered a $9.4 million increase in adjusted income before income tax expense, with our Ontario dealerships generating $8.2 million of the increase. The Ontario reorganization undertaken in 2017 provided the framework to support a 23% increase in overall revenue, while growing gross margin and reducing SG&A expenses. Income before income tax expense mirrored these trends, increasing $7.6 million compared to 2017, of which $3.5 million related to non-recurring reorganization costs incurred in 2017, and includes a $1.8 million decrease in unrealized foreign exchange gains compared to 2017.

Within our Industrial segment, same store adjusted income before income tax expense improved $0.6 million, while overall segment results decreased $2.0 million, due to the non-continuance of the Construction dealerships, which had generated $2.6 million of adjusted income in 2017. On a same store basis, a 15% increase in revenue reflected improving market sentiment, while internal efficiencies delivered increased gross profit. Same store income before income tax expense also increased $0.4 million, while overall segment results decreased $1.7 million, of which $2.1 million related to prior year income from the Construction dealerships.

[(1)] Refer to Non-IFRS measures herein

ANNUAL BUSINESS SEGMENT RESULTS

For the year ended December 31, 2018 the Company had three reportable segments: Agricultural, Transportation, and Industrial, each supported by a single shared resources function. The Company allocates the expenditures of shared resources to each individual segment according to specific identification and metrics to estimate use as outlined in Note 27 of the accompanying Audited Consolidated Annual Financial Statements.

Agricultural Segment Results

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	**490,524**	10%	447,268
Used equipment	**293,264**	19%	246,784
Total equipment revenue	**783,788**	13%	694,052
Parts	**95,925**	2%	93,627
Service	**42,724**	5%	40,839
Rental and other	**4,449**	(14%)	5,159
Total revenue	**926,886**	11%	833,677
Cost of sales	**(792,691)**	13%	(703,484)
Gross profit	**134,195**	3%	130,193
Other income	**1,857**	62%	1,143
Selling, general and administrative expense	**(102,367)**	3%	(98,915)
Income from operating activities	**33,685**	4%	32,421
Income before income tax expense	**31,188**	6%	29,479
EBITDA(1)	**42,040**	5%	40,106
Ratios as a percentage of revenue:			
Gross profit margin	**14.5%**		15.6%
Selling, general and administrative	**11.0%**		11.9%
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	**31,188**	6%	29,479
Adjustments:			
Gain on sale of land and building	**-**	(100%)	(417)
Insurance proceeds received in excess of building cost	**(765)**	100%	-
Adjusted income before income tax expense(1)	**30,423**	5%	29,062

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Year Ended December 31, 2018
Within our Agriculture segment, adjusted income before income tax expense increased $1.4 million in 2018, as focused sales efforts drove record equipment sales in the year. This increase in new equipment sales accelerated the amount of used equipment taken on trade, which was successfully reconditioned and sold in the year, as indicated by the 19% increase in used equipment sales. Income before income tax expense increased $1.7 million, driven by a gross profit increase of $4.0 million, partially offset by SG&A expenses increasing $3.5 million.

Income before income tax expense increased $1.7 million, driven by the $89.7 million increase in equipment sales. Record new equipment sales resulted in the achievement of additional manufacturer incentives, which supported overall new equipment gross profit margin in the year. This new equipment sales activity increased the used equipment taken on trade. The late seeding and difficult harvest in 2018 compressed producers' field time and increased demand for used equipment capacity, particularly in the third and fourth quarters. This provided an opportunity to successfully market the additional used inventory in season, although at lower profit margins. As a result, used equipment gross profit margin percentage decreased 2% in the year, partially offsetting increased new and used equipment revenue. Parts and service sales experienced modest growth, while service department efficiencies increased service gross profit margin by 3.9%. The increased equipment sales, combined with parts and service margin growth, generated the $4.0 million increase in gross profit partially offset by $3.5 million of increased SG&A expenses.

Within our two agriculture geographies, the $1.4 million increase in adjusted income before income tax expense was comprised of a $0.7 million increase in our Canadian dealerships, and a $0.7 million increase in our Australia and New Zealand dealerships.

Transportation Segment Results

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	**215,674**	39%	155,480
Used equipment	**12,895**	43%	9,005
Total equipment revenue	**228,569**	39%	164,485
Parts	**96,118**	4%	92,559
Service	**31,078**	6%	29,367
Rental and other	**6,391**	(8%)	6,958
Total revenue	**362,156**	23%	293,369
Cost of sales	**(302,846)**	26%	(240,885)
Gross profit	**59,310**	13%	52,484
Other income (loss)	**1,591**	199%	(1,604)
Unrealized foreign exchange (loss) gain	**(1,070)**	(256%)	685
Total other income (loss)	**521**	157%	(919)
Selling, general and administrative expense	**(52,989)**	(0%)	(53,065)
Income (loss) from operating activities	**6,842**	556%	(1,500)
Income (loss) before income tax expense	**4,064**	214%	(3,562)
EBITDA(1)	**13,768**	85%	7,442
Ratios as a percentage of revenue:			
Gross profit margin	**16.4%**		17.9%
Selling, general and administrative	**14.6%**		18.1%
Reconciliation of adjusted income (loss) before income tax expense:			
Income (loss) before income tax expense	**4,064**	214%	(3,562)
Adjustments:			
Unrealized foreign exchange loss (gain)	**1,070**	(256%)	(685)
Adjusted income (loss) before income tax expense(1)	**5,134**	221%	(4,247)

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Year Ended December 31, 2018
Within our Transportation segment, adjusted income before income tax expense increased $9.4 million year over year, facilitated by the reorganization efforts initiated in 2017. Of this $9.4 million improvement, $3.5 million relates to the non-recurrence of the reorganization costs incurred in 2017. Income before income tax expense mirrored these trends, increasing $7.6 million compared to 2017, including a $1.8 million decrease in unrealized foreign exchange gains in the year.

The reorganization efforts initiated in 2017 facilitated accelerated process efficiency, disciplined cost management and revenue growth throughout 2018. The actions delivered the capacity and processes required to profitably capture the significant increase in market activity experienced in 2018. This enabled the Ontario dealerships' $8.2 million increase in adjusted net income before income tax expense in 2018, while Saskatchewan dealerships also increased $1.2 million. Further, the process and discipline groundwork started in 2017 facilitated a reduction in 2018 SG&A expenses, while overall revenue increased 23%.

Increased North American market demand for trucks facilitated overall revenue growth, particularly in our Ontario dealerships. Equipment sales increased 39%, while parts and service sales increased 4% and 6%, respectively. Increased gross profit margin percentage in both equipment sales and service departments, accelerated the impact of revenue growth, and together generated the $6.8 million increase in total gross profit dollars. Overall gross margin percentage decreased despite increased profitability across revenues streams, due to the sales mix impact of additional equipment sales.

Within our two transportation geographies, income before income tax expense increased $7.6 million, of which $7.0 million related to our Ontario and $0.6 million related to our Saskatchewan operations.

Industrial Segment Results

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	**25,485**	(43%)	44,398
Used equipment	**3,993**	(55%)	8,846
Total equipment revenue	**29,478**	(45%)	53,244
Parts	**14,085**	(38%)	22,677
Service	**12,700**	(11%)	14,258
Rental and other	**4,732**	17%	4,060
Total revenue	**60,995**	(35%)	94,239
Cost of sales	**(42,980)**	(36%)	(67,488)
Gross profit	**18,015**	(33%)	26,751
Other income	**1,194**	75%	683
Unrealized foreign exchange (loss) gain	**(129)**	(163%)	205
Total other income	**1,065**	20%	888
Selling, general and administrative expense	**(17,689)**	(27%)	(24,219)
Income from operating activities	**1,391**	(59%)	3,420
Income before income tax expense	**1,292**	(58%)	3,041
EBITDA(1)	**3,362**	(47%)	6,292
Ratios as a percentage of revenue:			
Gross profit margin	**29.5%**		28.4%
Selling, general and administrative	**29.0%**		25.7%
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	**1,292**	(58%)	3,041
Adjustments:			
Unrealized foreign exchange loss (gain)	**129**	(163%)	(205)
Gain on sale of Commercial operations	**(480)**	100%	-
Adjusted income before income tax expense(1)	**941**	(67%)	2,836

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Year Ended December 31, 2018

Within our Industrial segment, same store adjusted income before income tax expense improved $0.6 million. Due to the disposition of the four Construction dealerships in the first quarter of 2018, segment results for 2018 are not directly comparable to 2017. To aid in comparability of the ongoing Industrial segment, a same store analysis is presented on the following page.

On an overall basis, segment results decreased $2.0 million, due to the non-continuance of the Construction dealerships, which generated $2.6 million of prior year income, partially offset by a $0.6 million improvement in the ongoing Industrial operations.

Industrial Segment Same Store Highlights

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017 Same Store
Equipment			
New equipment	**18,062**	28%	14,135
Used equipment	**2,841**	7%	2,662
Total equipment revenue	**20,903**	24%	16,797
Parts	**11,251**	1%	11,120
Service	**11,877**	14%	10,376
Rental and other	**4,732**	17%	4,060
Total revenue	**48,763**	15%	42,353
Cost of sales	**(32,493)**	17%	(27,768)
Gross profit	**16,270**	12%	14,585
Other income	**557**	(14%)	644
Unrealized foreign exchange (loss) gain	**(97)**	(199%)	98
Total other income	**460**	(38%)	742
Selling, general and administrative expense	**(15,773)**	8%	(14,672)
Income from operating activities	**957**	46%	655
Income before income tax expense	**889**	75%	509
EBITDA(1)	**2,942**	5%	2,813
Ratios as a percentage of revenue:			
Gross profit margin	**33.4%**		34.4%
Selling, general and administrative	**32.3%**		34.6%
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	**889**	75%	509
Adjustments:			
Unrealized foreign exchange loss (gain)	**97**	(199%)	(98)
Adjusted income before income tax expense(1)	**986**	140%	411

(1) - Refer to Non-IFRS Measures herein

On a same store basis, our Industrial segment's adjusted net income before income tax expense and net income before income tax expense increased $0.6 million and $0.4 million, respectively. Equipment sales increased 24%, while parts, service and rental and other (which includes training, storage solutions) increased 9%. The revenue increase did not directly translate to increased margin, as $4.0 million of equipment withheld from the Construction sale was liquidated, compressing margins. SG&A expenses increased 8%, due to administrative expenses incurred to establish the storage and racking solutions business line, and retention of key senior personnel previously shared between the Construction and Industrial dealerships.

Annual Cash Flows

Cash and Cash Equivalents – Year Ended December 31, 2018

Cervus' primary sources and uses of cash flow for the year ended December 31, 2018, are as follows:

Operating Activities

Net cash provided from operating activities was $12.7 million for the year ended December 31, 2018, compared to $33.6 million in 2017, a decrease of $20.9 million. The decrease in net cash from operating activities primarily resulted from a $32.6 million increase in net cash used in working capital items. The $32.6 million increase in net cash used in working capital items was primarily driven by the $42.5 million increase in inventory.

Investing Activities

During the year ended December 31, 2018, the Company's net cash used in investing activities was $4.1 million, compared to a source of cash of $3.6 million in 2017, a decrease of $7.7 million. This decrease is primarily due to the significant $12.6 million outflow of cash related to the acquisition of Deermart Equipment Sales Ltd., as well as a $4.7 million increase in cash used to purchase property and equipment and a $5.7 million decrease in cash received for disposal of property and equipment. This was partially offset by proceeds received from the sale of the Company's Commercial operations of $14.2 million in 2018.

Financing Activities

During the year ended December 31, 2018, the Company used $17.8 million of cash related to financing activities compared to $37.5 million in 2017, a net reduction in use of cash for financing activities of $19.7 million. This decrease is primarily due to the significant 2017 cash outflow of $34.5 million related to the Company's repayment and extinguishment of the convertible debenture; partially offset by a $12.0 million increase in net repayment on the Company's term debt in 2018.

Fourth Quarter Consolidated Performance

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Revenue	**300,248**	10%	272,726
Cost of sales	**(248,249)**	13%	(218,996)
Gross profit	**51,999**	(3%)	53,730
Other income (loss)	**1,674**	197%	(1,728)
Unrealized foreign exchange loss	**(1,256)**	568%	(188)
Total other income (loss)	**418**	122%	(1,916)
Selling, general and administrative expense	**(43,534)**	(3%)	(45,094)
Income from operating activities	**8,883**	32%	6,720
Finance income	**443**	603%	63
Finance costs	**(1,684)**	57%	(1,070)
Share of loss of equity accounted investees, net of income tax	**-**	(100%)	(4)
Income before income tax expense	**7,642**	34%	5,709
Income tax expense	**(2,611)**	32%	(1,982)
Income for the period	**5,031**	35%	3,727
Income attributable to shareholders	**5,031**	35%	3,727
EBITDA[(1)]	**13,367**	(2%)	13,622
EBITDA margin[(1)]	**4.5%**		5.0%
Ratios as a percentage of revenue:			
Gross profit margin	**17.3%**		19.7%
Selling, general and administrative	**14.5%**		16.5%
Income per share			
Basic	**0.32**	33%	0.24
Diluted	**0.31**	35%	0.23
Basic - adjusted [(1)]	**0.35**	40%	0.25
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	**7,642**	34%	5,709
Adjustments:			
Unrealized foreign exchange loss	**1,256**	568%	188
Insurance proceeds received in excess of building cost	**(765)**	100%	-
Adjusted income before income tax expense[(1)]	**8,133**	38%	5,897

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Three Months Ended December 31, 2018

For the fourth quarter of 2018, adjusted income before income tax expense increased $2.2 million compared to the same period in 2017. This was achieved through a $3.7 million increase in our Transportation segment, partially offset by a $1.1 million decrease in our Agriculture segment, and a $0.4 million decrease in our Industrial segment. Income before income tax expense increased $1.9 million, which includes a $0.8 million gain on insurance recoveries recognized in the fourth quarter of 2018, and a $1.1 million increase in unrealized foreign exchange losses in the year.

Within our Agriculture segment, adjusted income before income tax expense decreased $1.1 million, of which $1.4 million relates to the timing of manufacturer incentive recognition within the year. Due to heightened new equipment sales earlier in 2018, the Company was able to estimate and recognize a portion of annual manufacturer incentives earlier in the year, resulting in a $1.4 million decrease in OEM incentives recognized in the fourth quarter. Focused sales efforts on marketing the additional used equipment taken on trade resulted in used equipment sales increasing by 34% over the fourth quarter of 2017, although used gross profit margin decreased 2.9%. The later 2018 harvest was positive for parts and service opportunities, with associated revenue increasing 16% and 9%, respectively. Income before income tax expense decreased $0.4 million, which includes $0.8 million in gain on insurance recoveries recognized in the fourth quarter of 2018.

In our Transportation segment, adjusted income before income tax expense increased $3.7 million compared to the three months ended December 31, 2017. This includes the non-recurrence of $2.9 million of prior period reorganization costs and lease fleet valuation adjustments. The 51% increase in equipment sales and 3% increase in service sales resulted in a $1.1 million increase in gross profit, while SG&A expenses were limited to a 1% increase during the quarter. Loss before income tax expense improved $3.0 million compared to the fourth quarter of 2017, which includes the reorganization and lease valuation adjustments in 2017 noted above.

Within our Industrial segment, same store adjusted income before income tax expense increased $0.3 million, while overall segment results decreased $0.4 million, due to the non-continuance of the Construction dealerships, which generated $0.7 million of income in the fourth quarter of 2017. Same store loss before income tax expense also improved $0.1 million, while overall segment results decreased $0.7 million, of which $0.8 million related 2017 fourth quarter income from the Construction dealerships.

Fourth Quarter Business Segment Performance

Agricultural Segment Results

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	**95,835**	(3%)	98,393
Used equipment	**73,713**	34%	55,060
Total equipment revenue	**169,548**	10%	153,453
Parts	**22,694**	16%	19,511
Service	**11,452**	9%	10,520
Rental and other	**1,525**	(18%)	1,851
Total revenue	**205,219**	11%	185,335
Cost of sales	**(171,125)**	13%	(151,018)
Gross profit	**34,094**	(1%)	34,317
Other income	**632**	48%	426
Selling, general and administrative expense	**(25,864)**	1%	(25,541)
Income from operating activities	**8,862**	(4%)	9,202
Income before income tax expense	**8,283**	(4%)	8,635
EBITDA (1)	**11,260**	1%	11,131
Ratios as a percentage of revenue:			
Gross profit margin	**16.6%**		18.5%
Selling, general and administrative	**12.6%**		13.8%
Reconciliation of adjusted income before income tax expense:			
Income before income tax expense	**8,283**	(4%)	8,635
Adjustments:			
Insurance proceeds received in excess of building cost	**(765)**	100%	-
Adjusted income before income tax expense(1)	**7,518**	(13%)	8,635

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Three Months Ended December 31, 2018

Within our Agriculture segment, adjusted income before income tax expense decreased $1.1 million in the quarter. Record new equipment sales in the year provided greater visibility regarding the achievement of performance incentives, and therefore a portion of these incentives were recognized earlier in 2018 compared to 2017, with $1.4 million fewer incentives recognized in the fourth quarter. Income before income tax expense decreased $0.4 million, which includes a $0.8 million gain on insurance recoveries recognized in the fourth quarter of 2018.

During 2018, the Company achieved record new equipment sales, heavily weighted to the first three quarters of the year, providing additional visibility into attaining certain manufacturer incentives. As a result, a portion of the annual incentives were quantifiable and recognized prior to the fourth quarter, resulting in fewer incentives recognized in the fourth quarter of 2018, compared to 2017. The record new equipment sales increased the amount of used equipment taken on trade during the year, and maintaining used equipment inventory turns was a focus throughout the year. The challenging 2018 harvest created producer demand for additional machine hours in a compressed harvest window, evidenced by the 34% increase in fourth quarter used equipment sales. The ability to refurbish and remarket the used inventory in season was an achievement, although placed pressure on used gross profit margin which decreased 2.9%.

The difficult harvest also provided additional opportunities to support our customers equipment uptime, evident in the 16% and 9% increase in our fourth quarter parts and service revenue respectively, while SG&A expense increases were limited to 1% or $0.3 million. Within our two agriculture geographies, the $1.1 million decrease in adjusted income before income tax expense for the quarter was comprised of a $2.1 million decrease in our Canada dealerships, partially offset by a $1.0 million increase in our Australia and New Zealand dealerships.

Transportation Segment Results

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	**44,564**	51%	29,416
Used equipment	**3,522**	39%	2,533
Total equipment revenue	**48,086**	51%	31,949
Parts	**24,303**	7%	22,654
Service	**7,677**	3%	7,489
Rental and other	**1,472**	2%	1,446
Total revenue	**81,538**	28%	63,538
Cost of sales	**(67,708)**	33%	(50,755)
Gross profit	**13,830**	8%	12,783
Other income (loss)	**709**	130%	(2,381)
Unrealized foreign exchange loss	**(940)**	408%	(185)
Total other loss	**(231)**	(91%)	(2,566)
Selling, general and administrative expense	**(13,397)**	1%	(13,209)
Income (loss) from operating activities	**202**	107%	(2,992)
Loss before income tax expense	**(420)**	(88%)	(3,418)
EBITDA [1]	**1,834**	52%	1,205
Ratios as a percentage of revenue:			
Gross profit margin	**17.0%**		20.1%
Selling, general and administrative	**16.4%**		20.8%
Reconciliation of adjusted income (loss) before income tax expense:			
Loss before income tax expense	**(420)**	(88%)	(3,418)
Adjustments:			
Unrealized foreign exchange loss	**940**	408%	185
Adjusted income (loss) before income tax expense[1]	**520**	116%	(3,233)

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Three Months Ended December 31, 2018

Within our Transportation segment, adjusted income before income tax expense increased $3.7 million. A 28% increase in total revenue, combined with limiting SG&A increases to 1%, were significant factors in the performance of the quarter. Loss before income tax expense improved $3.0 million compared to the fourth quarter of 2017, reflecting the $2.9 million of reorganization costs and lease fleet valuation adjustments incurred in 2017.

The $3.7 million increase in adjusted income before income tax expense includes a $1.1 million increase in gross profit, due to increased equipment and service sales in the quarter. Other income increased by $3.1 million, as $2.9 million of 2017 reorganizing costs were non-recurring. The $3.0 million increase in income before income tax expense, includes the reorganization and revaluation expenses in 2017, and also includes the $0.8 million increase in unrealized foreign exchange losses quarter over quarter.

Industrial Segment Results

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017
Equipment			
New equipment	**5,493**	(50%)	10,980
Used equipment	**945**	(66%)	2,763
Total equipment revenue	**6,438**	(53%)	13,743
Parts	**2,840**	(48%)	5,501
Service	**3,061**	(15%)	3,591
Rental and other	**1,152**	13%	1,018
Total revenue	**13,491**	(43%)	23,853
Cost of sales	**(9,416)**	(45%)	(17,223)
Gross profit	**4,075**	(39%)	6,630
Other income	**333**	47%	227
Unrealized foreign exchange loss	**(316)**		(3)
Total other income	**17**	(92%)	224
Selling, general and administrative expense	**(4,273)**	(33%)	(6,344)
(Loss) income from operating activities	**(181)**	(135%)	510
(Loss) income before income tax expense	**(221)**	(145%)	492
EBITDA [1]	**273**	(79%)	1,286
Ratios as a percentage of revenue:			
Gross profit margin	**30.2%**		27.8%
Selling, general and administrative	**31.7%**		26.6%
Reconciliation of adjusted income before income tax expense:			
(Loss) income before income tax expense	**(221)**	(145%)	492
Adjustments:			
Unrealized foreign exchange loss	**316**		3
Adjusted income before income tax expense[1]	**95**	(81%)	495

(1) - Refer to Non-IFRS Measures herein

Operating Summary – Three Months Ended December 31, 2018

Within our Industrial segment, same store adjusted income before income tax expense improved $0.3 million in the quarter. Due to the inclusion of the four Construction dealerships in the fourth quarter of 2017, overall segment results for the fourth quarter of 2018 are not comparable to the prior period on an overall basis. To aid in comparability of the ongoing Industrial segment, a same store analysis is presented on the following page.

On an overall basis, segment adjusted net income before income tax decreased $0.4 million, due to the non-continuance of the Construction dealerships, which generated $0.7 million of prior year income, partially offset by the $0.3 million improvement in the ongoing Industrial operations.

Industrial Segment Same Store Highlights

($ thousands, except per share amounts)	2018	% Change Compared to 2017	2017 Same Store
Equipment			
New equipment	**5,493**	50%	3,668
Used equipment	**945**	15%	822
Total equipment revenue	**6,438**	43%	4,490
Parts	**2,840**	4%	2,733
Service	**3,061**	15%	2,655
Rental and other	**1,152**	13%	1,018
Total revenue	**13,491**	24%	10,896
Cost of sales	**(9,416)**	28%	(7,344)
Gross profit	**4,075**	15%	3,552
Other income	**333**	45%	229
Unrealized foreign exchange loss	**(316)**		(1)
Total other income	**17**	(93%)	228
Selling, general and administrative expense	**(4,273)**	6%	(4,023)
Loss from operating activities	**(181)**	(26%)	(243)
Loss before income tax expense	**(221)**	(6%)	(236)
EBITDA(1)	**273**	(14%)	316
Ratios as a percentage of revenue:			
Gross profit margin	**30.2%**		32.6%
Selling, general and administrative	**31.7%**		36.9%
Reconciliation of adjusted income (loss) before income tax expense:			
Loss before income tax expense	**(221)**	(6%)	(236)
Adjustments:			
Unrealized foreign exchange loss	**316**		1
Adjusted income (loss) before income tax expense(1)	**95**	140%	(235)

(1) - Refer to Non-IFRS Measures herein

On a same store basis, the Industrial segment's adjusted net income before income tax expense increased $0.3 million, and loss before income tax expense also improved $0.1 million, when compared to the fourth quarter of 2017. Equipment sales increased 43%, while parts, service and rental and other (which includes training, storage solutions) increased 10%, increasing gross profit margin by $0.5 million. Continued expense diligence resulted in a 5.2% decrease in SG&A expenses as a percentage of revenue quarter over quarter.

Fourth Quarter Cash Flows

Cash and Cash Equivalents – Three Months Ended December 31, 2018

Cervus' primary sources and uses of cash flow for the three months ended December 31, 2018, are as follows:

Operating Activities

Net cash provided from operating activities was $25.9 million, compared to net cash provided of $21.6 million for the same period of 2017, an increase of $4.3 million. The primary reason for the increase is $14.8 million of net cash provided from working capital items in the quarter, compared to $8.7 million of net cash provided in 2017. This $6.1 million change in net cash from working capital items primarily relates to a decrease in inventory in the fourth quarter, related to increased new and used equipment sales in the year.

Investing Activities

The Company used $14.8 million of cash in investing activities in the quarter, compared to cash used of $0.2 million in 2017, a change of $14.6 million. The net change relates primarily to the $12.6 million cash outflow used to acquire Deermart Equipment Sales Ltd. in the fourth quarter of 2018, and a $2.9 million increase in cash used to purchase property and equipment.

Financing Activities

Financing activities used $13.5 million of cash in the period, compared to a use of $10.1 million of cash in 2017. The difference is primarily due to a $1.9 million increase in common shares repurchased through the Company's Normal Course Issuer Bid in the fourth quarter of 2018 compared to same period in 2017.

Consolidated Financial Position & Liquidity

($ thousands, except ratio amounts)	December 31, 2018	December 31, 2017
Current assets	**408,702**	384,835
Total assets	**540,669**	514,055
Current liabilities	**253,701**	236,262
Long-term financial liabilities	**32,624**	42,586
Shareholders' equity	**245,501**	225,253
Working capital[1]	**155,001**	148,573
Working capital ratio[1]	**1.61**	1.63

(1) - Refer to Non-IFRS Measures herein

Working Capital

Cervus' working capital increased by $6.4 million to $155.0 million at December 31, 2018, when compared to $148.6 million at December 31, 2017. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at December 31, 2018, the Company had the ability to floor plan an additional $33.5 million of inventory and held $418.4 million of undrawn floor plan capacity.

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

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 and availability of borrowing facilities at December 31, 2018 are described further in the sections below.

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 Audited Consolidated Financial Statements for the year ended December 31, 2018. 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 can be returned to the Company and if so, it is 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, 2018, leases with a residual value of $32.1 million are scheduled to mature in 2019.

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	Contractual principle repayments	12 months or less	1 - 2 years	2 - 5 years	5+ Years
Term debt payable	39,087	39,617	13,964	2,532	23,121	-
Finance lease obligation	11,271	11,271	3,770	2,253	5,248	-
Operating leases	-	-	12,087	11,925	24,379	82,192
Total	50,358	50,888	29,821	16,710	52,748	82,192

Inventories

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

($ thousands)	**December 31, 2018**	December 31, 2017
Agricultural	**257,698**	226,664
Transportation	**63,459**	56,211
Industrial	**9,470**	7,649
Total	**330,627**	290,524

As at December 31, 2018, inventories increased by $40.1 million when compared to $290.5 million at December 31, 2017. The $40.1 million increase is primarily comprised of a $36.0 million increase in used equipment, and a $5.1 million increase in parts inventory. New inventory decreased by $1.4 million, and work in progress inventory increased by $0.4 million.

Used inventory levels within the Agriculture segment increased $32.5 million, as record new equipment sales in the 2018 came with used equipment taken on trade. The $7.2 million increase in inventory in the Transportation segment is due to increased customer orders in the period.

At December 31, 2018, the Company believes that the recoverable value of new and used equipment inventories exceeds its respective carrying value. For the year ended December 31, 2018, the Company recognized inventory valuation adjustments through cost of goods sold of $11.5 million (2017 - $5.6 million).

Accounts Receivable

For the years ended December 31, 2018 and 2017, the average time to collect the Company's outstanding accounts receivable was approximately 13 days. At December 31, 2018 no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on account aging, combined with specific customers' credit risk, historical trends, and other economic information.

The Company's allowance for doubtful collections was $1.1 million at December 31, 2018 (2017 - $1.6 million), which represents 2.9% (2017 – 5.1%) of outstanding trade accounts receivable and 0.1% (2017 - 0.1%) of gross revenue on an annual basis. Bad debt expense for the year ended December 31, 2018 amounted to a $0.2 million recovery (2017 - $0.9 million expense).

Capital Resources

We use our capital to finance current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize shareholder value is to use a combination of equity and debt financing to leverage our operations. A summary of the Company's available credit facilities as at December 31, 2018 are as follows:

	December 31, 2018				December 31, 2017			
($ thousands)	Total Limits	Borrowings	Letters of Credit	Amount Available	Total Limits	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	**122,867**	**21,071**	**2,400**	**99,396**	101,925	25,589	2,400	73,936
Capital facilities [(a)]		**9,942**				12,082		
Floor plan facilities and rental equipment term loan financing [(b)]		**166,219**				133,119		
Total borrowing		**197,232**				170,790		

(a) For capital facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of $9.9 million (2017 - $55.8 million) or the available unencumbered assets which is estimated at $2.4 million as at December 31, 2018 (2017 - $1.5 million).

(b) For floorplan facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of $418.4 million (2017 - $453.0 million) or the available unencumbered assets which is estimated at $33.5 million as at December 31, 2018 (2017 - $28.9 million).

Operating and Other Bank Credit Facilities

At December 31, 2018, the Company has a revolving credit facility with a syndicate of underwriters. The principal amount available under this facility is $120 million. The facility was amended and extended on December 18, 2018. The facility is committed for a four-year term, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an $80.0 million accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2018 there was $20.5 million drawn on the facility and $2.4 million had been utilized for outstanding letters of credit to John Deere.

We believe that the credit facilities available to the Company outlined above are sufficient to meet our sales targets and working capital requirements for 2019.

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

	December 31, 2018	December 31, 2017
Total liabilities to net worth ratio[(1)] (not exceeding 4.0:1.0)	**2.39**	2.55
Fixed charge coverage ratio[(2)] (greater than or equal to 1.10:1.00)	**2.39**	1.69
Asset coverage ratio[(3)] (greater than 3.0:1.0)	**11.82**	10.01

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

(2) – Calculated as an adjusted EBITDA figure over the sum of interest expense, scheduled principal payments, operating lease payments and distributions paid to shareholders in the twelve months prior to the calculation date. Full definitions of this calculation are defined in the Syndicate Credit Agreement filed as a material document on SEDAR.
(3) – Calculated as net tangible total assets less consolidated debt excluding floorplan plan liabilities, plus debt due under the credit facility over the amount due under the credit facility. Full definitions of this calculation are defined in the Syndicate Credit Agreement filed as a material document on SEDAR.

Capital Facilities

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

Floor Plan Facilities

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Canada ULC, Wells Fargo Equipment Finance Company, ECN Capital Corp., PACCAR Financial Ltd., US Bank, and Canadian Imperial Bank of Commerce. At December 31, 2018, floor plan payables related to inventories were $157.6 million.

Floor plan payables at December 31, 2018 represented approximately 47.7% of our inventories (December 31, 2017 – 43.2%). Floor plan payables fluctuate significantly from quarter to quarter based on the timing between the receipt of equipment inventories and their actual repayment so that the Company may take advantage of any programs made available to the Company by its key suppliers.

Interest on floor plans at the contractual rate were largely offset by dealer rebates and interest free periods. Total Agricultural segment interest otherwise payable on John Deere floor plans approximates $3.1 million for the year ended December 31, 2018. This amount was offset by rebates applied during the year ended December 31, 2018, of $2.6 million. At December 31, 2018, approximately 27% (2017 – 59%) of the Industrial segment's and 3% (2017 – 12%) of the Transportation segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest free periods in place.

Outstanding Share Data

As of the date of this MD&A, there are 15,536 thousand common shares and 807 thousand deferred share units outstanding.

On August 21, 2017, the Company announced a Normal Course Issuer Bid (the "August 2017 Bid"), which commenced on August 23, 2017, to purchase up to a maximum of 806 thousand common shares (the "Shares") for cancellation before August 22, 2018. Cervus appointed Raymond James Ltd. as its broker, who conducted the Bid on behalf of the Company. All purchases were made in accordance with the August 2017 Bid at the prevailing market price of the Shares at the time of purchase. This normal course issuer bid expired on August 22, 2018. Prior to expiry, Cervus repurchased and cancelled 292 thousand common shares through the bid at a weighted average price of $13.44 per share.

On September 10, 2018, the Company announced a Normal Course Issuer Bid (the "September 2018 Bid"), which commenced on September 13, 2018 to purchase up to a maximum of 1,031 thousand common shares (the "Shares") for cancellation before September 12, 2019. Cervus appointed Raymond James Ltd. as its broker, who will conduct the Bid on behalf of the Company. All purchases are to be made in accordance with the September 2018 Bid at the prevailing market price of the Shares at the time of purchase. As at December 31, 2018, the Company had repurchased 52 thousand common shares at a weighted average price of $13.48 per share under the August 2017 Bid, and 146 thousand common shares at a weighted average price of $13.03 per share under the September 2018 NCIB.

As at December 31, 2018 and 2017, the Company had the following weighted average shares outstanding:

(thousands)	December 31, 2018	December 31, 2017
Basic weighted average number of shares outstanding	**15,656**	15,744
Dilutive impact of deferred share plan	**801**	696
Dilutive impact of convertible debenture	**-**	1,319
Diluted weighted average number of shares outstanding	**16,457**	17,759

The above table includes all dilutive instruments held by the Company.

Dividends Paid and Declared to Shareholders

The Company, at the discretion of the Board of Directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid for the period ended December 31, 2018:

($ thousands, except per share amounts) Record Date	Dividend per Share	Dividend Payable	Dividends Reinvested	Net Dividend Paid
March 30, 2018	0.1000	1,570	217	1,353
June 30, 2018	0.1000	1,567	229	1,338
September 28, 2018	0.1000	1,568	103	1,465
December 31, 2018	0.1000	1,556	222	1,334
Total	**0.4000**	**6,261**	**771**	**5,490**

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

Dividend Reinvestment Plan ("DRIP")

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

During the year ended December 31, 2018, 52 thousand common shares were issued through the Company's dividend reinvestment plan.

Taxation

Cervus' 2018 dividends declared and paid through December 31, 2018 are considered to be eligible dividends for tax purposes on the date paid.

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

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

SUMMARY OF RESULTS

Annual Results Summary

($ thousands, except per share amounts)	2018	2017	2016
Total revenues	**1,350,037**	1,221,285	1,109,939
Income for the year	**26,579**	19,912	23,524
Income for the year attributable to shareholders	**26,579**	19,917	23,712
Net income per share - basic	**1.70**	1.27	1.51
Net income per share - diluted	**1.62**	1.20	1.44
Cash provided by operating activities	**31,655**	33,593	16,164
EBITDA (1)	**59,170**	53,840	61,025
Total assets	**540,669**	514,055	476,852
Total long-term liabilities	**41,467**	52,540	42,963
Total liabilities	**295,168**	288,802	263,013
Shareholders' equity	**245,501**	225,253	213,839
Net book value per share - diluted	**14.92**	12.68	13.02
Dividends declared to shareholders	**6,261**	4,399	4,394
Dividends declared per share	**0.400**	0.280	0.280
Weighted average shares outstanding			
Basic	**15,656**	15,744	15,683
Diluted	**16,457**	17,759	16,428
Actual shares outstanding	**15,559**	15,675	15,750

(1) - Refer to Non-IFRS Measures herein

Summary of Quarterly Results

($ thousands, except per share amounts)	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenues	**300,248**	392,499	408,584	248,706
Income (loss) attributable to the shareholders	**5,031**	12,180	9,514	(145)
Gross profit	**51,999**	59,882	57,846	41,793
Gross profit margin	**17.3%**	15.3%	14.2%	16.8%
EBITDA(1)	**13,367**	21,285	19,383	5,136
Income (loss) per share:				
Basic	**0.32**	0.78	0.61	(0.01)
Diluted	**0.31**	0.74	0.58	(0.01)
Adjusted income (loss) per share(1)				
Basic	**0.35**	0.74	0.61	(0.00)
Diluted	**0.33**	0.71	0.58	(0.00)
Weighted average shares outstanding				
Basic	**15,593**	15,679	15,672	15,686
Diluted	**16,393**	16,498	16,483	15,686

($ thousands, except per share amounts)	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Revenues	272,726	360,087	357,361	231,110
Income (loss) attributable to the shareholders	3,727	9,453	8,365	(1,628)
Gross profit	53,730	58,552	56,759	40,387
Gross profit margin	19.7%	16.3%	15.9%	17.5%
EBITDA(1)	13,622	18,688	17,478	4,052
Income (loss) per share:				
Basic	0.24	0.60	0.53	(0.10)
Diluted	0.23	0.57	0.50	(0.10)
Adjusted income (loss) per share(1)				
Basic	0.25	0.58	0.46	(0.12)
Diluted	0.24	0.55	0.44	(0.12)
Weighted average shares outstanding				
Basic	15,638	15,792	15,792	15,762
Diluted	16,335	16,614	16,619	15,762

(1) - Refer to Non-IFRS Measures herein

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, income or losses may not accrue uniformly from quarter to quarter.

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

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

Alberta & Saskatchewan

Agriculture remains the driving variable in the Company's Western Canadian operations. Canadian producers manage complex, capital intensive businesses, and yet remain heavily influenced by seasonal weather conditions. In this environment, the availability of capital is critical for producers to invest in the equipment, systems, and capacity to optimize yields while minimizing costs. In turn, capital availability is generally determined by cumulative annual farm profitability. In this respect, Canadian agriculture is well positioned. The 2018 growing season was characterized by a delayed crop harvest, however this timing did not significantly reduce yields or crop quality.[2] Final calculations for 2018 Canadian net cash farm income show a slight decrease from prior year as a result of commodity price volatility, higher operating costs, and the weather-related challenges experienced across the country. Net cash farm income is expected to plateau in 2019,[3] which could result in a decline or delay in farmer purchasing decisions for new equipment. However, Agriculture and Agri-Food Canada ("AAFC") forecasts continued growth for the Canadian agriculture sector in the medium term, and anticipates this growth being steadier than it has been in the past decade.[4]

This tempered growth of Canadian net cash farm income, combined with a weaker Canadian dollar, and pricing pressures on new equipment due to rising manufacturing costs are likely to soften demand for new agricultural equipment sales into 2019.[5] Additionally, international tensions resulting in tariffs and trade barriers continue to persist into the new year, which could impact demand for Canadian agriculture products,[3] and in turn reduce farmer sentiment towards capital reinvestment in new equipment. With these factors materializing, Canadian producers are generally well positioned with the balance sheet strength to make required equipment replacements. Further, these factors could increase demand for the significant Canadian supply of late model used equipment. Cervus is focused on continuing to deliver our OEM's market leading equipment, while also providing compelling used equipment solutions as producers plan equipment needs for the 2019 growing season.

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

Ontario

The North American trucking market ended 2018 with total class 8 truck sales of 285,000 units, a 30% increase compared to the 218,000 class 8 trucks sold in 2017. This is consistent with the 39% increase in new truck sales within our Transportation segment for the twelve months ended December 31, 2018, compared to the same period in 2017. For 2019, PACCAR's fourth quarter outlook is anticipating North American class 8 truck demand to range between 285,000 and 310,000 units sold.[6] Existing market strength is a favorable tailwind for our transportation dealerships, while our focus remains on continuing to implement the internal efficiencies and discipline to translate sales activity into efficient and mutually beneficial long-term customer relationships. The

[2] Agriweek, StatsCan Says 2018 Harvest Matched 2017, February 2019, www.agriweek.com
[3] Farm Credit Canada, FCC Watching five top economic trends in 2019, January 2019, www.fcc-fac.ca
[4] Agriculture and Agri-Food Canada, Medium Term Outlook for Canadian Agriculture 2018, September 2018, www.agr.gc.ca
[5] Farm Credit Canada, Canadian farm equipment market expected to be softer in second half of 2018, August 2018, www.fcc-fac.ca
[6] PACCAR, PACCAR Achieves Record Annual Revenues and Net Income, January 29, 2019, www.paccar.com

continued profitable growth of our Ontario dealership group is our primary short-term objective, building on the accomplishments of 2018.

New Zealand & Australia

In New Zealand, agriculture outlook remains stable. Dairy prices are profitable for producers, and concerns over drier conditions mid year have eased with good precipitation received entering the corn harvest window. Sheep producers' confidence has softened due to uncertainty surrounding distribution of sheep meat to the United Kingdom and Europe pending Brexit,(7) while prices for fruit and vegetable producers are positive, supporting capital investment in this sector. Overall, dairy prices above the cost of the production and favorable weather conditions are positive for producers, as well as the underlying capital equipment replacement and maintenance requirements.

In Australia, record drought across much of the country has resulted in many areas of the East coast not producing a crop due to these dry conditions.(8) However, where Cervus is located in south east Australia, moisture has been adequate, and many farms in our area enjoyed strong crop yields. Further, dairy prices are profitable for producers, supporting capital investment. The Australian Department of Agriculture and Water Resources(9) is forecasting average precipitation in our region, and notes that overall farm cash income remains above the long term average. Producers in our region remain cautious, but profitable, and we see continued opportunities to deliver the equipment and uptime required to support their businesses.

(7) Rabobank, Agribusiness Monthly November 2018 New Zealand, November 2018, www.rabobank.co.nz
(8) Rabobank, Agricultural sector confidence showing early signs of recovery, but drought concerns linger, December 2018, www.rabobank.com.au
(9) ABARES, Agriculture Commodities Commodity Forecasts and Outlook, March 2019, www.agriculture.gov.au/abares/research-topics/agricultural-commodities/mar-2019

Off-Balance Sheet Arrangements

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

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2018, payments in arrears by such customers aggregated $829 thousand (2017 - $226 thousand). In addition, the Company is responsible for assuming the net residual value of all customer lease obligations held with Deere Credit, at the maturity of the contract, should the customer not elect to buy out the equipment at maturity. At December 31, 2018, the net residual value of such leases aggregated $320.6 million (2017 - $269.1 million) of which the Company believes all are recoverable.

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the Company may owe Deere Credit under this obligation. The deposits are capped at between 1% and 3% of the total dollar amount of the lease and finance contracts outstanding. The maximum liability that can arise related to these arrangements is limited to the deposits of $2.9 million at December 31, 2018 (2017 - $2.2 million). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

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

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.

Total remuneration of key management personnel and directors during the year ended December 31, 2018 and 2017 was:

($ thousands)	**2018**	**2017**
Short-term benefits	**3,050**	2,895
Share-based payments	**1,184**	694
Total	**4,234**	3,589

Other Related Party Transactions

Certain officers and dealer managers of the Company have provided guarantees to John Deere as required by John Deere aggregating $6.8 million (2017 - $5.4 million). During the year ended December 31, 2018 and 2017, the Company paid those individuals $190 thousand and $170 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 objective is to manage operational risk in order 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 marketplace 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. The Company's primary approach to market risk is managing the quantity, type, and applicability of its inventory, to facilitate regular inventory turnover in line with market demand.

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 including carbon taxes, as examples, 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, and to a lesser extent, 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 the 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) comprehensive income by $141 thousand (2017 - $108 thousand), based on the U.S. dollar floor plan balances at December 31, 2018. From time to time the Company also enters into foreign exchange forward contracts to provide the Company Canadian dollar cost certainty for equipment ordered for the Customer from the manufacturer in U.S. dollars, having quoted the customer a fixed Canadian dollar price at the time the order was placed.

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, 2018 would have increased (decreased) comprehensive income by $427 thousand (2017 - $768 thousand). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2018 would have increased (decreased) comprehensive income by $377 thousand (2017 -$302 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 variable rate debt at December 31, 2018, a change in 100 basis points in interest rates would impact the Company's annual interest expense by approximately $2.0 million (2017 - $1.7 million).

Reliance on our Key Manufacturers and Dealership Arrangements

Cervus' primary source of income is from the sale of agricultural, transportation, 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, 2018, customer equipment leases with John Deere represented residual values of $320,617 thousand, maturing over the next five years.

The Company also has dealership agreements in place with Peterbilt, Clark, Sellick, Doosan, JLG, and a distribution agreement with Baumann. These agreements are generally one to three-year agreements and are normally renewed annually, except for unusual situations such as bankruptcy or fraud.

The success of our dealerships depends 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.

Inventory Risk

The Company's inventory consists primarily of new and used equipment related to our Agriculture, Transportation and Industrial segments. We acquire new inventory from our OEMs for retail sale. Used inventory, particularly in our Agriculture Segment, is primarily acquired in the form of trade-ins on the sale of existing inventory. While the Company believes it has appropriate inventory management systems in place, variations in market demand for the products we sell, as well as external market conditions beyond our control, can result in certain items in our inventory becoming obsolete, or otherwise requiring a write-down of our inventory balance.

Industry Competitive Factors

Authorized John Deere agricultural dealerships sell John Deere agricultural, turf, and sport products and equipment. The majority of the Company's 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, CLAAS, 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 a portion of the risks inherent in any one of those customer segments.

The Industrial segment sells industrial equipment from several manufacturers, with 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 Industrial equipment segment revenues are derived from the sale of Peterbilt, 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 Industrial equipment. There can be no assurance however that these suppliers will continue to manufacture high quality, competitively priced products or maintain their market share in the future.

Seasonality and Cyclicality

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 Industrial segments are not as seasonal when compared to the agricultural business on an annual basis, but can fluctuate based on equipment replacement cycles and 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.

Increased political pressure on carbon emissions has led to the institution of provincial and federal carbon taxes. The impact to our immediate business is the cash flow implications for our customers. While the full impact of carbon pricing cannot yet be determined, the Company is managing this risk by increased focus on emissions control features in the products we sell and being knowledgeable regarding recent developments in new techniques for reducing carbon emissions for our farm customers.

Political changes in the U.S. may have an impact on duties charged for goods sold to the U.S. At this point, the Company is an importer of goods from the U.S. and the overall impact of tariffs has not been significant, although it could become so depending on the legislative actions of national governments.

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, 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 Industrial equipment segment is influenced by general economic and warehouse 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 13 days for the years ended December 31, 2018 and 2017 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 generates returns for Shareholders, expands business relationships with stakeholders, and identifies risk and allocates its capital accordingly. In the management of capital, the Company considers its capital to comprise long- term debt, the current portion of long-term debt and all components of equity.

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 or repurchase shares, raise or retire term debt, and/or adjust the amount of distributions paid to the Shareholders.

The Company uses the following ratios in determining its appropriate capital levels:

a) Debt to Total Capital ratio (long-term debt plus current portion of long term debt divided by long-term debt plus current portion of long-term debt plus book value of equity);

b) Return on Invested Capital ratio (income before income tax expense plus interest on long-term debt divided by total capital);

c) Debt to Tangible Assets ratio (calculated as total debt divided by total assets less goodwill and intangibles); and,

d) Fixed Charge Coverage ratio (calculated as adjusted earnings divided by contractual principle, interest, shareholder distributions, and lease payments).

There were no changes in the Company's approach to capital management in the period.

Debt Financing

The ability of the Company to pay dividends or make other payments or advances, will be subject to applicable laws and contractual restrictions contained in the instruments governing the Company's indebtedness. The degree to which the Company is leveraged could have important consequences to the holders of the Common Shares, including:

- The Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;
- A significant portion of the Company's cash flow from operations may be dedicated to the payment of the principal and interest on its indebtedness, thereby reducing funds available for future operations and distributions; and
- Certain of the Company' borrowings may be at variable rates of interest, which exposes it to the risk of increased interest rates; and that the Company may be vulnerable to economic downturns including the Company's ability to retain and attract customers.

Also, there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet required interest and principal payments. Further, the Company is subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such financing may not be as favourable as the terms of its existing indebtedness. These factors may adversely affect the frequency or amounts of dividends paid by the Company.

The Company's various credit facilities provide first charge security interests on all of its assets to its various lenders. These credit facilities contain numerous terms and covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to create liens or other encumbrances, to pay dividends on its securities or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facilities contain a number of financial covenants that require the Company to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, could result in a reduction or termination of the Company's dividends, and may permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of the Company would be sufficient to repay in full that indebtedness.

Although the Company intends to pay quarterly dividends to the holders of the Company's Common Shares, these dividends are not assured and may be reduced or suspended in order to comply with the credit facilities of the Company. The market value of the Common Shares may decline if the Company is unable to meet its dividend targets in the future, and that decline may be significant.

Cyber Security and Terrorism

The Company may be threatened by problems such as cyber-attacks, computer viruses, or terrorism that may disrupt operations and harm operating results. The Company's business requires the continued operation of information technology systems and network infrastructure. Despite the implementation of security measures, technology systems are vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism, and other causes. If the Company's information technology systems were to fail and the Company was unable to recover in a timely way, the Company might be unable to fulfill critical business functions or be exposed to legal claims and liabilities, which could have a material adverse effect on its business, reputation, financial condition, and results of operations.

The Company maintains cyber risk insurance, but this insurance may not be sufficient to cover all of our losses from any breaches of our information technology systems and network infrastructure.

Critical Accounting Estimates and Judgments

Preparation of Unaudited and Audited Consolidated Financial Statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the unaudited and audited consolidated financial statements. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results.

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 recognized as a result of a business combination or when determined in an impairment test is the estimated amount for which a property could be exchanged on the measurement date 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 realized 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 a 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 future periods. The new standards and amendments to existing standards, which have not been applied in preparing the Audited Consolidated Financial Statements as at December 31, 2018, are:

IFRS 16 Leases

The Company is required to adopt IFRS 16 *Leases* from January 1, 2019 onwards. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on January 1, 2019, may change because:

- The new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.
- New leases may be entered into or lease terms modified after the date in which the assessment was completed for year-end disclosure, and before the date of the first interim financial statements that report under the new standard.
- Actual foreign currency translation on Australia and New Zealand leases will vary from what was calculated using forecasted rates at the time of assessment.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e., lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing lease guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

i. Leases in which the Company is Lessee

The Company will recognize new assets and liabilities for its operating leases of buildings, vehicles, and office equipment. The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

No significant impact is expected for the Company's existing finance leases.

Based on the information available, the Company estimates that it will recognize additional lease liabilities and additional lease assets of approximately $82 million, on initial adoption of IFRS 16 as at January 1, 2019.

The Company does not expect the adoption of IFRS 16 to impact its ability to comply with its bank covenants described in Note 26 of the accompanying Audited Consolidated Annual Financial Statements.

II. Leases in which the Company is Lessor

The Company will reassess the classification of sub-leases in which the Company is lessor. Based on the information currently available, the Company expects that it will reclassify certain sub-leases as finance leases, resulting in the recognition of a finance lease receivable of approximately $6 million, the derecognition of approximately $5 million in lease assets, with the difference recorded as an adjustment to opening retained earnings. No significant impact is expected for other leases in which the Company is lessor.

III. Transition

The Company plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings on January 1, 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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, 2018, 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, 2018, 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, 2018, Cervus' internal control over financial reporting are effective. There was no change to the Company's ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect the Company's ICFR.

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

Additional IFRS Financial Measures

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

Gross Profit

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

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

Income (Loss) from Operating Activities

Income from operating activities refers to income (loss) excluding: general interest expense recognized outside of cost of goods sold, interest income, share of profit (loss) from equity investees, and income tax. This additional IFRS measure is identified in our Audited Consolidated Financial Statements on the statement of comprehensive income. Income from operating activities is a useful supplemental earnings measure as it provides an indication of the financial results generated by our principal business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions and the effects of earnings from equity investees.

Non-IFRS Financial Measures

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

Adjusted Income

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

Adjusted Income Attributed to Shareholders

($ thousands, except per share amounts)	Three month periods ended December 31		Year ended December 31	
	2018	**2017**	**2018**	**2017**
Income attributed to shareholders	**5,031**	3,727	**26,579**	19,917
Adjustments:				
Unrealized foreign exchange loss (gain)[1]	**1,256**	188	**1,199**	(890)
Gain on sale of Commercial operations	**-**	-	**(480)**	-
Gain on sale of land and building	**-**	-	**-**	(417)
Insurance proceeds received in excess of building cost	**(765)**	-	**(765)**	-
Tax impact of adjustments	**(132)**	(50)	**12**	365
Adjusted income attributed to shareholders	**5,390**	3,865	**26,545**	18,975
Adjusted income per share:				
Basic	**0.35**	0.25	**1.70**	1.21
Diluted	**0.33**	0.24	**1.61**	1.14

Adjusted Income Before Income Tax Expense

Three Months Ended December 31, 2018

Reconciliation of Adjusted Income Before Income Tax Expense ($ thousands)				
Three months ended December 31, 2018	Total	Agricultural	Transportation	Industrial
Income (loss) before income tax expense	**7,642**	8,283	(420)	(221)
Adjustments:				
Unrealized foreign exchange loss[1]	**1,256**	-	940	316
Insurance proceeds received in excess of building cost	**(765)**	(765)	-	-
Adjusted income before income tax expense	**8,133**	7,518	520	95

Year Ended December 31, 2018

Reconciliation of Adjusted Income Before Income Tax Expense ($ thousands)				
Year ended December 31, 2018	Total	Agricultural	Transportation	Industrial
Income before income tax expense	**36,544**	31,188	4,064	1,292
Adjustments:				
Unrealized foreign exchange loss[1]	**1,199**	-	1,070	129
Gain on sale of Commercial operations	**(480)**	-	-	(480)
Insurance proceeds received in excess of building cost	**(765)**	(765)	-	-
Adjusted income before income tax expense	**36,498**	30,423	5,134	941

Three Months Ended December 31, 2017

Reconciliation of Adjusted Income (Loss) Before Income Tax Expense ($ thousands) Three months ended December 31, 2017	Total	Agricultural	Transportation	Industrial
Income (loss) before income tax expense	**5,709**	8,635	(3,418)	492
Adjustments:				
Unrealized foreign exchange loss (1)	**188**	-	185	3
Adjusted income (loss) before income tax expense	**5,897**	8,635	(3,233)	495

Year Ended December 31, 2017

Reconciliation of Adjusted Income (Loss) Before Income Tax Expense ($ thousands) Year ended December 31, 2017	Total	Agricultural	Transportation	Industrial
Income (loss) before income tax expense	**28,958**	29,479	(3,562)	3,041
Adjustments:				
Unrealized foreign exchange gain (1)	**(890)**	-	(685)	(205)
Gain on sale of land and building	**(417)**	(417)	-	-
Adjusted income (loss) before income tax expense	**27,651**	29,062	(4,247)	2,836

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

EBITDA

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

Three Months Ended December 31, 2018

EBITDA ($ thousands) **Three months ended December 31, 2018**	**Total**	**Agricultural**	**Transportation**	**Industrial**
Net income (loss) attributable to shareholders	**5,031**	5,607	(388)	(188)
Add:				
Interest	**1,956**	1,045	836	75
Income taxes	**2,611**	2,676	(32)	(33)
Depreciation and Amortization	**3,769**	1,932	1,418	419
EBITDA[1]	**13,367**	11,260	1,834	273
Reconciliation of adjusted EBITDA[1]:				
EBITDA[1]	**13,367**	11,260	1,834	273
Adjustments:				
Unrealized foreign exchange loss	**1,256**	-	940	316
Insurance proceeds received in excess of building cost	**(765)**	(765)	-	-
Adjusted EBITDA[1]	**13,858**	10,495	2,774	589

Year Ended December 31, 2018

EBITDA ($ thousands) **Year ended December 31, 2018**	**Total**	**Agricultural**	**Transportation**	**Industrial**
Net income attributable to shareholders	**26,579**	22,684	2,955	940
Add:				
Interest	**7,515**	3,557	3,735	223
Income taxes	**9,965**	8,504	1,109	352
Depreciation and Amortization	**15,111**	7,295	5,969	1,847
EBITDA[1]	**59,170**	42,040	13,768	3,362
Reconciliation of adjusted EBITDA[1]:				
EBITDA[1]	**59,170**	42,040	13,768	3,362
Adjustments:				
Unrealized foreign exchange loss	**1,199**	-	1,070	129
Gain on sale of Commercial operations	**(480)**	-	-	(480)
Insurance proceeds received in excess of building cost	**(765)**	(765)	-	-
Adjusted EBITDA[1]	**59,124**	41,275	14,838	3,011

Three Months Ended December 31, 2017

EBITDA ($ thousands) **Three months ended December 31, 2017**	**Total**	**Agricultural**	**Transportation**	**Industrial**
Net income (loss) attributable to shareholders	**3,727**	5,760	(2,349)	316
Add:				
Interest	**1,392**	652	679	61
Income taxes	**1,982**	2,875	(1,070)	177
Depreciation and Amortization	**6,521**	1,844	3,945	732
EBITDA[1]	**13,622**	11,131	1,205	1,286
Reconciliation of adjusted EBITDA[1]:				
EBITDA[1]	**13,622**	11,131	1,205	1,286
Adjustments:				
Unrealized foreign exchange loss	**188**	-	185	3
Adjusted EBITDA[1]	**13,810**	11,131	1,390	1,289

Year Ended December 31, 2017

EBITDA ($ thousands) **Year ended December 31, 2017**	**Total**	**Agricultural**	**Transportation**	**Industrial**
Net income (loss) attributable to shareholders	**19,917**	20,276	(2,449)	2,090
Add:				
Interest	**7,289**	3,593	3,152	544
Income taxes	**9,046**	9,208	(1,113)	951
Depreciation and Amortization	**17,588**	7,029	7,852	2,707
EBITDA[1]	**53,840**	40,106	7,442	6,292
Reconciliation of adjusted EBITDA[1]:				
EBITDA[1]	**53,840**	40,106	7,442	6,292
Adjustments:				
Unrealized foreign exchange gain	**(890)**	-	(685)	(205)
Gain on sale of land and building	**(417)**	(417)	-	-
Adjusted EBITDA[1]	**52,533**	39,689	6,757	6,087

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

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

EBITDA Margin

EBITDA margin is calculated as EBITDA divided by gross revenue.

Working Capital

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