

Cervus Equipment Corporation Management's Discussion + Analysis

For the period from January 1, 2019 to June 30, 2019

The following Management's Discussion & Analysis ("MD&A") was prepared as of August 7, 2019, and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or the "Company") financial performance for the three and six month periods ended June 30, 2019, and significant trends that may affect the future performance of Cervus. This MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2019, and notes contained therein, and the 2018 annual consolidated financial statements and MD&A. The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Cervus' functional and reporting currency is the Canadian dollar. Cervus' common shares trade on the Toronto Stock Exchange under the symbol "CERV". Additional information relating to Cervus, including Cervus' current annual information form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at www.sedar.com.

Overview of Cervus

Cervus owns and operates equipment dealerships, representing leading Original Equipment Manufacturers ("OEMs") in assigned geographies. Our customers operate businesses corresponding with our Agriculture, Transportation, and Industrial segments.

While our customer's business and industries are diverse, our business model is similar across our operating segments. As the OEM authorized dealer, we market and sell equipment solutions appropriate for our customers' applications, be it farming, commercial transport, or warehousing and material handling. We refer to this aspect of our business as "equipment" or "wholegoods." Equally important is delivering the servicing, parts, rentals, training and ancillary services, in support of the equipment. We refer to this aspect of our business as "product support".

Our customers value the ability of our dealerships to provide best in class reliable equipment and operational uptime through efficient product support thereby enhancing the profitability of their businesses. Customer relationships are built and maintained through this life cycle of equipment sales and product support.

Across our dealership locations, we strive to practice common and consistent customer service objectives. The accurate quoting of service work, attracting and retaining skilled trades, efficient use of time and shop capacity, along with accessible parts inventory are all core factors in the delivery of product support to our customers. In our wholegoods departments, stocking appropriate inventory levels to meet market demand must be balanced by maintaining the sale of the inventory we carry. Further, in our Agricultural segment, we accept trades of used equipment as partial payment on most of the new equipment we sell. The value of the trade is agreed to when the order for new equipment is placed, which is often several months before the new equipment is delivered and the transaction is recorded. This requires discipline in determining the quality, condition, price, and market demand for used equipment taken on trade.

Many administrative and support functions of the business are centralized in our Shared Resources Office, such as accounting and payroll, finance, information technology, human resources, and marketing. This centralized function supports all segments of the business, without physically replicating these functions in each dealership.

Our selling, general and administrative ("SG&A") expenses are reviewed as a percentage of gross profit, as we consider gross profit dollars to be more fundamental in guiding our expenditures than revenue.

Message From the President

The results of the second quarter and first half of 2019 highlight two key messages for our business. First, the strength of our recurring, stable, and profitable product support business is made stronger by diversification of industry segments and geographies. Second, our Western Canadian Agriculture operations are facing compounding headwinds that have highlighted opportunities to improve our profitability across market cycles.

The importance of product support and value of diversification across sectors and geographies is evident in the quarterly results. While new and used equipment revenue decreased 26% in the quarter relative to the second quarter of 2018, product support revenues increased 4% across the business. This product support reflects our competitive advantage of representing two premier brands, John Deere and Peterbilt, and the majority of our Cervus people who deliver the repairs, parts, training, precision agriculture, and storage solutions our customers rely on to keep their equipment and people productive. The current financial results highlight the resilience of the product support business and we continue to look for organic growth in new services and operational efficiencies. Further, our Transportation, Industrial and Southern Hemisphere businesses mitigated the declines in Western Canadian Agriculture equipment revenue by approximately 10% compared to the second quarter of 2018.

The other significant factor in the quarter was the sharp decrease in agriculture equipment demand across Western Canada, and the resulting financial impact on our 21 Canadian agriculture dealerships. John Deere's long track record of quality is reflected in both the billions invested in technology, and the end user demand for equipment produced. In recent years, increases in equipment capability and efficiency, strong Canadian farm profitability, and low interest rates have spurred demand for new equipment. Following record purchases in 2018 and 2017, Western Canadian producers are well positioned to defer capital investment in 2019 as they face compounding headwinds as a result of trade disputes, dry weather conditions and reduced net farm income.

Aggressive competitive pricing pressure combined with the increased Canadian dollar cost of agricultural equipment have compressed margins, which have been increasingly supported by OEM incentives. Following several years of dealers' focus on new equipment sales, dealers find themselves holding high levels of used equipment taken on trade. In this market, we have experienced reduced equipment margins in the first half of 2019 and expect continued pressure on margins until new and used equipment levels stabilize for both Cervus and the industry. As we move into a period of agriculture equipment supply and demand correction, our objective is to focus on marketing the well-conditioned used inventory we currently have on hand.

This combination of factors may result in reduced new sales in the short term, impacting the gross profit associated with new equipment sales. We estimate the reduction in new equipment sales may reduce gross profit between \$15 to \$20 million in the remainder of 2019 due to lower margins, revenue, and incentives compared to the last six months of 2018. By rebalancing our inventory this year, we will regain the capacity for both new and used equipment sales and improved profit margins in future years at sustainable levels.

Cervus Equipment is committed to strengthening the profitability of our operations and service capabilities, creating additional product offerings that support our customer base, and reducing our G&A expense to achieve sustainable absorption levels. A focussed sales process will be core to our future, and we have initiated steps to ensuring this process is applied throughout all our locations. We believe these actions will create a strong and sustainable dealership business model that will perform profitably when the industry is facing headwinds.

Sincerely,



Angela Lekatsas
President & Chief Executive Officer
Cervus Equipment Corporation

Second Quarter Consolidated Results

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

(\$ thousands, except per share amounts)	Three month periods ended June 30			Six month periods ended June 30		
	2019	% Change Compared to 2018	2018	2019	% Change Compared to 2018	2018
Equipment revenue	244,464	(26%)	328,788	405,705	(20%)	507,513
Product support revenue	83,141	4%	79,797	156,698	5%	149,778
Total revenue	327,605	(20%)	408,585	562,403	(14%)	657,291
Gross profit	46,879	(19%)	57,848	89,603	(8%)	97,198
Total other income	1,390	85%	751	2,495	84%	1,354
Selling, general and administrative expense	(42,397)	(3%)	(43,655)	(85,518)	0%	(85,342)
Income from operating activities	5,872	(61%)	14,944	6,580	(50%)	13,210
Net finance costs	(3,061)	106%	(1,485)	(5,911)	120%	(2,692)
Share of income of equity accounted investees, net of tax	-	(100%)	124	-	(100%)	124
Income before income tax expense	2,811	(79%)	13,583	669	(94%)	10,642
Income tax recovery (expense)	6	100%	(4,067)	(564)	(82%)	(3,074)
Income for the period	2,817	(70%)	9,516	105	(99%)	7,568
Income attributable to shareholders	2,817	(70%)	9,516	105	(99%)	7,568
EBITDA⁽¹⁾	11,981	(38%)	19,385	18,876	(15%)	22,078
Ratios						
Gross profit margin as a % of revenue	14.3%		14.2%	15.9%		14.8%
SG&A as a % of gross profit	90.4%		75.5%	95.4%		87.8%
Income (loss) per share						
Basic	0.18	(70%)	0.61	0.01	(98%)	0.48
Diluted	0.17	(71%)	0.58	0.01	(98%)	0.46
Basic - Adjusted ⁽¹⁾	0.15	(75%)	0.61	(0.05)	(110%)	0.49
Reconciliation of adjusted income (loss) before income tax expense:						
Income before income tax expense	2,811	(79%)	13,583	669	(94%)	10,642
Adjustments:						
Unrealized foreign currency (gain) loss included in other income	(625)		38	(1,223)		673
(Gain) on sale of Commercial operations	-		-	-		(480)
Adjusted income (loss) before income tax expense⁽¹⁾	2,186	(84%)	13,621	(554)	(105%)	10,835

(1) - This MD&A 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."

Quarterly Overview

Revenue

Overall revenue decreased 20% in the quarter, with reduced equipment sales in our Agricultural segment comprising the majority of the decrease, while a tapering of truck sales in our Transportation sector relative to the strong sales of 2018 was a secondary factor.

In our Agriculture segment, producers are facing a number of headwinds. Canadian Realized Net Farm Income declined 45% in the 2018 crop year, compounded by increased input costs and reduced commodity prices, trade disputes with China and dry weather conditions in parts of our Western Canada region. Producers' have responded with caution, evidenced by the 30% decrease in Agriculture equipment sales in the quarter and 22% in the year to date period.

Equipment revenue also decreased in our Transportation segment, declining 13% in the quarter compared to the robust truck market in the prior year. Although truck sales remain elevated compared to recent history, softening freight rates for transportation companies has tapered our expectations for truck demand in the remainder of the year. In the year to date period, new equipment revenue was also impacted by factory delays, which had eased by the end of the second quarter.

Despite reduced equipment sales, our product support revenue improved across all our operating segments, 4% in the quarter and 5% in the year to date period. The consistent performance and continued opportunities within our product support departments validates our positive outlook for this foundational component of our dealerships across industry cycles.

Gross Profit

The improvement in product support revenue contributed an additional \$1.2 million to gross profit in the quarter and \$3.2 million year to date, however this was more than offset by the reduction in gross profit tied to equipment revenue of \$12.2 million and \$10.8 million in the quarter and year to date, respectively. This resulted in a \$11.0 million decrease in overall gross profit in the quarter, and \$7.6 million in the year to date. As a percent of revenue, gross profit increased in the quarter and year to date, reflecting the shift in sales mix towards higher margin product support revenues.

Selling, General and Administrative ("SG&A") Expenses and Net Finance Costs

SG&A dollars decreased in the quarter by \$1.3 million and were flat year to date. The change in SG&A includes a decrease in selling costs, primarily sales commissions, on lower equipment revenue in the quarter and year to date. This was partly offset by increased SG&A expenses from the inclusion of the Red Deer dealership acquired in the fourth quarter of 2018. While SG&A dollars decreased in the quarter, SG&A as a percentage of gross profit increased as the decline in gross profit exceeded the reduction of expenses. The increase in net finance costs of \$1.6 million in the quarter and \$3.2 million year to date, is primarily due to the adoption of IFRS 16.

Income

The Company reported income before income tax of \$2.8 million in the quarter, a decrease of \$10.8 million due to the factors described above. For the year to date, income before income tax was \$0.7 million, a decrease of \$9.9 million. The adoption of IFRS 16 decreased income before income tax by \$0.7 million in the quarter and \$1.6 million in the year to date, as the Company had not adopted IFRS 16 in the comparative periods.

Adjusted income before income tax was \$2.2 million in the quarter, a decrease of \$11.4 million, while year to date, adjusted loss before income tax was \$0.6 million, also a decrease of \$11.4 million.

Inventory

Total inventory was \$389.8 million at June 30, 2019, an increase of \$32.5 million from June 30, 2018, due to a \$54.1 million increase in the Agriculture segment, partly offset by a \$21.0 million decrease in the Transportation segment.

Our objective in managing inventory is to carry a level and selection of inventory appropriate for the customers, industries, and geographies we serve. A key metric we use is inventory turnover, specifically for used equipment held primarily in our Agriculture Segment. Used equipment carries additional risks relative to new inventory, including potential obsolescence compared to features available in new models, exposure to changes in the comparative cost of new equipment, and the ability to correctly estimate reconditioning costs. Therefore, focusing

on used inventory turnover reflects the market demand for the used inventory we are carrying along with the average period of time used equipment is exposed to fluctuating market factors prior to sale. We calculate the ratio as trailing twelve month used equipment cost of sales divided by the quarterly average used inventory for the most recent four quarters.

Agriculture used equipment inventory turnover for the trailing twelve-month period ended June 30, 2019 was 1.62 times, compared to 1.67 times at June 30, 2018, and 1.78 times at December 31, 2018.

Shareholder Distributions

A quarterly dividend of \$0.11 per share was declared to shareholders of record as at June 30, 2019, a 10% increase from June 30, 2018. The Company repurchased 247 thousand shares under its Normal Course Issuers Bid at a cost of \$3.1 million, and 299 thousand common shares at a cost \$3.8 million, in the three and six months ended June 30, 2019, respectively.

OUTLOOK (see “Note Regarding Forward-Looking Statements”)

The following provides an overview of Management’s market outlook as it relates to the Company’s operations, by segment, at time of writing. 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.

Agriculture

Agriculture, particularly in Western Canada, remains the driving variable in the Company’s results. Canadian producers manage complex, capital intensive businesses, and are heavily influenced by seasonal weather conditions, commodity prices, and input costs.

Following several years of record or near record net farm income, Western Canadian producers have encountered lower Realized Net Farm Income in the 2018 crop year from higher input costs, lower commodity prices, uncertainty associated with international trade, increased Canadian dollar cost of equipment due to foreign exchange. Dry conditions also impacted much of our Saskatchewan geography into summer. While moisture levels have improved in the third quarter, in many areas the precipitation was too late to significantly impact the crop, and we expect this to translate into continued producer restraint through harvest. In our Alberta geography, growing conditions have been positive, and the harvest window is an opportunity to market used equipment in season, although producers remain cautious in their capital commitments.

As producers work to adapt to the current market conditions, so will Cervus. Our used inventory has increased as we pursued the opportunities and rewards associated with new equipment sales in the past number of years. Managing the balance between new and used equipment is a hallmark of high performing equipment dealers. To regain this balance in the current market, Cervus must accelerate the turn of our used equipment, which is enhanced by reducing new sales in the short term. We estimate the reduction in new equipment will reduce related gross profit between \$15 to \$20 million in the remainder of 2019 due to lower margins, revenue, and incentives compared to the last six months of 2018.

Deferral of equipment purchases by producers will provide additional opportunities for parts, service and other solutions as we support the equipment population in our market. This is our opportunity to strengthen our base by providing best in class uptime through the harvest window, while building on the continued health of our product support business.

In our Australia and New Zealand regions the agriculture outlook remains stable. Commodity prices for dairy have remained elevated due to a decline in global production, while demand for exports, particularly from China, has provided an area of growth for producers.

Transportation

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 2017¹. Following this robust +truck market, 2019 has seen excess freight capacity and a decrease in freight rates, which is likely to taper customer purchasing decisions in the second half of the year.

The Saskatchewan component of our Transportation segment continues its stable performance into 2019. In Ontario, our focus remains on increasing our truck population, strengthening our product support offerings and maintaining the internal efficiencies gained in 2018.

Industrial

In our Industrial segment, our current dealerships have focused on increasing product support offerings, building on our training and rental lines with the addition of storage solutions. While still in the early stages, storage solutions is a new and growing revenue stream for the division and we look to build this further. We continue to look for long term opportunities to leverage the high customer interaction of the material handling markets, while focusing on maintaining internal efficiencies in the near term.

¹ PACCAR, PACCAR Achieves Record Annual Revenues and Net Income, January 2019, www.paccar.com

Second Quarter Business Segment Performance

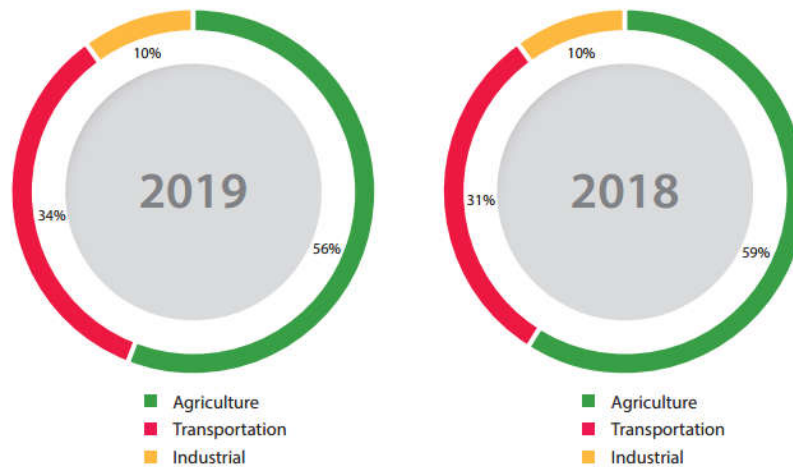
Cervus has three reportable segments: Agricultural, Transportation, and Industrial, each supported by a single shared resources function. The Company allocates the expenditures of shared resources to each individual segment according to specific identification and metrics to estimate use as outlined in Note 14 of the accompanying unaudited condensed interim consolidated financial statements.

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.

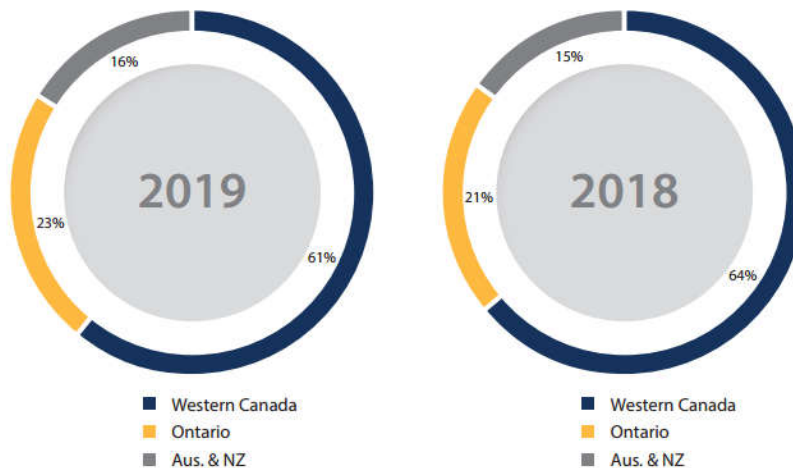
The Transportation segment consists of 19 dealership locations with 4 Peterbilt truck dealerships and 1 Collision Centre operating in Saskatchewan, 12 Peterbilt truck dealerships operating in Ontario, and 2 parts and service locations operating in Ontario.

The Industrial equipment segment consists 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.

Gross Profit by Segment



Gross Profit by Geography



Agricultural Segment Results

(\$ thousands, except per share amounts)	Three month periods ended June 30			Six month periods ended June 30		
	2019	% Change Compared to 2018	2018	2019	% Change Compared to 2018	2018
Revenue						
New equipment	111,147	(31%)	161,283	184,593	(27%)	252,460
Used equipment	56,509	(27%)	77,444	106,217	(10%)	118,374
Total equipment revenue	167,656	(30%)	238,727	290,810	(22%)	370,834
Parts	26,207	0%	26,192	46,791	8%	43,455
Service	11,729	12%	10,510	21,832	14%	19,157
Rental and other	1,280	(9%)	1,412	2,639	(1%)	2,655
Total product support revenue	39,216	3%	38,114	71,262	9%	65,267
Total revenue	206,872	(25%)	276,841	362,072	(17%)	436,101
Gross profit	25,310	(32%)	37,060	49,758	(12%)	56,738
Total other income	395	29%	307	507	(13%)	585
Selling, general and administrative expense	(24,505)	(5%)	(25,785)	(49,257)	0%	(49,039)
Income from operating activities	1,200	(90%)	11,582	1,008	(88%)	8,284
Net finance costs	(1,896)	185%	(665)	(3,780)	205%	(1,240)
Share of income of equity accounted investees, net of tax	-	(100%)	124	-	(100%)	124
(Loss) income before income tax expense	(696)	(106%)	11,041	(2,772)	(139%)	7,168
EBITDA ⁽¹⁾	4,615	(66%)	13,619	7,879	(36%)	12,256
Ratios						
Gross profit margin as a % of revenue	12.2%		13.4%	13.7%		13.0%
SG&A as a % of gross profit	96.8%		69.6%	99.0%		86.4%
Adjusted (loss) income before income tax expense⁽¹⁾	(696)	(106%)	11,041	(2,772)	(139%)	7,168

(1) – Refer to Non-IFRS Measures herein

Revenue and Gross Profit

Producer headwinds reduced equipment demand, resulting in a 30% decrease in equipment revenue in the quarter and 22% year to date. Despite lower farmer sentiment, service revenues increased 12% in the quarter, and 14% year to date, while parts revenue was flat in the quarter, but increased 8% year to date. A difficult 2018 harvest increased wear on equipment, and through the first quarter our service departments were focused on repairing and preparing customer equipment, contributing to our year to date product support revenue.

The 32% decrease in gross profit dollars in the quarter, and 12% year to date is due to margin compression and reduced OEM incentives on equipment, partly offset by increased gross profit dollars on product support services. The decrease in equipment sales has also narrowed equipment margins as we prioritize reducing existing inventory levels.

SG&A and Net Finance Costs

SG&A dollars decreased \$1.3 million in the quarter and were flat in the year to date period. This trend is consistent with our overall results and was driven mostly by lower equipment commissions and broader expense reductions, which were partly offset from the inclusion of the Red Deer dealership acquired in the fourth quarter of 2018.

The increase in net finance costs of \$1.2 million in the quarter and \$2.6 million year to date, is primarily due to the adoption of IFRS 16 which increased net finance costs by \$1.2 million in the quarter and \$2.4 million year to date.

Managing floorplan to utilize certain interest free periods provided by manufacturers, reduced interest otherwise payable on John Deere floor plans from \$0.9 million to \$0.1 million in the quarter and from \$1.9 million to \$0.2 million year to date.

Income

Income before income tax decreased \$11.8 million in the quarter and \$9.9 million year to date, a result of the decrease in gross margin of \$11.8 million in the quarter and \$6.9 million year to date, tied to lower equipment revenue. The adoption of IFRS 16 decreased income before income tax by \$0.4 million in the quarter and \$1.0 million in the year to date. There were no adjustments to income before income tax in the period.

Transportation Segment Results

(\$ thousands, except per share amounts)	Three month periods ended June 30			Six month periods ended June 30		
	2019	% Change Compared to 2018	2018	2019	% Change Compared to 2018	2018
Revenue						
New equipment	68,459	(12%)	78,230	97,294	(15%)	115,070
Used equipment	2,120	(32%)	3,121	4,869	(0%)	4,890
Total equipment revenue	70,579	(13%)	81,351	102,163	(15%)	119,960
Parts	26,139	5%	24,891	51,605	8%	47,987
Service	8,100	5%	7,720	15,994	1%	15,799
Rental and other	1,126	(37%)	1,774	2,078	(37%)	3,321
Total product support revenue	35,365	3%	34,385	69,677	4%	67,107
Total revenue	105,944	(8%)	115,736	171,840	(8%)	187,067
Gross profit	16,705	0%	16,666	30,552	0%	30,483
Total other income (loss)	808	201%	268	1,568		(165)
Selling, general and administrative expense	(13,710)	1%	(13,632)	(27,543)	3%	(26,852)
Income from operating activities	3,803	15%	3,302	4,577	32%	3,466
Net finance costs	(1,034)	26%	(822)	(1,901)	33%	(1,427)
Income before income tax expense	2,769	12%	2,480	2,676	31%	2,039
EBITDA ⁽¹⁾	5,571	8%	5,178	8,198	12%	7,315
Ratios						
Gross profit margin as a % of revenue	15.8%		14.4%	17.8%		16.3%
SG&A as a % of gross profit	82.1%		81.8%	90.2%		88.1%
Reconciliation of adjusted income before income tax expense:						
Income before income tax expense	2,769	12%	2,480	2,676	31%	2,039
Adjustments:						
Unrealized foreign currency (gain) loss included in other income	(657)		93	(1,221)		704
Adjusted income before income tax expense⁽¹⁾	2,112	(18%)	2,573	1,455	(47%)	\$ 2,743

(1) - Refer to Non-IFRS Measures herein

Revenue and Gross Profit

Our Transportation segment equipment revenue decreased 13% as the freight market softened, compared to our record truck sales in the prior year. In the year to date period, new equipment revenue was also impacted by factory delays, which had eased by the end of the second quarter.

Product support revenue continued to improve, with a deliberate increase in our parts sales team facilitating a 5% increase in parts revenue in the quarter and 8% year to date. Service revenues also increased 5% in the quarter and 1% year to date.

Gross profit dollars were flat in the quarter and year to date, as the increase in our higher margin product support revenues, offset the decrease in gross profit dollars resulting from lower equipment revenue. The increase in gross profit margin also reflects the shift in sales mix towards higher margin product support revenues.

SG&A and Net Finance Costs

SG&A dollars increased 1% in the quarter and 3% in the year to date period. The quarter and year to date results include a decrease in sales commissions, partly offset by the cost of growing our parts sales team. In the year to date SG&A as a percentage of gross profit increased, driven by an increase in SG&A expenses on flat gross profit dollars.

The increase in net finance costs of \$0.2 million in the quarter and \$0.5 million year to date, is primarily due to the adoption of IFRS 16 which increased net finance costs by \$0.3 million in the quarter and \$0.6 million year to date. At June 30, 2019, approximately 6% (June 30, 2018 – 13%) of the Transportation segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest free periods in place.

Income

Adjusted income before income tax decreased \$0.5 million in the quarter and \$1.3 million year to date. The adoption of IFRS 16 decreased income before income tax by \$0.2 million in the quarter and \$0.5 million year to date.

The increase in unrealized foreign exchange gains in the quarter and the year to date was due to the appreciation of the Canadian dollar, relative the US dollar. Most of our floorplan in the Transportation segment is payable in US dollars and fluctuations in exchanges rates result in unrealized foreign exchange gains or losses period to period.

Industrial Segment Results

(\$ thousands, except per share amounts)	Three month periods ended June 30			Six month periods ended June 30		
	2019	% Change Compared to 2018	2018	2019	% Change Compared to 2018	2018
Revenue						
New equipment	5,099	(34%)	7,741	10,424	(26%)	14,119
Used equipment	1,130	17%	969	2,308	(11%)	2,600
Total equipment revenue	6,229	(28%)	8,710	12,732	(24%)	16,719
Parts	3,329	13%	2,941	6,144	(26%)	8,338
Service	2,556	2%	2,495	4,756	(16%)	5,639
Rental and other	2,675	44%	1,862	4,859	42%	3,427
Total product support revenue	8,560	17%	7,298	15,759	(9%)	17,404
Total revenue	14,789	(8%)	16,008	28,491	(17%)	34,123
Gross profit	4,864	18%	4,122	9,293	(7%)	9,977
Total other income	187	6%	176	420	(55%)	934
Selling, general and administrative expense	(4,182)	(1%)	(4,238)	(8,718)	(8%)	(9,451)
Income from operating activities	869		60	995	(32%)	1,460
Net finance (costs) income	(131)		2	(230)	820%	(25)
Income before income tax expense	738		62	765	(47%)	1,435
EBITDA ⁽¹⁾	1,795	205%	588	2,799	12%	2,507
Ratios						
Gross profit margin as a % of revenue	32.9%		25.7%	32.6%		29.2%
SG&A as a % of gross profit	86.0%		102.8%	93.8%		94.7%
Reconciliation of adjusted income before income tax expense:						
Income before income tax expense	738		62	765	(47%)	1,435
Adjustments:						
Unrealized foreign currency loss (gain) included in other income	32	(158%)	(55)	(2)	(94%)	(31)
(Gain) on sale of Commercial operations	-		-	-	(100%)	(480)
Adjusted income before income tax expense⁽¹⁾	770		7	763	(17%)	924

(1) - Refer to Non-IFRS Measures herein

Overview

Due to the disposition of the four Construction dealerships in the first quarter of 2018, segment results for 2019 are not directly comparable to 2018. To aid in comparability of the ongoing Industrial segment, a same store analysis is presented on the following page.

Industrial Segment Same Store Results

(\$ thousands, except per share amounts)	Three month periods ended June 30			Six month periods ended June 30		
	2019	% Change Compared to 2018	2018 Same Store	2019	% Change Compared to 2018	2018 Same Store
Revenue						
New equipment	5,099	(13%)	5,832	10,424	22%	8,568
Used equipment	1,130	17%	969	2,308	60%	1,447
Total equipment revenue	6,229	(8%)	6,801	12,732	27%	10,015
Parts	3,329	15%	2,902	6,144	11%	5,552
Service	2,556	2%	2,495	4,756	(1%)	4,815
Rental and other	2,675	44%	1,863	4,859	42%	3,428
Total product support revenue	8,560	18%	7,260	15,759	14%	13,795
Total revenue	14,789	5%	14,061	28,491	20%	23,810
Gross profit	4,864	10%	4,421	9,293	15%	8,088
Total other income	187	7%	175	420	29%	325
Selling, general and administrative expense	(4,182)	4%	(4,006)	(8,718)	15%	(7,609)
Income from operating activities	869	47%	590	995	24%	804
Net finance (costs) income	(131)		8	(230)		7
Income before income tax expense	738	23%	598	765	(6%)	811
EBITDA ⁽¹⁾	1,795	61%	1,115	2,799	52%	1,844
Ratios						
Gross profit margin as a % of revenue	32.9%		31.4%	32.6%		34.0%
Selling, general and administrative as a % of gross profit	86.0%		90.6%	93.8%		94.1%
Reconciliation of adjusted income before income tax expense:						
Income before income tax expense	738	23%	598	765	(6%)	811
Adjustments:						
Unrealized foreign exchange loss (gain) included in other income	32	(158%)	(55)	(2)	(97%)	(63)
Adjusted income before income tax expense⁽¹⁾	770	42%	543	763	2%	748

(1) - Refer to Non-IFRS Measures herein

Revenue and Gross Profit

Equipment revenue decreased 8% in the quarter but increased 27% year to date, associated with the timing of deliveries between the first and second quarter of the year.

Most significant to the quarter was the 18% increase in product support revenues, and the 14% increase year to date. This includes an increase in rental and other income of 44% in the quarter and 42% year to date, which includes our new storage and racking solutions business line. Parts revenue increased 15% in the quarter and 11% in the year to date, while service revenue was flat in the quarter and year to date.

Gross profit dollars increased 10% in the quarter and 15% year to date, as the increase in our higher margin product support revenues more than offset the decrease in gross profit dollars resulting from lower equipment

revenue in the quarter. The increase in gross profit margin also reflects the shift in sales mix towards higher margin product support revenues.

SG&A and Net Finance Costs

SG&A dollars increased 4% in the quarter and 15% in the year to date period. The 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 in 2018 is the principle factor. The rationale for these expenses is demonstrated by the additional gross profit from increased product support more than offsetting incremental SG&A costs.

The increase in net finance costs of \$0.1 million in the quarter and \$0.2 million year to date, is primarily due to the adoption of IFRS 16 which increased net finance costs by \$0.1 million in the quarter and \$0.1 million year to date. At June 30, 2019, approximately 40% (June 30, 2018 – 72%) of the Industrial segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest free periods in place.

Income

Adjusted income before income tax decreased \$0.2 million in the quarter and was flat year to date, including the impact of IFRS 16.

Second Quarter Cash Flows

Cervus' primary sources and uses of cash flow for the six months ended June 30, 2019 and 2018, are as follows:

6 months ended June 30 (\$ thousands)	2019	2018	Increase (Decrease) in Cash
Net income	105	7,568	(7,463)
Effect of non-cash items in net earnings & changes in working capital	(31,177)	(23,154)	(8,023)
Cash (used in) operating activities	(31,072)	(15,586)	(15,486)
Cash (used in) provided from investing activities	(5,238)	12,070	(17,308)
Cash provided from (used in) financing activities	39,792	(9,625)	49,417
Net increase (decrease) in cash	3,482	(13,141)	16,623
Effect of foreign exchange on cash	668	569	99
Cash, beginning of period	6,106	14,502	(8,396)
Cash, end of period	10,256	1,930	8,326

Operating Activities

The principal factors in the \$15.5 million decrease in operating cash flow period over period were:

A \$6.6 million decrease in cash from reduced income associated with decreased profitability in our Agriculture and Transportation segments.

A \$37.0 million increase in cash from accounts receivable quarter over quarter, as the comparative period included an increase to accounts receivable of \$32.2 million at period end which was subsequently collected.

A \$45.4 million decrease in cash due to increased inventory being partially financed through the Syndicated Credit facility in the current period, compared to increased inventory principally financed through OEM floor plan facilities in the prior year. The Company seeks to optimize the financing of inventory between OEM floor plans and the Syndicated credit facility. However, floor plan facilities are included in working capital, while the syndicated credit facility is included in financing activities due to the committed term of the facility.

In periods where a portion of inventory is financed through the Syndicated credit facility, operating cash flow is reduced, while cash provided by financing activities increases. For six months ended June 30, 2019, a \$70.5 million increase in inventory was financed by a \$18.0 million increase in floor plan facilities, compared to a \$73.0 million increase in inventory financed by \$65.9 million increase in floor plan facilities in the comparative period.

Investing Activities

The \$17.3 million decrease in cash from investing activities period over period is primarily attributable to the non-recurrence \$14.2 million of proceeds received in the first quarter of 2018 on the sale of the Company's Commercial operations.

Financing Activities

The \$49.4 million increase in cash from financing activities period over period was primarily attributable to the \$49.0 million of proceeds from term debt in 2019, which the Company has used to finance its inventory as discussed above.

Consolidated Financial Position & Liquidity

(\$ thousands, except ratio amounts)	June 30, 2019	December 31, 2018
Current assets	466,829	406,261
Total assets	679,460	538,228
Current liabilities	276,088	253,061
Long-term financial liabilities	157,782	32,624
Shareholders' equity	237,885	243,700
Working capital ⁽¹⁾	190,741	153,200
Working capital ratio ⁽¹⁾	1.69	1.61

(1) - Refer to Non-IFRS Measures herein

Liquidity

Cervus' working capital increased by \$37.5 million to \$190.7 million at June 30, 2019, when compared to \$153.2 million at December 31, 2018. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at June 30, 2019, the Company had the ability to floor plan an additional \$37.0 million of inventory and held \$420.2 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.

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. 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.

At June 30, 2019, the Company believes that the recoverable value of new and used equipment inventories exceeds its respective carrying value. For the three and six months ended June 30, 2019, the Company recognized inventory valuation adjustments through cost of goods sold of \$3.9 million and \$4.2 million expense (June 30, 2018 - \$3.5 million and \$5.8 million expense).

Inventory by segment for the period ended June 30, 2019, compared to December 31, 2018, is as follows:

(\$ thousands)	June 30, 2019	December 31, 2018	Increase/ (Decrease)
Agricultural			
New	92,526	69,941	22,585
Used	180,802	155,597	25,205
Other	33,839	29,719	4,120
Total inventory	307,167	255,257	51,910
Transportation			
New	47,950	37,725	10,225
Used	3,532	4,730	(1,198)
Other	22,220	21,004	1,216
Total inventory	73,702	63,459	10,243
Industrial			
New	6,574	7,000	(426)
Used	1,200	1,375	(175)
Other	1,113	1,095	18
Total inventory	8,887	9,470	(583)
Total inventory	389,756	328,186	61,570

Due to seasonality of sales activity in our operating segments, comparability to inventory levels at December 31, 2018, may be limited. Therefore, we have provided inventory by segment for the period ended June 30, 2019, compared to June 30, 2018. A summary of the movement is as follows:

(\$ thousands)	June 30, 2019	June 30, 2018	Increase/ (Decrease)
Agricultural			
New	92,526	59,566	32,960
Used	180,802	161,937	18,865
Other	33,839	31,557	2,282
Total inventory	307,167	253,060	54,107
Transportation			
New	47,950	71,771	(23,821)
Used	3,532	2,881	651
Other	22,220	20,043	2,177
Total inventory	73,702	94,695	(20,993)
Industrial			
New	6,574	6,745	(171)
Used	1,200	1,238	(38)
Other	1,113	1,474	(361)
Total inventory	8,887	9,457	(570)
Total inventory	389,756	357,212	32,544

Capital Resources

We use our capital to finance current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize shareholder value is to use a combination of equity and debt financing to leverage our operations. A summary of the Company's available credit facilities as at June 30, 2019 are as follows:

(\$ thousands)	June 30, 2019				December 31, 2018			
	Total Limits	Borrowings	Letters of Credit	Amount Available	Total Limits	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	122,751	70,551	2,400	49,800	122,867	21,071	2,400	99,396
Capital facilities	(a)	9,602				9,942		
Floor plan facilities and rental equipment term loan financing	(b)	183,250				166,219		
Total borrowing		263,403				197,232		

- (a) For capital facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of \$9.6 million (December 31, 2018 - \$9.9 million) or the available unencumbered assets which is estimated at \$2.6 million as at June 30, 2019 (December 31, 2018 - \$2.4 million).
- (b) For floorplan facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of \$420.2 million (December 31, 2018 - \$418.4 million) or the available unencumbered assets which is estimated at \$37.0 million as at June 30, 2019 (December 31, 2018 - \$33.5 million).

Operating and Other Bank Credit Facilities

At June 30, 2019, 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 June 30, 2019, there was \$70.0 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 revenue 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:

	June 30, 2019	December 31, 2018
Total liabilities to net worth ratio⁽¹⁾ (not exceeding 4.0:1.0)	2.81	2.39
Fixed charge coverage ratio⁽²⁾ (greater than or equal to 1.10:1.00)	1.70	2.38
Asset coverage ratio⁽³⁾ (greater than 3.0:1.0)	3.97	11.82

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

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

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

Capital Facilities

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

Floor Plan Facilities

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Canada ULC, Wells Fargo Equipment Finance Company, ECN Capital Corp., PACCAR Financial Ltd., US Bank, and Canadian Imperial Bank of Commerce. At June 30, 2019, floor plan payables related to inventories were \$175.2 million.

Floor plan payables at June 30, 2019 represented approximately 45.0% of our inventories (December 31, 2018 – 48.0%). Floor plan payables fluctuate significantly from quarter to quarter based on the timing between the receipt of equipment inventories and their actual repayment so that the Company may take advantage of any programs made available to the Company by its key suppliers.

Interest on floor plans at the contractual rate were largely offset by dealer rebates and interest free periods. Total Agricultural segment interest otherwise payable on John Deere floor plans approximates \$0.9 million and \$1.9 million for the three and six month periods ended June 30, 2019 (June 30, 2018 – \$0.7 million and \$1.4 million). This amount was offset by rebates applied during the three and six month periods ended June 30, 2019, of \$0.8 million and \$1.7 million (June 30, 2018 - \$0.6 million and \$1.1 million). At June 30, 2019, approximately 40% (June 30, 2018 – 72%) of the Industrial segment's and 6% (June 30, 2018 – 13%) 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 15,329 thousand common shares and 957 thousand deferred share units outstanding. As at June 30, 2019 and 2018, the Company had the following weighted average shares outstanding:

(thousands)	June 30, 2019	June 30, 2018
Basic weighted average number of shares outstanding	15,495	15,680
Dilutive impact of deferred share plan	949	811
Diluted weighted average number of shares outstanding	16,444	16,491

Normal Course Issuer Bid ("NCIB")

For the three and six months ended June 30, 2019, the Company had repurchased 247 thousand and 299 thousand common shares at a weighted average price of \$12.72 per share under the Bid. Subsequent to June 30, 2019, and prior to August 7, 2019, the Company repurchased 10 thousand common shares under the Bid, with a weighted average price of \$12.28 per share.

Dividends Paid and Declared to Shareholders

The Company, at the discretion of the Board of Directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid for the period ended June 30, 2019:

(\$ thousands, except per share amounts)				
Record Date	Dividend per Share	Dividend Payable	Dividends Reinvested	Net Dividend Paid
March 29, 2019	0.1100	1,709	230	1,479
June 28, 2019	0.1100	1,685	209	1,476
Total	0.2200	3,394	439	2,955

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

Dividend Reinvestment Plan (“DRIP”)

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

During the three and six month periods ended June 30, 2019, 18 thousand and 37 thousand (June 30, 2018 – 16 thousand and 27 thousand) common shares were issued through the Company’s dividend reinvestment plan.

Taxation

Cervus’ 2019 dividends declared and paid through June 30, 2019, are considered to be eligible dividends for tax purposes on the date paid.

Cautionary Note Regarding Dividends (see “Note Regarding Forward-Looking Statements”)

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

Summary of Quarterly Results

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.

(\$ thousands, except per share amounts)	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Revenues	327,605	234,798	300,248	392,499
Income (loss) attributable to the shareholders	2,817	(2,714)	5,031	12,180
Gross profit	46,879	42,722	51,999	59,882
Gross profit margin	14.3%	18.2%	17.3%	15.3%
EBITDA ⁽¹⁾	11,981	6,893	13,367	21,285
Income (loss) per share:				
Basic	0.18	(0.17)	0.32	0.78
Diluted	0.17	(0.17)	0.31	0.74
Adjusted income (loss) per share ⁽¹⁾				
Basic	0.15	(0.20)	0.35	0.74
Diluted	0.14	(0.20)	0.33	0.71
Weighted average shares outstanding				
Basic	15,445	15,546	15,593	15,679
Diluted	16,394	15,546	16,393	16,498

(\$ thousands, except per share amounts)	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Revenues	408,585	248,706	272,726	360,087
Income (loss) attributable to the shareholders	9,516	(1,948)	3,727	9,453
Gross profit	57,848	39,350	53,730	58,552
Gross profit margin	14.2%	15.8%	19.7%	16.3%
EBITDA ⁽¹⁾	19,385	2,693	13,622	18,688
Income (loss) per share:				
Basic	0.61	(0.12)	0.24	0.60
Diluted	0.58	(0.12)	0.23	0.57
Adjusted income (loss) per share ⁽¹⁾				
Basic	0.61	(0.12)	0.25	0.58
Diluted	0.58	(0.12)	0.24	0.55
Weighted average shares outstanding				
Basic	15,672	15,686	15,638	15,792
Diluted	16,483	15,686	16,335	16,614

(1) - Refer to Non-IFRS Measures herein

The comparative figures for 2018 include an adjustment relating to the first quarter of 2018. The adjustment results in an increase to cost of sales of \$2,444 thousand, resulting a reduction in income tax expense of \$640 thousand. The change in the comparative balance sheet was a decrease in inventory of \$2,444 thousand, a decrease in income tax payable of \$640 thousand and a decrease in retained earnings of \$1,804 thousand.

Off-Balance Sheet Arrangements

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

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At June 30, 2019, payments in arrears by such customers aggregated \$1,012 thousand (June 30, 2018 - \$903 thousand). In addition, the Company is responsible for assuming the net residual value of all customer lease obligations held with Deere Credit, at the maturity of the contract, should the customer not elect to buy out the equipment at maturity. At June 30, 2019, the net residual value of such leases aggregated \$322.0 million (June 30, 2018 - \$275.2 million) of which the Company believes all are recoverable.

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the Company may owe Deere Credit under this obligation. The deposits are capped at between 1% and 3% of the total dollar amount of the lease and finance contracts outstanding. The maximum liability that can arise related to these arrangements is limited to the deposits of \$2.4 million at June 30, 2019 (June 30, 2018 - \$2.4 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.

Other Related Party Transactions

Certain officers and dealer managers of the Company have provided guarantees to John Deere as required by John Deere aggregating \$6.7 million (June 30, 2018 - \$6.8 million). During the three and six month periods ended June 30, 2019, the Company paid those individuals \$50 thousand and \$101 thousand (June 30, 2018 - \$51 thousand and \$88 thousand), for providing these guarantees which represents a similar amount to guarantee fees otherwise paid to financial institutions. These transactions were recorded at the amount agreed to between the Company and the guarantors and are included in selling, general and administrative expenses.

Critical Accounting Estimates and Judgments

Preparation of unaudited and audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the unaudited and audited consolidated financial statements. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results. Further information on our critical accounting estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2018, as filed on SEDAR at www.sedar.com.

In preparing these unaudited condensed interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2018.

Business Risks and Uncertainties

The Company's business risks and uncertainties remain unchanged from those discussed in our annual MD&A for the year ended December 31, 2018, as filed on SEDAR at www.sedar.com

Changes in Significant Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the audited annual consolidated financial statements prepared for the year ended December 31, 2018 and as described in Note 3 of those financial statements.

IFRS 16 Leases

The Company adopted IFRS 16 *Leases* effective January 1, 2019. IFRS 16 replaces existing lease guidance, including IAS 17 Lease, 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.

The Company has adopted IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying this standard recognized in retained earnings on the date of initial application (i.e., January 1, 2019). Accordingly, the comparative information has not been restated, and continues to be reported under IAS 17 and IFRIC 4. The details of the changes in accounting policies are described below.

(a) Definition of a Lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease under this standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

(b) Leases in which the Company is Lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases – i.e., these leases are on-balance sheet.

The Company decided to apply recognition exemptions to short-term leases of buildings, and leases of low-value office equipment. For leases of all other assets, which were classified as operating under IAS 17, the Company recognized right-of-use assets and lease liabilities.

i. Leases classified as Operating Leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(b) Leases in which the Company is Lessee (continued)

ii. Leases previously classified as Finance Leases under IAS 17

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

(c) Leases in which the Company is Lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for certain sub-leases. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Company is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Company reassessed the classification of its sub-lease contracts previously classified as operating leases under IAS 17. The Company concluded that certain sub-leases are finance leases under IFRS 16.

(d) Impacts on Financial Statements

On transition to IFRS 16, the Company recognized an additional \$84.2 million of right-of-use assets and \$84.2 million of lease liabilities.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate applicable to the lease assets at January 1, 2019. The weighted average rate applied is 7.8%.

\$ thousands	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statements	\$ 130,584
Discounted using the incremental borrowing rate at January 1, 2019	(57,446)
Finance lease liabilities recognized as at January 1, 2019	\$ 73,138
Recognition exemption for:	
Leases of low-value assets	(25)
Extension options reasonably certain to be exercised	11,116
Lease liabilities recognized as at January 1, 2019	\$ 84,229

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at December 31, 2018. There were no onerous contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relate to the following types of assets:

\$ thousands	June 30, 2019	January 1, 2019
Buildings	\$ 78,216	\$ 82,748
Motor vehicles	1,884	1,341
Office equipment	111	140
Total right-of-use assets	\$ 80,211	\$ 84,229

(d) Impacts on Financial Statements (continued)

The change in accounting policy affected the following items in the statement of financial position as at June 30, 2019:

(\$ thousands) Increase (decrease) in:	June 30, 2019
Current assets	
Trade and other receivables	\$ 1,825
Non-current assets	
Other long-term assets	4,975
Property, plant and equipment	(6,087)
Right-of-use assets	80,211
Total assets	\$ 80,924
Current liabilities	
Current portion of finance lease obligation	\$ 5,927
Non-current liabilities	
Finance lease obligation	75,864
Deferred income tax liability	664
Total liabilities	82,455
Equity	
Retained earnings	(1,531)
Total equity	\$ (1,531)

The change in accounting policy affected the following items in the statement of comprehensive (loss) income for the three and six months ended June 30, 2019:

\$ thousands Increase (decrease) in:	Three month period ended June 30, 2019	Six month period ended June 30, 2019
Gross profit	62	25
Rent expense	(3,014)	(5,997)
Depreciation expense	2,204	4,388
Selling, general and administrative expense	(810)	(1,609)
Net finance costs	1,586	3,190
Loss before income tax expense	714	1,556
Income tax expense	-	664
Loss for the period	714	2,220

Initial Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 – Leases effective January 1, 2019, and this is the second reporting period under this new standard. The comparative period has not been adjusted, as more fully discussed in Note 3 of the interim financial statements for the three and six months ended June 30, 2019. The adoption of IFRS 16 results in an increase in depreciation and interest expense, and a reduction in rent expense. The adoption of IFRS 16 does not alter the cash payments made under rents compared to immediately prior to transition. To aid in comparability to prior periods, the current period impact of adopting IFRS 16 on components of the Statement of Comprehensive Income (Loss) is disclosed below and throughout this Management’s Discussion and Analysis as follows:

Agricultural

(\$ thousands) Increase (decrease) in:	Three month period ended June 30, 2019	Six month period ended June 30, 2019
Gross profit	103	103
Rent expense	(1,917)	(3,829)
Depreciation expense	1,258	2,516
Selling, general and administrative expense	(659)	(1,313)
Net finance costs	1,201	2,416
Loss before income tax expense	439	1,000

Transportation

(\$ thousands) Increase (decrease) in:	Three month period ended June 30, 2019	Six month period ended June 30, 2019
Gross profit	(41)	(78)
Rent expense	(647)	(1,319)
Depreciation expense	540	1,082
Selling, general and administrative expense	(107)	(237)
Net finance costs	313	636
Loss before income tax expense	247	477

Industrial

(\$ thousands)	Three month period ended June 30, 2019	Six month period ended June 30, 2019
Increase (decrease) in:		
Rent expense	(450)	(849)
Depreciation expense	406	790
Selling, general and administrative expense	(44)	(59)
Net finance costs	72	138
Loss before income tax expense	28	79

Responsibility of Management and Board

Disclosure Controls

The CEO and the CFO are also responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P"). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and includes controls and procedures designed to ensure that information required to be disclosed in documents filed or submitted under securities legislation is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities. There have been no significant changes in the design of our DC&P during the six month period ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect the Company's DC&P.

Internal Controls over Financial Reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Cervus are responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and the CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no significant changes in the design of our ICFR during the six month period ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

The control framework utilized to design the Company's ICFR is the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), (2013). It should be noted a control system, including the Company's DC&P and ICFR, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system will be met, and it should not be expected that DC&P and ICFR will prevent all errors or fraud.

Additional IFRS Financial Measures

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

Gross Profit

Gross profit refers to the Company's total revenue less costs directly attributed to generating the related sales revenue. This additional IFRS measure is identified in our 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 unaudited interim consolidated financial statements on the statement of comprehensive income. Income from operating activities is a useful supplemental earnings measure as it provides an indication of the financial results generated by our principal business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions and the effects of earnings from equity investees.

Non-IFRS Financial Measures

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

Adjusted Income (Loss)

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

Adjusted Income (Loss) Attributed to Shareholders

(\$ thousands, except per share amounts)	Three month periods ended June 30		Six month periods ended June 30	
	2019	2018	2019	2018
Income attributed to shareholders	2,817	9,516	105	7,568
Adjustments:				
Unrealized foreign exchange (gain) loss ⁽¹⁾	(625)	38	(1,223)	673
Gain on sale of Commercial operations	-	-	-	(480)
Tax impact of adjustments	168	(10)	329	(52)
Adjusted income (loss) attributed to shareholders	2,360	9,544	(789)	7,709
Adjusted income (loss) per share:				
Basic	0.15	0.61	(0.05)	0.49
Diluted	0.14	0.58	(0.05)	0.47

Adjusted Income (Loss) Before Income Tax Expense

Three Months Ended June 30, 2019

Reconciliation of Adjusted Income (Loss) Before Income Tax Expense (\$ thousands)				
Three months ended June 30, 2019	Total	Agricultural	Transportation	Industrial
Income (loss) before income tax expense	2,811	(696)	2,769	738
Adjustments:				
Unrealized foreign exchange (gain) loss ⁽¹⁾	(625)	-	(657)	32
Adjusted income (loss) before income tax expense	2,186	(696)	2,112	770

Six Months Ended June 30, 2019

Reconciliation of Adjusted (Loss) Income Before Income Tax Expense (\$ thousands)				
Six months ended June 30, 2019	Total	Agricultural	Transportation	Industrial
Income (loss) before income tax expense	669	(2,772)	2,676	765
Adjustments:				
Unrealized foreign exchange (gain) ⁽¹⁾	(1,223)	-	(1,221)	(2)
Adjusted (loss) income before income tax expense	(554)	(2,772)	1,455	763

Three Months Ended June 30, 2018

Reconciliation of Adjusted Income Before Income Tax Expense (\$ thousands)				
Three months ended June 30, 2018	Total	Agricultural	Transportation	Industrial
Income before income tax expense	13,583	11,041	2,480	62
Adjustments:				
Unrealized foreign exchange loss (gain) ⁽¹⁾	38	-	93	(55)
Adjusted income before income tax expense	13,621	11,041	2,573	7

Six Months Ended June 30, 2018

Reconciliation of Adjusted Income Before Income Tax Expense (\$ thousands)				
Six months ended June 30, 2018	Total	Agricultural	Transportation	Industrial
Income before income tax expense	10,642	7,168	2,039	1,435
Adjustments:				
Unrealized foreign exchange loss (gain) ⁽¹⁾	673	-	704	(31)
(Gain) on sale of Commercial operations	(480)	-	-	(480)
Adjusted income before income tax expense	10,835	7,168	2,743	924

(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 June 30, 2019

EBITDA (\$ thousands)				
Three months ended June 30, 2019	Total	Agricultural	Transportation	Industrial
Net income attributable to shareholders	2,817	2,198	534	85
Add:				
Interest	3,479	2,081	1,227	171
Income taxes	(6)	(2,894)	2,235	653
Depreciation and Amortization	5,691	3,230	1,575	886
EBITDA ⁽¹⁾	11,981	4,615	5,571	1,795
EBITDA margin ⁽¹⁾	3.7%	2.2%	5.3%	12.1%
Reconciliation of adjusted EBITDA⁽¹⁾:				
EBITDA ⁽¹⁾	11,981	4,615	5,571	1,795
Adjustments:				
Unrealized foreign exchange (gain) loss	(625)	-	(657)	32
Adjusted EBITDA⁽¹⁾	11,356	4,615	4,914	1,827

Six Months Ended June 30, 2019

EBITDA (\$ thousands)				
Six months ended June 30, 2019	Total	Agricultural	Transportation	Industrial
Net income (loss) attributable to shareholders	105	(431)	417	119
Add:				
Interest	6,773	4,162	2,299	312
Income taxes	564	(2,341)	2,259	646
Depreciation and Amortization	11,434	6,489	3,223	1,722
EBITDA ⁽¹⁾	18,876	7,879	8,198	2,799
EBITDA margin ⁽¹⁾	3.4%	2.2%	4.8%	9.8%
Reconciliation of adjusted EBITDA⁽¹⁾:				
EBITDA ⁽¹⁾	18,876	7,879	8,198	2,799
Adjustments:				
Unrealized foreign exchange gain	(1,223)	-	(1,221)	(2)
Adjusted EBITDA⁽¹⁾	17,653	7,879	6,977	2,797

Three Months Ended June 30, 2018

EBITDA (\$ thousands)				
Three months ended June 30, 2018	Total	Agricultural	Transportation	Industrial
Net income attributable to shareholders	9,516	7,296	1,590	630
Add:				
Interest	1,886	822	1,026	38
Income taxes	4,067	3,745	890	(568)
Depreciation and Amortization	3,916	1,756	1,672	488
EBITDA ⁽¹⁾	19,385	13,619	5,178	588
EBITDA margin ⁽¹⁾	4.7%	4.9%	4.5%	3.7%
Reconciliation of adjusted EBITDA⁽¹⁾:				
EBITDA ⁽¹⁾	19,385	13,619	5,178	588
Adjustments:				
Unrealized foreign exchange loss (gain)	38	-	93	(55)
Adjusted EBITDA⁽¹⁾	19,423	13,619	5,271	533

Six Months Ended June 30, 2018

EBITDA (\$ thousands)				
Six months ended June 30, 2018	Total	Agricultural	Transportation	Industrial
Net income attributable to shareholders	7,568	5,080	1,460	1,028
Add:				
Interest	3,574	1,550	1,922	102
Income taxes	3,074	2,088	579	407
Depreciation and Amortization	7,862	3,538	3,354	970
EBITDA ⁽¹⁾	22,078	12,256	7,315	2,507
EBITDA margin ⁽¹⁾	3.4%	2.8%	3.9%	7.3%
Reconciliation of adjusted EBITDA⁽¹⁾:				
EBITDA ⁽¹⁾	22,078	12,256	7,315	2,507
Adjustments:				
Unrealized foreign exchange loss (gain)	673	-	704	(31)
(Gain) on sale of Commercial operations	(480)	-	-	(480)
Adjusted EBITDA⁽¹⁾	22,271	12,256	8,019	1,996

(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.

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.

Assumptions were made in preparing and making forward looking statements about Agriculture segment new equipment sales, new equipment gross profit dollars, OEM incentives and income. As part of its assumptions, Cervus assumes that our Western Canadian Agriculture operations will continue to face headwinds, including reduced Canadian Realized Net Farm Income, resulting from increased input costs and reduced commodity prices, trade disputes with China and dry weather conditions in parts of our Western Canada region.

The most recent quarterly dividend payment of \$0.11 per share was made to the shareholders of record as of June 28, 2019, on July 15, 2019. See “Capital Resources - Cautionary note regarding dividends” for a cautionary note regarding future dividends