

Consolidated Financial  
Statements of

**CERVUS EQUIPMENT  
CORPORATION**

For the years ended December 31, 2017 and 2016



KPMG LLP  
205 5th Avenue SW  
Suite 3100  
Calgary AB T2P 4B9  
Tel (403) 691-8000  
Fax (403) 691-8008  
www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cervus Equipment Corporation

We have audited the accompanying consolidated financial statements of Cervus Equipment Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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



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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cervus Equipment Corporation, as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants

March 13, 2018  
Calgary, Canada

## CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Financial Position

As at December 31, 2017 and 2016

(\$ thousands)	Note	December 31, 2017	December 31, 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 14,502	\$ 14,542
Trade and other accounts receivable	5	53,529	54,986
Inventories	6	290,524	255,231
Assets held for sale	7	26,280	-
<b>Total current assets</b>		<b>384,835</b>	<b>324,759</b>
<b>Non-current assets</b>			
Other long-term assets	8	8,423	9,537
Property and equipment	9	62,175	75,498
Intangible assets	10	39,742	46,514
Goodwill	10	18,880	20,544
<b>Total non-current assets</b>		<b>129,220</b>	<b>152,093</b>
<b>Total assets</b>		<b>\$ 514,055</b>	<b>\$ 476,852</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other liabilities	11	\$ 87,317	\$ 84,340
Floor plan payables	12	125,573	86,091
Current portion of term debt	12	11,122	15,720
Debenture payable	12	-	33,899
Liabilities directly associated with assets held for sale	7	12,250	-
<b>Total current liabilities</b>		<b>236,262</b>	<b>220,050</b>
<b>Non-current liabilities</b>			
Term debt	12	32,170	21,660
Finance lease obligation	13	10,416	10,695
Deferred income tax liability	14	9,954	10,608
<b>Total non-current liabilities</b>		<b>52,540</b>	<b>42,963</b>
<b>Total liabilities</b>		<b>288,802</b>	<b>263,013</b>
<b>Equity</b>			
Shareholders' capital	16	88,163	89,863
Deferred share plan	19	7,455	7,520
Other reserves		5,195	5,195
Accumulated other comprehensive income		191	1,219
Retained earnings		124,249	108,731
<b>Total equity attributable to equity holders of the Company</b>		<b>225,253</b>	<b>212,528</b>
<b>Non-controlling interest</b>	2	-	1,311
<b>Total equity</b>		<b>225,253</b>	<b>213,839</b>
<b>Total liabilities and equity</b>		<b>\$ 514,055</b>	<b>\$ 476,852</b>

Approved by the Board:

"Peter Lacey" Director

"Angela Lekatsas" Director

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

## CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(\$ thousands)	Note	2017	2016
<b>Revenue</b>			
Equipment sales		\$ 911,781	\$ 808,661
Parts		208,863	200,953
Service		84,464	79,973
Rentals		16,177	20,352
Total revenue		1,221,285	1,109,939
Cost of sales		(1,011,857)	(918,874)
<b>Gross profit</b>		<b>209,428</b>	191,065
Other income	17	1,112	13,938
Selling, general and administrative expense	18	(176,199)	(164,431)
<b>Income from operating activities</b>		<b>34,341</b>	40,572
Net finance costs	20	(5,379)	(10,495)
Share of (loss) profit of equity accounted investees, net of income tax		(4)	489
<b>Income before income tax expense</b>		<b>28,958</b>	30,566
Income tax expense	14	(9,046)	(7,042)
<b>Income for the year</b>		<b>19,912</b>	23,524
<b>Other comprehensive income:</b>			
Foreign currency translation differences for foreign operations, net of tax		(1,028)	(612)
<b>Total comprehensive income for the year</b>		<b>18,884</b>	22,912
<b>Income attributable to:</b>			
Shareholders of the Company		19,917	23,712
Non-controlling interest		(5)	(188)
<b>Income for the year</b>		<b>19,912</b>	23,524
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company		18,889	23,100
Non-controlling interest		(5)	(188)
<b>Total comprehensive income for the year</b>		<b>\$ 18,884</b>	\$ 22,912
<b>Net income per share attributable to shareholders of the Company:</b>			
Basic	21	\$ 1.27	\$ 1.51
Diluted	21	\$ 1.20	\$ 1.44

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

## CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Changes in Equity  
For the Years Ended December 31, 2017 and 2016

<b>Attributable to Equity Holders of the Company</b>										
(\$ thousands)	Note	Share capital	Deferred share plan	Other reserves	Cumulative translation account	Retained earnings	Total	Non-controlling interest	Total equity	
<b>Balance December 31, 2015</b>		\$ 88,270	\$ 7,098	\$ 5,182	\$ 1,831	\$ 89,413	\$ 191,794	\$ 1,499	\$ 193,293	
<b>Comprehensive income for the year</b>										
Profit		-	-	-	-	23,712	23,712	(188)	23,524	
<b>Other comprehensive income</b>										
Foreign currency translation adjustments, net of tax		-	-	-	(612)	-	(612)	-	(612)	
Total comprehensive income for the year		-	-	-	(612)	23,712	23,100	(188)	22,912	
<b>Transactions with owners, recorded directly in equity</b>										
Dividends to equity holders		-	-	-	-	(4,394)	(4,394)	-	(4,394)	
Shares issued through DRIP		883	-	-	-	-	883	-	883	
Shares issued through deferred share plan		710	(710)	-	-	-	-	-	-	
Share-based payment transactions		-	1,132	13	-	-	1,145	-	1,145	
Transactions with owners		1,593	422	13	-	(4,394)	(2,366)	-	(2,366)	
<b>Balance December 31, 2016</b>		\$ 89,863	\$ 7,520	\$ 5,195	\$ 1,219	\$ 108,731	\$ 212,528	\$ 1,311	\$ 213,839	
<b>Comprehensive income for the year</b>										
Profit		-	-	-	-	19,917	19,917	(5)	19,912	
<b>Other comprehensive income</b>										
Foreign currency translation adjustments, net of tax		-	-	-	(1,028)	-	(1,028)	-	(1,028)	
Total comprehensive income for the year		-	-	-	(1,028)	19,917	18,889	(5)	18,884	
<b>Transactions with owners, recorded directly in equity</b>										
Dividends to equity holders	16	-	-	-	-	(4,399)	(4,399)	(1,306)	(5,705)	
Shares issued through DRIP	16	778	-	-	-	-	778	-	778	
Shares issued through deferred share plan	16	757	(757)	-	-	-	-	-	-	
Share-based payment transactions	19	-	692	-	-	-	692	-	692	
Common shares repurchased	16	(3,235)	-	-	-	-	(3,235)	-	(3,235)	
Transactions with owners		(1,700)	(65)	-	-	(4,399)	(6,164)	(1,306)	(7,470)	
<b>Balance December 31, 2017</b>		\$ 88,163	\$ 7,455	\$ 5,195	\$ 191	\$ 124,249	\$ 225,253	\$ -	\$ 225,253	

**CERVUS EQUIPMENT CORPORATION**

## Consolidated Statement of Cash Flows

For the years ended December 31, 2017 and 2016

(\$ thousands)	Note	2017	2016
<b>Income for the year</b>		\$ 19,912	\$ 23,524
Adjustments for:			
Income tax expense	14	9,046	7,042
Depreciation	9	12,355	12,487
Amortization of intangibles and changes in goodwill	10	5,302	5,247
Equity-settled share-based payment transactions		692	1,145
Net finance costs	20	6,805	12,368
Unrealized foreign exchange (gain)	17	(890)	(3,501)
Non-cash write-down of inventories	6	5,624	6,158
(Gain) on sale of property and equipment	17	(1,680)	(4,206)
(Gain) on sale of asset held for sale	7	-	(1,373)
(Gain) on sale of equity accounted investees	8	-	(4,146)
Share of loss (profit) of equity accounted investees, net of tax		4	(489)
Distributions from equity investments		148	761
Change in non-cash working capital	23	(6,264)	(22,368)
Cash generated from operating activities		51,054	32,649
Cash taxes paid		(10,593)	(4,978)
Interest paid		(6,868)	(11,507)
<b>Net cash provided from operating activities</b>		<b>33,593</b>	<b>16,164</b>
<b>Cash flows from investing activities</b>			
Interest received		484	169
Purchase of property and equipment	9	(8,181)	(6,410)
Payments for intangible assets	10	(451)	(954)
Proceeds from disposal of property and equipment		10,604	62,295
Proceeds from assets held for sale	7	-	7,765
Proceeds from disposal of equity accounted investee	8	-	9,131
Proceeds from dissolution of Deerstar Systems Inc.		1,179	-
<b>Net cash provided from investing activities</b>		<b>3,635</b>	<b>71,996</b>
<b>Cash flows from financing activities</b>			
Net proceeds from (repayments of) term debt		7,692	(71,744)
Cash dividends paid	16	(3,626)	(5,725)
Payment of finance lease liabilities		(4,373)	(8,385)
Receipt (payment) of deposits with manufacturers		521	(101)
Repayment of debenture payable	12	(34,500)	-
Purchase of common shares	16	(3,235)	-
<b>Net cash (used in) financing activities</b>		<b>(37,521)</b>	<b>(85,955)</b>
Net (decrease) increase in cash and cash equivalents		(293)	2,205
Effect of foreign currency translation on cash		253	382
Cash and cash equivalents, beginning of year		14,542	11,955
Cash and cash equivalents, end of year		\$ 14,502	\$ 14,542

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

### **1. Reporting Entity**

Cervus Equipment Corporation (“Cervus” or the “Company”) is an incorporated entity under the Canada Business Corporations Act and is domiciled in Canada. The registered office of the Company is situated at 5201 – 333, 96<sup>th</sup> Avenue N.E., Calgary, Alberta, Canada, T3K 0S3. The consolidated financial statements of the Company as at and for the year ended December 31, 2017 comprise the Company and its subsidiaries (“the Group”). The Company is primarily involved in the sale, after-sale service and maintenance of agricultural, transportation, construction and industrial equipment. The Company also provides equipment rental, primarily in the transportation, construction and industrial equipment segments. The Company wholly owns and operates 64 dealerships in Canada, New Zealand, and Australia. The primary equipment brands represented by Cervus include John Deere agricultural equipment; Peterbilt transportation equipment; Bobcat and JCB construction equipment; and Clark, Sellick and Doosan material handling equipment. The common shares of Cervus are listed on the Toronto Stock Exchange and trade under the symbol “CERV”.

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

#### **Statement of Compliance**

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

The Board of Directors authorized the issue of these consolidated financial statements on March 13, 2018.

#### **Basis of Measurement**

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

#### **Presentation Currency**

These consolidated financial statements are presented in Canadian dollars. All financial information has been rounded to the nearest thousand except for per share amounts.

#### **Basis of Consolidation**

These consolidated financial statements include the accounts of the parent company Cervus Equipment Corporation and its subsidiaries, all of which are wholly owned.

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

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 2. Basis of Preparation (continued)

Details of the Company's subsidiaries at December 31, 2017 and December 31, 2016 are as follows:

Proportion of Ownership Interest and Voting Power Held	2017	2016
Cervus AG Equipment LP	100%	100%
Cervus AG Equipment Ltd	100%	100%
Evergreen Equipment Ltd.	100%	100%
Cervus Collision Center LP	100%	100%
Cervus Contractors Equipment LP	100%	100%
Cervus Contractors Equipment Ltd	100%	100%
Cervus Equipment NZ Ltd.	100%	100%
DeerStar Systems Inc. <sup>(a)</sup>	-	57.1%
101169185 Saskatchewan Ltd	100%	100%
520781 Alberta Ltd	100%	100%
Cervus Equipment Holdings Australia Pty Ltd.	100%	100%
Cervus Equipment Australia Pty Ltd.	100%	100%

(a) During June 2017, Deerstar Systems Inc. was dissolved. As part of the dissolution Cervus received its pro-rata share of net assets. Upon the dissolution of Deerstar System Inc., Cervus no longer has a non-controlling interest balance.

#### Use of Judgements and Estimates

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

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

#### Judgements

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

- Classification of a lease arrangement as an operating or finance lease; judgement is required to determine whether substantially all of the significant risks and rewards of ownership are transferred to the customer or remain with the Company; or where the Company is the lessee, whether substantially all the significant risks and rewards of ownership are transferred to the Company or remain with the lessor. (Note 13 & 22)
- Impairment tests; judgement is used in identifying impairment triggers and the cash generating unit or group of cash generating units at which goodwill, intangible assets, and property and equipment are monitored for internal management purposes and identifying an appropriate discount rate for these calculations. (Note 10)

#### Assumptions and Estimation Uncertainties

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

- Recoverability of inventories and key assumptions regarding the net realizable value of inventory. (Note 6)
- Impairment tests (including intangible assets and goodwill); estimates on key assumptions related to the future operating results and cash generating ability of the assets. (Note 10)

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

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

- Depreciation and amortization expense; assumptions on the useful lives of property and equipment and intangible assets. (Note 9 and 10)

#### **Determination of Fair Values**

A number of the group'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 methods outlined below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### ***Property, Plant and Equipment***

The fair value of property, plant and equipment 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.

#### ***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.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

### 3. Significant Accounting Policies

---

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

#### **Business Segments**

The Company operates three distinct business segments, Agricultural, Transportation and Commercial and Industrial segments based on the industry which they serve. These segments are managed separately and strategic decisions are made on the basis of their respective operating results.

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

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

#### **Business Combinations**

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities and contingent liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Transaction costs are expensed as incurred. Goodwill arising on acquisitions is recognized as an asset and initially measured at cost, being the excess of the consideration of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

#### **Foreign Currency Translation**

##### ***Foreign Currency Transactions***

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

##### ***Foreign Operations***

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

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

### 3. Significant Accounting Policies (continued)

#### Cash and Cash Equivalents

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

#### Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific identification method for new and used equipment, average cost for parts and a specific job basis for work-in-progress. Net realizable value approximates the estimated selling price less all estimated cost of completion and necessary cost to complete the sale. Previous write-downs of inventory are reversed when economic changes support an increased value. Where a previous write-down is reversed, the reversal is limited to the amount of the original write-down, so that the new carrying amount is the lower of the cost and the revised net realizable value.

#### Property and Equipment

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

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

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

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

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

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

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

### 3. Significant Accounting Policies (continued)

#### **Intangible Assets**

##### ***Intangible Assets***

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

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

The estimated useful life and amortization method are reviewed at the end of each period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

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

#### ***Goodwill***

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

#### **Investments in Associates**

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

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

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

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

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

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

#### **Assets Held for Sale**

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

#### **Lease Arrangements**

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

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

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

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

##### ***b) The Company as the Lessor***

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

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

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

### 3. Significant Accounting Policies (continued)

#### Impairment

##### *Financial Assets (Including Receivables)*

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

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

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

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

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

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

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

#### ***Non-Financial Assets***

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

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

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

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

#### ***Reversals of Previously Recognized Impairments***

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

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

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

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

#### **Income Tax**

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

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

#### **Provisions**

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

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

#### **Financial Instruments**

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

- Financial assets at fair value through profit or loss, or held-for-trading instruments, are financial assets and liabilities typically acquired with the intention of generating revenues in the short-term. Financial assets and financial liabilities required to be classified or designated as held-for-trading are measured at fair value, with gains and losses recorded in profit or loss for the period in which the change occurs. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred.
- Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost.

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

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

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

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

#### **Revenue Recognition**

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

Parts revenue is recognized when the customer receives the part. Service revenue is recognized at the time the service is provided. Rentals and operating lease revenue are recorded at the time the service is provided, recognized evenly over the term of the rental or lease agreement with the customer.

#### **Finance Income and Finance Costs**

Finance income comprises interest income on funds invested.

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

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

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

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

#### **Per Share Amounts**

Basic per share amounts are computed by dividing earnings (loss) by the weighted average number of shares outstanding for the period. Diluted earnings per share are calculated giving effect to the potential dilution that would occur if share options or other dilutive instruments were exercised or converted to shares. The treasury stock method is used to determine the dilutive effect of share options and other similar dilutive instruments. This method assumes that any proceeds upon the exercise or conversion of dilutive instruments, for which market prices exceed exercise price, would be used to purchase shares at the average market price of the shares during the period. Diluted earnings per share may include the number of shares that were issuable on conversion of the debentures, if determined to be dilutive. The net earnings are adjusted for the after-tax interest expense that would not have been incurred had the debentures been converted at the beginning of the period.

#### **Short-Term Employee Benefits**

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

#### **Share-Based Payment Transactions**

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

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 4. Standards Issued But Not Yet Effective

Certain new or amended standards or interpretations have been issued by the IASB or IFRIC that are required to be adopted in the future periods. The new standards and amendments to existing standards which have not been applied in preparing these consolidated financial statements are:

Revised Standard	Description	Impact of Application	Effective Date
IFRS 15 – Revenue from Contracts with Customers	Effective January 1, 2018, the Company will be required to adopt IFRS 15 related to revenue from contracts with customers. Revenue from Contracts with Customers, was issued in May 2014 and replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services.	The Company has completed an assessment to determine the potential impact on its consolidated financial statements. Based on the analysis completed, the Company concludes that there is no significant impact on the amounts reported in the financial statements.	Annual periods beginning on or after January 1, 2018
IFRS 9 – Financial Instruments	The IASB has released IFRS 9, related to the accounting and presentation of financial instruments and applies a principal-based approach to the classification and measurement of financial assets and financial liabilities, including an expected credit loss model for calculating impairment, and includes new requirements for hedge accounting.	The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. Based on the analysis completed, the Company concludes that there is no significant impact on the amounts reported in the financial statements.	Annual periods beginning on or after January 1, 2018

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

### 4. Standards Issued But Not Yet Effective (continued)

Revised Standard	Description	Impact of Application	Effective Date
IFRS 16 - Leases	On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases.	The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019 and is completing an assessment documenting the potential impact on its consolidated financial statements. Under the application of this standard, the operating lease commitments are expected to be the primary source of changes to the consolidated statements of financial position and the timing of expenses in the consolidated statements of comprehensive income.	Annual periods beginning on or after January 1, 2019.

### 5. Trade and Other Accounts Receivable

(\$ thousands)	2017	2016
Trade receivables	\$ 41,454	\$ 48,282
Allowance for doubtful debts <sup>(a)</sup>	(1,579)	(1,710)
Trade receivables, net	39,875	46,572
Prepaid expenses	12,959	7,398
Other receivables	695	1,016
<b>Total trade and other accounts receivable</b>	<b>\$ 53,529</b>	<b>\$ 54,986</b>

(a) Changes in allowance for doubtful debts during the year has been recorded in selling, general and administrative expense, the details of which are disclosed in Note 24.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 6. Inventories

(\$ thousands)	2017	2016
New equipment	\$ 116,016	\$ 104,424
Used equipment	128,188	101,073
Parts and accessories	45,188	48,398
Work-in-progress	1,132	1,336
<b>Total inventories</b>	<b>\$ 290,524</b>	<b>\$ 255,231</b>

During the year ended December 31, 2017, inventories included in costs of sales were \$954,995 thousand (2016 - \$858,667 thousand). The total inventory write-downs recorded during the year ended December 31, 2017 and included in cost of goods sold was \$5,624 thousand (2016 - \$6,158 thousand). The Company's inventory has been pledged as security for floor plan payables under terms of the floorplan agreements and for long-term debt under general security agreements.

### 7. Disposal Group Held for Sale

The Company has entered into a definitive agreement to sell its four construction dealerships within the Commercial and Industrial segment, along with the land and building of one dealership location. There were no impairment losses recognized and no cumulative income or expenses included in OCI for the disposal group.

#### *Assets and Liabilities of Disposal Group Held for Sale*

At December 31, 2017, the Construction disposal group was stated at carrying value and comprised the following assets and liabilities.

(\$ thousands)	2017
Trade and other accounts receivable	1,831
Inventories	17,180
Property and equipment	3,693
Intangible assets	2,049
Goodwill	1,527
<b>Assets held for sale</b>	<b>\$ 26,280</b>
Trade and other liabilities	1,245
Floor plan payables	9,475
Term debt	1,530
<b>Liabilities held for sale</b>	<b>\$ 12,250</b>

#### *Sale of Assets Held for Sale*

In 2016, the Company sold two properties previously held for sale for net proceeds of \$7,765 thousand and a net gain of \$1,373 thousand was recognized in other income on the sale. In 2016, a third property and related term debt previously classified as held-for-sale was reclassified as held-for-use.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 8. Other Long-Term Assets

(\$ thousands)	2017	2016
Long-term receivables	\$ 746	\$ 1,298
Deposits with manufacturers	2,201	2,734
Other investments <sup>(a)</sup>	5,476	5,505
<b>Other long-term assets</b>	<b>\$ 8,423</b>	<b>\$ 9,537</b>

(a) In 2016, the Company sold its 21.4% investment in Maple Farm Equipment Partnership for net proceeds of \$9,131 thousand resulting in a gain on sale of \$4,146 thousand, which has been recognized in Other Income (Note 17).

In 2016, the Company purchased units in Skyline Commercial REIT as a deposit on long-term leases. The units have been classified as available for sale.

#### *Deposits with Manufacturers*

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

The maximum liability that may arise related to these arrangements is limited to the deposits of \$2,201 thousand (December 31, 2016 - \$2,734 thousand). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 9. Property and Equipment

(\$ thousands) Cost	Land and Buildings	Short-term Rental Equipment	Automotive and Trucks	Furniture and Fixtures	Parts and Shop Equipment	Computers and Software	Leasehold Improvements	Total
<b>Balance at January 1, 2016</b>	<b>85,172</b>	<b>50,989</b>	<b>20,694</b>	<b>7,033</b>	<b>8,308</b>	<b>5,187</b>	<b>3,724</b>	<b>181,107</b>
Additions	201	2,647	1,723	388	579	630	242	6,410
Additions for finance lease	-	1,544	-	-	-	-	-	1,544
Disposals <sup>(a)</sup>	(59,411)	(4,045)	(1,312)	(167)	(484)	(2,736)	(44)	(68,199)
Assets held for sale	3,187	-	-	-	-	-	-	3,187
Transfers	-	(7,434)	-	-	-	-	-	(7,434)
Effect of movements in exchange rates	(155)	(126)	(129)	(26)	(36)	(10)	(4)	(486)
<b>Balance at December 31, 2016</b>	<b>28,994</b>	<b>43,575</b>	<b>20,976</b>	<b>7,228</b>	<b>8,367</b>	<b>3,071</b>	<b>3,918</b>	<b>116,129</b>
Additions	696	2,623	2,440	282	499	1,166	475	8,181
Additions for finance lease	-	4,925	-	-	-	-	-	4,925
Disposals	(4,014)	(7,471)	(1,516)	(381)	(599)	(21)	(211)	(14,213)
Assets held for sale (Note 7)	(3,187)	(910)	(1,239)	(280)	(539)	(108)	(751)	(7,014)
Transfers	-	(1,821)	-	-	112	-	-	(1,709)
Effect of movements in exchange rates	193	(468)	(29)	(18)	(45)	(43)	(11)	(421)
<b>Balance at December 31, 2017</b>	<b>22,682</b>	<b>40,453</b>	<b>20,632</b>	<b>6,831</b>	<b>7,795</b>	<b>4,065</b>	<b>3,420</b>	<b>\$ 105,878</b>

(\$ thousands) Accumulated Depreciation and Impairment	Land and Buildings	Short-term Rental Equipment	Automotive and Trucks	Furniture and Fixtures	Parts and Shop Equipment	Computers and Software	Leasehold Improvements	Total
<b>Balance at January 1, 2016</b>	<b>5,715</b>	<b>9,024</b>	<b>10,664</b>	<b>3,811</b>	<b>4,962</b>	<b>3,713</b>	<b>1,419</b>	<b>39,308</b>
Depreciation expense	2,103	4,830	2,749	807	900	665	433	12,487
Disposals	(4,828)	(1,725)	(722)	(81)	(428)	(2,297)	(29)	(10,110)
Assets held for sale	324	-	-	-	-	-	-	324
Transfers	-	(1,272)	-	-	-	-	-	(1,272)
Effects of movements in exchange rates	(5)	(9)	(51)	(12)	(20)	(9)	-	(106)
<b>Balance at December 31, 2016</b>	<b>3,309</b>	<b>10,848</b>	<b>12,640</b>	<b>4,525</b>	<b>5,414</b>	<b>2,072</b>	<b>1,823</b>	<b>40,631</b>
Depreciation expense	648	6,890	2,326	690	805	521	475	12,355
Disposals	(189)	(3,028)	(1,077)	(333)	(502)	(17)	(143)	(5,289)
Assets held for sale (Note 7)	(517)	(336)	(1,003)	(250)	(451)	(75)	(689)	(3,321)
Transfers	-	(329)	-	-	-	(1)	-	(330)
Effects of movements in exchange rates	3	(187)	(71)	(10)	(39)	(36)	(3)	(343)
<b>Balance at December 31, 2017</b>	<b>3,254</b>	<b>13,858</b>	<b>12,815</b>	<b>4,622</b>	<b>5,227</b>	<b>2,464</b>	<b>1,463</b>	<b>\$ 43,703</b>

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 9. Property and Equipment (continued)

(\$ thousands) Carrying Value	Land and Buildings	Short-term Rental Equipment	Automotive and Trucks	Furniture and Fixtures	Parts and Shop Equipment	Computers and Software	Leasehold Improvements	Total
<b>Balance at December 31, 2016</b>	25,685	32,727	8,336	2,703	2,953	999	2,095	\$ 75,498
<b>Balance at December 31, 2017</b>	<b>19,428</b>	<b>26,595</b>	<b>7,817</b>	<b>2,209</b>	<b>2,568</b>	<b>1,601</b>	<b>1,957</b>	<b>\$ 62,175</b>

- (a) During 2016 the Company completed the sale and leaseback of eleven properties. The land and buildings were sold for net proceeds of \$54,816 thousand for a gain on sale of \$3,587 thousand. The Company has entered into operating leases for the eleven properties, the details of which are as disclosed in Note 22.

Depreciation expense related to rental and lease fleets have been recorded in cost of sales in the amount of \$4,388 thousand (2016 - \$4,901 thousand) and selling, general and administrative expenses of \$5,435 thousand (2016 - \$7,586 thousand). Depreciation expense related to certain assets in the Transportation segment in the amount of \$2,532 thousand (2016 - nil) have been recorded in other expenses (Note 17). Included in total additions were amounts for short-term rental equipment relating to additions for lease arrangements classified as finance lease of \$4,925 thousand (2016 - \$1,544 thousand). The Company's property and equipment has been pledged as security for its long-term debt.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

### 10. Intangible Assets and Goodwill

#### *Intangible Assets*

Intangible assets are comprised of the following:

Cost	Dealership Distribution Agreements	Customer Lists	Non- Competition Agreements	Software Costs	Total
<b>Balance at January 1, 2016</b>	<b>52,240</b>	<b>15,959</b>	<b>3,509</b>	<b>2,361</b>	<b>74,069</b>
Additions	-	-	-	954	954
Effect of movements in exchange rates	(178)	(19)	(4)	-	(201)
<b>Balance at December 31, 2016</b>	<b>52,062</b>	<b>15,940</b>	<b>3,505</b>	<b>3,315</b>	<b>74,822</b>
Additions	-	-	-	451	451
Effect of movements in exchange rates	39	17	3	-	59
Assets held for sale (Note 7)	(5,200)	(1,100)	(900)	-	(7,200)
<b>Balance at December 31, 2017</b>	<b>46,901</b>	<b>14,857</b>	<b>2,608</b>	<b>3,766</b>	<b>\$ 68,132</b>

  

Accumulated Depreciation	Dealership Distribution Agreements	Customer Lists	Non- Competition Agreements	Software Costs	Total
<b>Balance at January 1, 2016</b>	<b>10,066</b>	<b>10,569</b>	<b>2,354</b>	<b>72</b>	<b>23,061</b>
Amortization expense	2,650	1,669	323	605	5,247
<b>Balance at December 31, 2016</b>	<b>12,716</b>	<b>12,238</b>	<b>2,677</b>	<b>677</b>	<b>28,308</b>
Amortization expense	2,055	2,005	345	828	5,233
Assets held for sale (Note 7)	(3,151)	(1,100)	(900)	-	(5,151)
<b>Balance at December 31, 2017</b>	<b>11,620</b>	<b>13,143</b>	<b>2,122</b>	<b>1,505</b>	<b>\$ 28,390</b>

  

Carrying Value	Dealership Distribution Agreements	Customer Lists	Non- Competition Agreements	Software Costs	Total
<b>Balance at December 31, 2016</b>	<b>39,346</b>	<b>3,702</b>	<b>828</b>	<b>2,638</b>	<b>\$ 46,514</b>
<b>Balance at December 31, 2017</b>	<b>35,281</b>	<b>1,714</b>	<b>486</b>	<b>2,261</b>	<b>\$ 39,742</b>

Amortization expense of \$5,233 thousand (2016 - \$5,247 thousand) has been recorded in selling, general and administrative expense.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

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

#### *Goodwill*

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

(\$ thousands)	
<b>Balance at January 1, 2016</b>	\$ 20,616
Impact of translation of goodwill held in foreign currencies	(72)
<b>Balance at December 31, 2016</b>	\$ 20,544
Impact of translation of goodwill held in foreign currencies	(68)
Disposal of goodwill <sup>(a)</sup>	(69)
Assets held for sale (Note 7)	(1,527)
<b>Balance at December 31, 2017</b>	<b>\$ 18,880</b>

(a) The Company disposed of goodwill in relation to assets sold in 2017.

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

(\$ thousands)	2017	2016
<b>Agricultural Segment</b>		
Agricultural - Alberta	\$ 11,988	\$ 11,988
Agricultural - Saskatchewan	327	327
Agricultural - New Zealand	2,098	2,248
Agricultural - Australia	1,254	1,241
<b>Commercial and Industrial Segment</b>		
Commercial	-	1,527
Industrial	666	666
<b>Transportation Segment</b>		
Transportation - Ontario	2,547	2,547
<b>Carrying value of goodwill</b>	<b>\$ 18,880</b>	<b>\$ 20,544</b>

#### *Annual Impairment Test*

The Company conducted the annual impairment test of goodwill at December 31, 2017 and 2016. The recoverable amount of the cash-generating units (CGUs) was determined using value in use calculations. Value in use was determined by discounting the future cash flow forecasts for a five-year period and applying after-tax discount rates ranging from 11.1% to 12.0% (2016 – 11.3% to 12.1%) based on the Company's post-tax weighted average cost of capital and risks specific to particular CGUs (pre-tax discount rate of 15.2% to 17.1% in 2017 (2016 – 15.7% to 16.8%)). Future cash flow estimates began with 2017 revenue, gross profit margin, and expenses, which were then adjusted through the forecast period for the outlook of the CGU at the date of impairment testing. In situations where 2017 performance diverged from demonstrated historical mid cycle performance, revenue in the five-year forecast period was based on mean convergence with historical mid cycle actual results for the CGU.

CGU revenue expectations within the forecast period were also assessed for reasonability against third party market expectations at the time of impairment testing. Further, forecasts were assessed for reasonability against the demonstrated historical performance of the CGUs. Revenues used in the forecast period did not exceed prior historical revenue levels of the CGU, other than the impact of assumed inflation. A growth rate was not applied in extrapolating the resulting cash flows beyond the fifth year of the forecast period.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

CGU historical gross profit margin has generally increased in periods of increased revenue and decreased in periods of lower revenue. Therefore, gross profit margin in the forecast period was based on the CGU's historical gross profit at historical revenue levels corresponding with the annual revenues used in the forecast period. The expense forecasts for each CGU were set based on historical expenses as a percent of revenue. Cash requirements for working capital were benchmarked by CGU based on historical actual working capital requirements as a percent of annual historical revenue.

Sensitivity testing was conducted as part of the impairment test. Had the estimated cost of capital used in determining the post-tax discount rate been 1% higher than management's estimates the recoverable amount of the CGUs would continue to exceed their carrying amount. Alternatively, holding the post-tax discount rate unchanged from that utilized in the annual impairment tests, had the annual estimated cash flows of each CGU in the forecast and terminal period decreased by 14%, the recoverable amounts of each CGU would continue to exceed their carrying amounts. Any additional negative changes in the cash flow assumption would cause goodwill to be impaired, with such impairment loss recognized in net earnings.

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

### 11. Trade and Other Liabilities

(\$ thousands)	2017	2016
Trade and other payables	\$ 49,290	\$ 40,689
Non-trade payables and accrued expenses	25,672	25,742
Customer deposits	3,086	8,362
Dividends payable (Note 16)	1,098	1,103
Income taxes payable	2,408	3,301
Foreign exchange contracts	402	615
Current portion of finance lease obligation (Note 13)	5,361	4,528
<b>Total trade and other liabilities</b>	<b>\$ 87,317</b>	<b>\$ 84,340</b>

### 12. Loans and Borrowings

#### ***Bank Indebtedness***

At December 31, 2017, the Company has a revolving credit facility (the "Syndicated Facility"), with a syndicate of lenders. The principal amount available under this facility is \$100 million. The facility was amended and extended on December 19, 2016. The facility is committed for a three year term, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an \$80 million accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2017 there was \$25 million drawn on the facility and \$2.4 million had been utilized for outstanding letters of credit to John Deere. The Company's credit facility bears interest at the lender's prime rate plus the Applicable Margin (currently 0%). Applicable Margin can range from 0% to 2.00% (2016 – 0% to 2.00%) and is based on a liabilities to income ratio.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 12. Loans and Borrowings (continued)

#### Term Debt Borrowings

The Syndicated Facility is secured by a general security agreement, a priority agreement; trade accounts receivable, unencumbered inventories, assignment of fire insurance and guarantees from the Company's subsidiaries. As terms under the Syndicated Facility, the Company must maintain certain leverage, income coverage, and asset coverage ratios, which the Company has complied with throughout 2017, see Note 24 for further discussion on covenants. Costs directly attributable to the completion of the Syndicated Facility have been deferred and will be amortized over the three year term.

#### Outstanding Borrowings

(\$ thousands)	Year of Maturity	2017	2016
<b>Operating and Other Bank Credit Facilities</b>			
Revolving credit facility, lenders prime rate plus the Applicable Margin (currently 0.0%). Applicable Margin can range from 0% to 2.0% and is based on a liabilities to income ratio	2019	\$ 25,000	\$ 11,100
National Australian Bank, Australia, revolving credit facility, interest at 5.9%	2018	589	-
<b>Capital Facilities</b>			
Farm Credit Corporation, mortgages payable in monthly instalments of \$23 thousand including interest at 4.46%, a rate of lenders prime plus 1% per annum (December 31, 2016 - 3.70%)	2022	1,792	2,005
Farm Credit Corporation, mortgages payable in monthly instalments of \$37 thousand including interest at 4.20%, a rate of lenders prime plus 1% per annum (December 31, 2016 - 3.70%)	2019	4,468	4,730
Affinity Credit Union, mortgages payable in monthly installments of \$16 thousand, including interest at 3.24% per annum	2018	5,822	6,008
National Australian Bank, Australia, mortgage, payable monthly payments of \$25 thousand and a floating interest rate (December 31, 2016 - 6.4%) <sup>(a)</sup>	2017	-	2,800
<b>Rental Equipment Term Loans</b>			
John Deere finance contracts, New Zealand, payable in monthly instalments including interest at the rate of 5.1% per annum, secured by related equipment	Various	5,586	7,693
Hire purchase contracts, Australia, finance contracts payable in monthly installments ranging up to AUD \$4 thousand including interest at a rate of 4.6% to 6.4%, secured by related equipment	Various	1,312	1,223
Finance contracts, various, repayable in monthly instalments ranging per month including interest from 4.2% to 9.3%	Various	648	2,213
		45,217	37,772
Less current portion		(11,122)	(15,720)
Less liabilities held for sale (Note 7)		(1,530)	-
Less deferred debt issuance costs		(395)	(392)
<b>Carrying value of term debt at December 31</b>		<b>\$ 32,170</b>	<b>\$ 21,660</b>

(a) The 2016 National Australia Bank balance included mortgage payable amounts which were repaid during the year upon the sale of three properties in Australia.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 12. Loans and Borrowings (continued)

#### *Floor Plan Payables*

The Company utilizes floor plan financing arrangements with various suppliers for inventory purchases. The terms of these arrangements may include an interest-free period followed by a term during which interest is charged at rates ranging from 3.00% to 8.20% at December 31, 2017. Settlement of the floor plan liability occurs at the earlier of sale of the inventory, in accordance with terms of the financing arrangement, or based on management's discretion. Floor plan payables are secured by specific new and used equipment inventories.

(\$ thousands)	Interest Rate	2017	2016
John Deere Financial, Canada	4.45% - 8.20%	\$ 72,165	\$ 42,302
Wells Fargo Vendor Finance	5.10% - 6.30%	3,412	5,556
John Deere Financial, New Zealand and Australia	6.05% - 6.50%	13,640	10,716
PACCAR Financial	4.07% - 4.12%	33,806	21,762
CIBC Floor Plan Facility	4.59%	908	4,019
Other Floor Plan Facilities	3.00% - 5.06%	1,642	1,736
<b>Total floor plan payable</b>		<b>\$ 125,573</b>	<b>\$ 86,091</b>

#### *Convertible Debenture*

On July 24, 2012, the Company issued \$34,500 thousand of convertible unsecured subordinated debentures with a face value of \$1,000 per debenture that matured on July 31, 2017 and bore interest at 6.0% per annum paid semi-annually on January 31 and July 31 of each year. The debentures were convertible at the option of the holder into shares of the Company at any time prior to the maturity date at a rate of \$26.15 (the "conversion price") per share.

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

The Company repaid its convertible debenture in cash on July 31, 2017. Repayment was funded by a draw on the Company's long term committed syndicated credit facility.

Changes in the debenture liability are as follows:

(\$ thousands)	2017	2016
Face value of convertible debenture	\$ 34,500	\$ 34,500
Discount to face value at issuance under effective interest method	(4,251)	(4,251)
Cumulative amortization of discount through December 31	4,251	3,650
Repayment of convertible debenture	(34,500)	-
<b>Carrying value of debenture payable at December 31</b>	<b>\$ -</b>	<b>\$ 33,899</b>

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 12. Loans and Borrowings (continued)

#### *Pre-Approved Credit Limits and Available Credit Facilities*

A summary of the Company's maximum pre-approved credit limits on available credit facilities as at December 31, 2017 are as follows:

(\$ thousands)	December 31, 2017				December 31, 2016			
	Total Limits	Borrowings	Letters of Credit	Amount Available	Total Limits	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	101,925	25,589	2,400	73,936	100,000	11,100	2,556	86,344
Capital facilities <sup>(a)</sup>		12,082				15,543		
Floor plan facilities and rental equipment term loan financing <sup>(b)</sup>		133,119				97,220		
<b>Total borrowing</b>		<b>170,790</b>				123,863		
Total current portion long term debt		(11,122)				(15,720)		
Total inventory floor plan facilities		(125,573)				(86,091)		
Term debt held for sale (Note 7)		(1,530)				-		
Deferred debt issuance costs		(395)				(392)		
<b>Total long term debt</b>		<b>32,170</b>				21,660		

(a) For capital facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of \$55.8 million (2016-\$58.5 million) or the available unencumbered assets which is estimated at \$1.5 million as at December 31, 2017 (2016- \$3.3 million).

(b) For floorplan facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of \$453.0 million (2016-\$471.5 million) or the available unencumbered assets which is estimated at \$28.9 million as at December 31, 2017 (2016- \$33.2 million).

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

### 12. Loans and Borrowings (continued)

#### *Reconciliation of Movements of Liabilities to Cash Flows Arising from Financing Activities*

(\$ thousands)	Financial Liabilities				Total
	Dividend payable	Debenture payable	Finance lease obligation	Term debt	
<b>Balance at January 1, 2017</b>	1,103	33,899	15,223	37,380	87,605
<b>Changes from financing cash (outflows) inflows</b>					
Cash dividends paid	(3,626)	-	-	-	(3,626)
Repayment of debenture payable	-	(34,500)	-	-	(34,500)
Payment of finance lease liabilities	-	-	(4,373)	-	(4,373)
Advance of term debt	-	-	-	7,692	7,692
Total (outflows) inflows from financing cash flows	(3,626)	(34,500)	(4,373)	7,692	(34,807)
Effect of changes in foreign exchange rates	-	-	-	(250)	(250)
Liabilities held for sale	-	-	-	(1,530)	(1,530)
<b>Liability related changes</b>					
Dividends issued through DRIP	(778)	-	-	-	(778)
Dividends declared	4,399	-	-	-	4,399
New finance leases	-	-	4,927	-	4,927
Interest expense	-	1,808	-	-	1,808
Interest paid	-	(1,207)	-	-	(1,207)
<b>Total liability related other increase (decrease)</b>	3,621	601	4,927	-	9,149
<b>Balance at December 31, 2017</b>	1,098	-	15,777	43,292	60,167

### 13. Finance Leases

#### *As Lessee - Finance Lease Liabilities*

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

Finance lease liabilities as at December 31, 2017 and 2016 are payable as follows:

(\$ thousands)	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2017	2016	2017	2016	2017	2016
Less than one year	\$ 5,535	\$ 4,677	\$ (174)	\$ (149)	\$ 5,361	\$ 4,528
Between one and five years	11,260	11,562	(1,474)	(1,558)	9,786	10,004
More than five years	965	918	(335)	(227)	630	691
<b>Total</b>	<b>\$ 17,760</b>	<b>\$ 17,157</b>	<b>\$ (1,983)</b>	<b>\$ (1,934)</b>	<b>\$ 15,777</b>	<b>\$ 15,223</b>

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 14. Income Taxes

#### *Tax Expense*

(\$ thousands)	2017	2016
Current income tax expense	\$ 9,700	\$ 8,082
Deferred income tax recovery	(654)	(1,040)
<b>Income tax expense</b>	<b>\$ 9,046</b>	<b>\$ 7,042</b>

Using federal and provincial statutory rates of 26.8% (2016 – 26.9%), the income tax expense for the year can be reconciled to the statement of comprehensive income as follows:

(\$ thousands)	2017	2016
Income before income tax expense	\$ 28,958	\$ 30,566
Expected income tax expense	7,761	8,222
Non-deductible costs and other	1,285	(1,180)
<b>Income tax expense</b>	<b>\$ 9,046</b>	<b>\$ 7,042</b>

#### *Deferred Tax Assets and Liabilities*

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

(\$ thousands)	2016	Recognized in Comprehensive Income	2017
Tangible assets	\$ 8,170	\$ (516)	\$ 7,654
Intangible assets	6,159	(146)	6,013
Finance lease obligation	(4,093)	(149)	(4,242)
Unrealized foreign exchange and other	372	157	529
<b>Net deferred tax liability</b>	<b>\$ 10,608</b>	<b>\$ (654)</b>	<b>\$ 9,954</b>

The Company has not recognized the benefits associated with net capital losses of \$36,302 thousand (2016 - \$36,586 thousand) and non-capital losses of \$936 thousand (2016 - \$941 thousand), as the timing and ultimate application of these tax loss carryforwards are uncertain.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 15. Financial Instruments

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

Financial instruments recorded or disclosed at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: Reflects valuation based on quoted prices observed in active markets for identical assets or liabilities;

Level 2: Reflects valuation techniques based on inputs other than quoted prices included in level 1 that are observable either directly or indirectly;

Level 3: Reflects valuation techniques with significant unobservable market inputs, there were no level 3 instruments in current or prior year.

#### *Carrying Value and Fair Value of Financial Assets and Liabilities*

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

(\$ thousands)	Category	2017		2016		
		Carrying value	Fair Value Level 1    Level 2	Carrying value	Fair Value Level 1    Level 2	
<b>Financial Assets</b>						
Cash and cash equivalents <sup>(a)</sup>	Loans and receivable	\$ 14,502		\$ 14,542		
Trade and other accounts receivable <sup>(a)</sup>	Loans and receivable	52,834		53,970		
Derivative financial instruments	Held-for-trading	397	397	617		617
Other investments	Available for sale	5,119	5,119	5,000		5,000
Other long-term assets	Loans and receivable	2,605		3,459		
Finance lease receivables	Loans and receivable	640	636	972		977
<b>Financial Liabilities</b>						
Trade and other liabilities <sup>(a)</sup>	Other liabilities	86,915		83,725		
Floor plan payables <sup>(a)</sup>	Other liabilities	125,573		86,091		
Term debt <sup>(b)</sup>	Other liabilities	43,292	43,292	37,380		37,380
Derivative financial liability	Held-for-trading	402	402	615		615
Finance lease obligation	Other liabilities	15,777	15,716	15,223		15,469
Debenture payable <sup>(c)</sup>	Other liabilities	-	-	33,899	34,328	

(a) The carrying value approximates fair value due to the immediate or short-term maturity.

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

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 15. Financial Instruments (continued)

(c) Debenture payable is measured at amortized cost using the effective interest method. The fair value of debenture payable at December 31, 2016 is the quoted market trading price for the debentures.

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

### 16. Capital and Other Components of Equity

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

#### *Share Capital*

(thousands)	Number of common shares	Total carrying amount
<b>Balance at January 1, 2016</b>	15,606	\$ 88,270
Issued under the DRIP plan	79	883
Issued under the deferred share plan	65	710
<b>Balance at December 31, 2016</b>	15,750	89,863
Issued under the DRIP plan	<b>62</b>	<b>778</b>
Issued under the deferred share plan	<b>103</b>	<b>757</b>
Repurchased under the NCIB	<b>(240)</b>	<b>(3,235)</b>
<b>Balance at December 31, 2017</b>	<b>15,675</b>	<b>\$ 88,163</b>

#### *Common Shares*

Shareholders are entitled to:

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

#### *Normal Course Issuer Bid*

On August 21, 2017, the Company announced a Normal Course Issuer Bid (the "Bid"), which commenced on August 23, 2017, to purchase up to a maximum of 805,659 common shares (the "Shares") for cancellation before August 22, 2018. Cervus has appointed Raymond James Ltd. as its broker, who will conduct the Bid on behalf of the Company. All purchases are made in accordance with the Bid at the prevailing market price of the Shares at the time of purchase. The weighted average price for the common shares repurchased during the year was \$13.45 per share.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

#### *Dividends Declared*

(\$ thousands)	2017	2016
\$0.28 per qualifying common share (2016 - \$0.28)	\$ 4,399	\$ 4,394

Total dividends paid in cash during the year were \$3,626 thousand (2016 - \$5,725 thousand). Dividends payable as at December 31, 2017 was \$1,098 thousand (2016 - \$1,103 thousand).

#### *Dividend Reinvestment Plan*

The Company has a Dividend Reinvestment Plan ("DRIP") entitling shareholders to reinvest cash dividends in additional common shares. The DRIP allows shareholders to reinvest dividends into new shares at 95 percent of the average share price of the previous 10 trading days prior to distribution.

#### *Accumulated and Other Comprehensive Income*

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

### 17. Other Income

Other income for the years ended December 31, 2017 and 2016 are comprised of the following:

(\$ thousands)	2017	2016
Net gain on sale of property and equipment	\$ 1,680	\$ 5,579
Reorganization costs <sup>(a)</sup>	(2,532)	-
Gain on sale of equity accounted investees	-	4,146
Unrealized foreign exchange gain <sup>(b)</sup>	890	3,501
Other income	1,074	712
<b>Total other income</b>	<b>\$ 1,112</b>	<b>\$ 13,938</b>

(a) Relates to a valuation adjustment to the Ontario lease fleet, incurred in connection with reorganizing the Company's Ontario operations during the year.

(b) Unrealized foreign exchange gain (loss) is due to changes in fair value of our foreign exchange derivative and from period close translation of accounts payable and floorplan payables denominated in U.S. dollars.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 18. Selling, General and Administrative Expenses By Nature

(\$ thousands)	2017	2016
Wages and benefits	101,530	98,216
Depreciation and amortization	10,668	12,833
Occupancy costs including maintenance	21,609	16,481
Operating and administrative expenses	42,392	36,901
<b>Total selling, general and administrative expenses</b>	<b>\$ 176,199</b>	<b>\$ 164,431</b>

### 19. Wages and Benefits

(\$ thousands)	2017	2016
Included in cost of sales:		
Wages and benefits	\$ 36,285	\$ 36,038
Included in selling, general and administrative expenses:		
Wages and benefits	100,838	97,071
Share-based payments	692	1,145
Total wages and benefits included in selling, general and administrative expenses	101,530	98,216
<b>Total wages and benefits</b>	<b>\$ 137,815</b>	<b>\$ 134,254</b>

#### *Employee Share Purchase Plan*

The Company has an employee share purchase plan available to all employees on a voluntary basis. Under the plan, employees are able to contribute 2% to 4% of their annual salaries, based on years of service. The Company contributes between 15% and 150%, depending on the Company's annual financial performance, on a matching basis to a maximum of \$5,000 per year, per employee. The shares are purchased on the open market through a trustee; therefore, there is no dilutive effect to existing shareholders. Included in selling, general and administrative wages and benefits expense are \$837 thousand (2016 - \$919 thousand) of expenses incurred by the Company to match the employee contributions.

#### *Mid-Term Management Incentive Plan*

The Company offers a mid-term incentive plan (the "MTIP") to certain senior key employees. Under the MTIP, participants receive annual grants of performance share units ("PSUs") which are settled in cash based on the achievement of performance targets at the end of a three year performance period. A liability for MTIP obligation is recognized at its fair value of cash payable, and is re-measured each reporting period until the liability is settled on the third anniversary of initial grant. Any changes in the liability are recognized in the statement of comprehensive income. For the year ended December 31, 2017, MTIP expense recognized during the year amounted to \$137 thousand (2016 - \$257 thousand).

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 19. Wages and Benefits (continued)

#### *Deferred Share Plan*

The Company has a deferred share plan available to officers, directors and employees whereby, if elected, certain payments to these individuals can be deferred, ranging in amounts up to \$50 thousand per individual, where the Company also matches the deferred portion. The deferred shares are granted as approved by the board of directors based on 95% of the 10-day average share price prior to the date of grant. The matched component of the plan vests over a period of 5 years (50% after 3 years, 25% after 4 years and 25% after 5 years) and is recorded as selling, general and administrative expense as it vests. As at December 31, 2017, the Company has 900 thousand shares reserved for issuance under this plan. As at December 31, 2017, 696 thousand (2016 – 745 thousand) deferred shares have been issued under the deferred share plan and remain outstanding. Of the outstanding deferred shares, 570 thousand (2016 – 622 thousand) can be converted to common shares.

### 20. Finance Income and Finance Costs

(\$ thousands)	2017	2016
<b>Finance income</b>	<b>\$ 484</b>	\$ 169
Interest expense on convertible debenture	(1,808)	(3,029)
Interest expense on mortgage and term debt obligations	(1,373)	(3,657)
Interest expense on financial liabilities	(4,108)	(5,851)
<b>Finance costs</b>	<b>\$ (7,289)</b>	\$ (12,537)
Net finance costs recognized separately	(5,379)	(10,495)
Net finance costs recognized in cost of sales	(1,426)	(1,873)
<b>Total net finance costs</b>	<b>\$ (6,805)</b>	\$ (12,368)

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 21. Earnings per Share

#### *Per Share Amounts*

Both basic and diluted earnings per share have been calculated using the net earnings attributable to the shareholders of the Company as the numerator. No adjustments to net earnings were necessary for the years ended December 31, 2017 and 2016.

#### **Weighted Average Number of Common Shares**

The weighted average number of shares for the purposes of diluted earnings per share can be reconciled to the weighted average number of basic shares as follows:

(\$ thousands)	2017	2016
Issued common shares opening	15,750	15,606
Effect of shares issued under the DRIP plan	36	46
Effect of shares issued under the deferred share plan	27	31
Effect of shares repurchased under the NCIB	(69)	-
<b>Weighted average number of common shares</b>	<b>15,744</b>	<b>15,683</b>

#### *Diluted Earnings per Share*

The calculation of diluted earnings per share at December 31, 2017 was based on the profit attributable to common shareholders, including interest expense on the convertible debentures, net of tax, given its dilutive impact on the Company's earnings per share. However, as at December 31, 2016, interest expense on the convertible debenture was anti-dilutive, and was not included in profit to calculate diluted earnings per share.

	2017	2016
Profit attributable to common shareholders (basic)	\$ 19,917	\$ 23,712
Interest expense on convertible debentures, net of tax	1,331	-
<b>Profit attributable to common shareholders (diluted)</b>	<b>\$ 21,248</b>	<b>\$ 23,712</b>

#### **Weighted Average Number of Shares (Diluted)**

The weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares which consist of the following:

(\$ thousands)	2017	2016
Weighted average number of common shares (basic)	15,744	15,683
Effect of dilutive securities:		
Deferred share plan	696	745
Convertible debenture	1,319	-
<b>Weighted average number of shares (diluted)</b>	<b>17,759</b>	<b>16,428</b>

The above table includes all dilutive instruments held by the Company. In 2016, the above per share amounts do not include amounts associated with the Company's convertible debenture as they are considered anti-dilutive.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 22. Operating Leases

#### a) As Lessee

The Company leases a number of lands and building facilities, office equipment and vehicles. The leases typically run for a period of between 1 to 20 years (2016 - 3 and 20 years) with options to renew the leases on the lands and buildings after that date. The land and building leases do not include any provisions for transfer of title. It was determined that substantially all the risks and rewards of ownership of the land and buildings remains with the landlord. As such, the Company has determined that the leases are operating leases.

In 2016, the company completed the sale and leaseback of eleven properties. The properties were entered into long-term leases ranging from 15-20 years with an option to renew for two ten year periods at market terms at the time of renewal. The lease cost escalates a rate of 1% per year.

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

(\$ thousands)	2017	2016
Less than 1 year	\$ 11,775	11,096
Between 1 and 5 years	34,168	31,572
More than 5 years	83,407	78,518
	\$ 129,350	121,186

#### b) As Lessor

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

(\$ thousands)	2017	2016
Less than 1 year	\$ 3,780	3,308
Between 1 and 5 years	7,102	8,058
More than 5 years	547	933
	\$ 11,429	12,299

### 23. Supplemental Cash Flow Information

(\$ thousands)	2017	2016
<b>Changes in non-cash working capital:</b>		
Inventory	(58,343)	61,386
Floorplan	49,221	(79,085)
Trade and other receivables	(1,686)	932
Trade and other liabilities	4,544	(5,601)
<b>Total change in non-cash working capital</b>	<b>(6,264)</b>	<b>(22,368)</b>

The change in non-cash working capital takes into consideration the assets and liabilities held for sale (Note 7).

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

### **24. Financial Risk Management**

---

#### ***Overview***

The Company has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

#### ***Risk Management Framework***

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

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

#### ***Credit Risk***

##### **Trade and Other Receivables**

By granting credit sales to customers, it is possible these entities, to which the Company provides services, may experience financial difficulty and be unable to fulfill their obligations. A substantial amount of the Company's revenue is generated from customers in the farming, construction and industrial, and transportation equipment industries. This results in a concentration of credit risk from customers in these industries. A significant decline in economic conditions within these industries would increase the risk customers will experience financial difficulty and be unable to fulfill their obligations to the Company. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable, finance lease receivables, long-term receivables and deposits with manufacturers (see Note 5).

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

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

### 24. Financial Risk Management (continued)

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

(\$ thousands)	2017	2016
Trade receivables <sup>(a)</sup>	\$ 43,285	\$ 48,282
Other receivables	3,642	5,048
	<b>\$ 46,927</b>	<b>\$ 53,330</b>

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

(\$ thousands)	2017	2016
Domestic <sup>(a)</sup>	\$ 36,140	\$ 40,736
New Zealand	4,395	2,362
Australia	2,750	5,184
	<b>\$ 43,285</b>	<b>\$ 48,282</b>

The aging of trade and other receivables at the reporting date was:

(\$ thousands)	2017	2016
Current - 60 days <sup>(a)</sup>	\$ 38,047	\$ 42,344
Past due – 61-90 days	2,900	2,033
Past due – 91 to 120 days	1,242	2,796
Past due more than 120 days	1,096	1,109
	<b>\$ 43,285</b>	<b>\$ 48,282</b>

(a) Included in the balances are receivables held for sale, as the Company was exposed to the credit risk as at December 31, 2017 (Note 7).

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

(\$ thousands)	2017	2016
Balance at January 1	\$ 1,710	\$ 1,987
Additional allowance recorded	903	316
Amounts written-off as uncollectible	(1,034)	(593)
<b>Balance at December 31</b>	<b>\$ 1,579</b>	<b>\$ 1,710</b>

In our industries, customers typically pay invoices within 30 to 60 days. No single outstanding customer balance represented more than 10% of total accounts receivable.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 24. Financial Risk Management (continued)

The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding and establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information.

#### *Guarantees*

The Company has irrevocable standby letters of credit to John Deere in the amount of \$2.4 million (2016 - \$2.4 million). The letter of credit agreements allow for John Deere to draw upon it in whole or in part in the event of any default by the Company of any or all obligations.

In addition to these guarantees, the Company has also guaranteed the residual value of certain equipment leases which have been entered into between our Customers and John Deere. For these leases, Cervus is responsible to purchase the equipment from John Deere upon the maturity of the lease between the customer and John Deere. The Company's purchase price for the equipment is the residual value agreed to at the inception of the lease between John Deere, the Customer, and Cervus. On lease maturity, the equipment is purchased by the Company and is included in the Company's used inventory. Cervus regularly assesses residual values of customer equipment under lease with John Deere, to assess its carrying value and if any allowance is necessary. At December 31, 2017, total residual values maturing over the next 12 months was \$29,031 thousand (2016 - \$36,884 thousand) and the total residual values maturing in the next five years is \$269,146 thousand (2016 - \$235,025 thousand). The Company has not recorded a provision in the twelve months ended December 31, 2017 and 2016 as residual values as set under the leases are anticipated to result in profit above cost when ultimately sold by the Company as used equipment.

#### *Liquidity Risk*

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the ability to raise funds to meet purchase commitments and financial obligations and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. As described in Note 12, the Company has available for its current use, \$100 million less \$25 million drawn on the facility and \$2.4 million for irrevocable letters of credit issued to John Deere.

The Company believes that it has sufficient operating funds available to meet expected operational expenses, including the service of financial obligations. The following are the contractual maturities of financial liabilities existing as at December 31, 2017.

(\$ thousands)	Contractual					
	Carrying amount	principal maturities	12 months or less	1 - 2 Years	2 - 5 Years	5+ Years
Trade and other accrued liabilities <sup>(a)</sup>	\$ 87,062	87,062	87,062	-	-	-
Floor plans payable <sup>(a)</sup>	135,048	135,048	135,048	-	-	-
Dividends payable	1,098	1,098	1,098	-	-	-
Term debt payable <sup>(a)</sup>	44,822	45,217	11,122	27,239	6,856	-
Derivative financial liability	402	402	402	-	-	-
Finance lease obligation	15,777	15,777	5,361	3,674	6,112	630
<b>Total contractual maturities of financial liabilities</b>	<b>\$ 284,209</b>	<b>284,604</b>	<b>240,093</b>	<b>30,913</b>	<b>12,968</b>	<b>630</b>

(a) Included in the balances are liabilities held for sale, as the Company is exposed to the liquidity risk as at December 31, 2017 (Note 7).

## **CERVUS EQUIPMENT CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

---

### **24. Financial Risk Management (continued)**

#### **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.

#### **Currency Risk**

Many of our products, including equipment and parts, are based on a U.S. dollar price as they are supplied primarily by U.S. manufacturers but are settled in Canadian dollars as they are received. This may cause fluctuations in the sales values assigned to equipment and parts inventories, as inventory is recorded based on Canadian dollar cost at the time of receipt, but is sold to the customer based on market pricing prevailing at 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. The fluctuation in the U.S. dollar floorplan payable is recorded in unrealized gain/loss on foreign exchange within other income. When the equipment is sold, equipment is priced based on the prevailing spot USD/CAD exchange rate at the time of sale, plus applicable margin. In so doing, the Company's proceeds on sale directly offset the prevailing U.S. Dollar floorplanned cost of the equipment. If the Company was unable to recapture fluctuations in the US/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 \$108 thousand (2016 - \$80 thousand), based on the U.S. dollar floor plan balances at December 31, 2017. From time to time the Company also enters into foreign exchange forward contracts to manage exposure on timing difference between the payout of floorplan and receipt of funds from a customer.

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

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 24. Financial Risk Management (continued)

#### *Interest Rate Risk*

The Company's cash flow is exposed to changes in interest rates on its floor plan arrangements and certain term debt which bear interest at variable rates. The cash flows required to service these financial liabilities will also fluctuate as a result of changes in market interest rates. The Company mitigates its exposure to interest rate risk by utilizing excess cash resources to buy-down or pay-off interest bearing contracts and by managing its floor plan payables by maximizing interest-free periods as may be provided by Original Equipment Manufacturers ("OEM").

#### **Interest Bearing Financial Instruments**

At the reporting dates, the Company's interest bearing financial instruments were:

(\$ thousands)	2017	2016
<b>Fixed Rate</b>		
Debenture payable	\$ -	\$ 33,899
Finance lease obligation	15,777	15,223
<b>Variable Rate</b>		
Floor plan payables		
Floor plan payables - interest bearing	119,426	80,980
Floor plan payables - interest free period <sup>(a)</sup>	6,147	5,111
Term debt	45,217	37,772
<b>Total interest bearing financial instruments</b>	<b>\$ 186,567</b>	<b>\$ 172,985</b>

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

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. A change in 100 basis points in interest rates would have increased or decreased interest costs for the year ended December 31, 2017 by approximately \$1,708 thousand (2016 -\$1,239 thousand).

#### ***Capital Risk Management***

The Company's objective when managing its capital is to safeguard its ability to continue as a going concern, in order to generate returns for shareholders, expand business relationships with stakeholders, and identify risk and allocate its capital accordingly. In the management of capital, the Company considers its capital to comprise term debt, the current portion of 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.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

### 24. Financial Risk Management (continued)

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

- Debt to Total Capital ratio (term debt plus current portion of term debt divided by: term debt plus current portion of term debt plus book value of equity);
- Return on Invested Capital ratio (net income before tax plus interest on term debt divided by total capital);
- A debt to tangible assets ratio (calculated as total debt divided by: total assets less goodwill and intangibles); and;
- A fixed charge coverage ratio (calculated as adjusted net income divided by contractual principle, interest, shareholder distributions, and lease payments).

There were no changes in the Company's approach to capital management in the year. Neither the Company, nor any of its other subsidiaries are subject to externally imposed capital requirements.

#### **Covenant Compliance**

The Company must meet certain financial covenants as part of its current Canadian syndicated credit facility, all of which the Company was in compliance as at December 31, 2017. The covenants under the Syndicated Credit Facility are consistent in principle with the internal ratios used by the Company in determining appropriate capital levels, however calculations are not directly comparable, as the Company's internal ratios are broader to consider all stakeholders, while the Syndicate Covenants are specifically tailored by the Syndicate for their specific security position. The three core covenants under the Syndicated Credit Facility, as contained in the Syndicated Credit agreement requires:

- Maintaining a "total liabilities to tangible net worth ratio" not exceeding 4.0:1.0 calculated from adjusted total liabilities over adjusted equity.
- Maintaining a "fixed charge coverage ratio" greater to or equal to 1.10:1 for the period from March 31, 2017 onwards.
- Maintaining an "asset coverage ratio" greater than 3.0:1.0.

The specific calculations of the covenants under the Syndicated lending agreement include numerous lender, and agreement specific, non-IFRS measures. The specific calculations and defined terms thereof are available for retrieval at [www.SEDAR.ca](http://www.SEDAR.ca). The Company's compliance as at December 31, 2017 with the covenants contained in the Syndicated Credit Agreement is set out below:

	As at December 31, 2017		As at December 31, 2016	
	Covenant	Result	Covenant	Result
Total Liabilities to Tangible Net Worth*	Less than 4.0:1.0	2.55	Less than 4.0:1.0	1.99
Fixed Charge Coverage Ratio*	Greater than 1.1:1.0	1.69	Greater than 1.0:1.0	1.43
Asset Coverage Ratio*	Greater than 3.0:1.0	10.01	Greater than 3.0:1.0	21.03

\* These are non-IFRS measures, stating the title of the covenant as defined in the Syndicated Credit Agreement, for reference purposes.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 25. Segment Information

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

Each of these business segment operations are supported by a single shared corporate head office. Certain corporate head office expenses are allocated to the business segments under either specific identification approach or a usage based metric. The corporate head office also incurs certain costs which are considered as public company costs, which are allocated to the segments based on the gross margin of the Canadian operations. Total corporate related expenditures, excluding income taxes, that have been allocated for the year ended December 31, 2017 are \$4,476 thousand (2016 - \$7,070 thousand).

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

(\$ thousands)	Agricultural Equipment	Transportation Equipment	Commercial and Industrial Equipment	Total
<b>Segmented income figures</b>				
<b>Year ended December 31, 2017</b>				
Revenue	\$ 833,677	\$ 293,369	\$ 94,239	\$ 1,221,285
Income (loss) for the year before income tax	29,479	(3,562)	3,041	28,958
Depreciation and amortization	7,029	7,852	2,707	17,588
Finance income	319	115	50	484
Finance expense including amounts in costs of sales	(3,593)	(3,152)	(544)	(7,289)
Capital additions, including finance leases	6,838	5,825	443	13,106
<b>Segmented assets and liabilities as at December 31, 2017</b>				
Reportable segment assets	\$ 337,442	\$ 122,687	\$ 53,926	\$ 514,055
Reportable segment liabilities	185,443	77,956	25,403	288,802
Intangible assets	23,673	11,867	4,202	39,742
Goodwill	15,667	2,547	666	18,880

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

### 25. Segment Information (continued)

(\$ thousands)	Agricultural Equipment	Transportation Equipment	Commercial and Industrial Equipment	Total
<b>Segmented income figures</b>				
<b>Year ended December 31, 2016</b>				
Revenue	\$ 739,029	\$ 286,243	\$ 84,667	\$1,109,939
Income (loss) for the year before income tax	28,414	3,256	(1,104)	30,566
Share of profit of equity accounted investees	489	-	-	489
Depreciation and amortization	9,318	5,445	2,971	17,734
Finance income	164	4	1	169
Finance expense including amounts in costs of sales	(6,738)	(4,620)	(1,179)	(12,537)
Capital additions, including finance leases	4,820	2,570	564	7,954
<b>Segmented assets and liabilities as at December 31, 2016</b>				
Reportable segment assets	\$ 304,563	\$ 120,673	\$ 51,616	\$ 476,852
Reportable segment liabilities	166,975	69,900	26,138	263,013
Intangible assets	26,215	13,469	6,830	46,514
Goodwill	15,804	2,547	2,193	20,544

The Company primarily operates in Canada but includes subsidiaries in Australia (Cervus Australia Pty Ltd.) and in New Zealand (Cervus NZ Equipment Ltd.), which together operate 15 agricultural equipment dealerships. Gross revenue and non-current assets for the geographic territories of New Zealand and Australia were \$168,398 thousand (2016 - \$157,117 thousand) and \$20,431 thousand (2016 - \$26,763 thousand) respectively. The Australia and New Zealand operations are included in the Agricultural Segment.

### 26. Commitments and Contingencies

The Company is a defendant and plaintiff in various other legal actions that arise in the normal course of business. The Company believes that any liabilities that might arise pertaining to such matters would not have a material effect on its consolidated financial position.

#### Financing Arrangements

John Deere Credit Inc. ("Deere Credit") and other financing companies provide financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2017 payments in arrears by such customers aggregated \$226 thousand (2016 - \$456 thousand).

In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit and other financing companies through recourse arrangements for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2017, the net residual value of such leases aggregated \$269,146 thousand (2016- \$235,025 thousand). Management believes that the potential liability in relation to the amounts outstanding is negligible and consequently, no accrual has been made in these financial statements in relation to any potential loss on assumed lease obligations.

## CERVUS EQUIPMENT CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 27. Related Party Transactions

#### *Key Management Personnel Compensation*

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

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

(\$ thousands)	2017	2016
Short-term benefits	\$ 2,895	\$ 2,292
Share-based payments	694	529
	\$ 3,589	\$ 2,821

#### *Other Related Party Transactions*

Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating \$5,400 thousand (2016 – \$6,400 thousand). During the year ended December 31, 2017 and 2016, the Company paid those individuals \$170 thousand (2016 - \$175 thousand) for providing these guarantees. These transactions were recorded at the amount agreed to between the Company and the guarantors, are included in selling, general and administrative expense and have been fully paid during the year.