Cervus Equipment Corporation Management's Discussion + Analysis

FOR THE PERIOD FROM JANUARY 1, 2019 TO DECEMBER 31, 2019

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Management’s Discussion & Analysis

Management’s Discussion & Analysis (“MD&A”) is provided to enable readers to assess the financial position and the results of the consolidated operations of Cervus Equipment Corporation (“Cervus” or the “Company”) for the three and twelve-month periods ended December 31, 2019. It was prepared on March 11, 2020. This MD&A should be read in conjunction with the accompanying Audited Consolidated Financial Statements for the year ended December 31, 2019, and notes contained therein. The accompanying Audited Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and Cervus’ functional and reporting currency is the Canadian dollar. Additional information relating to Cervus, including Cervus’ Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular, is available on the Company’s website at www.cervusequipment.com and on SEDAR at www.sedar.com.

Forward-Looking Statements

This MD&A contains statements that are forward-looking and may constitute “forward-looking information” within the meaning of applicable securities legislation. Actual results or events may differ materially from those forecast and from statements of the Company’s plans or strategy that are made in this MD&A because of the risks and uncertainties associated with the Company’s businesses and the general economic environment. The Company cannot provide any assurance that any forecast financial or operational performance, plans, or financial targets will be achieved or, if achieved, will result in an increase in the Company’s share price. Refer to the section “Cautionary Note Regarding Forward-Looking Statements” in this MD&A for a more detailed discussion of the Company’s use of forward-looking statements.

Key Performance Indicators and Non-GAAP Financial Measures

We have identified several non-GAAP financial measures which we believe are useful in assessing the past performance of the Company and several key performance indicators we will use to judge the effectiveness of our strategies and disciplines for progress and transformation over the next five years. However, readers are cautioned that some of these measures may not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to the sections “Key Performance Indicators” and “Non-GAAP Financial Measures” for a more detailed discussion of these measures.

Company Overview

Corporate Profile

Cervus provides equipment solutions to customers in agriculture, transportation, and industrial markets across Canada, Australia, and New Zealand. Throughout its territories and across its diverse markets, Cervus dealerships are united in delivering sales and support of the market-leading equipment our customers depend on to earn a living. The Company operates 63 Cervus dealerships and is the authorized representative of leading Original Equipment Manufacturers (“OEMs”) including: *John Deere* agricultural equipment; *Peterbilt* transportation equipment; and *Clark*, *Sellick, Doosan*, *JLG* and *Baumann* material handling equipment. Cervus operates an extensive product-support network including a fleet of mobile service vehicles and over 500 service bays. Cervus employs more than 1,500 people, a third of whom are technicians with specialized skills to perform equipment diagnostics, optimization, maintenance and repairs. The Company traces its beginnings to 1982. Its common shares are listed on the Toronto Stock Exchange and trade under the symbol "CERV".

Reporting Segments

Cervus operates through three market-focused business segments along with a corporate segment, as described below:

Agriculture: 36 John Deere dealership locations with 15 operating in Alberta, 5 in Saskatchewan, 1 in British Columbia, 9 in New Zealand and 6 in Australia.

Transportation: 19 dealership locations with 4 Peterbilt truck dealerships and 1 Collision Centre operating in Saskatchewan, 12 Peterbilt truck dealerships and 2 parts locations operating in Ontario.

Industrial: 8 material handling and forklift equipment dealership locations with 5 operating in Alberta, 2 in Saskatchewan and 1 in Manitoba, representing the following brands: Clark, Sellick, Doosan, JLG and Baumann.

Corporate: We have centralized our corporate services including strategic business development, finance, information technology, human resources, accounting, payroll and other support functions at our head office, located in Calgary, Alberta.

In 2019, the Company segregated corporate expenses not directly attributable to an operating segment into a Corporate segment. Corporate expenses consist of certain overheads and shared services provided to the divisions, along with public company costs, salaries, share-based compensation, office and administrative costs relating to corporate employees and officers, and interest cost on general corporate borrowings. Prior period financial information for 2018 has been restated to reflect the separate reporting of corporate division expenses.

Business Model

Throughout our territories and across our diverse markets, Cervus dealerships are united by our business model of marketing and selling equipment solutions (also known as "wholegoods") and delivering uptime to our customers as they use that equipment ("product support"). Product support involves the provision of preventative maintenance, repairs, parts, rentals, training, storage, telematics and other ancillary services customers need to operate their equipment, achieve efficient cost of ownership and maximize utilization. Our delivery of product support, combined with best in class equipment, is valued by our customers as it improves productivity, operational uptime, re-sale value and ultimately their profitability.

CEO Appointment

Effective May 15, 2019, the Board of Directors appointed Angela Lekatsas President and Chief Executive Officer of Cervus. Ms. Lekatsas has extensive executive leadership experience with demonstrated financial, operational, risk management and merger and acquisition credentials earned in agriculture, manufacturing and mining. Ms. Lekatsas is a Chartered Professional Accountant (CPA, CA) and holds the Institute of Corporate Directors ICD.D designation. She has served as a Director of Cervus Equipment Corporation since 2013.

Following her appointment, Ms. Lekatsas led a comprehensive review of the Company's operations, risks and strategic positioning. This review led to the implementation of a new mission, vision and strategic framework in the fourth quarter of 2019 designed to drive performance improvements.

Strategic Framework

Strategic Goal

Our primary objective is to create value for shareholders, customers, OEM partners and employees through profitable growth, supported by a disciplined approach to capital allocation and balance sheet management.

Through our sales activities (past and present), we have achieved a significant installed base of wholegoods equipment in our markets. This installed base has created a sizeable opportunity for follow-on product support. Product support revenue adds stability and predictability to reduce volatility experienced in our cyclical industries. Over the past five years, the ratio of overall equipment sales to product support revenue has averaged 75:25. We believe the Company can deliver enhanced performance across business cycles by advancing the sales to product support revenue ratio to 50:50. Accordingly, we have set a goal for the next five years of achieving this balanced position.

From experience, we have found that product support offers a variety of benefits, including the opportunity to provide valued ongoing services to customers, in addition to their equipment purchases. While typical product support offerings include parts, service, rentals, training and storage solutions, we see emerging opportunities to

expand these offerings through application and interpretation of innovation and technology that complements and/or leverages the technology in the equipment we sell. We believe the recurring nature of product support makes it a stable business that can improve overhead absorption in our dealerships, while delivering customer affinity for Cervus and our OEM partners.

We intend to drive product support revenue through targeted internal investments and complementary acquisitions. Furthermore, we strive to operate with common and consistent customer service objectives across our dealerships. The accurate quoting of service work, attraction and retention of skilled tradespeople, efficient use of time and shop capacity, and proper investment and management of parts inventories are all key factors in delivering product support that addresses our customers' needs and are aligned with our financial performance objectives.

Overview of 2019 Results

As discussed in our Annual Report, 2019 was a challenging year as our Western Canadian Agriculture operations endured compounding and considerable headwinds, which were a primary factor in the loss for the year of $9 million, compared to income of $25 million in 2018. Despite the very tough agriculture market, our operations generated strong adjusted free cash flow[1] of $21 million in 2019.

Amid these headwinds in our Agriculture segment, we set our focus on right-sizing our used equipment inventory levels by December 31, 2019, and achieved this objective. We reduced our used Agriculture equipment inventory by $67 million, or 37% compared to the second quarter of 2019, and improved our used Agriculture equipment inventory turns to 1.78 times[1] for the year.

We believe disciplined used equipment inventory management is a critical success factor, across all our segments, as we navigate cyclical markets. Through the actions taken to rebalance our inventory this year, we maintained our strong balance sheet, while limiting prolonged exposure to inventory carrying costs and valuation risk. Used agriculture equipment levels across Western Canadian dealers remain in excess of market demand. Dealers who have yet to take action are incurring the inventory carrying costs of interest and obsolescence, and are constrained in their ability to accept equipment trades. As a result of these industry factors, we incurred inventory impairments of $10 million in the fourth quarter and $24 million for 2019. This compares to $2.9 million and $12 million, respectively, for the same period in 2018.

The excess supply of used equipment in the industry, combined with geo-political and macro-economic factors, also reduced new Agriculture equipment revenue and profitability in 2019. In our second quarter report, we outlined our expectation that reduced new equipment revenue, margins, and incentives would impact new equipment gross profit by $15 to $20 million, across the third and fourth quarters of 2019. In line with this expectation, in the third and fourth quarters we realized a reduction of Agriculture new equipment gross profit of $11 million and $5 million, respectively, resulting in a $16 million reduction in the second half of 2019.

In our Transportation segment, truck sales were negatively impacted by factory delays in the first half of the year, combined with softening customer demand and increased competition in the second half of the year, as dealers were under increasing pressure to sell trucks ordered from OEMs in early 2019. Industry truck sales are anticipated to return to more mid-cycle levels in 2020 following two successive years of above average demand. Our Industrial segment continues to experience pressure from ongoing uncertainty in the oil and gas sector, which impacts the geographies we serve.

Despite these short-term realities, we achieved increased parts and service revenues across the Company. As we navigate industry cycles and pursue our strategy, the consistent performance and growth of our product support business is critically important. Furthermore, we ended the year with a strong balance sheet, which provides us with additional flexibility moving forward into 2020.

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[1] Described in the section titled "Non-GAAP Measures".

Consolidated Results

The Company's results for the year ended December 31, 2018, included the financial performance of four construction dealerships sold during the first quarter of 2018, up to the transaction closing date of March 16, 2018.

($ thousands, except per share amounts)	Three month periods ended December 31			Years ended December 31		
	2019	% Change Compared to 2018	2018	2019	% Change Compared to 2018	2018
Equipment revenue	**179,051**	(20%)	224,072	**813,393**	(22%)	1,041,835
Product support revenue	**80,498**	6%	76,175	**325,641**	6%	308,201
Total revenue	**259,549**	(14%)	300,247	**1,139,034**	(16%)	1,350,036
Cost of sales before inventory impairment	**(212,152)**	(14%)	(245,352)	**(945,677)**	(16%)	(1,129,445)
Inventory impairment	**(10,496)**	262%	(2,896)	**(24,006)**	109%	(11,513)
Gross profit	**36,901**	(29%)	51,999	**169,351**	(19%)	209,078
Total other income	**583**	39%	418	**3,844**	12%	3,443
Equipment commissions	**(2,962)**	4%	(2,849)	**(11,974)**	(12%)	(13,541)
SG&A expenses, excluding equipment commissions	**(40,299)**	(1%)	(40,685)	**(159,304)**	(0%)	(159,504)
(Loss) income from operating activities	**(5,777)**	(165%)	8,883	**1,917**	(95%)	39,476
Net finance costs	**(3,036)**	145%	(1,241)	**(12,369)**	125%	(5,498)
Share of profit of equity accounted investees, net of income tax	**6**	100%	-	**6**	(95%)	124
(Loss) income before income tax expense	**(8,807)**	(215%)	7,642	**(10,446)**	(131%)	34,102
Income tax recovery (expense)	**1,759**	167%	(2,611)	**1,828**	120%	(9,325)
(Loss) income	**(7,048)**	(240%)	5,031	**(8,618)**	(135%)	24,777
EBITDA[1]	**838**	(94%)	13,367	**27,942**	(51%)	56,728
Ratios						
Gross profit margin as a % of revenue	**14.2%**		17.3%	**14.9%**		15.5%
Total SG&A as a % of gross profit	**117.2%**		83.7%	**101.1%**		82.8%
(Loss) income per share						
Basic	**(0.46)**		0.32	**(0.56)**		1.58
Diluted	**(0.46)**		0.31	**(0.56)**		1.51
Basic - Adjusted[1]	**(0.50)**		0.35	**(0.65)**		1.58
Adjusted (loss) income before income tax expense[1]	**(9,638)**	(219%)	8,133	**(12,293)**	(136%)	34,056

(1) Described in the section titled "Non-GAAP Measures".

2019 Annual Financial Results

Revenue
Revenue decreased 16% in the year, driven by a 22% decrease in equipment revenue, partly offset by a 6% increase in product support revenue.

Agriculture equipment revenue declined 24% for the year, as the Canadian agriculture industry faced a number of headwinds, including reduced 2018 farm income, increased input costs, reduced commodity prices and trade disputes, all compounded by poor growing and harvesting conditions in parts of our geography. In this environment, producers chose to postpone new equipment purchases as many own late model equipment acquired in recent years. As a result, Canada agriculture 4-wheel-drive farm tractors and combine sales in the market decreased 37% and 19%, respectively, in 2019 when compared to 2018[2].

Transportation equipment revenue declined 15% for the year, the result of factory delays experienced in the first half of the year, combined with softening customer demand and increased competition in the second half of the year.

Despite the headwinds shared across our Canadian equipment dealerships, product support revenue remained resilient, improving 6% for the year. The largest increase in product support revenue was in our Agriculture segment, as demand for parts and service continued through the challenging harvest window. A difficult 2018 harvest also bolstered early season product support revenue in 2019.

Gross Profit
Gross profit declined 19% or $40 million for the year due to a decrease in both new and used equipment gross profit in the Agriculture segment associated with lower revenues and margins. This $40 million decline includes an increase in equipment inventory impairments of $13 million for the year and the $16 million reduction in gross profit from Agriculture new equipment sales in the second half of 2019.

Growth in product support revenue contributed an additional $7 million of gross profit for the year compared to 2018.

Gross profit as a percent of revenue decreased in the year due to equipment inventory impairments, compressed new and used equipment margins and reduced incentives.

Selling, General and Administrative ("SG&A") Expenses and Net Finance Costs
SG&A expenses excluding equipment commissions were flat for the year, primarily due to the elimination of annual performance incentives and a reduction in marketing expenditures, partly offset by restructuring charges and the inclusion of the Red Deer Agriculture dealership acquired in the fourth quarter of 2018.

The increase in net finance costs of $7 million for the year was primarily due to the adoption of IFRS 16.

Income
Income before income tax decreased $45 million for the year, primarily due to the $40 million reduction in gross profit, as discussed above. The adoption of IFRS 16 also decreased income before income tax by $4.2 million compared to 2018. Adjusted income before income tax decreased $46 million for the year.

Balance Sheet

Inventory
Total inventory was $320 million at December 31, 2019, a decrease of $70 million from June 30, 2019, due to a $90 million decrease in the Agriculture segment, partly offset by a $21 million increase in the Transportation segment.

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[2] Association of Equipment Manufacturers, AEM Ag Tractor Combine Report Shows Positive Growth in 2019, January 2020, www.aem.org

Following peak used Agriculture equipment inventory of $181 million at June 30, 2019, inventory decreased $67 million or 37% by December 31, 2019. Agriculture used equipment inventory turnover for the trailing twelve-month period ended December 31, 2019 was 1.78 times, compared to 1.62 times at June 30, 2019[3].

Shareholder Distributions
A quarterly dividend of $0.11 per share was declared to shareholders of record as at December 31, 2019, a 10% increase from December 31, 2018. The Company repurchased 0.3 million common shares at a cost $3.9 million for the year ended December 31, 2019.

Fourth Quarter 2019 Results – Q4 2019 v Q4 2018

Revenue
Overall revenue decreased 14%, driven by a 20% decline in equipment revenue, partly offset by a 6% increase in product support revenue. This trend was consistent with our annual results and impacted by the same factors discussed above.

Gross Profit
Gross profit declined 29% or $15 million, primarily comprised of an increase in equipment inventory impairments of $8 million and a $5 million reduction in gross profit from Agriculture new equipment sales due to lower revenue, margins and incentives in the fourth quarter.

Growth in product support revenue contributed an additional $1.5 million or 5% increase to gross profit in the quarter compared to 2018.

Gross profit as a percent of revenue decreased due to compressed equipment margins and incentives, combined with increased equipment inventory impairments.

Selling, General and Administrative ("SG&A") Expenses and Net Finance Costs
SG&A expenses excluding equipment commissions, decreased 1%, primarily due to a decrease in annual performance incentives and marketing expenditures, partly offset by the inclusion of the Red Deer Agriculture dealership acquired late in the fourth quarter of 2018.

The increase in net finance costs of $1.8 million was primarily due to the adoption of IFRS 16.

Income
Income before income tax decreased $16 million, primarily due to the $15 million reduction in gross profit, as discussed above. The adoption of IFRS 16 also decreased income before income tax by $0.9 million. Adjusted income before income tax decreased $18 million compared to the fourth quarter of 2018, a result of the significant factors discussed above.

[3] Described in the section titled "Non-GAAP Measures

Key Performance Indicators

The Company strives to create shareholder value through accelerated profitability, underpinned by a disciplined approach to capital allocation and balance sheet management. In late 2019, we established targets for the key performance indicators that are critical to measuring success and execution against the Company's strategy. The table below sets out the key performance indicators that we will use beginning in 2020 and includes our five-year targets for 2024. The historical results for these measures have been provided for comparative purposes. We believe the achievement of these targets would contribute to an increase in total shareholder return over the next five years.

A discussion of the underlying material assumptions and risks that might impact the achievement of these targets is provided in the section "Cautionary Note Regarding Forward-Looking Statements". In addition, achievement of the targets may be impacted by the risks identified in the section "Business Risks and Uncertainties".

These key performance indicators do not have a standard meaning under IFRS and, therefore, may not be comparable to similar terms used by other companies. These measures are identified and further described under the section "Non-GAAP Financial Measures."

Key Performance Indicators **Years Ended December 31**	**2018**	**2019**	**Objective by 2024**
Return On Invested Capital ("ROIC")			
Consolidated	13.7%	-1.3%	**> 20%**
Average Annual Product Support Gross Profit Growth			
Consolidated	5.5%	4.8%	**8% - 10%**
Agriculture	3.3%	9.5%	**8% - 10%**
Transportation	7.5%	-2.1%	**8% - 10%**
Industrial	9.7%	6.0%	**8% - 10%**
Absorption			
Agriculture	84%	87%	**95% - 100%**
Transportation	106%	99%	**110% - 115%**
Industrial	99%	95%	**110% - 115%**
Equipment Inventory Turnover(1)			
Agriculture	1.78	1.78	**> 2.5**
Transportation	3.37	2.69	**> 3.5**
Industrial	2.73	2.79	**> 3.5**

(1) - Agriculture equipment inventory turnover is calculated based on used equipment only as most new equipment inventory is on consignment. Transportation and Industrial equipment inventory turnover is calculated based on new and used equipment.

Return on Invested Capital

Return on invested capital ("ROIC'") is a measure we use to evaluate the effectiveness of capital deployed. We use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment will create shareholder value. We will also use this measure to assess past acquisitions, capital investments and the Company as a whole to determine if shareholder value is being achieved by these uses of capital. The calculation of ROIC is further identified and described under the section "Non-GAAP Financial Measures."

Product Support Gross Profit Growth

Our customers value the ability of our dealerships to provide best in class equipment along with operational uptime through efficient product support, that enhances the profitability of their businesses. Customer relationships are built and maintained through the equipment's useful life, and our product support capabilities are a key factor in a customer's purchasing decision. Growth in this stable and profitable area of our business will serve to reduce cyclicality of income, while also enhancing customer affinity for Cervus and our OEM partners.

In assessing Product Support Gross Profit Growth, the Company includes the activities performed for the benefit of our other departments. This internal activity is excluded from reported product support revenues under GAAP, however, management assesses the overall product support activity when evaluating the use of the Company's resources. The calculation of Product Support Gross Profit Growth is further identified and described under the section "Non-GAAP Financial Measures."

Absorption Percentage

Absorption is an operating measure commonly used in the dealership industry as an indicator of sustainable performance and profitability relative to cost structure. Absorption measures the extent product support gross profit of a dealership covers (or absorbs) the operating costs of the dealership, excluding equipment sales commissions, carrying costs of equipment inventory and corporate expenses. When 100% absorption is achieved, all the gross profit from the sale of equipment, after sales commissions and inventory carrying costs, directly impacts operating profit.

Absorption is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, absorption may not be comparable to similar measures presented by other issuers that operate in the dealership industry. The calculation of absorption is further identified and described under the section "Non-GAAP Financial Measures."

Equipment Inventory Turnover

In our wholegoods' departments, managing inventory levels to meet market demand must be balanced by maintaining the sale of inventory we carry, which we measure using equipment inventory turnover. As our largest asset, equipment inventory levels have a direct impact on overall asset levels, and therefore our capital requirements and ROIC performance.

Equipment inventory turnover is a key metric for the Company, specifically, for used equipment held primarily in our Agriculture segment. Used equipment carries additional risks relative to new inventory, including potential obsolescence compared to features available in new models, exposure to changes in the comparative cost of new equipment, and the ability to correctly estimate reconditioning costs. Therefore, focusing on used inventory turnover reflects the market demand for the used inventory we carry, along with the average period of time used equipment is exposed to fluctuating market factors prior to sale.

We calculate the ratio as trailing twelve-month equipment cost of sales divided by the quarterly average inventory for the most recent four quarters. The calculation of inventory turnover is further identified and described under the section "Non-GAAP Financial Measures."

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

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

Agriculture

Agriculture, particularly in Western Canada, remains the driving variable in the Company's results. Canadian producers manage complex, capital intensive businesses, and are heavily influenced by seasonal weather conditions, commodity prices, and input costs. Following several years of record or near record net farm income, Western Canadian producers have encountered higher input costs, lower commodity prices, uncertainty associated with international trade, and increased Canadian dollar cost of equipment due to foreign exchange. Heading into 2020, we are monitoring the possible impacts of railway disruptions in Canada and COVID-19.

Further, geopolitical and macroeconomic factors experienced in 2019 were compounded by a delayed 2019 harvest season in most of our Western Canadian regions due to cool weather, significant rainfall and snow. The high levels of moisture negatively impacted the quality of crops not harvested before snowfall, and the delay resulted in harvest not being completed and crops remaining in the field in parts of our Alberta region.

The difficult harvest has weighed on farmer sentiment entering 2020, particularly following the challenging harvest conditions also experienced in 2018, reinforcing producer's caution towards capital commitments. The actions we took to rebalance our inventory in 2019, have improved our ability to match our inventory to market demand, while limiting prolonged exposure to inventory carrying costs and valuation risk. Deferral of equipment purchases by producers may provide additional opportunities for parts, service and other solutions as we support the equipment population in our market.

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

Transportation

The US and Canadian truck market ended 2019 with total class 8 truck sales of 309,000 units, compared to 285,000 units in 2018.[4] The industry continues to show signs of excess freight capacity and a decrease in freight rates, which may negatively influence customer purchasing decisions into 2020. PACCAR, the owner of Peterbilt trucks, is anticipating a tapering of class 8 truck sales for 2020 in the range of 230,000 to 260,000 units[4], which is consistent with mid-cycle US and Canadian truck sales experienced in 2016 and 2017.

With equipment demand anticipated to return to this more mid-cycle level in 2020, our focus is to expand and strengthen our product support offerings. Our Saskatchewan region continues its stable performance despite persistent weakness in the oil and gas sector, which is a significant driver of activity in this geography. In Ontario our efforts remain on increasing our truck population and improving operational efficiencies.

Industrial

Our Industrial segment is largely dependent on the general economic conditions and activity in Alberta and Saskatchewan, particularity in the oil and gas sector. Ongoing uncertainty around pipeline capacity challenges in the oil and gas sector continues to weigh on equipment and product support demand in this segment.

We continue to focus on increasing our product support offerings and building on our training and rental lines with the addition of storage solutions, including warehouse racking.

[4] PACCAR, PACCAR Achieves Record Annual Revenues and Net Income, January 2020, www.paccar.com

Business Segment Results

The Company has four reportable segments, as outlined in the 'Company Overview', and presented in Notes 3 and 25 of the Annual Financial Statements.

In 2019, the Company segregated corporate expenses not directly attributable to an operating segment into a Corporate segment. Corporate expenses consist of certain overheads and shared services provided to the divisions, along with public company costs, salaries, share-based compensation, office and administrative costs relating to corporate employees and officers, and interest cost on general corporate borrowings. Prior period financial information for 2018 has been restated to reflect the separate reporting of corporate division expenses.

Summary of Annual Business Segment Results

Below is a summary of Cervus' segment results for the years ended December 31, 2019 and 2018.

Year ended December 31, 2019 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Equipment revenue	**813,393**	596,155	193,957	23,281	-
Product support revenue	**325,641**	159,287	136,296	30,058	-
Gross profit	**169,351**	94,740	57,405	17,206	-
Total other income	**3,844**	524	2,516	704	100
Selling, general and administrative expense	**(171,278)**	(95,675)	(51,315)	(16,351)	(7,937)
Net finance costs	**(12,369)**	(7,183)	(3,455)	(232)	(1,499)
(Loss) income before income tax expense	**(10,446)**	(7,588)	5,151	1,327	(9,336)
Adjusted (loss) income before income tax expense[1]	**(12,293)**	(7,588)	3,330	1,301	(9,336)

Year ended December 31, 2018 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Equipment revenue	**1,041,835**	783,788	228,569	29,478	-
Product support revenue	**308,201**	143,097	133,587	31,517	-
Gross profit	**209,078**	131,754	59,310	18,014	-
Total other income	**3,443**	1,463	292	1,003	685
Selling, general and administrative expense	**(173,045)**	(97,097)	(50,036)	(16,766)	(9,146)
Net finance costs	**(5,498)**	(2,045)	(2,444)	2	(1,011)
Income (loss) before income tax expense	**34,102**	34,199	7,122	2,253	(9,472)
Adjusted income (loss) before income tax expense[1]	**34,056**	33,434	8,192	1,902	(9,472)

(1) Described in the section titled "Non-GAAP Measures".

Summary of Fourth Quarter Business Segment Results

Below is a summary of Cervus' segment results for the three months ended December 31, 2019 and 2018.

Three months ended December 31, 2019 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Equipment revenue	**179,051**	129,865	44,766	4,420	-
Product support revenue	**80,498**	40,474	33,157	6,867	-
Gross profit	**36,901**	19,874	13,307	3,720	-
Total other income (loss)	**583**	(513)	1,030	106	(40)
Selling, general and administrative expense	**(43,261)**	(23,511)	(13,134)	(4,419)	(2,197)
Net finance costs	**(3,036)**	(1,654)	(1,081)	(35)	(266)
(Loss) income before income tax expense	**(8,807)**	(5,798)	122	(628)	(2,503)
Adjusted (loss) income before income tax expense[(1)]	**(9,638)**	(5,798)	(704)	(633)	(2,503)

Three months ended December 31, 2018 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Equipment revenue	**224,072**	169,548	48,086	6,438	-
Product support revenue	**76,175**	35,670	33,452	7,053	-
Gross profit	**51,999**	34,094	13,830	4,075	-
Total other income (loss)	**418**	630	(229)	17	-
Selling, general and administrative expense	**(43,534)**	(24,154)	(12,431)	(4,001)	(2,948)
Net finance costs	**(1,241)**	(360)	(497)	(5)	(379)
Income (loss) before income tax expense	**7,642**	10,210	673	86	(3,327)
Adjusted income (loss) before income tax expense[(1)]	**8,133**	9,445	1,613	402	(3,327)

(1) Described in the section titled "Non-GAAP Measures".

Agriculture Segment Results

($ thousands)	Three month periods ended December 31 2019	% Change Compared to 2018	2018	Years ended December 31 2019	% Change Compared to 2018	2018
Equipment						
New equipment	**64,660**	(33%)	95,835	**330,932**	(33%)	490,524
Used equipment	**65,205**	(12%)	73,713	**265,223**	(10%)	293,264
Total equipment revenue	**129,865**	(23%)	169,548	**596,155**	(24%)	783,788
Product support revenue	**40,474**	13%	35,670	**159,287**	11%	143,097
Total revenue	**170,339**	(17%)	205,218	**755,442**	(18%)	926,885
Cost of sales before inventory impairment	**(140,305)**	(17%)	(168,151)	**(637,138)**	(19%)	(784,182)
Inventory impairment	**(10,160)**	242%	(2,973)	**(23,564)**	115%	(10,949)
Gross profit	**19,874**	(42%)	34,094	**94,740**	(28%)	131,754
Total other (loss) income	**(513)**	(181%)	630	**524**	(64%)	1,463
Equipment commissions	**(2,301)**	4%	(2,214)	**(9,217)**	(14%)	(10,750)
SG&A expenses, excluding equipment commissions	**(21,210)**	(3%)	(21,940)	**(86,458)**	0%	(86,347)
(Loss) income from operating activities	**(4,150)**	(139%)	10,570	**(411)**	(101%)	36,120
Net finance costs	**(1,654)**	359%	(360)	**(7,183)**	251%	(2,045)
Share of profit of equity accounted investees, net of tax	**6**	100%	-	**6**	(95%)	124
(Loss) income before income tax expense	**(5,798)**	(157%)	10,210	**(7,588)**	(122%)	34,199
EBITDA[1]	**(511)**	(104%)	12,899	**13,943**	(68%)	44,212
Ratios						
Gross profit margin as a % of revenue	**11.7%**		16.6%	**12.5%**		14.2%
Total SG&A as a % of gross profit	**118.3%**		70.8%	**101.0%**		73.7%
Reconciliation of adjusted (loss) income before income tax expense:						
(Loss) income before income tax expense	**(5,798)**	(157%)	10,210	**(7,588)**	(122%)	34,199
Adjustments:						
Insurance proceeds received in excess of building cost	**-**	(100%)	(765)	**-**	(100%)	(765)
Adjusted (loss) income before income tax expense[1]	**(5,798)**	(161%)	9,445	**(7,588)**	(123%)	33,434

(1) Described in the section titled "Non-GAAP Measures".

Revenue and Gross Profit

The headwinds facing producers reduced overall demand for equipment, resulting in a 23% decrease in equipment revenue in the quarter and 24% for the year. In response, we prioritized reducing used equipment inventory levels in line with market demand, which provided some support for used equipment demand, while the market impact on new equipment revenue was more significant.

Product support revenue increased 13% in the quarter and 11% for the year as demand for parts and service continued through the challenging harvest window. Product support revenue was also positively impacted in the first and second quarters of 2019 following a difficult 2018 harvest.

The 42% decrease in gross profit in the quarter and 28% for the year, was due to a decrease in equipment revenue, margin compression, used equipment inventory impairments and reduced OEM incentives on new equipment sales, as we prioritized reducing existing used equipment inventory levels. These factors also resulted in a decrease in gross profit as a percentage of revenue in the quarter and for the year. The decrease in equipment gross profit and gross profit as a percentage of revenue was partly offset by increased product support revenue.

SG&A and Net Finance Costs

SG&A expenses excluding equipment commissions decreased 3% in the quarter and were flat for the year. This trend is consistent with our overall results and was primarily due to a decrease in annual performance incentives and marketing expenditures, partly offset by the inclusion of the Red Deer dealership acquired in the fourth quarter of 2018 and restructuring charges of $1.0 million incurred in the third quarter of 2019.

The increase in net finance costs of $1.3 million in the quarter and $5 million for the year was primarily due to the adoption of IFRS 16, which increased net finance costs by $1.2 million in the quarter and $5 million for the year.

Managing floorplan to utilize certain interest-free periods provided by manufacturers reduced interest otherwise payable on John Deere floor plans from $0.9 million to $0.2 million in the quarter, and from $4.0 million to $0.6 million for the year.

Income

Income before income tax decreased $16 million in the quarter and $42 million for the year, primarily the result of the decrease in gross profit of $14 million in the quarter and $37 million for the year, as discussed above. The adoption of IFRS 16 also decreased income before income tax by $0.6 million in the quarter and $2.3 million for the year.

Transportation Segment Results

($ thousands)	Three month periods ended December 31 2019	% Change Compared to 2018	2018	Years ended December 31 2019	% Change Compared to 2018	2018
Equipment						
New equipment	**41,988**	(6%)	44,564	**184,239**	(15%)	215,674
Used equipment	**2,778**	(21%)	3,522	**9,718**	(25%)	12,895
Total equipment revenue	**44,766**	(7%)	48,086	**193,957**	(15%)	228,569
Product support revenue	**33,157**	(1%)	33,452	**136,296**	2%	133,587
Total revenue	**77,923**	(4%)	81,538	**330,253**	(9%)	362,156
Gross profit	**13,307**	(4%)	13,830	**57,405**	(3%)	59,310
Total other income (loss)	**1,030**	550%	(229)	**2,516**	762%	292
Equipment commissions	**(494)**	13%	(436)	**(1,945)**	(6%)	(2,065)
SG&A expenses, excluding equipment commissions	**(12,640)**	5%	(11,995)	**(49,370)**	3%	(47,971)
Income from operating activities	**1,203**	3%	1,170	**8,606**	(10%)	9,566
Net finance costs	**(1,081)**	118%	(497)	**(3,455)**	41%	(2,444)
Income before income tax expense	**122**	(82%)	673	**5,151**	(28%)	7,122
EBITDA[1]	**3,038**	10%	2,762	**15,801**	(3%)	16,338
Ratios						
Gross profit margin as a % of revenue	**17.1%**		17.0%	**17.4%**		16.4%
Total SG&A as a % of gross profit	**98.7%**		89.9%	**89.4%**		84.4%
Reconciliation of adjusted (loss) income before income tax expense:						
Income before income tax expense	**122**	(82%)	673	**5,151**	(28%)	7,122
Adjustments:						
Unrealized foreign exchange (gain) loss included in other income	**(826)**	188%	940	**(1,821)**	270%	1,070
Adjusted (loss) income before income tax expense[1]	**(704)**	(144%)	1,613	**3,330**	(59%)	8,192

(1) Described in the section titled "Non-GAAP Measures".

Revenue and Gross Profit

Transportation segment equipment revenue decreased 7% in the quarter and 15% for the year. This reflected factory delays experienced in the first half the year, combined with softening customer demand and increased competition in the second half of the year, as dealers were under increasing pressure to sell trucks ordered from OEMs in early 2019.

Product support revenue improved in the year, with a deliberate increase in our parts sales team facilitating a 5% increase in parts revenue, combined with a 2% increase in service revenue. Parts and service revenue also increased in the quarter, but this was more than offset by an ongoing intentional reduction of our rental fleet, resulting in an overall 1% decrease in product support revenue.

Gross profit decreased $0.5 million in the quarter and $1.9 million for the year, primarily due to lower equipment revenues and the rental fleet reduction discussed above. The increase in gross profit margin as a percent of

revenue, for the quarter and the year, reflected the shift in sales mix towards higher margin product support revenues.

SG&A and Net Finance Costs

SG&A expenses excluding equipment commissions, increased 5% in the quarter and 3% for the year, primarily due to the investment in growing our parts sales team and increased personnel costs in the Ontario market, partly offset by a decrease in annual performance incentives compared to 2018.

The increase in net finance costs of $0.6 million in the quarter and $1.0 million for the year was due to the adoption of IFRS 16 which increased net finance costs by $0.3 million in the quarter and $1.2 million for the year.

At December 31, 2019, approximately 1% (December 31, 2018 – 3%) of the Transportation segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest-free periods in place.

Income

Adjusted income before income tax decreased $2.3 million in the quarter and $4.9 million for the year. This includes the adoption of IFRS 16, which decreased income before income tax by $0.2 million in the quarter and $1.2 million for the year.

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

Industrial Segment Results

($ thousands)	Three month periods ended December 31			Years ended December 31		
	2019	% Change Compared to 2018	2018	2019	% Change Compared to 2018	2018
Equipment						
New equipment	**3,738**	(32%)	5,493	**19,254**	(24%)	25,485
Used equipment	**682**	(28%)	945	**4,027**	1%	3,993
Total equipment revenue	**4,420**	(31%)	6,438	**23,281**	(21%)	29,478
Product support revenue	**6,867**	(3%)	7,053	**30,058**	(5%)	31,517
Total revenue	**11,287**	(16%)	13,491	**53,339**	(13%)	60,995
Gross profit	**3,720**	(9%)	4,075	**17,206**	(4%)	18,014
Total other income	**106**	524%	17	**704**	(30%)	1,003
Equipment commissions	**(167)**	(17%)	(200)	**(813)**	12%	(726)
SG&A expenses, excluding equipment commissions	**(4,252)**	12%	(3,801)	**(15,538)**	(3%)	(16,040)
(Loss) income from operating activities	**(593)**	(752%)	91	**1,559**	(31%)	2,251
Net finance costs	**(35)**	600%	(5)	**(232)**		2
(Loss) income before income tax expense	**(628)**	(830%)	86	**1,327**	(41%)	2,253
EBITDA[1]	**322**	(40%)	533	**5,103**	22%	4,172
Ratios						
Gross profit margin as a % of revenue	**33.0%**		30.2%	**32.3%**		29.5%
Total SG&A as a % of gross profit	**118.8%**		98.2%	**95.0%**		93.1%
Reconciliation of adjusted (loss) income before income tax expense:						
(Loss) income before income tax expense	**(628)**	(830%)	86	**1,327**	(41%)	2,253
Adjustments:						
Unrealized foreign exchange (gain) loss included in other income	**(5)**	102%	316	**(26)**	120%	129
Gain on sale of Commercial operations	**-**	100%	-	**-**	(100%)	(480)
Adjusted (loss) income before income tax expense[1]	**(633)**	(257%)	402	**1,301**	(32%)	1,902

(1) Described in the section titled "Non-GAAP Measures".

Overview

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

Industrial Segment Same Store Highlights

($ thousands)	Three month periods ended December 31			Year ended December 31		
	2019	**% Change Compared to 2018**	**2018[2]**	**2019**	**% Change Compared to 2018**	**2018 Same Store**
Revenue						
New equipment	**3,738**	(32%)	5,493	**19,254**	(3%)	19,934
Used equipment	**682**	(28%)	945	**4,027**	42%	2,841
Total equipment revenue	**4,420**	(31%)	6,438	**23,281**	2%	22,775
Product support revenue	**6,867**	(3%)	7,053	**30,058**	8%	27,908
Total revenue	**11,287**	(16%)	13,491	**53,339**	5%	50,683
Gross profit	**3,720**	(9%)	4,075	**17,206**	7%	16,126
Total other income	**106**	524%	17	**704**	79%	393
Equipment commissions	**(167)**	(17%)	(200)	**(813)**	12%	(726)
SG&A expenses, excluding equipment commissions	**(4,252)**	12%	(3,801)	**(15,538)**	11%	(13,936)
(Loss) income from operating activities	**(593)**	(752%)	91	**1,559**	(16%)	1,857
Net finance costs	**(35)**	600%	(5)	**(232)**	1067%	24
(Loss) income before income tax expense	**(628)**	(830%)	86	**1,327**	(29%)	1,881
EBITDA[1]	**322**	(40%)	533	**5,103**	50%	3,395
Ratios						
Gross profit margin as a % of revenue	**33.0%**		30.2%	**32.3%**		31.8%
Total SG&A as a % of gross profit	**118.8%**		98.2%	**95.0%**		90.9%
Reconciliation of adjusted (loss) income before income tax expense:						
(Loss) income before income tax expense	**(628)**	(830%)	86	**1,327**	(29%)	1,881
Adjustments:						
Unrealized foreign exchange (gain) loss included in other income	**(5)**	102%	316	**(26)**	127%	97
Adjusted (loss) income before income tax expense[1]	**(633)**	(257%)	402	**1,301**	(34%)	1,978

(1) Described in the section titled "Non-GAAP Measures".

(2) For the three months ended December 31, 2018, the same store results are the same as the Industrial segment results.

Revenue and Gross Profit

Equipment revenue decreased 31% in the quarter and increased 2% for the year as uncertainty in the oil and gas sector continued to limit equipment demand. The decrease in equipment revenue in the fourth quarter was primarily due to the unusual timing of sales experienced in the fourth quarter of 2018, which represented a 43% increase over the fourth quarter of 2017.

Product support revenue decreased 3% in the quarter, resulting from lower parts and rental activity, but increased 8% for the year, primarily driven by the increase in rental and other revenue of 25%, which includes our storage and racking solutions business line.

Gross profit decreased 9% in the quarter and increased 7% for the year, as a result of the factors discussed above. The increase in gross profit margin as a percent of revenue, for the quarter and the year, reflects the shift in sales mix towards higher margin product support revenues.

SG&A and Net Finance Costs

SG&A expenses excluding equipment commissions, increased 12% in the quarter and 11% for the year. These increases were primarily driven by administrative expenses incurred to establish the storage and racking solutions business line and the retention of key senior personnel previously shared between the Construction and Industrial dealerships in 2018, partially offset by a decrease in annual performance incentives compared to 2018.

The increase in net finance costs of $0.1 million in the quarter and $0.3 million for the year was primarily due to the adoption of IFRS 16 which increased net finance costs by $0.1 million in the quarter and $0.3 million for the year.

At December 31, 2019, approximately 44% (December 31, 2018 – 27%) of the Industrial segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest-free periods in place.

Income

Adjusted income before income tax decreased $1.0 million in the quarter and $0.7 million for the year, including the impact of IFRS 16.

Cash Flow

Cervus' primary sources and uses of cash flow for the years ended December 31, 2019 and 2018 are as follows:

Year ended December 31 ($ thousands)	2019	2018	Increase (Decrease) in Cash
Net (loss) income	(8,618)	24,777	(33,395)
Effect of non-cash items in net earnings & changes in working capital	35,689	(12,088)	47,777
Cash provided from operating activities	27,071	12,689	14,382
Cash (used in) investing activities	(11,675)	(4,117)	(7,558)
Cash (used in) financing activities	(13,877)	(17,753)	3,876
Net increase (decrease) in cash	**1,519**	**(9,181)**	**10,700**
Effect of foreign exchange on cash	321	785	(464)
Cash, beginning of year	6,106	14,502	(8,396)
Cash, end of year	**7,946**	**6,106**	**1,840**

Operating Activities
The principal factors in the $14 million increase in operating cash flow year over year were:

- A $33 million decrease in cash from income associated with decreased profitability compared to the prior year.
- A $23 million increase in cash from accounts receivable, as the prior year included an increase to accounts receivable of $19 million which was subsequently collected.
- A $23 million increase in cash from changes in inventory and floorplan payables. Refer to the section "Adjusted Free Cash Flow" for additional discussion of the impact of floorplan facilities on non-cash working capital. For the year ended December 31, 2019, a $20 million increase in cash used for inventory was offset by a $27 million increase in floor plan facilities, compared to a $40 million increase in cash used for inventory partly offset by a $24 million increase in floor plan facilities in 2018. This provided net cash of $7 million in 2019, compared to a net use of cash of $16 million in 2018, resulting in a $23 million increase in cash from changes in inventory and floor plan financing.

Investing Activities
The $8 million decrease in cash from investing activities year over year was primarily attributable to the non-recurrence of $14 million of proceeds received in the first quarter of 2018 on the sale of the Company's Commercial operations and a $2.8 million increase in cash used to purchase property and equipment, partially offset by $2.0 million of insurance proceeds received in 2018 related to the Agriculture Rosthern property.

Financing Activities
The $3.9 million decrease in cash used in financing activities year over year was primarily attributable to a $9 million decrease in cash used for repayments of term debt, partly offset by a $4.0 million increase in cash used for payment of lease obligations related to IFRS 16, and a $1.3 million increase in cash used to purchase common shares.

Adjusted Free Cash Flow

The Company has defined adjusted free cash flow as cash flow from operating activities before changes in non-cash working capital, less sustaining capital expenditures, excluding acquisition or disposals of dealerships and real estate (refer to "Non-GAAP Measures").

Reconciliation of Adjusted Free Cash Flow **Years ended December 31** **($ thousands)**	**2019**	**2018**	**Increase (Decrease) in Cash**
Cash flow provided by (used in) operating activities	27,071	12,689	14,382
(-) Changes in non-cash working capital	1,815	36,432	(34,617)
(-) Purchase of property and equipment	(15,671)	(12,854)	(2,817)
(+) Purchase of dealerships & real estate	5,475	874	4,601
(+) Proceeds on disposal of property and equipment	2,616	4,911	(2,295)
(-) Proceeds on disposal of dealerships & real estate	-	(3,857)	3,857
Adjusted Free Cash Flow[1]	**21,306**	**38,195**	**(16,889)**

(1) - Described in the section titled "Non-GAAP Measures".

Adjusted free cash flow is a measure used by management in forecasting and determining available resources for future capital expenditure, repayment of debt, funding future growth and dividends to shareholders.

We exclude changes in non-cash working capital in the calculation of adjusted free cash flow, as this amount can vary significantly based on seasonal sales trends, strategic decisions regarding inventory levels and inventory financing decisions. As well, the Company seeks to optimize the financing of inventory between OEM floor plans facilities and the Syndicated credit facility. However, floor plan facilities are included in non-cash working capital, while the Syndicated credit facility is included in financing activities due to the committed term of the facility. In periods where a portion of inventory is financed through OEM floor plan facilities, operating cash flow increases, while cash provided from financing activities decreases.

Accordingly, we review adjusted free cash flow to remove the significant impact that these factors can have on reported cash flow from operating activities.

Sustaining property and equipment expenditures are necessary to maintain the Company's operations, and we believe that these capital expenditures should be funded by cash flow provided by operating activities. Capital spending for the expansion of sales and service capacity is expected to improve future free cash and is not deducted from cash flow provided by operating activities before changes in non-cash working capital in arriving at adjusted free cash flow.

Product Support Revenue By Segment

The below table shows product support revenue by segment for the three and twelve months ended December 31, 2019 and 2018:

Summary of Annual Product Support Revenue

Year ended December 31, 2019 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**
Parts	**218,888**	106,829	100,594	11,465
Service	**87,878**	46,286	31,849	9,743
Rental and other	**18,875**	6,172	3,853	8,850
Total product support revenue	**325,641**	159,287	136,296	30,058

Year ended December 31, 2018 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**
Parts	**206,128**	95,925	96,118	14,085
Service	**82,860**	41,442	31,078	10,340
Rental and other	**19,213**	5,730	6,391	7,092
Total product support revenue	**308,201**	143,097	133,587	31,517

Summary of Fourth Quarter Product Support Revenue

Three months ended December 31, 2019 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**
Parts	**53,151**	26,038	24,543	2,570
Service	**22,235**	11,961	7,818	2,456
Rental and other	**5,112**	2,475	796	1,841
Total product support revenue	**80,498**	40,474	33,157	6,867

Three months ended December 31, 2018 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**
Parts	**49,837**	22,694	24,303	2,840
Service	**20,995**	10,979	7,677	2,339
Rental and other	**5,343**	1,997	1,472	1,874
Total product support revenue	**76,175**	35,670	33,452	7,053

Consolidated Financial Position & Liquidity

($ thousands, except ratio amounts)	December 31, 2019	December 31, 2018
Current assets	**402,507**	406,261
Total assets	**615,723**	538,228
Current liabilities	**264,156**	253,062
Long-term financial liabilities	**117,454**	32,624
Shareholders' equity	**227,138**	243,699
Working capital[(1)]	**138,351**	153,199
Working capital ratio[(1)]	**1.52**	1.61

(1) - Described in the section titled "Non-GAAP Measures".

Working Capital

Cervus' working capital decreased by $15 million to $138 million at December 31, 2019, when compared to $153 million at December 31, 2018. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at December 31, 2019, the Company had the ability to floor plan an additional $17 million of inventory and held $449 million of undrawn floor plan capacity.

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

Liquidity Risk

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

The Company expects that continued cash flows from operations in 2020, together with currently available cash on hand and credit facilities, will be sufficient to fund its requirements for investments in working capital, capital assets and dividend payments through the next 12 months. The Company's contractual obligations and availability of borrowing facilities at December 31, 2019 are described further in the sections below.

The Company has guaranteed the net residual value of certain leases between customers and John Deere Financial ("JDF") as set out in Note 24 to the Audited Consolidated Financial Statements for the year ended December 31, 2019. The Company regularly assesses the residual value of the JDF lease portfolio relative to wholesale values for comparable equipment. On the maturity of customers' leases, the equipment can be returned to the Company and if so, it is sold as used equipment. Upon the return of equipment, JDF will provide the Company floor planning based on John Deere's pricing guide. Of the lease portfolio at December 31, 2019, leases with a residual value of $42 million are scheduled to mature in 2020.

Contractual Obligations

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

($ thousands)	Total Carrying Value	Contractual principle repayments	12 months or less	1 - 2 years	2 - 5 years	5+ Years
Term debt payable	43,165	43,446	9,795	3,397	30,254	-
Finance lease obligation	92,883	148,134	15,471	13,945	36,345	82,373
Total	136,048	191,580	25,266	17,342	66,599	82,373

Inventories

The nature of the business has a significant impact on the amount of equipment that is owned by our various dealerships. The majority of our Agriculture equipment sales come with a trade-in and a limited portion of our Transportation sales come with a trade-in. Our Industrial equipment sales usually do not have trade-ins. This results in a higher amount of used Agriculture equipment than used Transportation and Industrial equipment. In addition, the majority of our new John Deere equipment is on consignment from John Deere, whereas in the other two segments, we purchase the new equipment from manufacturers. The majority of our product lines, in all segments, are manufactured in the US with pricing based in US dollars but invoiced in Canadian dollars.

At December 31, 2019, the Company believes that the recoverable value of new and used equipment inventories exceeds its respective carrying value. For the three-month period and year ended December 31, 2019, the Company recognized inventory valuation adjustments through cost of goods sold expense of $10 million and $24 million (December 31, 2018 - $2.9 million and $12 million expense).

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

($ thousands)	December 31, 2019	December 31, 2018	Increase/ (Decrease)
Agriculture			
New	**72,991**	69,941	3,050
Used	**113,691**	155,597	(41,906)
Other	**30,614**	29,719	895
Total inventory	**217,296**	255,257	(37,961)
Transportation			
New	**70,785**	37,725	33,060
Used	**3,964**	4,730	(766)
Other	**20,135**	21,004	(869)
Total inventory	**94,884**	63,459	31,425
Industrial			
New	**5,249**	7,000	(1,751)
Used	**1,100**	1,375	(275)
Other	**1,090**	1,095	(5)
Total inventory	**7,439**	9,470	(2,031)
Total inventory	**319,619**	328,186	(8,567)

Accounts Receivable

For the year ended December 31, 2019 the average time to collect the Company's outstanding accounts receivable was approximately 15 days (2018 - 13 days). At December 31, 2019 no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company closely monitors the amount and age of balances outstanding on an ongoing basis and establishes provisions for bad debts based on account aging, combined with specific customers' credit risk, historical trends, and other economic information.

The Company's allowance for doubtful collections was $1.2 million at December 31, 2019 (2018 - $1.1 million), which represents 3.8% (2018 – 2.9%) of outstanding trade accounts receivable and 0.1% (2018 - 0.1%) of gross revenue on an annual basis. Bad debt expense for the year ended December 31, 2019 amounted to a $0.4 million recovery (2018 - $0.2 million recovery)

Capital Resources

We use our capital to finance current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize shareholder value is to use a combination of equity and debt financing to leverage our operations. A summary of the Company's available credit facilities as at December 31, 2019 are as follows:

	December 31, 2019				December 31, 2018			
($ thousands)	Total Limits	Borrowings	Letters of Credit	Amount Available	Total Limits	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	**122,735**	**25,788**	**9,600**	**87,347**	122,867	21,071	2,400	99,396
Capital facilities	**(a)**	**9,367**				9,942		
Floor plan facilities and rental equipment term loan financing	**(b)**	**190,670**				166,219		
Total borrowing		**225,825**				197,232		

(a) For capital facilities, the amount available under the facilities is limited to the pre-approved credit limit of $9.4 million (December 31, 2018 - $10 million). The Company has unencumbered assets available for financing which are estimated at $7 million as at December 31, 2019 (December 31, 2018 - $2.4 million).

(b) For floorplan facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of $449 million (December 31, 2018 - $418 million) or the available unencumbered assets which are estimated at $17 million as at December 31, 2019 (December 31, 2018 - $34 million).

Operating and Other Bank Credit Facilities

At December 31, 2019, the Company has a revolving credit facility with a syndicate of underwriters. The principal amount available under this facility is $120 million. The facility was amended and extended on December 18, 2018. The facility is committed for a four-year term but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an $80 million accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2019, there was $25 million drawn on the facility and $10 million had been utilized for outstanding letters of credit to John Deere.

We believe that the credit facilities available to the Company are sufficient to meet our revenue targets and working capital requirements for 2020.

During the third quarter of 2019, the definition of Cervus' fixed charge coverage ratio under the Syndicated credit facility was amended to exclude certain restructuring costs in the determination of adjusted EBITDA and to

exclude share purchases under the Normal Course Issuer Bid ("NCIB") from shareholder distributions for the period in which purchases under the NCIB are suspended.

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

	December 31, 2019	December 31, 2018
Total liabilities to net worth ratio[1] (not exceeding 4.0:1.0)	**2.64**	2.39
Fixed charge coverage ratio[2] (greater than or equal to 1.10:1.00)	**1.57**	2.38
Asset coverage ratio[3] (greater than 3.0:1.0)	**6.24**	11.82

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

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

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

Capital Facilities

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

Floor Plan Facilities

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Canada ULC, Wells Fargo Equipment Finance Company, ECN Capital Corp., PACCAR Financial Ltd., US Bank, and Canadian Imperial Bank of Commerce. At December 31, 2019, floor plan payables related to inventories were $182 million.

Floor plan payables at December 31, 2019 represented approximately 57% of our inventories (December 31, 2018 – 48%). Floor plan payables fluctuate significantly from quarter to quarter based on the timing between the receipt of equipment inventories and their actual repayment so that the Company may take advantage of any programs made available by its key suppliers.

Interest on floor plans at the contractual rate were largely offset by dealer rebates and interest-free periods. Total Agriculture segment interest otherwise payable on John Deere floor plans approximates $4.0 million for year ended December 31, 2019 (December 31, 2018 – $3.1 million). This amount was offset by rebates applied during the year ended December 31, 2019, of $3.4 million (December 31, 2018 - $2.6 million). At December 31, 2019, approximately 44% (December 31, 2018 – 27%) of the Industrial segment's and 1% (December 31, 2018 – 3%) of the Transportation segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest-free periods in place.

Outstanding Share Data

As of the date of this MD&A, there are 16 million common shares and 0.6 million deferred share units outstanding.

As at December 31, 2019 and 2018, the Company had the following weighted average shares outstanding:

(thousands)	December 31 2019	December 31, 2018
Basic weighted average number of shares outstanding	**15,413**	15,656
Dilutive impact of deferred share plan	**-**	801
Diluted weighted average number of shares outstanding	**15,413**	16,457

Normal Course Issuer Bid ("NCIB")

For the year ended December 31, 2019, the Company repurchased and cancelled 0.3 million common shares at a weighted average price of $12.71 per share under the September 2018 NCIB, and no shares had been repurchased under the September 2019 NCIB.

Dividends Paid and Declared to Shareholders

The Company, at the discretion of the Board of Directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid for the year ended December 31, 2019:

($ thousands, except per share amounts) Record Date	Dividend per Share	Dividend Payable	Dividends Reinvested	Net Dividend Paid
March 29, 2019	0.1100	1,709	230	1,479
June 28, 2019	0.1100	1,685	209	1,476
September 30, 2019	0.1100	1,686	109	1,577
December 31, 2019	0.1100	1,689	236	1,453
Total	**0.4400**	**6,769**	**784**	**5,985**

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

Dividend Reinvestment Plan ("DRIP")

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

During the year ended December 31, 2019, 0.1 million (December 31, 2018 – 0.1 million) common shares were issued through the Company's dividend reinvestment plan.

Taxation

Cervus' 2019 dividends declared and paid through December 31, 2019, are considered to be eligible dividends for tax purposes on the date paid.

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

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

Summary of Annual Results

($ thousands, except per share amounts)	**2019**	**2018**	**2017**
Total revenues	**1,139,034**	1,350,036	1,221,285
(Loss) income for the year	**(8,618)**	24,777	19,912
Net (loss) income per share - basic	**(0.56)**	1.58	1.27
Net (loss) income per share - diluted	**(0.56)**	1.51	1.20
Cash provided by operating activities	**49,105**	31,655	33,593
EBITDA [1]	**27,942**	56,728	53,840
Total assets	**615,723**	538,228	514,055
Total long-term liabilities	**124,429**	41,467	52,540
Total liabilities	**388,585**	294,529	288,802
Shareholders' equity	**227,138**	243,699	225,253
Dividends declared to shareholders	**6,769**	6,261	4,399
Dividends declared per share	**0.440**	0.400	0.280
Weighted average shares outstanding			
Basic	**15,413**	15,656	15,744
Diluted	**15,413**	16,457	17,759
Actual shares outstanding	**15,349**	15,559	15,675

(1) - Described in the section titled "Non-GAAP Measures".

The comparative figures for 2018 included an adjustment relating to the first quarter of 2018. The adjustment resulted in an increase to cost of sales of $2.4 million, due to a reduction in income tax expense of $0.6 million. The change in the comparative balance sheet was a decrease in inventory of $2.4 million, a decrease in income tax payable of $0.6 million and a decrease in retained earnings of $1.8 million.

Summary of Quarterly Results

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

($ thousands, except per share amounts)	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Revenues	**259,549**	317,082	327,605	234,798
(Loss) income	**(7,048)**	(1,675)	2,817	(2,712)
Gross profit	**36,901**	42,847	46,879	42,724
Gross profit margin	**14.2%**	13.5%	14.3%	18.2%
EBITDA[(1)]	**838**	8,228	11,981	6,895
(Loss) income per share:				
Basic	**(0.46)**	(0.11)	0.18	(0.17)
Diluted	**(0.46)**	(0.11)	0.17	(0.17)
Adjusted (loss) income per share[(1)]				
Basic	**(0.50)**	(0.10)	0.15	(0.20)
Diluted	**(0.50)**	(0.10)	0.14	(0.20)
Weighted average shares outstanding				
Basic	**15,344**	15,326	15,445	15,546
Diluted	**15,344**	15,326	16,394	15,546

($ thousands, except per share amounts)	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenues	300,247	392,499	408,584	248,706
Income (loss)	5,031	12,180	9,515	(1,949)
Gross profit	51,999	59,882	57,848	39,349
Gross profit margin	17.3%	15.3%	14.2%	15.8%
EBITDA[(1)]	13,367	21,284	19,383	2,694
Income (loss) per share:				
Basic	0.32	0.78	0.61	(0.12)
Diluted	0.31	0.74	0.58	(0.12)
Adjusted income (loss) per share[(1)]				
Basic	0.35	0.74	0.61	(0.12)
Diluted	0.33	0.71	0.58	(0.12)
Weighted average shares outstanding				
Basic	15,593	15,679	15,672	15,686
Diluted	16,393	16,498	16,483	15,686

(1) - Described in the section titled “Non-GAAP Measures”.

The comparative figures for 2018 included an adjustment relating to the first quarter of 2018. The adjustment resulted in an increase to cost of sales of $2.4 million, due to a reduction in income tax expense of $0.6 million. The change in the comparative balance sheet was a decrease in inventory of $2.4 million, a decrease in income tax payable of $0.6 million and a decrease in retained earnings of $1.8 million.

Off-Balance Sheet Arrangements

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

John Deere Credit Inc. ("Deere Credit") provides financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2019, payments in arrears by such customers aggregated $1.4 million (December 31, 2018 - $0.8 million). In addition, the Company is responsible for assuming the net residual value of all customer lease obligations held with Deere Credit, at the maturity of the contract, should the customer not elect to buy out the equipment at maturity. At December 31, 2019, the net residual value of such leases aggregated $316 million (December 31, 2018 - $321 million).

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the Company may owe Deere Credit under this obligation. The deposits are capped at between 1% and 3% of the total dollar amount of the lease and finance contracts outstanding. The maximum liability that can arise related to these arrangements is limited to the deposits of $2.3 million at December 31, 2019 (December 31, 2018 - $2.9 million). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

The Company has issued irrevocable standby Letters of Credit to Deere Credit and another supplier in the aggregate amount of $10 million (2018 - $2.4 million). The Letters of Credit were issued in accordance with the dealership arrangements with the suppliers that would allow the supplier to draw upon the letter of credit if the Company was in default of any of its obligations.

Transactions with Related Parties

Key Management Personnel Compensation

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

Total remuneration of key management personnel and directors during the years ended December 31, 2019 and 2018 was:

Year ended December 31 ($ thousands)	**2019**	**2018**
Short-term benefits	**2,515**	3,050
Share-based payments	**550**	1,184
Total	**3,065**	4,234

Other Related Party Transactions

During 2019, certain officers and dealer managers of the Company provided guarantees to John Deere as required by John Deere aggregating $7 million (December 31, 2018 - $7 million). During the year ended December 31, 2019, the Company paid those individuals $0.2 million (December 31, 2018 - $0.2 million), for providing these guarantees, which represents a similar amount to guarantee fees otherwise paid to financial institutions. In December 2019, these guarantees were replaced with a $7 million letter of credit dated December 4, 2019. These transactions were recorded at the amount agreed to between the Company and the guarantors and are included in selling, general and administrative expenses.

Business Risks and Uncertainties

Risk Management Framework

The Board of Directors ("Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board, together with the Audit Committee are responsible for monitoring and overseeing the Company's risk management policies. 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 Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

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

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

Market Risk

Market risk is the risk that changes in the marketplace such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return. The Company's primary approach to market risk is managing the quantity, type, and applicability of its inventory, to facilitate regular inventory turnover in line with market demand.

Commodity Price

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

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

Foreign Currency Exposure

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

Further, a portion of the Company's owned inventory is floor planned in U.S. dollars. As such, U.S. dollar-denominated floor plan payables are exposed to fluctuations in the U.S. dollar exchange rate until the unit is sold and the floorplan is repaid. At the time of sale, the Company determines a margin based on the replacement cost of the inventory at the time of sale, not the initial cost of the inventory at the time of purchase. In so doing, the Company's objective is to obtain a target margin on the sale of inventory, by calculating the sale margin based on the cost of repaying the U.S. dollar floorplan as at the sale date. If the Company was unable to recapture fluctuations in the U.S./CAD dollar in the sales price for equipment floor planned in U.S. dollars, a $0.01 change in the U.S. exchange rate would have increased (decreased) comprehensive income by $0.3 million (2018 - $0.1 million), based on the U.S. dollar floor plan balances at December 31, 2019. From time to time, the Company also enters into foreign exchange forward contracts to provide the Company Canadian dollar cost certainty for equipment ordered for customers from the manufacturer in U.S. dollars, having quoted customers a fixed Canadian dollar price at the time the order was placed.

In addition, the Company is exposed to foreign currency fluctuation related to translation adjustments upon consolidation of its Australian and New Zealand operations. These foreign subsidiaries report operating results in Australia and New Zealand dollars, respectively. Movements in these currencies relative to the Canadian dollar will impact the consolidated results of these operations. Based on the Company's results reported from its foreign subsidiaries, a strengthening or weakening of the Canadian dollar by 5% against the New Zealand dollar at December 31, 2019 would have increased (decreased) comprehensive income by $0.5 million (2018 - $0.4 million). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2019 would have increased (decreased) comprehensive income by $0.5 million (2018 -$0.4 million).

Interest Rate Risk

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

Based on the Company's outstanding long-term variable rate debt at December 31, 2019, a change in 100 basis points in interest rates would impact the Company's annual interest expense by approximately $2.3 million (2018 - $2.0 million).

Reliance on our Key Manufacturers and Dealership Arrangements

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

The dealership agreements with John Deere obligate the Company to assume leased equipment at residual value upon the maturity of customers' leases with John Deere. This equipment is then sold by Cervus as used equipment. In a market of declining equipment demand, residual values set at the beginning of a 5-year lease term may exceed market value of the equipment upon lease maturity. Cervus routinely reviews the residual values and maturity of customers' leases with John Deere and is satisfied with the residual values reflected in the leases and the Company's ability to profitably market the equipment as leases mature. At December 31, 2019, customer equipment leases with John Deere represented residual values of $316 million, maturing over the next five years.

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

The success of our dealerships depends on the timely supply of equipment and parts from our manufacturers to ensure the timely delivery of products and services to our customers. We also depend on our suppliers to provide competitive prices and quality products. Currently, all of our dealership contracts are in good standing with our supply partners. There can be no guarantee that:

(i) circumstances will not arise which give these equipment manufacturers the right to terminate their dealership agreements, or

(ii) one or more of the equipment manufacturers will decide not to renew their dealership agreements with us upon expiry.

Inventory Risk

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

Industry Competitive Factors

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

The Transportation equipment group primarily sells transport equipment through PACCAR, which manufacturers Peterbilt and Kenworth trucks. The major competitors to Peterbilt are Kenworth, International, Freightliner, Volvo, and Mack trucks. The segment is highly dependent on consumer and commercial transportation of goods, as well as service-based industries including oil and gas in western Canada, and manufacturing in eastern Canada. This diverse customer base mitigates a portion of the risks inherent in any one of these customer segments.

The Industrial segment sells industrial equipment from several manufacturers, with Clark, Sellick, and Doosan being the major suppliers. Their major competitors are Toyota, Hyster, Crown, and Caterpillar. Industrial equipment is primarily sold to building supply companies, warehousing, food processors, oilfield supply companies, and the grocery industry. This customer diversity mitigates, to some degree, the risks inherent in any one of these customer segments.

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

Seasonality and Cyclicality

The Canadian, New Zealand and Australian retailing of agricultural, transportation, and industrial equipment is influenced by seasonality. Sales activity for the Agricultural equipment segment is normally highest between April and September during growing seasons in Canada and July through December in New Zealand and Australia. Activity in the Transportation sector generally increases in winter months, while the Industrial sector generally slows in the winter months. As a result, income or losses may not accrue uniformly from quarter to quarter.

Human Resources

The ability to provide high-quality services to our customers depends on our ability to attract and retain well-trained, experienced employees. The Company relies on the skills and availability of trained and experienced technicians in order to provide efficient and appropriate services to customers. Hiring and retaining such individuals is critical to the success of our business. Demographic trends are reducing the number of individuals entering the trades, making access to skilled individuals more difficult. The Company has numerous rural locations which make attracting and retaining skilled individuals more difficult. We have established a number of human resource initiatives and compensation strategies to address this risk.

Legislative

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

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

Trade relations with China, primarily China's ongoing ban on canola exports has impacted the Company and its customers, with the ban on pork and beef exports being lifted in the fourth quarter of 2019. Political changes in the U.S. may have an impact on duties charged for goods sold to the U.S. At this point, the Company is an importer of goods from the U.S. and the overall impact of tariffs has not been significant, although it could become so depending on the legislative actions of national governments.

Environmental Risks

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

Acquisition and Integration Risks

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

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

Credit Risk

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

A significant decline in economic conditions within these industries would increase the risk that customers will experience financial difficulty and be unable to fulfill their obligations to the Company. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable, and deposits and guarantees with John Deere. The Company's revenues are normally invoiced with payment terms of due on invoice or net 30 days. The average time to collect the Company's outstanding accounts receivable was approximately 15 days for the year ended December 31, 2019 and 13 days for 2018. No single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on specific customers' credit risk, historical trends, and other economic information.

Capital Risk Management

The Company's objective when managing its capital is to safeguard its ability to continue as a going concern, so that it generates returns for shareholders, expands business relationships with stakeholders, and identifies risk and allocates its capital accordingly. In the management of capital, the Company considers its capital to comprise long-term debt, the current portion of long-term debt and all components of equity.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in 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 shareholders.

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

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

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

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

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

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

Debt Financing

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

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

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

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

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

Cyber Security and Terrorism

The Company may be threatened by problems such as cyber-attacks, computer viruses, or terrorism that may disrupt operations and harm operating results. The Company's business requires the continued operation, maintenance and upgrade of information technology systems and network infrastructure, which we rely upon to process, transmit and store electronic data. Despite the implementation of security measures, technology systems are vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism, and other causes; the Company cannot provide assurance that all cyber security problems can be prevented. If the Company's information technology systems were to fail and the Company was unable to recover in a timely way, the Company might be unable to fulfill critical business functions or be exposed to legal claims and liabilities, which could have a material adverse effect on its business, reputation, financial condition, and results of operations.

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

Critical Accounting Estimates and Judgments

Preparation of unaudited and audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the unaudited and audited consolidated financial statements. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Management reviews its estimates and judgments on an ongoing basis.

Determination of Fair Values

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

The value of acquired assets and liabilities on the acquisition date require the use of estimates to determine the purchase price allocation. Estimates are made as to the valuations of property, plant, and equipment, intangible assets, and goodwill, among other items. These estimates have been discussed further below.

Property, Plant and Equipment

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

Intangible Assets

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

Inventories
The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and costs related to sale of 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.

Taxation Matters

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

Lease Arrangements

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

Net Realizable Value of Inventories

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

Asset Impairment

We assess the carrying value of long-lived assets, which include property, plant, and equipment and intangible assets, for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

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

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the Cash Generating Unit (“CGU”) to its estimated recoverable amount to ensure that the recoverable amount

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

Changes in Significant Accounting Policies

IFRS 16 Leases
The Company adopted IFRS 16 Leases effective January 1, 2019. IFRS 16 replaces existing lease guidance, including IAS 17 Lease, IFRIC Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company has adopted IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying this standard recognized in retained earnings on the date of initial application (i.e., January 1, 2019). Accordingly, the comparative 2018 information has not been restated, and continues to be reported under IAS 17 and IFRIC 4. Refer to Note 4 and Note 13 of the Audited Financial Statements for the year ended December 31, 2019 for a detailed discussion of the new lease standard.

The adoption of IFRS 16 resulted in an increase in depreciation and interest expense, and a reduction in rent expense. The adoption of IFRS 16 does not alter the cash payments made under rents compared to immediately prior to transition. To aid in comparability to prior periods, the current period impact of adopting IFRS 16 on components of the Statement of Comprehensive (Loss) Income is disclosed below and throughout this Management's Discussion and Analysis as follows:

Consolidated

$ thousands Increase (decrease) in:	**Three month period ended December 31, 2019**	**Year ended December 31, 2019**
Gross profit	**(118)**	**(408)**
Rent expense	(3,221)	(12,860)
Depreciation expense	2,334	9,448
Selling, general and administrative expense	**(887)**	**(3,412)**
Net finance costs	1,620	6,587
Loss before income tax expense	**851**	**3,583**
Income tax expense	-	664
Loss for the period	**851**	**4,247**

Agriculture

($ thousands) Increase (decrease) in:	Three month period ended December 31, 2019	Year ended December 31, 2019
Gross profit	**(70)**	**-**
Rent expense	(2,037)	(8,207)
Depreciation expense	1,325	5,443
Selling, general and administrative expense	**(712)**	**(2,764)**
Net finance costs	1,235	5,026
Loss before income tax expense	**593**	**2,262**

Transportation

($ thousands) Increase (decrease) in:	Three month period ended December 31, 2019	Year ended December 31, 2019
Gross profit	**(48)**	**(408)**
Rent expense	(653)	(2,559)
Depreciation expense	524	2,072
Selling, general and administrative expense	**(129)**	**(487)**
Net finance costs	307	1,247
Loss before income tax expense	**226**	**1,168**

Industrial

($ thousands) Increase (decrease) in:	Three month period ended December 31, 2019	Year ended December 31, 2019
Rent expense	(410)	(1,611)
Depreciation expense	372	1,481
Selling, general and administrative expense	**(38)**	**(130)**
Net finance costs	68	265
Loss before income tax expense	**30**	**135**

Corporate

($ thousands) Increase (decrease) in:	Three month period ended December 31, 2019	Year ended December 31, 2019
Rent expense	(121)	(483)
Depreciation expense	113	452
Selling, general and administrative expense	**(8)**	**(31)**
Net finance costs	10	49
Loss before income tax expense	**2**	**18**

Responsibility of Management and Board

Disclosure Controls

Management, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P"), as defined by National Instrument 52-109. Disclosure controls and other procedures are designed to provide reasonable assurance that information required to be disclosed in documents filed or submitted under securities legislation is: (i) recorded, processed, summarized and reported within the time periods specified in securities legislation; and (ii) accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

The CEO and the CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO concluded that the Company's disclosure controls and procedures were effective as at December 31, 2019.

Internal Controls over Financial Reporting

Management, under the supervision of the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"), as defined by National Instrument 52-109. Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and the CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and the CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting as at December 31, 2019, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), (2013). Based on that evaluation, the CEO and the CFO concluded that the Company's internal control over financial reporting was effective as at December 31, 2019.

There have been no changes in the design of the Company's internal control over financial reporting during 2019 that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Cautionary Note Regarding Forward-Looking Statements

Statements made by the Company in this report, in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the economies of the countries where the Company operates. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, closing of transactions, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to general economic conditions, the industries and customers served by the Company, its principal equipment partners, currency exchange rates, funding requirements, fluctuating interest rates, legislative and regulatory developments, changes in accounting standards, and competition as well as those factors discussed under the heading "Business Risks and Uncertainties" herein and in the Company's documents filed on SEDAR at www.sedar.com.

All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business, economic and market conditions and trends. Although the Company believes the assumptions used to make such statements are reasonable at this time and has attempted to identify in its continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material assumptions are applied by the Company in making forward-looking statements. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

The most recent quarterly dividend payment of $0.11 per share was made to the shareholders of record as of December 31, 2019, on January 15, 2020. See "Capital Resources - Cautionary Note Regarding Dividends" for a cautionary note regarding future dividends.

Material Assumptions and Risks for 2024 Targets

The following material assumptions and risks were made in establishing the Company's key performance indicator targets for the fiscal year 2024.

Return on Invested Capital

Material assumptions:

- Realization of the product support gross profit, absorption and inventory turnover targets discussed below.
- Prudent management of working capital.
- Effective management of the Company's capital allocation priorities.

Material risks:

- Lower than anticipated earnings growth; refer to the product support gross profit and absorption risks discussed below.
- Short-term effects from the Company's capital-allocation initiatives, including the potential impact of organic and inorganic growth initiatives designed to create long-term growth.

Product Support Gross Profit Growth

Material assumptions:

- All business segments will contribute positively to the consolidated product support gross profit growth.
- Product support revenue growth will be driven by an expansion of current product support offerings and the introduction of new revenue lines.
- Successful implementation of initiatives to improve the gross profit margin percentage of our product support departments.

Material risks:

- Adverse economic, foreign exchange, trade or regulatory conditions which negatively impact demand for our products and services.
- Pricing pressure from existing competitors, new entrants to the market and accelerated disruption from online competitors.
- Lower or lesser contributions than expected from initiatives to improve gross profit margin percentage of our product support departments.
- Our ability to attract and retain qualified employees to provide our product support offering.

Absorption Percentage

Material assumptions:

- Realization of the product support gross profit objective discussed above, while limiting the increase in our fixed expense base.
- Fixed expenses have been assumed to increase at an inflationary rate, while variable expenses are assumed to increase in line with revenues.

Material risks:

- Lower than anticipated product support gross profit growth; refer to the product support gross profit risks discussed above.
- Short-term effects of new product support initiatives designed to create long-term improvements in product support gross profit and absorption.
- Adverse regulatory or economic conditions that result in an unforeseen increase in operating costs.

Equipment Inventory Turnover

Material assumptions:

- There will not be a significant change in market demand for equipment across our business segments over the five-year period.
- Successful implementation of new processes and a new commissions structure will improve the management of used inventory that is taken on trade in our Canadian agriculture operations.

Material risks:

- Adverse economic, foreign exchange, trade or regulatory conditions which negatively impact demand for our equipment inventory.
- Equipment inventory ordering from OEMs can require significant lead time. In the period between ordering inventory from OEMs, and the delivery of that equipment, market demand can shift resulting in inventory levels that are not in line with market demand.

Additional GAAP Financial Measures

This MD&A contains certain financial measures considered additional GAAP measures, where the Company considers such information to be useful to the understanding of the Company's results. These measures are identified and defined below:

Gross Profit

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

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

Income (Loss) from Operating Activities

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

Non-GAAP Financial Measures

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

Working Capital

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

Adjusted Free Cash Flow

Adjusted free cash flow is a measure used by management to evaluate its performance. Adjusted free cash flow is considered relevant because it provides an indication of how much cash generated by operations before changes in non-cash working capital is available after deducting sustaining capital expenditures. Although we consider this measure to be adjusted free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, reinvestment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that adjusted free cash flow may not actually be available for growth or distribution of the Company. References to "Adjusted free cash flow" are to cash provided by (used in) operating activities (before changes in non-cash working capital balances) less sustaining capital expenditures. The reconciliation of adjusted free cash flow for the years ended December 31, 2019 and 2018 is presented in the Adjusted Free Cash Flow section of this MD&A.

Adjusted (Loss) Income

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

Adjusted (Loss) Income

	Three month periods ended December 31		Year ended December 31	
($ thousands, except per share amounts)	**2019**	**2018**	**2019**	**2018**
(Loss) income	**(7,048)**	5,031	**(8,618)**	24,777
Adjustments:				
Unrealized foreign exchange (gain) loss [(1)]	**(831)**	1,256	**(1,847)**	1,199
Gain on sale of Commercial operations	**-**	-	**-**	(480)
Insurance proceeds received in excess of building cost	**-**	(765)	**-**	(765)
Tax impact of adjustments	**222**	(132)	**493**	12
Adjusted (loss) income	**(7,657)**	5,390	**(9,972)**	24,743
Adjusted (loss) income per share:				
Basic	**(0.50)**	0.35	**(0.65)**	1.58
Diluted	**(0.50)**	0.33	**(0.65)**	1.50

Adjusted (Loss) Income Before Income Tax Expense

Three Months Ended December 31, 2019

Reconciliation of Adjusted (Loss) Before Income Tax Expense ($ thousands)					
Three months ended December 31, 2019	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
(Loss) income before income tax expense	**(8,807)**	(5,798)	122	(628)	(2,503)
Adjustments:					
Unrealized foreign exchange (gain)[(1)]	**(831)**	-	(826)	(5)	-
Adjusted (loss) before income tax expense	**(9,638)**	(5,798)	(704)	(633)	(2,503)

Year Ended December 31, 2019

Reconciliation of Adjusted (Loss) Income Before Income Tax Expense ($ thousands)					
Year ended December 31, 2019	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
(Loss) income before income tax expense	**(10,446)**	(7,588)	5,151	1,327	(9,336)
Adjustments:					
Unrealized foreign exchange (gain)[(1)]	**(1,847)**	-	(1,821)	(26)	-
Adjusted (loss) income before income tax expense	**(12,293)**	(7,588)	3,330	1,301	(9,336)

Three Months Ended December 31, 2018

Reconciliation of Adjusted Income (Loss) Before Income Tax Expense ($ thousands) Three months ended December 31, 2018	Total	Agriculture	Transportation	Industrial	Corporate
Income (loss) before income tax expense	**7,642**	10,210	673	86	(3,327)
Adjustments:					
Unrealized foreign exchange loss[1]	**1,256**	-	940	316	-
Insurance proceeds received in excess of building cost	**(765)**	(765)	-	-	-
Adjusted income (loss) before income tax expense	**8,133**	9,445	1,613	402	(3,327)

Year Ended December 31, 2018

Reconciliation of Adjusted Income (Loss) Before Income Tax Expense ($ thousands) Year ended December 31, 2018	Total	Agriculture	Transportation	Industrial	Corporate
Income (loss) before income tax expense	**34,102**	34,199	7,122	2,253	(9,472)
Adjustments:					
Unrealized foreign exchange loss[1]	**1,199**	-	1,070	129	-
Gain on sale of Commercial operations	**(480)**	-	-	(480)	-
Gain on sale of land and building	**(765)**	(765)	-	-	-
Adjusted income (loss) before income tax expense	**34,056**	33,434	8,192	1,902	(9,472)

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

EBITDA

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

Three Months Ended December 31, 2019

EBITDA ($ thousands) **Three months ended December 31, 2019**	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Net (loss) income	**(7,048)**	(5,798)	122	(628)	(744)
Add:					
Interest	**3,434**	1,767	1,226	62	379
Income taxes	**(1,759)**	-	-	-	(1,759)
Depreciation and Amortization	**6,211**	3,520	1,690	888	113
EBITDA[1]	**838**	(511)	3,038	322	(2,011)
EBITDA margin[2]	**0.3%**	-0.3%	3.9%		
Reconciliation of adjusted EBITDA[1]:					
EBITDA[1]	**838**	(511)	3,038	322	(2,011)
Adjustments:					
Unrealized foreign exchange (gain)	**(831)**	-	(826)	(5)	-
Adjusted EBITDA[1]	**7**	(511)	2,212	317	(2,011)

Year Ended December 31, 2019

EBITDA ($ thousands) **Year ended December 31, 2019**	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Net (loss) income	**(8,618)**	(7,588)	5,151	1,327	(7,508)
Add:					
Interest	**14,019**	7,695	4,009	336	1,979
Income taxes	**(1,828)**	-	-	-	(1,828)
Depreciation and Amortization	**24,369**	13,836	6,641	3,440	452
EBITDA[1]	**27,942**	13,943	15,801	5,103	(6,905)
EBITDA margin[2]	**2.5%**	1.8%	4.8%	9.6%	
Reconciliation of adjusted EBITDA[1]:					
EBITDA[1]	**27,942**	13,943	15,801	5,103	(6,905)
Adjustments:					
Unrealized foreign exchange (gain)	**(1,847)**	-	(1,821)	(26)	-
Adjusted EBITDA[1]	**26,095**	13,943	13,980	5,077	(6,905)

Three Months Ended December 31, 2018

EBITDA ($ thousands) **Three months ended December 31, 2018**	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Net income (loss)	**5,031**	10,210	673	86	(5,938)
Add:					
Interest	**1,955**	757	671	28	499
Income taxes	**2,612**	-	-	-	2,612
Depreciation and Amortization	**3,769**	1,932	1,418	419	-
EBITDA[1]	**13,367**	12,899	2,762	533	(2,827)
EBITDA margin[2]	**4.5%**	6.3%	3.4%	4.0%	
Reconciliation of adjusted EBITDA[1]:					
EBITDA[1]	**13,367**	12,899	2,762	533	(2,827)
Adjustments:					
Unrealized foreign exchange loss	**1,256**	-	940	316	-
Insurance proceeds received in excess of building cost	**(765)**	(765)			
Adjusted EBITDA[1]	**13,858**	12,134	3,702	849	(2,827)

Year Ended December 31, 2018

EBITDA ($ thousands) **Year ended December 31, 2018**	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Net income (loss)	**24,777**	34,199	7,122	2,253	(18,797)
Add:					
Interest	**7,515**	2,718	3,247	72	1,478
Income taxes	**9,325**	-	-	-	9,325
Depreciation and Amortization	**15,111**	7,295	5,969	1,847	-
EBITDA[1]	**56,728**	44,212	16,338	4,172	(7,994)
EBITDA margin[2]	**4.2%**	4.8%	4.5%	6.8%	
Reconciliation of adjusted EBITDA[1]:					
EBITDA[1]	**56,728**	44,212	16,338	4,172	(7,994)
Adjustments:					
Unrealized foreign exchange loss	**1,199**	-	1,070	129	-
Insurance proceeds received in excess of building cost	**(765)**	(765)	-	-	
(Gain) on sale of Commercial operations	**(480)**	-	-	(480)	-
Adjusted EBITDA[1]	**56,682**	43,447	17,408	3,821	(7,994)

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

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

(2) - EBITDA Margin is calculated as EBITDA divided by gross revenue.

Return On Invested Capital

Return on invested capital ("ROIC'") is a measure we use to evaluate the effectiveness of capital deployed. We use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment will create shareholder value. We will also use this measure to assess past acquisitions, capital investments and the Company as a whole to determine if shareholder value is being achieved by these uses of capital.

ROIC is calculated as trailing twelve months earnings before income tax excluding unrealized (gains) losses from foreign currency, plus finance costs less floorplan interest expense, divided by 4 quarter average total invested capital. Total invested capital is calculated as average net debt plus book value of equity.

The reconciliation of ROIC for 2019 and 2018 is presented in the table below.

Reconciliation of Return On Invested Capital	**2019**				**2018**			
($ thousands, except as noted)	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**
Net (loss) income before tax	(8,807)	(2,308)	2,811	(2,145)	7,642	15,820	13,582	(2,941)
(+) Unrealized foreign exchange (gain) loss	(831)	207	(625)	(598)	1,256	(730)	38	635
(+) Finance costs	3,188	3,598	3,233	3,037	1,684	1,696	1,629	1,343
(-) Floorplan interest expense	(1,210)	(1,139)	(1,050)	(1,009)	(1,129)	(1,234)	(1,268)	(1,035)
Adjusted (Loss) Earnings Before Interest and Tax	**(7,660)**	**358**	**4,369**	**(715)**	**9,453**	**15,552**	**13,981**	**(1,998)**
Shareholders' equity	227,138	232,742	237,885	240,747	243,700	240,018	230,502	223,806
(+) Long-term debt	33,370	31,621	75,691	45,995	25,123	39,263	30,346	27,354
(+) Current portion of long-term debt	9,795	11,204	12,048	13,488	13,964	7,976	8,958	10,485
(-) Cash	(7,946)	(7,146)	(10,256)	(2,562)	(6,106)	(8,810)	(1,930)	(3,236)
Total Invested Capital	**262,357**	**268,421**	**315,368**	**297,668**	**276,681**	**278,447**	**267,876**	**258,409**
Adjusted (Loss) Earnings Before Interest and Tax - trailing 12 months	(3,648)	13,465	28,659	38,272	36,988	33,640	31,967	29,775
Total Invested Capital - 4 quarter average	285,954	289,535	292,041	280,168	270,353	264,694	263,322	262,544
Return On Invested Capital	**-1.3%**	**4.7%**	**9.8%**	**13.7%**	**13.7%**	**12.7%**	**12.1%**	**11.3%**

Product Support Gross Profit Growth and Absorption

Product Support Gross Profit Growth

Our customers value the ability of our dealerships to provide best in class equipment along with operational uptime through efficient product support, that enhances the profitability of their businesses. Customer relationships are built and maintained through the equipment's useful life, and our product support capabilities are a key factor in a customer's purchasing decision. Growth in this stable and profitable area of our business will serve to reduce cyclicality of income, while also enhancing customer affinity for Cervus and our OEM partners.

In assessing Product Support Gross Profit Growth, the Company includes the activities performed for the benefit of its other departments. This internal activity is excluded from reported product support revenues under GAAP, however, management assesses the overall product support activity when evaluating the use of the Company's resources.

Product Support Gross Profit Growth is calculated as the change from prior period product support revenue divided by product support cost of sales, adjusted to include internal product support activity benefiting wholegoods that is eliminated on consolidation, as internal work is performed on trade-in equipment to make it available for re-sale.

Absorption Percentage

Absorption is an operating measure commonly used in the dealership industry as an indicator of sustainable performance and profitability relative to cost structure. Absorption measures the extent product support gross profit of a dealership covers (or absorbs) the operating costs of the dealership, excluding equipment sales commissions, carrying costs of equipment inventory and corporate expenses. When 100% absorption is achieved, all the gross profit from the sale of equipment, after sales commissions and inventory carrying costs, directly impacts operating profit.

Absorption is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, absorption may not be comparable to similar measures presented by other issuers that operate in the dealership industry.

Absorption is calculated as product support gross profit, divided by total operating costs. Total operating costs is calculated as total SG&A expenses plus net finance costs, less equipment commissions expense, amortization of intangibles, and floorplan interest expense.

Reconciliation of Product Support Gross Profit Growth and Absorption

The reconciliation of consolidated and segmented Product Support Gross Profit Growth and Absorption for 2019 and 2018 are presented in the tables below.

Consolidated

Reconciliation of Product Support Gross Profit Dollars Growth % and Absorption - Consolidated	**2019**					**2018**				
($ thousands, except as noted)	**YTD**	**Q4**	**Q3**	**Q2**	**Q1**	**YTD**	**Q4**	**Q3**	**Q2**	**Q1**
Product support revenues - reported	**325,641**	80,498	88,445	83,141	73,557	**304,593**	76,175	82,249	79,759	66,410
(+) Product support revenues - internal activity	**33,898**	7,094	8,725	9,966	8,113	**37,806**	7,828	9,940	11,149	8,889
Product support revenues - total	**359,539**	87,592	97,170	93,107	81,670	**342,399**	84,003	92,189	90,908	75,299
Product support cost of sales - reported	**202,935**	50,692	55,068	51,963	45,212	**190,412**	47,892	51,154	49,830	41,536
(+) Product support cost of sales - internal activity	**16,151**	3,457	4,223	4,562	3,909	**17,974**	3,999	4,521	4,764	4,690
Product support cost of sales - total	**219,086**	54,149	59,291	56,525	49,121	**208,386**	51,891	55,675	54,594	46,226
Product Support Gross Profit	**140,453**	**33,443**	**37,879**	**36,582**	**32,549**	**134,013**	**32,112**	**36,514**	**36,314**	**29,073**
Product support gross profit dollars growth ($)	**6,440**	1,331	1,365	268	3,476	**6,966**	2,670	1,687	1,887	722
Product Support Gross Profit Growth (%)	**4.8%**	**4.1%**	**3.7%**	**0.7%**	**12.0%**	**5.5%**	**9.1%**	**4.8%**	**5.5%**	**2.5%**
Total SG&A expenses	**171,278**	43,261	42,499	42,397	43,121	**171,324**	43,534	44,169	43,408	40,213
(-) Equipment commissions expense	**(11,974)**	(2,962)	(3,366)	(3,376)	(2,271)	**(13,541)**	(2,849)	(4,375)	(3,978)	(2,339)
(-) Amortization of intangibles	**(4,655)**	(984)	(1,169)	(1,251)	(1,251)	**(4,255)**	(1,086)	(747)	(1,211)	(1,211)
(+) Net finance costs	**12,369**	3,036	3,423	3,059	2,851	**5,477**	1,241	1,565	1,479	1,192
(-) Floorplan interest expense	**(4,408)**	(1,210)	(1,139)	(1,050)	(1,009)	**(4,638)**	(1,129)	(1,234)	(1,263)	(1,012)
Total Operating Costs	**162,609**	**41,141**	**40,248**	**39,779**	**41,442**	**154,367**	**39,711**	**39,378**	**38,435**	**36,843**
Absorption	**86%**	**81%**	**94%**	**92%**	**79%**	**87%**	**81%**	**93%**	**94%**	**79%**

Agriculture

Reconciliation of Product Support Gross Profit Dollars Growth and Absorption - Agriculture	**2019**					**2018**				
($ thousands, except as noted)	**YTD**	**Q4**	**Q3**	**Q2**	**Q1**	**YTD**	**Q4**	**Q3**	**Q2**	**Q1**
Product support revenues - reported	**159,287**	40,474	47,551	39,216	32,046	**143,097**	35,670	42,162	38,114	27,151
(+) Product support revenues - internal activity	**25,043**	4,782	6,639	7,370	6,252	**28,316**	5,857	7,528	8,091	6,840
Product support revenues - total	**184,330**	45,256	54,190	46,586	38,298	**171,413**	41,527	49,690	46,205	33,991
Product support cost of sales - reported	**95,842**	24,178	28,258	24,557	18,849	**88,088**	21,808	25,363	24,065	16,852
(+) Product support cost of sales - internal activity	**11,576**	2,280	3,119	3,248	2,929	**13,065**	2,855	3,324	3,255	3,631
Product support cost of sales - total	**107,418**	26,458	31,377	27,805	21,778	**101,153**	24,663	28,687	27,320	20,483
Product Support Gross Profit	**76,912**	**18,798**	**22,813**	**18,781**	**16,520**	**70,260**	**16,864**	**21,003**	**18,885**	**13,508**
Product support gross profit dollars growth ($)	**6,652**	1,934	1,810	(104)	3,012	**2,267**	1,839	781	587	(940)
Product Support Gross Profit Growth (%)	**9.5%**	**11.5%**	**8.6%**	**-0.6%**	**22.3%**	**3.3%**	**12.2%**	**3.9%**	**3.2%**	**-6.5%**
Total SG&A expenses	**95,675**	23,511	24,847	23,614	23,703	**97,097**	24,154	25,967	24,545	22,431
(-) Equipment commissions expense	**(9,217)**	(2,301)	(2,710)	(2,479)	(1,727)	**(10,750)**	(2,214)	(3,629)	(3,076)	(1,831)
(-) Amortization of intangibles	**(3,098)**	(640)	(818)	(820)	(820)	**(2,680)**	(781)	(632)	(633)	(634)
(+) Net finance costs	**7,183**	1,654	2,102	1,666	1,761	**2,045**	360	605	567	513
(-) Floorplan interest	**(2,272)**	(479)	(701)	(505)	(588)	**(2,351)**	(664)	(632)	(549)	(506)
Total Operating Costs	**88,271**	**21,745**	**22,720**	**21,477**	**22,330**	**83,361**	**20,855**	**21,679**	**20,854**	**19,973**
Absorption	**87%**	**86%**	**100%**	**87%**	**74%**	**84%**	**81%**	**97%**	**91%**	**68%**

Transportation

Reconciliation of Product Support Gross Profit Dollars Growth and Absorption - Transportation	2019					2018				
($ thousands, except as noted)	**YTD**	**Q4**	**Q3**	**Q2**	**Q1**	**YTD**	**Q4**	**Q3**	**Q2**	**Q1**
Product support revenues - reported	**136,296**	33,157	33,462	35,365	34,312	**133,587**	33,452	33,028	34,385	32,722
(+) Product support revenues - internal activity	**6,881**	1,910	1,608	2,053	1,310	**7,459**	1,431	1,947	2,491	1,590
Product support revenues - total	**143,177**	35,067	35,070	37,418	35,622	**141,046**	34,883	34,975	36,876	34,312
Product support cost of sales - reported	**90,553**	22,691	22,669	22,700	22,493	**87,085**	22,237	21,833	21,836	21,179
(+) Product support cost of sales - internal activity	**3,649**	984	866	1,079	720	**3,958**	864	990	1,260	844
Product support cost of sales - total	**94,202**	23,675	23,535	23,779	23,213	**91,043**	23,101	22,823	23,096	22,023
Product Support Gross Profit	**48,975**	**11,392**	**11,535**	**13,639**	**12,409**	**50,003**	**11,782**	**12,152**	**13,780**	**12,289**
Product support gross profit dollars growth ($)	**(1,028)**	(390)	(617)	(141)	120	**3,484**	526	739	1,078	1,141
Product Support Gross Profit Growth (%)	**-2.1%**	**-3.3%**	**-5.1%**	**-1.0%**	**1.0%**	**7.5%**	**4.7%**	**6.5%**	**8.5%**	**10.2%**
Total SG&A expenses	**51,315**	13,134	12,279	12,905	12,997	**50,036**	12,431	12,122	13,063	12,420
(-) Equipment commissions expense	**(1,945)**	(494)	(449)	(686)	(316)	**(2,065)**	(436)	(552)	(688)	(390)
(-) Amortization of intangibles	**(1,116)**	(225)	(243)	(324)	(324)	**(1,171)**	(261)	5	(458)	(457)
(+) Net finance costs	**3,455**	1,081	779	828	767	**2,444**	497	629	772	546
(-) Floorplan interest	**(2,063)**	(720)	(423)	(521)	(399)	**(2,244)**	(445)	(592)	(707)	(500)
Total Operating Costs	**49,646**	**12,776**	**11,943**	**12,202**	**12,726**	**47,000**	**11,786**	**11,613**	**11,982**	**11,619**
Absorption	**99%**	**89%**	**97%**	**112%**	**98%**	**106%**	**100%**	**105%**	**115%**	**106%**

Industrial

Reconciliation of Product Support Gross Profit Dollars Growth and Absorption - Industrial	2019					2018				
($ thousands, except as noted)	**YTD**	**Q4**	**Q3**	**Q2**	**Q1**	**YTD**	**Q4**	**Q3**	**Q2**	**Q1**
Product support revenues - reported	**30,058**	6,867	7,432	8,560	7,199	**27,907**	7,053	7,059	7,260	6,535
(+) Product support revenues - internal activity	**1,974**	402	478	543	551	**2,031**	540	465	567	459
Product support revenues - total	**32,032**	7,269	7,910	9,103	7,750	**29,938**	7,593	7,524	7,827	6,994
Product support cost of sales - reported	**16,540**	3,823	4,141	4,706	3,870	**15,239**	3,847	3,958	3,929	3,505
(+) Product support cost of sales - internal activity	**926**	193	238	235	260	**951**	280	207	249	215
Product support cost of sales - total	**17,466**	4,016	4,379	4,941	4,130	**16,190**	4,127	4,165	4,178	3,720
Product Support Gross Profit	**14,566**	**3,253**	**3,531**	**4,162**	**3,620**	**13,748**	**3,466**	**3,359**	**3,649**	**3,274**
Product support gross profit dollars growth ($)	**818**	(213)	172	513	346	**1,215**	305	167	222	521
Product Support Gross Profit Growth (%)	**6.0%**	**-6.1%**	**5.1%**	**14.1%**	**10.6%**	**9.7%**	**9.7%**	**5.2%**	**6.5%**	**18.9%**
Total SG&A expenses	**16,351**	4,419	3,750	3,934	4,248	**15,045**	4,001	3,795	3,858	3,391
(-) Equipment commissions expense	**(813)**	(167)	(207)	(211)	(228)	**(726)**	(200)	(195)	(214)	(118)
(-) Amortization of intangibles	**(441)**	(119)	(108)	(107)	(107)	**(404)**	(44)	(120)	(120)	(120)
(+) Net finance costs	**232**	35	60	70	67	**(23)**	5	7	(21)	(14)
(-) Floorplan interest	**(73)**	(11)	(15)	(25)	(23)	**(43)**	(20)	(10)	(7)	(6)
Total Operating Costs	**15,256**	**4,157**	**3,480**	**3,661**	**3,957**	**13,849**	**3,742**	**3,477**	**3,496**	**3,133**
Absorption	**95%**	**78%**	**101%**	**114%**	**91%**	**99%**	**93%**	**97%**	**104%**	**104%**

Equipment Inventory Turnover

In our wholegoods' departments, managing inventory levels to meet market demand must be balanced by maintaining the sale of inventory we carry, which we measure using equipment inventory turnover. As our largest asset, equipment inventory levels have a direct impact on overall asset levels and therefore our capital requirements and ROIC performance. Equipment inventory turnover is a key metric for the Company; specifically, for used equipment held primarily in our Agriculture segment, as discussed in the section 'Key Performance Indicators'.

We calculate the ratio as trailing twelve-month equipment cost of sales divided by the quarterly average inventory for the most recent four quarters. The reconciliation of equipment inventory turnover for 2019 and 2018 is presented in the table below.

Reconciliation of Equipment Inventory Turnover	**2019**				**2018**			
($ thousands, except as noted)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Agriculture								
Used equipment cost of sales	**70,668**	97,052	55,909	45,036	**67,770**	96,815	72,693	39,362
Used equipment cost of sales - trailing 12 months	**268,665**	265,767	265,530	282,314	**276,640**	257,899	232,120	223,561
Used equipment inventory	**113,691**	148,258	180,802	161,418	**155,597**	158,587	161,937	144,754
Average used equipment inventory - last four quarters	**151,042**	161,519	164,101	159,385	**155,219**	147,714	138,769	125,688
Used Equipment Inventory Turnover	**1.78**	**1.65**	**1.62**	**1.77**	**1.78**	**1.75**	**1.67**	**1.78**
Transportation								
Total equipment cost of sales	**41,925**	44,275	66,539	29,556	**45,471**	56,721	77,234	36,335
Total equipment cost of sales - trailing 12 months	**182,295**	185,841	198,287	208,982	**215,761**	200,331	182,164	162,352
Total equipment inventory	**74,749**	74,009	51,482	71,050	**42,455**	54,430	74,652	84,871
Average total equipment inventory - last four quarters	**67,823**	59,749	54,854	60,647	**64,102**	62,939	59,416	51,168
Total Equipment Inventory Turnover	**2.69**	**3.11**	**3.61**	**3.45**	**3.37**	**3.18**	**3.07**	**3.17**
Industrial								
Total equipment cost of sales	**3,744**	5,227	5,219	5,403	**5,271**	3,863	5,711	2,577
Total equipment cost of sales - trailing 12 months	**19,593**	21,120	19,756	20,248	**17,422**	15,971	15,188	13,817
Total equipment inventory	**6,349**	6,449	7,437	7,905	**8,026**	7,015	5,277	5,231
Average total equipment inventory - last four quarters	**7,035**	7,454	7,596	7,056	**6,387**	5,480	5,068	5,307
Total Equipment Inventory Turnover	**2.79**	**2.83**	**2.60**	**2.87**	**2.73**	**2.91**	**3.00**	**2.60**