MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE YEAR JANUARY 1, 2020 TO DECEMBER 31, 2020

CERVUS EQUIPMENT CORPORATION

People. Power. Service.™

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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, 2020. It was prepared as of March 10, 2021. This MD&A should be read in conjunction with the accompanying Audited Consolidated Financial Statements for the year ended December 31, 2020, 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, 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. 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 is a leading equipment solutions provider to customers in agriculture, transportation, and industrial markets across Canada, Australia and New Zealand. Throughout our territories and across our diverse markets, Cervus dealerships are united by the sales and support of the market-leading equipment our customers depend on to grow their business. The Company operates 64 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. One third of the Cervus workforce of more than 1,500 dedicated employees is comprised of technicians with specialized skills to support our customers' equipment diagnostics, maintenance and repair needs.

Cervus 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: 38 John Deere dealership locations with 15 operating in Alberta, 6 in Saskatchewan, 1 in British Columbia, 9 in New Zealand and 7 in Australia.

Transportation: 18 dealership locations with 4 Peterbilt truck dealerships and 1 Collision Centre operating in Saskatchewan, 12 Peterbilt truck dealerships and 1 parts location 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.

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, precision agriculture, 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.

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 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 approximately 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 of achieving this balanced position by the end of 2024.

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 the 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.

Consolidated Results

($ thousands, except per share amounts)	Three month periods ended December 31 2020	% Change Compared to 2019	2019	Years ended December 31 2020	% Change Compared to 2019	2019
Equipment revenue	**$ 189,622**	6%	$ 179,051	**$ 891,876**	10%	$ 813,393
Product support revenue	**84,256**	5%	80,498	**336,011**	3%	325,641
Total revenue	**273,878**	6%	259,549	**1,227,887**	8%	1,139,034
Cost of sales before inventory impairment	**(222,470)**	5%	(212,152)	**(1,021,798)**	8%	(945,677)
Inventory impairment	**(723)**	(93%)	(10,496)	**(3,754)**	(84%)	(24,006)
Gross profit	**50,685**	37%	36,901	**202,335**	19%	169,351
Total other income	**2,808**		583	**9,728**		3,844
Equipment commissions	**(3,200)**	8%	(2,962)	**(14,096)**	18%	(11,974)
G&A expenses	**(39,742)**	(1%)	(40,299)	**(153,050)**	(4%)	(159,304)
Income (loss) from operating activities	**10,551**		(5,777)	**44,917**		1,917
Net finance costs	**(1,860)**	(39%)	(3,036)	**(10,210)**	(17%)	(12,369)
Share of (loss) profit of equity accounted investees, net of income tax	**(378)**		6	**(378)**		6
Income (loss) before income tax expense	**8,313**		(8,807)	**34,329**		(10,446)
Income tax (expense) recovery	**(2,822)**		1,759	**(9,242)**		1,828
Income (loss) for the period	**5,491**		(7,048)	**25,087**		(8,618)
EBITDA[1]	**16,315**		838	**67,895**		27,942
Ratios						
Gross profit margin as a % of revenue	**18.5%**		14.2%	**16.5%**		14.9%
Total SG&A as a % of gross profit	**84.7%**		117.2%	**82.6%**		101.1%
Income (loss) per share						
Basic	**$ 0.36**		$ (0.46)	**$ 1.62**		$ (0.56)
Diluted	**$ 0.34**		$ (0.46)	**$ 1.56**		$ (0.56)
Basic - Adjusted[1]	**$ 0.28**		$ (0.50)	**$ 1.30**		$ (0.65)
Reconciliation of adjusted income (loss) before income tax expense:						
Income (loss) before income tax expense	**8,313**		(8,807)	**34,329**		(10,446)
Adjustments:						
Unrealized foreign exchange (gain) loss included in other income	**(712)**	(14%)	(831)	**333**	(118%)	(1,847)
Government wage subsidies	**(980)**	100%	—	**(6,970)**	100%	—
Adjusted income (loss) before income tax expense[1]	**$ 6,621**		$ (9,638)	**$ 27,692**		$ (12,293)

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

2020 Annual Financial Results

Our annual results demonstrate significant progress towards our strategic objectives, including a dramatic improvement in profitability, despite the challenges presented by the pandemic. This was achieved through an 8% increase in overall revenue, a 19% increase in gross profit, and a 4% decrease in G&A expense, culminating in a $45 million improvement in income before tax and a $40 million improvement in adjusted income before tax. During the year we surpassed our used equipment inventory turn[1] objective in Agriculture and reduced inventory levels across all segments, bolstering our already healthy balance sheet and generating $53 million in adjusted free cash flow[1] for the year.

In our Agriculture segment, gross profit increased 39%, driven by a 12% increase in total revenue and a $21 million reduction in inventory impairments. Increased product support gross profit, along with sustainable cost reductions, resulted in Agriculture absorption[1] improving to 94% for the 2020 year, compared to 87% in 2019.

Increased profitability was delivered across all segments, as income before tax and adjusted income before tax for the Transportation and Industrial segments increased $5 million and $2.4 million for the year, respectively, despite being most heavily impacted by the adverse economic conditions presented by the pandemic. Both segments continue to manage costs in alignment with customer activity levels, while seeking areas of growth within the existing market.

Revenue

Total revenue increased 8% in the year, comprised of a 12% increase in Agriculture revenue, a 1% increase in Transportation revenue, partly offset by 12% decrease in Industrial revenue.

In our Agriculture segment, accelerated marketing of new equipment, combined with positive growing conditions in our Canadian, Australian and New Zealand geographies, resulted in a 10% increase in new equipment revenue. Our sales team aligned re-conditioned used equipment with the needs of customers through the seeding and harvest windows, resulting in used equipment revenue increasing 15%. Product support revenue increased 12% in the year, as we executed on strategic parts initiatives, including driving increases in over the counter, on-site, and online parts revenue, and the opening of our new dealership in Nipawin, Saskatchewan during the second quarter.

Transportation new equipment revenue increased 7% for the year. A rebound in new equipment sales in the second half of the year, more than offset the decrease experienced in the second quarter, driven by the easing of pandemic related restrictions and the resulting improvement in customer demand. While showing some signs of recovery through the second half of the year, product support revenue declined 5% for the year, resulting from the broader economic impacts of the pandemic.

Industrial total revenue decreased 12% for the year, resulting from ongoing oil and gas sector headwinds, compounded by the pandemic's impact on the general economy and the related restrictions, limiting our ability to perform preventative maintenance at customer's sites and in-person training.

Gross Profit

Gross profit increased 19% for the year, driven by the 8% increase in overall revenue, combined with the $20 million reduction in inventory impairments. Initiatives to improve our Agriculture equipment sales and trade-in practices accelerated turnover of used equipment inventory, substantially reducing inventory impairments compared to the prior year.

Growth in product support revenue contributed an additional $3.5 million or 3% increase to gross profit in the year compared to 2019, despite the significant impact of COVID-19 on industry activity in the Transportation and Industrial segments.

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

General and Administrative (“G&A”) Expenses and Net Finance Costs

G&A expenses, which exclude equipment commissions, decreased 4% or $6 million in the year. Cost reductions were achieved despite recognizing performance incentives and a pandemic bonus to front-line workers in 2020, compared to 2019 when no performance incentives were earned. Excluding the current year increase in performance incentives, G&A expense decreased 9% or $13 million, resulting from restructuring initiatives, combined with variable expense management in response to the pandemic.

Net finance costs decreased 17% or $2.2 million for the year, as we benefited from the reductions in inventory levels as well as lower interest rates.

Income

Income before tax increased $45 million in the year, including wage subsidies reported in other income of $7 million.

The increased profitability for the year was the result of improvements across the business, specifically, growth in equipment and product support revenue, improved gross profit dollars and gross profit margin, combined with reductions in inventory impairments, G&A expenses and net finance costs, resulting in adjusted income before tax increasing $40 million for the year.

Balance Sheet

Inventory

Total inventory decreased $90 million from December 31, 2019, reflecting a $58 million decrease in the Agriculture segment and a $30 million decrease in the Transportation segment. This decrease in inventory, combined with strong used equipment sales in the year, resulted in Agriculture used equipment turnover for the trailing twelve-month period ended December 31, 2020, improving to 2.87 times from 1.78 times at December 31, 2019, surpassing our long-term used equipment inventory turnover objective of 2.50 times[1].

Shareholder Distributions

During the second quarter of 2020, the Company announced a temporary reduction in the quarterly dividend to fund increased activity under the existing Normal Course Issuer Bid (“NCIB”). This temporary reallocation of funds was made in response to market conditions that provided the opportunity to buy Cervus shares at a discount to tangible book value. The Company repurchased and cancelled 0.3 million shares under its NCIB at a cost of $2.1 million for the year ended December 31, 2020.

The Company partially restored the quarterly dividend during the fourth quarter of 2020, with a quarterly dividend of $0.06 per share declared to shareholders of record as at December 31, 2020. Subsequent to December 31, 2020, the Company increased the quarterly dividend to $0.11 per share for the first quarter of 2021.

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

Fourth Quarter 2020 Results – Q4 2020 v Q4 2019

Revenue
Overall revenue increased 6% in the quarter, driven by a 6% increase in equipment revenue and a 5% increase in product support revenue.

The Agriculture increase in equipment sales of 3% was heavily weighted toward new equipment sales growth which increased 21% in the quarter, as above average crop quality and yield generated positive producer sentiment and demand. This was partly offset by a 15% decrease in used equipment revenue in the fourth quarter as harvest related activity shifted to the third quarter this year versus the prior year, when challenging conditions delayed harvest into the fourth quarter. Product support revenue increased 8% in the quarter, resulting from the same factors discussed in the annual results, combined with an increase in inspection activity due to the early harvest.

Transportation equipment revenue increased 10% in the quarter, driven by an improvement in customer demand following the deferral of equipment purchases earlier in the year as an initial response to the pandemic. Industrial equipment revenue increased 42% in the quarter, primarily due to strong demand for used equipment retired from our rental fleet and an improvement in new equipment sales over a slow fourth quarter in 2019.

Gross Profit
The 6% increase in equipment revenue and 5% increase in product support revenue, combined with the $10 million reduction in inventory impairments, resulted in gross profit increasing 37% compared to the fourth quarter of 2019. As a percent of revenue, gross profit margin increased mainly due to the reduction in equipment inventory impairments.

Growth in product support revenue contributed an additional $2.1 million or 7% increase to gross profit in the quarter compared to 2019.

General and Administrative Expenses and Net Finance Costs
G&A expenses, which exclude equipment commissions, decreased 1%, primarily due to continued cost saving initiatives in our Transportation and Industrial segments. Excluding the current quarter increase in performance incentives, compared to 2019 when performance incentives were not earned, G&A expense decreased 10% or $3.9 million.

The decrease in net finance costs of 39% was primarily due to the $90 million reduction in inventory levels, as well as lower interest rates quarter over quarter.

Income
Similar to our annual results, the improvement in fourth quarter profitability was driven across the business, including growth in equipment and product support revenue, improved gross profit dollars and gross profit margin, combined with reductions in inventory impairments, G&A expenses and net finance costs, resulting in income before tax increasing $17 million for the quarter. The increase in income before tax includes $1.0 million of wage subsidy reported in other income in the fourth quarter of 2020. Adjusted income before tax increased $16 million compared to the fourth quarter of 2019.

Business Segment Results

The Company has four reportable segments, as outlined in the 'Company Overview', and presented in Notes 3 and 24 of the Annual Financial Statements.

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.

Summary of Fourth Quarter Business Segment Results

Below is a summary of Cervus' segment results for the three months ended December 31, 2020 and 2019.

Three months ended December 31, 2020 **($ thousands)**	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Equipment revenue	**$ 189,622**	$ 133,930	$ 49,404	$ 6,288	$ —
Product support revenue	**84,256**	43,712	32,706	7,838	—
Gross profit	**50,685**	32,604	13,642	4,439	—
Total other income (loss)	**2,808**	1,577	1,342	(97)	(14)
Selling, general and administrative expense	**(42,942)**	(24,220)	(11,943)	(3,819)	(2,960)
Net finance costs	**(1,860)**	(1,426)	(358)	(59)	(17)
Income (loss) before income tax expense	**8,313**	8,157	2,683	464	(2,991)
Unrealized foreign exchange (gain) included in other income	**(712)**	—	(644)	(68)	—
Government wage subsidies	**(980)**	(757)	(199)	(24)	—
Adjusted income (loss) before income tax expense[(1)]	**$ 6,621**	$ 7,400	$ 1,840	$ 372	$ (2,991)

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)
Unrealized foreign exchange (gain) included in other income	**(831)**	—	(826)	(5)	—
Adjusted (loss) before income tax expense[(1)]	**$ (9,638)**	$ (5,798)	$ (704)	$ (633)	$ (2,503)

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

Below is a summary of Cervus' segment results for the years ended December 31, 2020 and 2019.

Year ended December 31, 2020 **($ thousands)**	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Equipment revenue	**$ 891,876**	$ 667,979	$ 204,813	$ 19,084	$ —
Product support revenue	**336,011**	178,730	129,336	27,945	—
Gross profit	**202,335**	131,851	54,245	16,239	—
Total other income (loss)	**9,728**	2,966	5,434	1,342	(14)
Selling, general and administrative expense	**(167,146)**	(96,111)	(47,188)	(14,630)	(9,217)
Net finance costs	**(10,210)**	(6,258)	(3,240)	(249)	(463)
Income (loss) before income tax expense	**34,329**	32,070	9,251	2,702	(9,694)
Unrealized foreign exchange loss included in other income	**333**	—	307	26	—
Government wage subsidies	**(6,970)**	(1,705)	(4,060)	(1,205)	—
Adjusted income (loss) before income tax expense[(1)]	**$ 27,692**	$ 30,365	$ 5,498	$ 1,523	$ (9,694)

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)
Unrealized foreign exchange (gain) included in other income	**(1,847)**	—	(1,821)	(26)	—
Adjusted (loss) income before income tax expense[(1)]	**$ (12,293)**	$ (7,588)	$ 3,330	$ 1,301	$ (9,336)

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

Agriculture Segment Results

($ thousands)	Three month periods ended December 31			Years ended December 31		
	2020	**% Change Compared to 2019**	**2019**	**2020**	**% Change Compared to 2019**	**2019**
Equipment						
New equipment	**$ 78,546**	21%	$ 64,660	**$ 362,871**	10%	$ 330,932
Used equipment	**55,384**	(15%)	65,205	**305,108**	15%	265,223
Total equipment revenue	**133,930**	3%	129,865	**667,979**	12%	596,155
Product support revenue	**43,712**	8%	40,474	**178,730**	12%	159,287
Total revenue	**177,642**	4%	170,339	**846,709**	12%	755,442
Cost of sales before inventory impairment	**(144,639)**	3%	(140,305)	**(712,251)**	12%	(637,138)
Inventory impairment	**(399)**	(96%)	(10,160)	**(2,607)**	(89%)	(23,564)
Gross profit	**32,604**	64%	19,874	**131,851**	39%	94,740
Total other income (loss)	**1,577**	407%	(513)	**2,966**	466%	524
Equipment commissions	**(2,421)**	5%	(2,301)	**(11,438)**	24%	(9,217)
G&A expenses	**(21,799)**	3%	(21,210)	**(84,673)**	(2%)	(86,458)
Income (loss) from operating activities	**9,961**		(4,150)	**38,706**		(411)
Net finance costs	**(1,426)**	(14%)	(1,654)	**(6,258)**	(13%)	(7,183)
Share of (loss) profit of equity accounted investees, net of tax	**(378)**		6	**(378)**		6
Income (loss) before income tax expense	**8,157**		(5,798)	**32,070**		(7,588)
EBITDA[(1)]	**13,339**		(511)	**52,061**		13,943
Ratios						
Gross profit margin as a % of revenue	**18.4%**		11.7%	**15.6%**		12.5%
Total SG&A as a % of gross profit	**74.3%**		118.3%	**72.9%**		101.0%
Reconciliation of adjusted income (loss) before income tax expense:						
Income (loss) before income tax expense	**8,157**		(5,798)	**32,070**		(7,588)
Adjustments:						
Government wage subsidies	**(757)**	100%	—	**(1,705)**	100%	—
Adjusted income (loss) before income tax expense[(1)]	**$ 7,400**		$ (5,798)	**$ 30,365**		$ (7,588)

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

Revenue and Gross Profit

Accelerated marketing of new equipment in all our geographies, following the focus on right-sizing used equipment inventory levels in 2019, contributed to the 10% increase in new equipment sales for the year. This was further supported by positive growing conditions across our Canadian, Australian and New Zealand geographies and a tax incentive on capital expenditures in Australia. The same factors resulted in the 21% increase in new equipment sales in the quarter.

Favourable weather conditions in our Western Canada region resulted in above average crop quality and yield for producers, with harvest mostly complete by the beginning of the fourth quarter. This shifted harvest related activity earlier than the prior year, when challenging conditions delayed harvest and pushed farmer demand for used equipment into the fourth quarter of 2019. Our sales team's successful efforts to align re-conditioned used equipment, with customer purchasing decisions through the earlier harvest window, contributed to the 15% increase in used equipment revenue for the year. Used equipment revenue quarter over quarter decreased 15%, as a result of the difference in harvest timing described above.

Continued execution on strategic initiatives to increase parts revenue, the utilization of our online platform, and the opening of our new dealership in Nipawin, Saskatchewan during the second quarter, drove an 18% increase in parts revenue for the year. This increase in parts revenue, combined with a 2% increase in service revenue, resulted in a 12% increase in overall product support revenue year over year. With the early completion of harvest, equipment inspection activity increased during the fourth quarter, contributing to an 8% increase in service revenue and an 11% increase in parts revenue in the quarter.

The increase in equipment and product support revenue, combined with the significant reduction in inventory impairments of $21 million for the year and $10 million quarter over quarter, resulted in gross profit increasing 39% for the year and 64% in the quarter. Gross profit margin as a percent of revenue increased in the year and for the quarter, mainly due to decreased equipment inventory impairments.

G&A and Net Finance Costs

Continued expense management and ongoing savings from restructuring initiatives undertaken in the second half of 2019, resulted in a 2% or $1.8 million decrease in G&A expenses for the year. Excluding the increase in performance incentives, G&A expenses decreased 7% or $5 million year over year. G&A expenses, excluding equipment commissions, increased 3% or $0.6 million in the quarter, but decreased 9% or $1.9 million when excluding the current quarter increase in performance incentives.

Our focus on used equipment inventory turnover as a critical measure of dealership performance, drove a $58 million decrease in Agriculture inventory year over year, resulting in a 13% decrease in net finance costs for the year, and 14% in the quarter. Managing floorplans, to utilize certain interest-free periods provided by manufacturers, reduced interest otherwise payable from $2.4 million to $0.5 million for the year and $0.4 million to $0.1 million in the quarter.

Income

Improved inventory management, as reflected in the Agriculture used equipment turnover of 2.87 times as at December 31, 2020, resulted in the significant decrease in inventory impairments and net finance costs, as well as improved equipment margins and adjusted free cash flow. The combination of these factors resulted in income before tax increasing $40 million for the year and $14 million in the quarter.

Of the $40 million increase in income before tax for the year, $30 million relates to our Canadian agriculture operations and $9 million is from our Australia and New Zealand operations. Of the $14 million quarter over quarter increase in income before tax, $11 million relates to our Canadian operations and $3.0 million is from our Australia and New Zealand operations. The increased profitability from our Australia and New Zealand operations was driven by the success of our new management team established in late 2019, who delivered on their strategic initiatives to grow equipment sales and product support revenue, and were supported by positive growing conditions and a tax incentive on capital expenditures in Australia.

Included in the annual and quarter to date segment results is government wage subsidy related to the COVID-19 pandemic of $1.7 million and $0.8 million, respectively, which were excluded in the calculation of adjusted income before tax.

Transportation Segment Results

($ thousands)	Three month periods ended December 31			Years ended December 31		
	2020	**% Change Compared to 2019**	**2019**	**2020**	**% Change Compared to 2019**	**2019**
Equipment						
New equipment	**$ 45,821**	9%	$41,988	**$ 196,529**	7%	$ 184,239
Used equipment	**3,583**	29%	2,778	**8,284**	(15%)	9,718
Total equipment revenue	**49,404**	10%	44,766	**204,813**	6%	193,957
Product support revenue	**32,706**	(1%)	33,157	**129,336**	(5%)	136,296
Total revenue	**82,110**	5%	77,923	**334,149**	1%	330,253
Cost of sales before inventory impairment	**(68,186)**	6%	(64,325)	**(278,956)**	2%	(272,534)
Inventory impairment	**(282)**		(291)	**(948)**		(314)
Gross profit	**13,642**	3%	13,307	**54,245**	(6%)	57,405
Total other income	**1,342**		1,030	**5,434**		2,516
Equipment commissions	**(561)**	14%	(494)	**(1,968)**	1%	(1,945)
G&A expenses	**(11,382)**	(10%)	(12,640)	**(45,220)**	(8%)	(49,370)
Income from operating activities	**3,041**		1,203	**12,491**		8,606
Net finance costs	**(358)**	(67%)	(1,081)	**(3,240)**	(6%)	(3,455)
Income before income tax expense	**2,683**		122	**9,251**		5,151
EBITDA[(1)]	**4,419**		3,038	**18,220**		15,801
Ratios						
Gross profit margin as a % of revenue	**16.6%**		17.1%	**16.2%**		17.4%
Total SG&A as a % of gross profit	**87.5%**		98.7%	**87.0%**		89.4%
Reconciliation of adjusted income (loss) before income tax expense:						
Income before income tax expense	**2,683**		122	**9,251**		5,151
Adjustments:						
Unrealized foreign exchange (gain) loss included in other income	**(644)**		(826)	**307**		(1,821)
Government wage subsidies	**(199)**		—	**(4,060)**		—
Adjusted income (loss) before income tax expense[(1)]	**$ 1,840**	361%	$ (704)	**$ 5,498**	65%	$ 3,330

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

Revenue and Gross Profit

Transportation new equipment revenue increased 7% for the year, as a rebound in new truck sales more than offset the initial impact of customers deferring deliveries in response to the pandemic. The economic disruption and restrictions related to the pandemic, resulted in many customers choosing to limit capital spending and delay deliveries of trucks during the spring of 2020. Easing of the initial pandemic restrictions and improvement in economic activity, drove an increase in customer demand through the second half of the year. This shift in the timing of truck demand, contributed to the 9% increase in equipment revenue in the fourth quarter.

Product support revenue decreased 5% in the year, resulting from reduced transportation activity and related demand for equipment repair, tied to the economic slowdown from the pandemic. Our parts and service departments showed signs of partial recovery in the back half of the year, as evidenced by the 1% decrease in product support revenue in the fourth quarter.

The impact of the pandemic on product support revenue resulted in a 6% decrease in overall gross profit for the year. However, the increase in equipment revenue in the fourth quarter resulted in a 3% increase in gross profit for the quarter. Gross profit margin, as a percent of revenue, decreased during the quarter, reflecting the sales mix impact of equipment revenue comprising a larger percentage of overall revenue.

G&A and Net Finance Costs

Decisive actions taken to manage expenses commensurate with customer activity in the segment, resulted in an 8% decrease in G&A expenses, excluding equipment commissions, for the year and a 10% decrease for the quarter.

The $30 million decrease in new equipment inventory, compared to December 31, 2019, contributed to the $0.2 million decrease in net finance costs for the year, and $0.7 million in the quarter. At December 31, 2020, approximately 8% (December 31, 2019 – 1%) of the Transportation segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest-free periods in place.

Income

Income before tax increased $4.1 million for the year and $2.6 million in the quarter, including wage subsidy reported in other income of $4.1 million and $0.2 million, respectively.

Adjusted income before tax increased $2.2 million for the year and $2.5 million in the quarter, driven by the increase in equipment revenue, combined with the reduction in G&A expenses and net finance costs.

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

Industrial Segment Results

($ thousands)	Three month periods ended December 31 2020	% Change Compared to 2019	2019	Years ended December 31 2020	% Change Compared to 2019	2019
Equipment						
New equipment	**$ 4,574**	22%	$ 3,738	**$ 14,713**	(24%)	$ 19,254
Used equipment	**1,714**	151%	682	**4,371**	9%	4,027
Total equipment revenue	**6,288**	42%	4,420	**19,084**	(18%)	23,281
Product support revenue	**7,838**	14%	6,867	**27,945**	(7%)	30,058
Total revenue	**14,126**	25%	11,287	**47,029**	(12%)	53,339
Gross profit	**4,439**	19%	3,720	**16,239**	(6%)	17,206
Total other (loss) income	**(97)**		106	**1,342**		704
Equipment commissions	**(218)**	31%	(167)	**(690)**	(15%)	(813)
G&A expenses	**(3,601)**	(15%)	(4,252)	**(13,940)**	(10%)	(15,538)
Income (loss) from operating activities	**523**	188%	(593)	**2,951**	89%	1,559
Net finance costs	**(59)**	69%	(35)	**(249)**	7%	(232)
Income (loss) before income tax expense	**464**	174%	(628)	**2,702**	104%	1,327
EBITDA[1]	**1,283**		322	**5,840**		5,103
Ratios						
Gross profit margin as a % of revenue	**31.4%**		33.0%	**34.5%**		32.3%
Total SG&A as a % of gross profit	**86.0%**		118.8%	**90.1%**		95.0%
Reconciliation of adjusted income (loss) before income tax expense:						
Income (loss) before income tax expense	**464**	174%	(628)	**2,702**	104%	1,327
Adjustments:						
Unrealized foreign exchange (gain) loss included in other income	**(68)**		(5)	**26**		(26)
Government wage subsidies	**(24)**		—	**(1,205)**		—
Adjusted income (loss) before income tax expense[1]	**$ 372**	159%	$ (633)	**$ 1,523**	17%	$ 1,301

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

Revenue and Gross Profit

Our Industrial segment was most significantly impacted by the pandemic and customers responded by curtailing capital expenditures, resulting in an 18% decrease in equipment revenue year over year. Equipment revenue increased 42% in the fourth quarter, primarily due to strong demand for used equipment retired from our rental fleet and anticipated improvements in the general economy, driving a 151% increase in used equipment revenue quarter over quarter, combined with an improvement in new equipment sales compared to a slow fourth quarter in 2019.

The significant impact of the pandemic on the first half of the year limited our in-person training capacity and the ability to complete routine scheduled maintenance at some customer sites. This resulted in a 7% decrease in product support revenue for the year. In the fourth quarter, product support revenue increased 14% due to increased rental activity and parts sales.

The impact of the pandemic on both equipment and product support revenue resulted in a 6% decrease in overall gross profit for the year. However, the fourth quarter improvement in both equipment and product support revenue resulted in a 19% increase in gross profit for the quarter.

Gross profit margin as a percent of revenue increased for the year, but decreased in the quarter, reflecting the shift in sales mix towards higher margin product support revenue for the year, but an increased concentration of equipment sales relative to product support in the fourth quarter.

G&A and Net Finance Costs

Decisive actions taken to manage expenses commensurate with customer activity in the segment, resulted in a 10% decrease in G&A expenses, excluding equipment commissions in the year, and 15% for the quarter.

Net finance costs were flat compared to both prior year and quarter. At December 31, 2020, approximately 19% (December 31, 2019 – 44%) of the Industrial segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest-free periods in place.

Income

Income before tax increased $1.4 million in the year and $1.1 million for the quarter, including $1.2 million and $0.1 million of wage subsidy reported in other income, respectively.

The 12% decrease in revenue in the year was more than offset by a $1.6 million decrease in G&A expenses, contributing to the $0.2 million increase in adjusted income before tax for the year. Increased equipment and product support revenue, and a reduction in G&A expenses, resulted in adjusted income before tax increasing $1.0 million in the quarter.

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.

COVID-19 Impact

COVID-19 has had an unprecedented impact on the global economy, and at this time, there is no clear consensus regarding the likely duration of the pandemic or the short and long-term implications. Although progress has been made in the development of vaccines, there remains uncertainty around the timing, availability, and efficacy of the vaccines. In turn, there remains uncertainty regarding the pandemic's ultimate impact on our customers, and by extension, the Company and the industries in which we operate. Forecasts from both RBC and TD expect that an economic recovery in 2021 will depend on ongoing government programs, low interest rates, the widespread distribution of an effective vaccine, and improvement in labour market conditions.[1,2]

The Company's operations have been designated as essential services, essential for food production and the transportation of goods in the supply chain, necessary for everyday life. Cervus is committed to supporting our customers, while conducting business responsibly and in regulatory compliance to keep both our employees and customers safe.

Our Agriculture operations have demonstrated resilience through the pandemic, while our Transportation and Industrial operations have been more heavily impacted by the broader economic implications of COVID-19 and the related restrictions on business activity. Where our operations are experiencing reduced activity, the Company has taken proactive measures to manage costs. The impact of the pandemic on each segment is discussed in more detail below and in the sections 'Business Segment Results' and 'Business Risks and Uncertainties'.

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. The Canadian agriculture industry has remained resilient despite the pandemic, with the sector performing well relative to other industries. Favorable weather conditions resulted in above average crop yield and quality in our geography and supported an earlier harvest for farmers. Agriculture and Agri-Food Canada projects farmers will achieve record profits in 2020, with net cash farm income forecasted to increase 21.8% in the year,[3] a welcome improvement following two years of reduced farm income.

The start of 2021 has seen strong export demand for canola and other principal field crops, as China and other importers look to stockpile food supplies during the pandemic.[4] This demand has sent canola prices to their highest levels since March 2008,[5] and has resulted in supply shortages in Canada for the popular oilseed as farmers cover early deliveries to commercial exporters.[4] With canola in high demand and prices elevated, it is estimated Canadian farmers will plant a 6% larger canola crop in 2021.[4]

The projected increase in 2020 net cash farm income, strong commodity prices and the successful harvests in both Alberta and Saskatchewan, have helped lift farmer sentiment. However, there remains varying levels of caution following the challenges experienced in recent years, including reduced farm income, international trade disputes and the increased Canadian dollar cost of equipment due to foreign exchange. Finally, as always, weather conditions will be a key variable leading into the upcoming seeding season.

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[1] TD Economics, *Canadian Quarterly Economic Forecast: COVID 19, Vaccines, Knowns & Unknowns,* December 2020, https://economics.td.com/ca-quarterly-economic-forecast

[2] RBC Economics, *Vaccine Clears Path for Recovery but Not out of the Woods Yet*, December 2020, http://www.rbc.com/economics/economic-reports/quarterly-economic-update.html

[3] Agriculture and Agri-Food Canada, *Farm Income Forecast results for 2020 and 2021*, February 2021, https://www.agr.gc.ca/eng/canadas-agriculture-sectors/sector-overviews-data-and-reports/farm-income-forecast-results-for-2020-and-2021/?id=1613754572942

[4] The Globe And Mail, *Exports empty Canada's canola bins, driving prices to near records,* January 2021, https://www.theglobeandmail.com/

[5] Financial Post, *China is buying up so much Canadian canola that traders fear a looming shortage,* February 2021, https://financialpost.com/category/commodities/agriculture/

In Australia, the harvest season has drawn to a close, with better than expected seasonal conditions helping to generate increased year-over-year production for most commodities.[6] Wet weather conditions are expected to continue into 2021, which will be positive for most agriculture sub-sectors.[6] In New Zealand, agriculture has performed well, which can be attributed to generally stable weather conditions and positive relations with key trading partners.[7] Border restrictions imposed to control the spread of COVID-19 inadvertently created a significant labor shortage in the horticultural space,[7] but helped the country avoid the larger overall socioeconomic disruptions experienced internationally. While both countries benefited from strong markets, Cervus outpaced overall market growth in both regions due to the performance of our sales teams, with the goal of carrying these capabilities forward into 2021.

Transportation

The effects of the pandemic resulted in contractions of economic activity and output across Ontario's key industries in 2020. This economic slowdown resulted in many customers, particularly underutilized fleets, choosing to defer capital expenditures until later in the year. With economic growth prospects expected to improve through 2021 in response to a wider rollout of immunization,[8] truck sales saw some recovery in the fourth quarter. TD forecasts a stronger rebound in Ontario economic activity compared to the rest of Canada in 2021, resulting from the impending release of built-up demand accumulated during the province's pandemic contraction.[8]

Our Saskatchewan dealerships were similarly impacted, experiencing both the general decrease in economic activity related to COVID-19, compounded by the decline in the price of oil and related oilfield activity. While the oil and gas outlook remains uncertain, oil prices have recently improved. This modest recovery, along with the eventual availability of vaccines, could help stimulate the province and encourage more customer spending in 2021.[8]

In its fourth quarter 2020 earnings release, PACCAR, the owner of Peterbilt, upgraded its estimated 2021 Class 8 sales in North America to a range of 250,000 - 280,000 units.[9] This is a notable increase compared to its previous estimated range of 210,000 - 250,000 units reported in October 2020,[10] and a significant improvement over 2020 sales of 216,500 units.[9] Industry forecasts also point to the Canadian Class 8 market rebounding in 2021, with retail market sales expected to increase over 2020.

Cervus will navigate this market by continuing to service the base level of ongoing transportation activity, while maintaining actions underway to deliver internal efficiencies and win an increased share of the recovering truck market.

Industrial

Our Industrial segment is largely dependent on the general economic conditions in Alberta and Saskatchewan, which are closely tied to the broader economic impacts of the oil and gas sector. Both provinces are positioned to benefit from the improved oil price environment previously mentioned, as well as the eventual easing of pandemic-related restrictions.

Our dealerships have resumed training and preventative maintenance offerings to customers at reduced capacity, in order to comply with physical distancing requirements. A foundational level of demand will remain as consumer and industrial staples continue to move, and our dealerships are active in the support of these customers, while action is being taken to manage costs in line with business activity.

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[6] Rural Bank, *2021 Australian agriculture outlook*, December 2020, https://www.ruralbank.com.au/
[7] Rabobank, *New Zealand Agribusiness Outlook 2021*, January 2021, https://research.rabobank.com/far/en/sectors/regional-food-agri/nz-agribusiness-outlook-2021.html
[8] TD Economics, *Provincial Economic Forecast: It's Always Darkest Before Dawn*, December 2020, https://economics.td.com/provincial-economic-forecast
[9] PACCAR, *PACCAR Achieves Good Annual Revenues and Net Income: Strong Truck Deliveries and Aftermarket Sales Drive Results*, January 2021, www.paccar.com
[10] PACCAR, *PACCAR Achieves Strong Quarterly Revenues and Earnings*, October 2020, www.paccar.com

Key Performance Indicators

The Company's objective is 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 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 will contribute to an increase in total shareholder return.

Due to the seasonal nature of our Agriculture business and the volatility of global economic events impacting our business, key performance indicators may not accrue uniformly quarter over quarter or year over year.

Key Performance Indicators **Years ended December 31**	**2018**	**2019**	**2020**	**Annual Objective by 2024**
Return On Invested Capital ("ROIC")[(1)]				
Consolidated	13.7%	(1.3%)	18.2%	**> 20%**
Average Product Support Gross Profit Growth				
Consolidated	5.5%	4.8%	0.6%	**8% - 10%**
Agriculture	3.3%	9.5%	5.7%	**8% - 10%**
Transportation	7.5%	(2.1%)	(5.7%)	**8% - 10%**
Industrial	9.7%	6.0%	(5.6%)	**8% - 10%**
Absorption				
Agriculture	84%	87%	94%	**95% - 100%**
Transportation	106%	99%	101%	**110% - 115%**
Industrial	99%	95%	100%	**110% - 115%**
Equipment Inventory Turnover[(1)(2)]				
Agriculture	1.78	1.78	2.87	**> 2.5**
Transportation	3.37	2.69	2.79	**> 3.5**
Industrial	2.73	2.79	2.50	**> 3.5**

(1) - ROIC and equipment inventory turnover is calculated on a trailing twelve month basis.

(2) - 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.

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."

The calculation and rationale for each of these key metrics are as follows.

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 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 revenue 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 equipment 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."

Cash Flow

Cervus' primary sources and uses of cash flow for the years ended December 31, 2020 and 2019 are as follows:

Years ended December 31 ($ thousands)	2020	2019	Increase (Decrease) in Cash
Net income (loss)	$ 25,087	$ (8,618)	$ 33,705
Effect of non-cash items in net earnings & changes in working capital	55,732	35,689	20,043
Cash provided from operating activities	80,819	27,071	53,748
Cash (used in) investing activities	(8,000)	(11,675)	3,675
Cash (used in) financing activities	(55,873)	(13,876)	(41,997)
Net increase in cash	**16,946**	**1,520**	**15,426**
Effect of foreign exchange on cash	1,805	320	1,485
Cash, beginning of year	7,946	6,106	1,840
Cash, end of year	**$ 26,697**	**$ 7,946**	**$ 18,751**

Operating Activities

The principal factors in the $54 million increase in operating cash flow year to date, compared to the prior year were:

- A $34 million increase in cash from improved profitability.
- A $28 million increase in cash from changes in trade and other liabilities, primarily due to a $10 million increase in deposits from customers related to increased sales activity, and an $18 million increase in accounts payable and accrued liabilities, including accrued employee performance incentives as none were earned in the prior year, and an increase in income taxes payable.
- An $8 million increase in cash from a reduction in income taxes paid, as a result of corporate income tax refunds received in the current year, related to an overpayment of income tax in the prior year.

The changes in non-cash working capital have been summarized in the table below:

Years ended December 31 ($ thousands)	2020	2019	Increase (Decrease) in Cash
Changes in non-cash working capital:			
Inventory	**$ 89,524**	$ (20,443)	$ 109,967
Floorplan	**(92,684)**	31,489	(124,173)
Trade and other receivables	**10,414**	(158)	10,572
Trade and other liabilities	**15,450**	(12,703)	28,153
Total change in non-cash working capital	**$ 22,704**	$ (1,815)	$ 24,519

Investing Activities

The $3.7 million decrease in cash used in investing activities year over year was primarily attributable to a $7 million decrease in cash used to purchase property and equipment, as the prior year included rebuilding of the Agriculture Rosthern property as a result of a fire. This was partly offset by a $3.6 million increase in payments for intangible assets, primarily related to software development costs. The Company continues to invest in capital expenditures and technology that support our strategic objectives.

Financing Activities

The $42 million increase in cash used in financing activities was primarily attributable to a $42 million increase in cash used for repayments of term debt as a result of improved cash flow year over year.

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)**	**2020**	**2019**	**Increase (Decrease) in Cash**
Cash flow provided by operating activities	$ 80,819	$ 27,071	$ 53,748
(-) Changes in non-cash working capital	(22,704)	1,815	(24,519)
(-) Purchase of property and equipment	(8,311)	(15,671)	7,360
(+) Purchase of dealerships & real estate	760	5,475	(4,715)
(+) Proceeds on disposal of property and equipment	2,632	2,616	16
(-) Proceeds on disposal of dealerships & real estate	—	—	—
Adjusted Free Cash Flow[1]	**$ 53,196**	**$ 21,306**	**$ 31,890**

(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 tables show product support revenue by segment for the three and twelve months ended December 31, 2020 and 2019:

Summary of Fourth Quarter Product Support Revenue

Three months ended December 31, 2020 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**
Parts	**$ 57,214**	$ 29,024	$ 25,322	$ 2,868
Service	**21,811**	12,905	6,619	2,287
Rental and other	**5,231**	1,783	765	2,683
Total product support revenue	**$ 84,256**	$ 43,712	$ 32,706	$ 7,838

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

Summary of Annual Product Support Revenue

Year ended December 31, 2020 ($ thousands)	**Total**	**Agriculture**	**Transportation**	**Industrial**
Parts	**$ 235,538**	$ 125,808	$ 98,941	$ 10,789
Service	**83,543**	47,044	27,530	8,969
Rental and other	**16,930**	5,878	2,865	8,187
Total product support revenue	**$ 336,011**	$ 178,730	$ 129,336	$ 27,945

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

Consolidated Financial Position & Liquidity

($ thousands, except ratio amounts)	December 31, 2020	December 31, 2019
Current assets	**$ 309,391**	$ 394,120
Total assets	**516,097**	607,336
Current liabilities	**177,110**	255,769
Long-term financial liabilities	**83,280**	117,454
Total equity	**248,708**	227,138
Working capital[(1)]	**132,281**	138,351
Working capital ratio[(1)]	**1.75**	1.54

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

Working Capital

Cervus' working capital decreased by $6 million to $132 million at December 31, 2020, when compared to $138 million at December 31, 2019. As at the date of this report, the Company is in compliance with all of its covenants.

Based on inventory levels at December 31, 2020, the Company had the ability to floor plan an additional $14 million of inventory and held $443 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 2021, 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, 2020 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 23 to the Audited Consolidated Financial Statements for the year ended December 31, 2020. 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, 2020, leases with a residual value of $57 million are scheduled to mature in 2021.

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	$ 5,810	$ 5,996	$ 2,872	$ 2,362	$ 762	$ —
Lease obligation	88,340	138,877	14,329	14,105	33,609	76,834
Total	**$ 94,150**	**$ 144,873**	**$ 17,201**	**$ 16,467**	**$ 34,371**	**$ 76,834**

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, 2020, the Company believes that the recoverable value of new and used equipment inventories exceeds its respective carrying value. For the three and twelve months ended December 31, 2020, the Company recognized inventory valuation adjustments through cost of goods sold expense of $0.7 million and $3.8 million (December 31, 2019 - $10 million and $24 million expense).

Inventory by segment as at December 31, 2020, compared to December 31, 2019, is as follows:

($ thousands)	December 31, 2020	December 31, 2019	Increase/ (Decrease)
Agriculture			
New	**$ 52,784**	$ 72,991	$ (20,207)
Used	**70,513**	113,691	(43,178)
Parts and other	**35,510**	30,614	4,896
Total inventory	**158,807**	217,296	(58,489)
Transportation			
New	**40,412**	70,785	(30,373)
Used	**3,389**	3,964	(575)
Parts and other	**21,272**	20,135	1,137
Total inventory	**65,073**	94,884	(29,811)
Industrial			
New	**3,050**	5,249	(2,199)
Used	**1,175**	1,100	75
Parts and other	**1,103**	1,090	13
Total inventory	**5,328**	7,439	(2,111)
Total inventory	**$ 229,208**	$ 319,619	$ (90,411)

Accounts Receivable

For the year ended December 31, 2020, the average time to collect the Company's outstanding accounts receivable was approximately 9 days (2019 - 15 days). At December 31, 2020 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 $0.9 million at December 31, 2020 (2019 - $1.2 million), which represents 3.2% (2019 – 3.8%) of outstanding trade accounts receivable and 0.1% (2019 - 0.1%) of gross revenue on an annual basis. Bad debt expense for the year ended December 31, 2020 amounted to a $0.1 million recovery (2019 - $0.4 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, 2020 are as follows:

	December 31, 2020				December 31, 2019			
($ thousands)	**Total Limits**	**Borrowings**	**Letters of Credit**	**Amount Available**	**Total Limits**	**Borrowings**	**Letters of Credit**	**Amount Available**
Operating and other bank credit facilities	**$ 122,288**	**$ —**	**$ 9,600**	**$ 112,688**	$ 122,735	$ 25,788	$ 9,600	$ 87,347
Capital facilities	**(a)**	**—**				9,367		
Floor plan facilities and rental equipment term loan financing	**(b)**	**89,505**				182,283		
Total borrowing		**$ 89,505**				$ 217,438		

(a) During the year, the Company repaid all amounts owing under its capital facilities, and there is no additional amount available under the facilities as at December 31, 2020. The additional amount available under the facilities was limited to the pre-approved credit limit of $9.4 million as at December 31, 2019. The Company has unencumbered assets available for financing which are estimated at $16 million as at December 31, 2020 (December 31, 2019 - $7 million).

(b) For floorplan facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of $443 million (December 31, 2019 - $449 million) or the available unencumbered assets which are estimated at $14 million as at December 31, 2020 (December 31, 2019 - $17 million).

Operating and Other Bank Credit Facilities

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, 2020, there were no amounts drawn on the facility and $9.6 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 2021.

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, 2020	December 31, 2019
Total liabilities to net worth ratio[(1)] (not exceeding 4.0:1.0)	**1.60**	2.64
Fixed charge coverage ratio[(2)] (greater than or equal to 1.10:1.00)	**3.19**	1.57
Asset coverage ratio[(3)] (greater than 3.0:1.0)	**25.46**	6.24

(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.

During the third quarter of 2019, the definition of adjusted EBITDA was amended to exclude certain restructuring costs. This definition was further amended in the third quarter of 2020 to include amounts received under the Canada Emergency Wage Subsidy and to exclude a one-time pandemic bonus payment to front-line workers.

(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 as at December 31, 2019 consisted of capital asset financing through credit facilities with Farm Credit Canada and Affinity Credit Union. Amounts owing under these facilities were repaid during 2020.

Floor Plan Facilities

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Canada ULC, John Deere Financial Ltd., Wells Fargo Equipment Finance Company, PACCAR Financial Ltd., US Bank, Canadian Imperial Bank of Commerce, and De Lage Landen Financial Services Canada. At December 31, 2020, floor plan payables related to inventories were $84 million.

Floor plan payables at December 31, 2020 represented approximately 36% of our inventories (December 31, 2019 – 54%). 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 $2.4 million for the year ended December 31, 2020 (December 31, 2019 – $4.0 million). This amount was offset by rebates applied during the year ended December 31, 2020, of $1.9 million (December 31, 2019 - $3.4 million). At December 31, 2020, approximately 19% (December 31, 2019 – 44%) of the Industrial segment's and 8% (December 31, 2019 – 1%) of the Transportation segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest-free periods in place.

Outstanding Share Data

As of the date of this MD&A, there are 15 million common shares and 0.5 million deferred share units outstanding. As at December 31, 2020 and 2019, the Company had the following weighted average shares outstanding:

(thousands)	December 31, 2020	December 31, 2019
Basic weighted average number of shares outstanding	**15,474**	15,413
Dilutive impact of deferred share plan	**470**	—
Dilutive impact of options	**121**	—
Diluted weighted average number of shares outstanding	**16,065**	15,413

Normal Course Issuer Bid ("NCIB")

For the year ended December 31, 2020, the Company repurchased and cancelled 0.3 million common shares at a weighted average price of $7.35 per share under the September 2019 Bid, and no shares had been repurchased under the September 2020 Bid.

Dividends Paid and Declared to Shareholders

The Company, at the discretion of the Board of Directors, is entitled to make cash dividends to its shareholders. The following table summarizes our dividends paid for the period ended December 31, 2020:

$ thousands, except per share amounts) Record Date	Dividend per Share	Dividend Payable	Dividends Reinvested	Net Dividend Paid
March 31, 2020	$ 0.1100	$ 1,714	$ 119	$ 1,595
June 30, 2020	0.0150	235	33	202
September 30, 2020	0.0150	230	16	214
December 31, 2020	0.0600	922	65	857
Total	**$ 0.2000**	**$ 3,101**	**$ 233**	**$ 2,868**

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, 2020, 0.1 million (December 31, 2019 – 0.1 million) common shares were issued through the Company's dividend reinvestment plan.

Dividend Taxation

Cervus' 2020 dividends declared and paid through December 31, 2020, 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)	2020	2019	2018
Total revenue	**$ 1,227,887**	$ 1,139,034	$ 1,350,036
Income (loss) for the year	**25,087**	(8,618)	24,777
Net income (loss) per share - basic	**1.62**	(0.56)	1.58
Net income (loss) per share - diluted	**1.56**	(0.56)	1.51
Cash provided by operating activities	**92,842**	49,105	31,655
EBITDA [(1)]	**67,895**	27,942	56,728
Total assets	**516,097**	607,336	525,556
Total long-term liabilities	**90,279**	124,429	41,467
Total liabilities	**267,389**	380,198	281,857
Shareholders' equity	**248,708**	227,138	243,699
Dividends declared to shareholders	**3,101**	6,769	6,261
Dividends declared per share	**0.200**	0.440	0.400
Weighted average shares outstanding			
Basic	**15,474**	15,413	15,656
Diluted	**16,065**	15,413	16,457
Actual shares outstanding	**15,364**	15,349	15,559

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

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, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Revenue	**$ 273,878**	$ 356,163	$ 340,969	$ 256,877
Income (loss)	**5,491**	13,023	9,276	(2,703)
Gross profit	**50,685**	56,989	51,127	43,534
Gross profit margin	**18.5%**	16.0%	15.0%	16.9%
EBITDA[1]	**16,315**	26,410	19,903	5,267
Income (loss) per share:				
Basic	**0.36**	0.84	0.59	(0.17)
Diluted	**0.34**	0.81	0.57	(0.17)
Adjusted income per share[1]				
Basic	**0.28**	0.57	0.44	0.02
Diluted	**0.27**	0.54	0.43	0.02
Weighted average shares outstanding				
Basic	**15,363**	15,430	15,629	15,478
Diluted	**15,954**	16,130	16,169	15,478

($ thousands, except per share amounts)	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Revenue	$ 259,549	$ 317,082	$ 327,605	$ 234,798
(Loss) income	(7,048)	(1,675)	2,817	(2,714)
Gross profit	36,901	42,847	46,879	42,722
Gross profit margin	14.2%	13.5%	14.3%	18.2%
EBITDA[1]	838	8,230	11,981	6,893
(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

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

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, 2020, payments in arrears by such customers aggregated $1.2 million (December 31, 2019 - $1.4 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, 2020, the net residual value of such leases aggregated $301 million (December 31, 2019 - $316 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 $3.0 million at December 31, 2020 (December 31, 2019 - $2.3 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 $9.6 million at December 31, 2020 (December 31, 2019 - $9.6 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 directors and executive officers. The Company contributes to the deferred share plan on behalf of directors, 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, 2020 and 2019 was:

Year ended December 31 **($ thousands)**	**2020**	**2019**
Short-term benefits	**$ 1,939**	$ 2,515
Share-based payments	**169**	550
Total	**$ 2,108**	$ 3,065

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:

COVID-19

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, including those in Canada, Australia and New Zealand, the countries where the Company operates, have enacted measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. In addition, global oil prices declined due to a collapse in demand related to COVID-19. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable.

Any estimate of the length and severity of these developments is subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company’s operations, financial results and condition in future periods are also subject to significant uncertainty. The risks and uncertainties disclosed below could be particularly exacerbated by unprecedented conditions such as the COVID-19 pandemic and the recent commodity price challenges. Such risks include, but are not limited to:

a. a material reduction in demand for, or profitability of, our products or services, particularly in the areas of our business that are more tied to the economic activity associated with the oil and gas sector;
b. increased risk of non-payment of accounts receivable and customer defaults;
c. issues delivering the Company’s products and services due to illness, Company or government-imposed isolation programs, restrictions on the movement of personnel and supply chain disruptions;
d. risk that certain of the Company’s locations may suffer temporary closures should employees within the location contract COVID-19;
e. the negative impact on global debt and equity capital markets, including the trading price of the Company’s securities; and
f. the impact of additional legislation, regulation and other government interventions in response to the COVID-19 pandemic.

Any of these risks, and others, could have a material adverse effect on our business, operations, capital resources and/or financial results of operations.

The majority of the Company's operations are concentrated in the agricultural and distribution sectors of the economy, both of which are critical and essential components of the supply chain, especially during the current COVID-19 pandemic. Management has implemented business continuity plans and are committed to supporting our customers, while conducting business responsibly and in regulatory compliance to keep both our employees and customers safe.

We have taken precautions such as remote work from home initiatives, disinfecting high touch areas, and physical distancing in our interactions with each other and customers. Complying with the recommendation of health authorities for the isolation of certain individuals is strictly enforced across Cervus. Additional measures have also been taken to ensure that information technology, including remote access, is secure.

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./Canadian 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 $0.1 million (2019 - $0.3 million), based on the U.S. dollar floor plan balances at December 31, 2020. 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, 2020 would have increased (decreased) comprehensive income by $0.8 million (2019 - $0.5 million). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2020 would have increased (decreased) comprehensive income by $0.8 million (2019 -$0.5 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, 2020, a change in 100 basis points in interest rates would impact the Company's annual interest expense by approximately $0.9 million (2019 - $2.3 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, 2020, customer equipment leases with John Deere represented residual values of $301 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, Australian and New Zealand retailing of agriculture, transportation, and industrial equipment is influenced by seasonality. Sales activity for the Agriculture segment is normally highest between April and September during growing seasons in Canada and July through December in New Zealand and Australia. Sales in the Transportation and Industrial segments are not as heavily impacted by seasonality but do see slower sales activity in the winter months. As a result, profit or losses may not accrue uniformly from quarter to quarter.

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. This includes the ongoing economic disruptions caused by the COVID-19 pandemic, which has the potential to limit the liquidity of some customers and their ability to repay the Company, particularly in our Transportation and Industrial segments. 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 9 days for the year ended December 31, 2020 and 15 days for 2019. 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) Net Debt to Total Capital ratio (long-term debt plus current portion of long-term debt, less cash 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, excluding unrealized gains or losses from foreign currency, plus finance costs, less floorplan interest interest,divided by average total invested 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.

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.

International trade relations, particularly those directly related to the countries in which the Company operates, also have the potential to impact the Company and its customers. Political changes in the U.S. may have an impact on duties charged for goods sold to the U.S. At this point, the Company is an importer of goods from the U.S. and the overall impact of tariffs has not been significant, although it could become so depending on the legislative actions of national governments.

Environmental Risks

Our dealerships routinely handle hazardous and non-hazardous waste as part of their day-to-day operations. 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.

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. 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. 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.

The uncertainty of estimates and judgments increases in periods of high market volatility and rapid unprecedented change, which is currently occurring due to impacts of COVID-19. Management considered material accounting estimates such as its inventory provision and the going concern assessment in light of the current situation. Estimates at December 31, 2020 could change materially as the impact of the COVID-19 pandemic and its impact on the economy and the clients the Company serves continues to evolve.

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.

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, 2020.

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, 2020, 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, 2020.

There have been no changes in the design of the Company's internal control over financial reporting during 2020 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 $0.0600 per share was made to the shareholders of record as of December 31, 2020, on January 15, 2021. 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 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 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 is presented in the Adjusted Free Cash Flow section of this MD&A.

Adjusted Income (Loss)

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

($ thousands, except per share amounts)	Three month periods ended December 31		Year ended December 31	
	2020	**2019**	**2020**	**2019**
Income (loss) for the period	**$ 5,491**	$ (7,048)	**$ 25,087**	$ (8,618)
Adjustments:				
Unrealized foreign exchange (gain) loss[1]	**(712)**	(831)	**333**	(1,847)
Government wage subsidies	**(980)**	—	**(6,970)**	—
Tax impact of adjustments	**433**	222	**1,699**	493
Adjusted income (loss) for the period	**4,232**	(7,657)	**20,149**	(9,972)
Adjusted income (loss) per share:				
Basic	**$ 0.28**	$ (0.50)	**$ 1.30**	$ (0.65)
Diluted	**$ 0.27**	$ (0.50)	**$ 1.25**	$ (0.65)

Adjusted Income (Loss) Before Income Tax Expense

Three Months Ended December 31, 2020

Reconciliation of Adjusted Income (Loss) Before Income Tax Expense ($ thousands)					
Three months ended December 31, 2020	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Income (loss) before income tax expense	**$ 8,313**	$ 8,157	$ 2,683	$ 464	$ (2,991)
Adjustments:					
Unrealized foreign exchange (gain)[1]	**(712)**	—	(644)	(68)	—
Government wage subsidies	**(980)**	(757)	(199)	(24)	—
Adjusted income (loss) before income tax expense	**$ 6,621**	$ 7,400	$ 1,840	$ 372	$ (2,991)

Three Months Ended December 31, 2019

Reconciliation of Adjusted (Loss) Income 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, 2020

Reconciliation of Adjusted Income (Loss) Before Income Tax Expense ($ thousands) **Year ended December 31, 2020**	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Income (loss) before income tax expense	**$ 34,329**	$ 32,070	$ 9,251	$ 2,702	$ (9,694)
Adjustments:					
Unrealized foreign exchange loss(1)	**333**	—	307	26	—
Government wage subsidies	**(6,970)**	(1,705)	(4,060)	(1,205)	—
Adjusted income (loss) before income tax expense	**$ 27,692**	$ 30,365	$ 5,498	$ 1,523	$ (9,694)

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)

(1) - Unrealized foreign exchange gains and losses are due to changes in fair value of our US dollar forward contracts 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, 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 net income as determined in accordance with IFRS to EBITDA, as follows:

Three Months Ended December 31, 2020

EBITDA ($ thousands) **Three months ended December 31, 2020**	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Net income (loss)	**$ 5,491**	$ 8,157	$ 2,683	$ 464	$ (5,813)
Add:					
Interest	**2,178**	1,521	444	89	124
Income taxes	**2,822**	—	—	—	2,822
Depreciation and Amortization	**5,824**	3,661	1,292	730	141
EBITDA[1]	**16,315**	13,339	4,419	1,283	(2,726)
EBITDA margin[2]	**6.0%**	7.5%	5.4%	9.1%	
Reconciliation of adjusted EBITDA[1]:					
EBITDA[1]	**16,315**	13,339	4,419	1,283	(2,726)
Adjustments:					
Unrealized foreign exchange (gain)	**(712)**	—	(644)	(68)	—
Government wage subsidies	**(980)**	(757)	(199)	(24)	—
Adjusted EBITDA[1]	**$ 14,623**	$ 12,582	$ 3,576	$ 1,191	$ (2,726)

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%	2.9%	
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, 2020

EBITDA ($ thousands) **Year ended December 31, 2020**	**Total**	**Agriculture**	**Transportation**	**Industrial**	**Corporate**
Net income (loss)	**$ 25,087**	$ 32,070	$ 9,251	$ 2,702	$ (18,936)
Add:					
Interest	**11,572**	6,650	3,645	353	924
Income taxes	**9,242**	—	—	—	9,242
Depreciation and Amortization	**21,994**	13,341	5,324	2,785	544
EBITDA[(1)]	**67,895**	52,061	18,220	5,840	(8,226)
EBITDA margin[(2)]	**5.5%**	6.1%	5.5%	12.4%	
Reconciliation of adjusted EBITDA[(1)]:					
EBITDA[(1)]	**67,895**	52,061	18,220	5,840	(8,226)
Adjustments:					
Unrealized foreign exchange loss	**333**	—	307	26	—
Government wage subsidies	**(6,970)**	(1,705)	(4,060)	(1,205)	—
Adjusted EBITDA[(1)]	**$ 61,258**	$ 50,356	$ 14,467	$ 4,661	$ (8,226)

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)

(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 government wage subsidies.

(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 income before income tax, excluding unrealized (gains) losses from foreign currency, plus finance costs, less floorplan interest expense (referred to as "Return"), divided by 4 quarter average total invested capital. Total invested capital is calculated as net debt plus the book value of equity.

The reconciliation of ROIC is presented in the table below.

Reconciliation of Return On Invested Capital ($ thousands, except as noted)	2020				2019				2018			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Income (loss) before tax	$ 8,313	$18,304	$11,267	$(3,555)	$(8,807)	$(2,308)	$ 2,811	$(2,144)	$ 7,642	$15,820	$13,582	$(2,941)
(+) Unrealized foreign exchange (gain) loss	(712)	(667)	(2,365)	4,077	(831)	207	(625)	(598)	1,256	(730)	38	635
(+) Finance costs	2,008	2,419	2,921	3,449	3,188	3,598	3,233	3,037	1,684	1,696	1,629	1,343
(-) Floorplan interest expense	(309)	(589)	(1,014)	(1,383)	(1,210)	(1,139)	(1,050)	(1,009)	(1,129)	(1,234)	(1,263)	(1,012)
Return	9,300	19,467	10,809	2,588	**(7,660)**	**358**	**4,369**	**(714)**	**9,453**	**15,552**	**13,986**	**(1,975)**
Shareholders' equity	248,708	243,297	231,767	220,136	227,138	232,742	237,885	240,747	243,700	240,018	230,502	223,806
(+) Long-term debt	2,938	3,158	18,645	44,544	33,370	31,621	75,691	45,995	25,123	39,263	30,346	27,354
(+) Current portion of long-term debt	2,872	2,840	8,150	10,199	9,795	11,204	12,048	13,488	13,964	7,976	8,958	10,485
(-) Cash	(26,697)	(26,762)	(30,586)	(24,473)	(7,946)	(7,146)	(10,256)	(2,562)	(6,106)	(8,810)	(1,930)	(3,236)
Total Invested Capital	227,821	222,533	227,976	250,406	**262,357**	**268,421**	**315,368**	**297,668**	**276,681**	**278,447**	**267,876**	**258,409**
Return - trailing 12 months	42,164	25,204	6,095	(346)	(3,647)	13,466	28,660	38,278	37,016	33,640	31,967	29,775
Total Invested Capital - 4 quarter average	232,184	240,818	252,290	274,138	285,954	289,535	292,041	280,168	270,353	264,694	263,322	262,544
Return On Invested Capital - trailing 12 months	18.2%	10.5%	2.4%	(0.1%)	**(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 gross profit, 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 are presented in the tables below.

Consolidated

Reconciliation of Product Support Gross Profit Dollars Growth % and Absorption - Consolidated	2020					2019					2018				
($ thousands, except as noted)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**
Product support revenues - reported	**$336,011**	**$84,256**	**$96,292**	**$81,083**	**$74,380**	**$325,641**	$80,498	$88,445	$83,141	$73,557	**$304,591**	$76,175	$82,249	$79,759	$66,408
(+) Product support revenues - internal activity	**29,564**	**7,144**	**8,116**	**7,820**	**6,484**	**33,898**	7,094	8,725	9,966	8,113	**37,806**	7,828	9,940	11,149	8,889
Product support revenues - total	**365,575**	**91,400**	**104,408**	**88,903**	**80,864**	**359,539**	87,592	97,170	93,107	81,670	**342,397**	84,003	92,189	90,908	75,297
Product support cost of sales - reported	**209,847**	**52,336**	**59,281**	**51,014**	**47,216**	**202,935**	50,692	55,068	51,963	45,212	**190,412**	47,892	51,154	49,830	41,536
(+) Product support cost of sales - internal activity	**14,483**	**3,564**	**3,970**	**3,786**	**3,163**	**16,151**	3,457	4,223	4,562	3,909	**17,974**	3,999	4,521	4,764	4,690
Product support cost of sales - total	**224,330**	**55,900**	**63,251**	**54,800**	**50,379**	**219,086**	54,149	59,291	56,525	49,121	**208,386**	51,891	55,675	54,594	46,226
Product Support Gross Profit	**141,245**	**35,500**	**41,157**	**34,103**	**30,485**	**140,453**	**33,443**	**37,879**	**36,582**	**32,549**	**134,011**	**32,112**	**36,514**	**36,314**	**29,071**
Product support gross profit dollars growth ($)	**792**	**2,057**	**3,278**	**(2,479)**	**(2,064)**	**6,442**	1,331	1,365	268	3,478	**6,966**	2,670	1,687	1,887	722
Product Support Gross Profit Growth (%)	**0.6%**	**6.2%**	**8.7%**	**(6.8%)**	**(6.3%)**	**4.8%**	**4.1%**	**3.7%**	**0.7%**	**12.0%**	**5.5%**	**9.1%**	**4.8%**	**5.5%**	**2.5%**
Total SG&A expenses	**167,146**	**42,942**	**42,888**	**40,804**	**40,512**	**171,278**	43,261	42,499	42,397	43,121	**171,324**	43,534	44,169	43,409	40,212
(-) Equipment commissions expense	**(14,096)**	**(3,200)**	**(4,219)**	**(3,984)**	**(2,693)**	**(11,974)**	(2,962)	(3,366)	(3,376)	(2,271)	**(13,541)**	(2,849)	(4,375)	(3,978)	(2,339)
(-) Amortization of intangibles	**(3,887)**	**(1,055)**	**(1,053)**	**(892)**	**(887)**	**(4,655)**	(984)	(1,169)	(1,251)	(1,251)	**(4,255)**	(1,086)	(747)	(1,211)	(1,211)
(+) Net finance costs	**10,210**	**1,860**	**2,293**	**2,766**	**3,291**	**12,369**	3,036	3,422	3,061	2,850	**5,477**	1,241	1,565	1,479	1,192
(-) Floorplan interest expense	**(3,295)**	**(309)**	**(589)**	**(1,014)**	**(1,383)**	**(4,408)**	(1,210)	(1,139)	(1,050)	(1,009)	**(4,638)**	(1,129)	(1,234)	(1,263)	(1,012)
Total Operating Costs	**156,078**	**40,238**	**39,320**	**37,680**	**38,840**	**162,609**	**41,141**	**40,247**	**39,781**	**41,441**	**154,367**	**39,711**	**39,378**	**38,436**	**36,842**
Absorption	**90%**	**88%**	**105%**	**91%**	**78%**	**86%**	**81%**	**94%**	**92%**	**79%**	**87%**	**81%**	**93%**	**94%**	**79%**

Agriculture

Reconciliation of Product Support Gross Profit Dollars Growth and Absorption - Agriculture	**2020**					**2019**					**2018**				
($ thousands, except as noted)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**
Product support revenues - reported	**$178,730**	**$43,712**	**$56,689**	**$44,691**	**$33,638**	**$159,287**	$40,474	$47,551	$39,216	$32,046	**$143,097**	$35,670	$42,162	$38,114	$27,151
(+) Product support revenues - internal activity	**21,880**	**5,092**	**6,312**	**6,019**	**4,457**	**25,043**	4,782	6,639	7,370	6,252	**28,316**	5,857	7,528	8,091	6,840
Product support revenues - total	**200,610**	**48,804**	**63,001**	**50,710**	**38,095**	**184,330**	45,256	54,190	46,586	38,298	**171,413**	41,527	49,690	46,205	33,991
Product support cost of sales - reported	**108,865**	**26,062**	**34,064**	**27,503**	**21,236**	**95,842**	24,178	28,258	24,557	18,849	**88,088**	21,808	25,363	24,065	16,852
(+) Product support cost of sales - internal activity	**10,449**	**2,458**	**3,019**	**2,863**	**2,109**	**11,576**	2,280	3,119	3,248	2,929	**13,065**	2,855	3,324	3,255	3,631
Product support cost of sales - total	**119,314**	**28,520**	**37,083**	**30,366**	**23,345**	**107,418**	26,458	31,377	27,805	21,778	**101,153**	24,663	28,687	27,320	20,483
Product Support Gross Profit	**81,296**	**20,284**	**25,918**	**20,344**	**14,750**	**76,912**	**18,798**	**22,813**	**18,781**	**16,520**	**70,260**	**16,864**	**21,003**	**18,885**	**13,508**
Product support gross profit dollars growth ($)	**4,384**	**1,486**	**3,105**	**1,563**	**(1,770)**	**6,652**	1,934	1,810	(104)	3,012	**2,267**	1,839	781	587	(940)
Product Support Gross Profit Growth (%)	**5.7%**	**7.9%**	**13.6%**	**8.3%**	**(10.7%)**	**9.5%**	**11.5%**	**8.6%**	**(0.6%)**	**22.3%**	**3.3%**	**12.2%**	**3.9%**	**3.2%**	**(6.5%)**
Total SG&A expenses	**96,111**	**24,220**	**26,151**	**23,795**	**21,945**	**95,674**	23,511	24,847	23,614	23,702	**97,097**	24,154	25,967	24,545	22,431
(-) Equipment commissions expense	**(11,438)**	**(2,421)**	**(3,552)**	**(3,318)**	**(2,147)**	**(9,217)**	(2,301)	(2,710)	(2,479)	(1,727)	**(10,750)**	(2,214)	(3,629)	(3,076)	(1,831)
(-) Amortization of intangibles	**(2,677)**	**(757)**	**(758)**	**(583)**	**(579)**	**(3,098)**	(640)	(818)	(820)	(820)	**(2,680)**	(781)	(632)	(633)	(634)
(+) Net finance costs	**6,258**	**1,426**	**1,485**	**1,474**	**1,873**	**7,182**	1,654	2,102	1,666	1,760	**2,045**	360	605	567	513
(-) Floorplan interest	**(1,448)**	**(245)**	**(282)**	**(310)**	**(611)**	**(2,272)**	(479)	(701)	(505)	(588)	**(2,351)**	(664)	(632)	(549)	(506)
Total Operating Costs	**86,806**	**22,223**	**23,044**	**21,058**	**20,481**	**88,269**	**21,745**	**22,720**	**21,477**	**22,328**	**83,361**	**20,855**	**21,679**	**20,854**	**19,973**
Absorption	**94%**	**91%**	**112%**	**97%**	**72%**	**87%**	**86%**	**100%**	**87%**	**74%**	**84%**	**81%**	**97%**	**91%**	**68%**

Transportation

Reconciliation of Product Support Gross Profit Dollars Growth and Absorption - Transportation	2020					2019					2018				
($ thousands, except as noted)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**
Product support revenues - reported	**$129,336**	**$32,706**	**$32,791**	**$30,176**	**$33,663**	**$136,296**	$33,157	$33,462	$35,365	$34,312	**$133,587**	$33,452	$33,028	$34,385	$32,722
(+) Product support revenues - internal activity	**5,838**	**1,477**	**1,445**	**1,347**	**1,569**	**6,881**	1,910	1,608	2,053	1,310	**7,459**	1,431	1,947	2,491	1,590
Product support revenues - total	**135,174**	**34,183**	**34,236**	**31,523**	**35,232**	**143,177**	35,067	35,070	37,418	35,622	**141,046**	34,883	34,975	36,876	34,312
Product support cost of sales - reported	**85,804**	**21,711**	**21,666**	**20,224**	**22,203**	**90,553**	22,691	22,669	22,700	22,493	**87,085**	22,237	21,833	21,836	21,179
(+) Product support cost of sales - internal activity	**3,165**	**835**	**791**	**715**	**824**	**3,649**	984	866	1,079	720	**3,958**	864	990	1,260	844
Product support cost of sales - total	**88,969**	**22,546**	**22,457**	**20,939**	**23,027**	**94,202**	23,675	23,535	23,779	23,213	**91,043**	23,101	22,823	23,096	22,023
Product Support Gross Profit	**46,205**	**11,637**	**11,779**	**10,584**	**12,205**	**48,975**	**11,392**	**11,535**	**13,639**	**12,409**	**50,003**	**11,782**	**12,152**	**13,780**	**12,289**
Product support gross profit dollars growth ($)	**(2,770)**	**245**	**244**	**(3,055)**	**(204)**	**(1,028)**	(390)	(617)	(141)	120	**3,484**	526	739	1,078	1,141
Product Support Gross Profit Growth (%)	**(5.7%)**	**2.2%**	**2.1%**	**(22.4%)**	**(1.6%)**	**(2.1%)**	**(3.3%)**	**(5.1%)**	**(1.0%)**	**1.0%**	**7.5%**	**4.7%**	**6.5%**	**8.5%**	**10.2%**
Total SG&A expenses	**47,188**	**11,943**	**11,293**	**11,495**	**12,457**	**51,315**	13,134	12,279	12,905	12,997	**50,036**	12,431	12,122	13,063	12,420
(-) Equipment commissions expense	**(1,968)**	**(561)**	**(523)**	**(495)**	**(389)**	**(1,945)**	(494)	(449)	(686)	(316)	**(2,065)**	(436)	(552)	(688)	(390)
(-) Amortization of intangibles	**(799)**	**(196)**	**(194)**	**(205)**	**(204)**	**(1,116)**	(225)	(243)	(324)	(324)	**(1,171)**	(261)	5	(458)	(457)
(+) Net finance costs	**3,240**	**358**	**727**	**1,019**	**1,136**	**3,455**	1,081	779	828	767	**2,444**	497	629	772	546
(-) Floorplan interest	**(1,813)**	**(56)**	**(300)**	**(692)**	**(765)**	**(2,063)**	(720)	(423)	(521)	(399)	**(2,244)**	(445)	(592)	(707)	(500)
Total Operating Costs	**45,848**	**11,488**	**11,003**	**11,122**	**12,235**	**49,646**	**12,776**	**11,943**	**12,202**	**12,726**	**47,000**	**11,786**	**11,612**	**11,982**	**11,619**
Absorption	**101%**	**101%**	**107%**	**95%**	**100%**	**99%**	**89%**	**97%**	**112%**	**98%**	**106%**	**100%**	**105%**	**115%**	**106%**

Industrial

Reconciliation of Product Support Gross Profit Dollars Growth and Absorption - Industrial	2020					2019					2018				
($ thousands, except as noted)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**
Product support revenues - reported	**$27,945**	**$ 7,838**	**$ 6,812**	**$ 6,216**	**$ 7,079**	**$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	**1,846**	**575**	**359**	**454**	**458**	**1,974**	402	478	543	551	**2,031**	540	465	567	459
Product support revenues - total	**29,791**	**8,413**	**7,171**	**6,670**	**7,537**	**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	**15,178**	**4,563**	**3,551**	**3,287**	**3,777**	**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	**869**	**271**	**160**	**208**	**230**	**926**	193	238	235	260	**951**	280	207	249	215
Product support cost of sales - total	**16,047**	**4,834**	**3,711**	**3,495**	**4,007**	**17,466**	4,016	4,379	4,941	4,130	**16,190**	4,127	4,165	4,178	3,720
Product Support Gross Profit	**13,744**	**3,579**	**3,460**	**3,175**	**3,530**	**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 ($)	**(822)**	**326**	**(71)**	**(987)**	**(90)**	**818**	(213)	172	513	346	**1,215**	305	167	222	521
Product Support Gross Profit Growth (%)	**(5.6%)**	**10.0%**	**(2.0%)**	**(23.7%)**	**(2.5%)**	**6.0%**	**(6.1%)**	**5.1%**	**14.1%**	**10.6%**	**9.7%**	**9.7%**	**5.2%**	**6.5%**	**18.9%**
Total SG&A expenses	**14,630**	**3,819**	**3,095**	**3,619**	**4,097**	**16,351**	4,419	3,750	3,934	4,248	**15,045**	4,001	3,795	3,858	3,391
(-) Equipment commissions expense	**(690)**	**(218)**	**(144)**	**(171)**	**(157)**	**(813)**	(167)	(207)	(211)	(228)	**(726)**	(200)	(195)	(214)	(118)
(-) Amortization of intangibles	**(411)**	**(102)**	**(101)**	**(104)**	**(104)**	**(441)**	(119)	(108)	(107)	(107)	**(404)**	(44)	(120)	(120)	(120)
(+) Net finance costs	**249**	**59**	**72**	**66**	**52**	**232**	35	60	70	67	**(23)**	5	7	(21)	(14)
(-) Floorplan interest	**(34)**	**(8)**	**(7)**	**(12)**	**(7)**	**(73)**	(11)	(15)	(25)	(23)	**(43)**	(20)	(10)	(7)	(6)
Total Operating Costs	**13,744**	**3,550**	**2,915**	**3,398**	**3,881**	**15,256**	**4,157**	**3,480**	**3,661**	**3,957**	**13,849**	**3,742**	**3,477**	**3,496**	**3,133**
Absorption	**100%**	**101%**	**119%**	**93%**	**91%**	**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 is presented in the table below.

Reconciliation of Equipment Inventory Turnover	**2020**				**2019**				**2018**			
($ thousands, except as noted)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Agriculture												
Used equipment cost of sales - trailing 12 months	**$ 278,859**	**$ 299,513**	**$ 289,978**	**$ 268,402**	**$ 268,665**	$ 265,767	$ 265,530	$ 282,314	**$ 276,640**	$ 257,899	$ 232,120	$ 223,561
Average used equipment inventory - last four quarters	**97,000**	**107,794**	**125,722**	**142,219**	**151,042**	161,519	164,101	159,385	**155,219**	147,714	138,769	125,688
Used Equipment Inventory Turnover - trailing 12 months	**2.87**	**2.78**	**2.31**	**1.89**	**1.78**	**1.65**	**1.62**	**1.77**	**1.78**	**1.75**	**1.67**	**1.78**
Transportation												
Total equipment cost of sales - trailing 12 months	**194,100**	**189,268**	**184,110**	**193,667**	**182,295**	185,841	198,287	208,982	**215,761**	200,331	182,164	162,352
Average total equipment inventory - last four quarters	**69,574**	**77,311**	**82,479**	**77,147**	**67,823**	59,749	54,854	60,647	**64,102**	62,939	59,416	51,168
Total Equipment Inventory Turnover - trailing 12 months	**2.79**	**2.45**	**2.23**	**2.51**	**2.69**	**3.11**	**3.61**	**3.45**	**3.37**	**3.18**	**3.07**	**3.17**
Industrial												
Total equipment cost of sales - trailing 12 months	**15,612**	**14,232**	**16,178**	**18,021**	**19,593**	21,120	19,756	20,248	**17,422**	15,971	15,188	13,817
Average total equipment inventory - last four quarters	**6,251**	**6,782**	**6,839**	**6,947**	**7,035**	7,454	7,596	7,056	**6,387**	5,480	5,068	5,307
Total Equipment Inventory Turnover - trailing 12 months	**2.50**	**2.10**	**2.37**	**2.59**	**2.79**	**2.83**	**2.60**	**2.87**	**2.73**	**2.91**	**3.00**	**2.60**