SETTING A NEW PATH TO PERFORMANCE

2019 ANNUAL REPORT | CERVUS EQUIPMENT CORPORATION

CERVUS EQUIPMENT

People. Power. Service.™

ABOUT
CERVUS EQUIPMENT

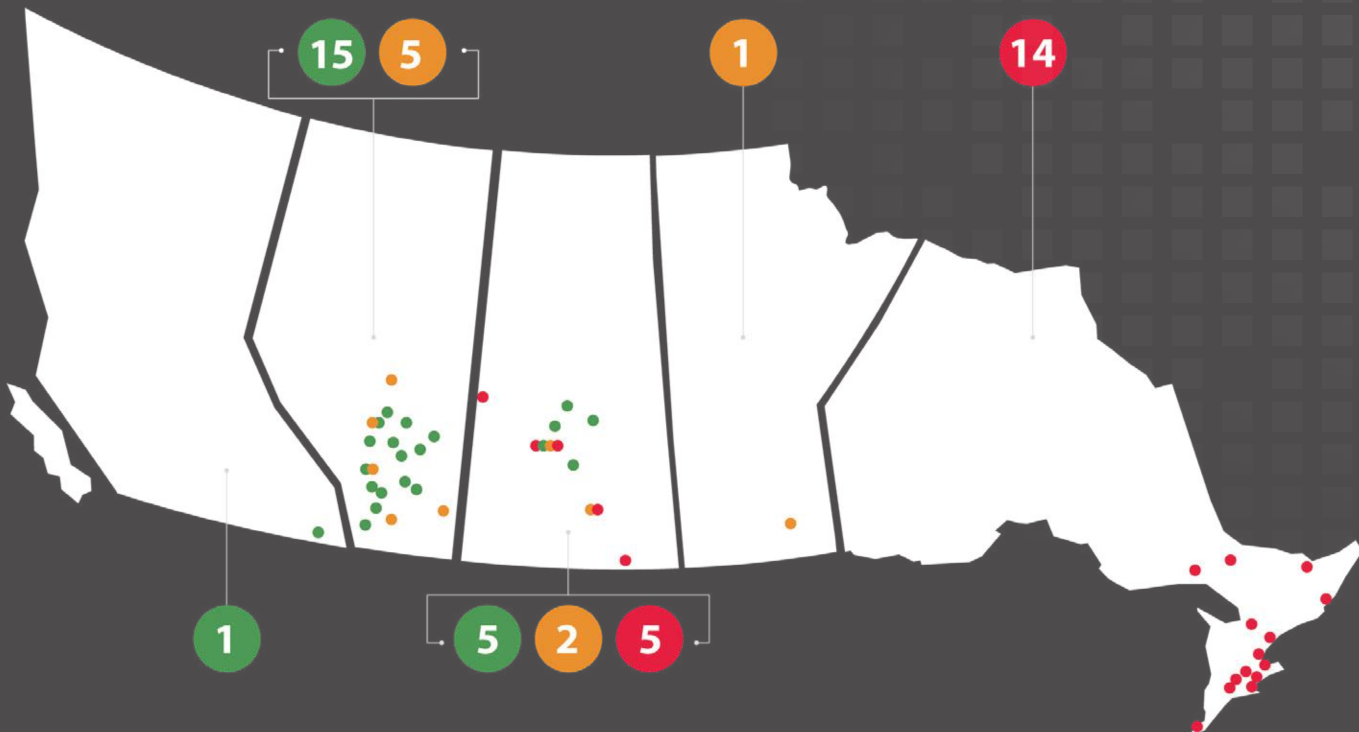
Cervus Equipment Corporation ("Cervus" "Company" "our" or "we") provides equipment solutions to customers in agriculture, transportation, and industrial markets across Canada, Australia, and New Zealand. Throughout its territories and across its diverse markets, Cervus dealerships are united in delivering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

The Company was founded in 2000. Its common shares are listed on the Toronto Stock Exchange and trade under the symbol "CERV". Please visit **cervusequipment.com** for more information.

This Annual Report contains forward-looking statements and refers to non-GAAP financial measures, including key performance indicators. Please read the sections "Cautionary Note Regarding Forward-Looking Statements", "Non-GAAP Financial Measures" and "Key Performance Indicators" contained in Cervus' Management Discussion & Analysis for the year ended December 31, 2019, available on **sedar.com**.

OUR LOCATIONS

A Diversified Platform For Growth



AGRICULTURE	INDUSTRIAL
36 DEALERSHIPS	8 DEALERSHIPS
TRANSPORTATION	**TOTAL**
19 DEALERSHIPS	63 DEALERSHIPS

SETTING A NEW PATH TO PERFORMANCE

In late 2019, we announced our strategy to address shortcomings, capture value from our scale and past growth, and drive the innovation our future will require. Amid the headwinds of a challenging market, we set the stage for improvement with the introduction of a mission, vision, and ambitious five-year strategy to become the leading full-service equipment solutions provider in our industries and geographies.

We are confident that through a structured and disciplined approach, we can transform Cervus, harness innovation and technology, develop new capabilities, and deliver value for customers, shareholders, employees and OEMs.

A MESSAGE FROM
PETER LACEY

CHAIR OF THE BOARD

I am honoured to serve as Chair of the Board of Cervus and pleased to own the largest equity stake in a business that is actively and strategically working to become better, stronger and more capable of creating value than ever before.

Fellow Shareholders,

As you will read in this annual report, Cervus is changing with the full support of your Board. Since being appointed, our new CEO, Angela Lekatsas, has developed and implemented a five-year growth and improvement strategy designed to increase profitability and deliver tangible benefits to all stakeholders.

The plan is calibrated to transform our performance through disciplined adherence to financial and operating processes and a concerted effort to increase product support revenue as a percentage of total sales. These changes are needed as we set out to deliver better return on invested capital, provide stability for our business across market cycles, and elevate the role of product support within our Company.

Peter Lacey | Chair of the Board

2019 Results

I say these changes are needed because as you will read in this annual report, 2019 was a challenging year. Despite the benefits of market diversification, our results were whipsawed by depressed demand for – and delayed customer spending on – new agricultural equipment in Western Canada, excess used equipment inventory across the industry, and excess freight capacity and decreasing freight rates in the transportation industry. On a 22% decrease in equipment revenue, partially offset by a 6% increase in product support revenue, Cervus lost $0.56 per basic share.

In response to these challenges, our management team took decisive actions to protect the balance sheet by reducing excess used inventory while also implementing more discipline in our sales processes. As a result, we retained operational flexibility as we enter 2020.

Building on Our Strengths

Your Board was actively involved in the development of our new plan. In fact, we saw a compelling need for change and began framing a new strategy before Angela's appointment. We wholeheartedly endorse the changes that are taking place under Angela's leadership. We are united in support of retaining the Company's traditional strengths including an empowered employee-ownership culture, best-in-market customer service, and our longstanding partnerships with world-leading Original Equipment Manufacturers ("OEMs"). Our strategy does not negate these strengths; it builds upon them for a defined purpose: value creation.

Board Activities

As part of our commitment to ongoing education and engagement, the Board allocates time for field work. In 2019, we held our year-end committee and Board meetings in Australia and toured our branch facilities to gain a better appreciation for our market position. I also attended Cervus' inaugural Institutional Investor Day in Toronto along with two other Directors, which afforded us the opportunity to discuss our business and strategy with those in attendance.

During 2019, your Board made two appointments. We selected Angela as our CEO in May following an extensive search and rigorous screening process. Angela is uniquely qualified to lead Cervus. She has deep and relevant finance and operational expertise in agriculture earned during a 15-year career at Agrium, the public company predecessor to Nutrien. Angela knows Cervus: she has served on our Board since 2013 and as Audit Committee Chair from 2015 to the spring of 2019.

I am pleased with how quickly our management team responded to market conditions by reinforcing disciplined sales process and reducing excess used inventory.

Second, in September, we appointed Wendy Henkelman to our Board. Wendy is an experienced public company director. At ATB Financial, she chairs the Human Resource Committee and is a member of the Audit Committee. She also serves as a Director of and chairs the Audit Committee for Postmedia Network Canada Corp. During her distinguished career, Wendy held executive positions in major public oil and gas companies.

Both of these accomplished women are Chartered Professional Accountants (CPA, CA).

Future Forward

I have been in the equipment industry for 38 years. From that experience, I recognize that success – more than ever – requires scale and strong partnerships. Cervus has both today. Success also requires discipline to realize the true benefits of scale, and focused accountability for creating value for all partners. Having worked directly with our leaders and given the evolution of our culture transition, I have no doubt the organization will be aligned and successful in value creation.

I want to thank all of our partners: shareholders, customers, employees and our OEMs, for your continued commitment to Cervus. My thanks also to Graham Drake for 19 years of inspired leadership as our co-founder. Graham retired in May 2019, but his contributions live on.

I encourage all shareholders to attend our annual meeting on Thursday April 23, 2020 at 4:00 p.m. (MST) at Cervus' corporate headquarters located at 5201, 333- 96 Avenue N.E. Calgary, Alberta. I look forward to seeing you there.

Yours sincerely,

Peter Lacey

Chair of the Board

A MESSAGE FROM
ANGELA LEKATSAS

PRESIDENT AND CHIEF EXECUTIVE OFFICER

In late 2019, we introduced an ambitious five-year strategy to transform Cervus into the leading full-service equipment solutions provider in our territories. Having taken the costly but necessary actions to align our inventory with the current market, we enter 2020 with a strong balance sheet, a healthier level of used inventory, specific targets for value creation and a skilled workforce that is enthusiastically embracing structured change. Even more fundamentally, a sense of accountability is building up and down the line towards performance and progression for our shareholders and all partners.

Angela Lekatsas | President and CEO

Fellow Shareholders,

I was appointed President and CEO with a clear mandate from our Board of Directors to create value. I am excited by our prospects and delighted to be working closely with the talented and dedicated people of Cervus to transform what we do, how we do it and how we measure success.

Before describing our planned transformation, I believe it's important to discuss 2019, which was a staging year for our Company. In my first 100 days as CEO, my priority was listening to employees while travelling to the majority of our dealership locations. I also spent time with customers, OEM partners and shareholders. Together with my management team, I assessed our assets, strategy and opportunities at an enterprise level. I'll start by telling you what I saw, beginning with an assessment of our business strengths of which there are many:

- From branch staff to management and on to our Board, Cervus has an extraordinary team of people in Canada, Australia and New Zealand.
- We have a proud history of serving our customers, many of whom are lifelong partners who trust Cervus to support their needs across more than one of our divisions.
- We represent the world's best OEMs and gain tremendous competitive advantage from their industry-leading investments in equipment and technology innovation. In turn, we are the single largest John Deere Agriculture, Peterbilt Truck and Clark Forklift dealer in our territories based on volume.
- As the largest diversified agriculture and transportation dealer in our territories, we have the scale necessary to compete and invest in meeting evolving customer expectations.
- We have empowered decision-making capabilities right at the customer level.
- We have built a reputation as a trustworthy acquisition partner among other dealers who count on us to maintain and build on their life's work, when they wish to sell.
- We have developed a market-leading training business that in 2019 alone, certified more than 11,500 students for equipment operator safety training.
- We have a well-defined business model based on selling specialized capital equipment and serving customers as they use it.
- We have an extensive network of service bays and a team of factory-trained parts and service technicians to support our customers and deliver the equipment uptime they need to achieve business success.

As the largest diversified agriculture and transportation dealer in our territories, we have the scale necessary to compete and invest in meeting evolving customer expectations.

These facts are impressive, but my first 100 days was also the time to understand why our financial results over the past five years have been disappointing. What became obvious to me was that Cervus had encountered growing pains related to integration of past acquisitions that contributed to inefficient systems and lack of standardized processes. As a result, our growth in capabilities, scale and revenue was not accompanied by a commensurate increase in profitability. Our share price lagged industry peers as our five-year trailing Return on Invested Capital ("ROIC") was 8.4%; and is, in my view, much too low for a company with our potential.

Furthermore, despite a strong presence in our Transportation and Industrial sectors and Southern Hemisphere businesses, historically about 70% of our revenue (50% in 2019) remains exposed to Western Canadian agriculture. Three strong years of selling new agricultural equipment, without an equal focus on disciplined used sales processes and inventory management practices resulted in a buildup of used equipment inventory taken on trade that continued to depreciate and incur interest charges as it aged. The benefits of diversification and stable product support revenues were not sufficient to counterbalance the overweight impact of Agriculture's used equipment inventories.

As a result of these observations, the management team and I began building a new path to performance.

2019's Challenges

Shortly after my appointment in May of 2019, industry strengths and weaknesses were brought into sharp focus by a confluence of events impacting both our Agriculture and Transportation segments. In Agriculture, lower farm incomes in Western Canada, reduced commodity prices, higher input costs, poor weather conditions and international trade disputes all acted to dampen new and used equipment spending across the board and the industry experienced excess inventory levels as a result.

In our Transportation segment, early-year factory delays, intense competition, particularly in the fleet market, and excess freight capacity created multiple challenges.

Across both segments, customers were well positioned to defer their equipment purchases in 2019 following record purchase activity in 2017 and 2018. This coupled with intense competition and increased Canadian dollar-cost of primarily U.S.-manufactured equipment added to these challenges across our segments.

In response to this confluence of headwinds, my first request of our organization was to protect our balance sheet by reducing used agriculture equipment inventory. Cervus rallied to this task and cut used Agriculture inventory by $67 million or 37% in the second half of 2019 compared to June 30.

Despite best efforts, total equipment revenue dropped 22% in 2019. Meantime, product support revenue was up 6% as a result of an increase in demand for parts and service from customers operating their older equipment longer. While our product support business was not large enough to offset the impact of this perfect storm, our ability to grow product support sales in 2019 despite market headwinds confirmed that our new strategy to increase the proportion of revenues from product support is an appropriate defensive play against cyclical volatility.

Rising to The Challenge

In response to this confluence of headwinds, my first request of our organization was to protect our balance sheet by reducing used agriculture equipment inventory. Cervus rallied to this task and cut used Agriculture inventory by $67 million or 37% in the second half of 2019 compared to June 30. While this resulted in a non-cash write down of $24 million and margin pressure on used equipment, we enter 2020 with agriculture equipment inventory better aligned to the current market, which reduces prospective obsolescence and interest costs. Used equipment turns of 1.78 times at December 31, 2019 compared to 1.62 times at June 30, 2019 signaled that our inventory position had moved markedly closer to being rightsized for sustainable market demand. This response served to protect our balance sheet, keep our credit metrics well within our banking covenants and maintain organizational resiliency in the face of uncertain market conditions.

Setting the Foundation: Cultural Alignment

My experiences have taught me that recognizing what your culture is and what you need it to be, are the most critical steps in successfully leading an organization to improved profitability. In 2019, we identified where our culture needed structure and focus and developed the top five key cultural attitudes and behaviours each employee needs to embrace to find success and deliver on our future objectives. These attitudes, shown below and expressed in the first person, were conveyed to all employees during training led by certified instructors and expectation setting facilitated by the leadership team.

In 2019, we identified where our culture needed structure and focus and developed the top five key cultural attitudes and behaviours each employee needs to embrace to find success and deliver on our future objectives.

- **Serving Customers** – I own the customer experience and will provide the best solution that will consistently deliver or exceed customers' expectations.
- **Focus & Finish** – I align and commit my actions to deliver on our established priorities.
- **Inspire Performance** – I support others through frequent, meaningful feedback that fosters ownership and accountability to drive results.
- **Drive Business Excellence** – I support and execute standardized, effective and repeatable processes to enhance the customer experience and optimize our business results.
- **Ownership** – I respect how decisions are made and own them as if they were mine.

I saw first-hand these cultural attitudes and behaviours begin to take hold across our business. On my 100 day listening tours, the number one comment I heard from employees was: "Our cultural training was the best training I have seen at Cervus." While culture does not change overnight, employee feedback suggests to me that up and down the line, there is a willingness to embrace cultural change and a recognition of the merits of doing so.

New Vision and Mission

During the intense effort to address 2019 market challenges, align our culture, and establish a new path to performance, we also introduced a new corporate vision and mission to guide us in our change management efforts. As stated in our new vision, our transformation will elevate Cervus into "the leading full-service equipment solutions provider" while our new mission dedicates us "to advance our customers' success by providing practical and intelligent equipment solutions and support."

These statements serve as our north star: they inspire our strategies and inform our actions for the future.

A New Path to Performance

Our new path requires transformation with a clear vision, aligned goals and objectives throughout our Company and it demands the full engagement of our workforce.

To start us on this new path, I brought focus to our leadership and structure with special emphasis on addressing areas where we have fundamental challenges.

At the divisional level, I reaffirmed our approach to strong, decentralized management with the appointments of Scott Johnston to the position of Vice President, Canadian Agriculture effective October 1, 2019 and Tim Ormrod as Managing Director, Australia & New Zealand on July 25, 2019. Scott joined Cervus four years ago with prior leadership success as Vice President and Chief Operating Officer of Siemens Transportation and Chief Operating Officer of Yanke Group and most recently as our General Manager of Agriculture Saskatchewan. Tim started his career at Cervus in 2012 after serving as Senior Supervisor at KPMG New Zealand. Prior to his most recent appointment, he excelled in various roles including Integration Manager for New Zealand and Australia and General Manager of Marketing and Sales for Cervus Australia.

Along with Fred Hnatiw, Vice President, Operations, Transportation and Industrial, our divisional leaders are highly capable business executives with intimate knowledge of their markets and a passion for collaborating and leveraging each other's skills to enhance value creation. Each played formative roles in the development of our strategy and each is aligned to our plan.

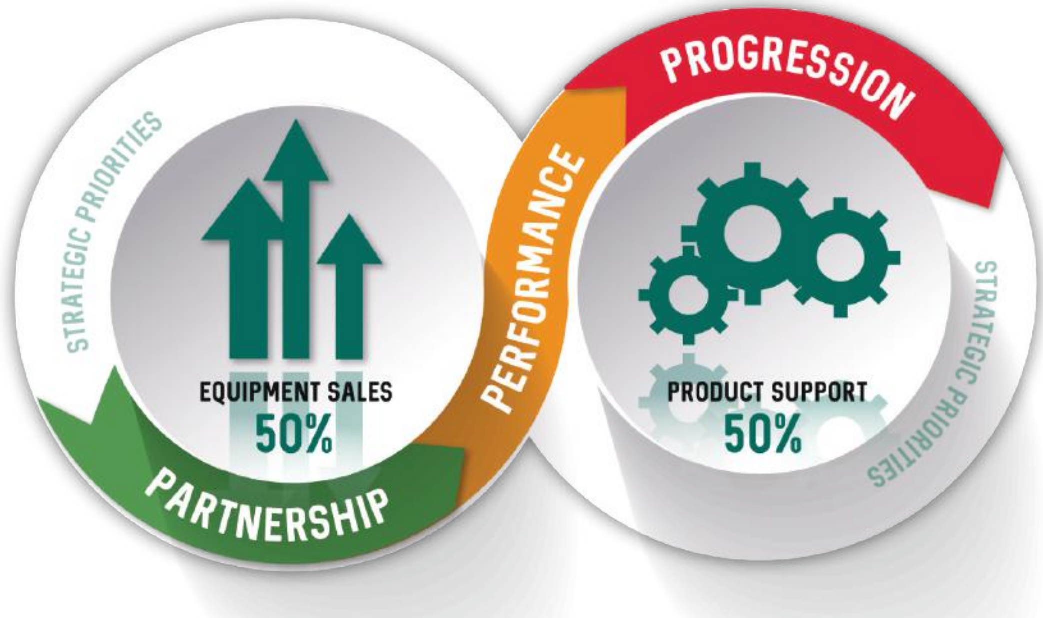
In September, I appointed a dedicated corporate leader to take responsibility for all business development, innovation and marketing efforts across our three segments. Having one leader responsible for these important tasks ensures collaboration across all divisions and geographies as we identify and assess opportunities for growth and innovation and implement best practices company-wide. Taking a "One Cervus" approach will break down silos, ensure cross-pollination and support the development of the solutions culture we intend to build.

As stated in our new vision, our transformation will elevate Cervus into "the leading full-service equipment solutions provider" while our new mission dedicates us "to advance our customers' success by providing practical and intelligent equipment solutions and support."

Our Five-Year Strategy

After my appointment in May, I spent considerable time on driving intensive business analysis which culminated in the five-year strategy underpinning our new path to performance. We presented the strategy to our Board of Directors in September and introduced it to our employees, OEMs, customers and shareholders in November.

This strategy consists of three components: Partnership, Performance and Progression. In each of these "three Ps", we developed principles, priorities and objectives to guide our transformation. Required actions are now underway.



PARTNERSHIPS

Partnerships include our relationships with customers, employees, OEMs and shareholders. For customers: Cervus seeks a consistent level of service excellence through communications, innovation and process improvements. For employees: we must deliver targeted training and development to support engagement, attraction and retention, and build capabilities related to the velocity of innovation and technology evolution in our industries. For our OEM partners: our mutual success is intrinsically linked with delivery of market share, customer experience and dealer profitability. For shareholders: we must generate superior returns on a sustained basis.

PERFORMANCE

Performance means delivering value for all our partners with laser focus and alignment on our industry's key value drivers including gross margin growth, uncompromising customer experience, market share growth, and operational efficiency.

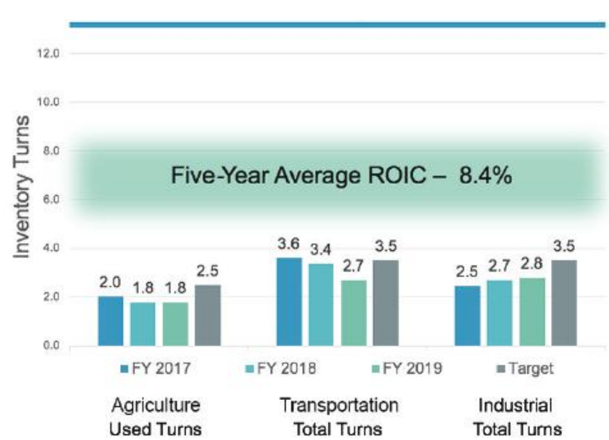
Within the Performance component of our strategy, we have set specific financial targets, chosen to balance the goal of higher profitability with the need for balance sheet strength. A strong balance sheet provides the financial backbone to support us through the bottom of the cycle and provides incremental benefits at the top. In each case, we will measure progress using Key Performance Indicators ("KPIs") that we have now entrenched in our management process.

Key Performance Indicators:

- **Return on Invested Capital:** ROIC measures our ability to allocate capital effectively and is calculated by dividing Earnings Before Interest and Taxes (minus floorplan interest) by average net debt (excluding floorplan debt) plus the book value of equity. Our five-year goal is to build a business capable of achieving 20% ROIC on a sustained basis. As noted above, our 5-year average ROIC was 8.4%. To drive this KPI upward, we will bring much greater focus to used inventory turns as inventory is the largest asset on our balance sheet. Higher turns (calculated by dividing cost of goods sold by average inventory) will improve the efficiency of asset utilization and ROIC. Furthermore, providing exceptional refurbishment of trade-ins – a differentiating product support capability – and expanding our knowledge of customer profiles and preferences will allow us to match reliable used equipment with customer needs. Our operational leaders have direct influence on inventory held and now operate with inventory-turn objectives that are specific and relevant to their businesses. At the corporate level, we will do our part through prudent choices in how and when we deploy capital using a "compete for capital" approach. Competition will ensure the best investments will receive funding.

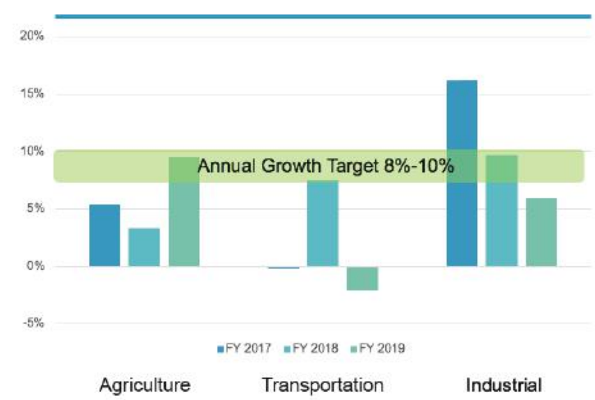
Our five-year goal is to build a business capable of achieving 20% ROIC on a sustained basis.

ROIC 2024 Target – 20%



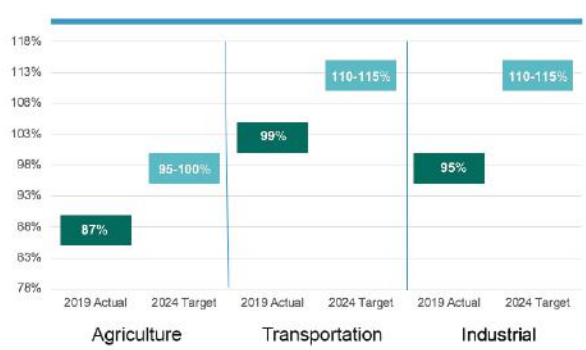
- **Product Support Gross Profit Dollar Growth:** By the end of our five-year strategy horizon, our objective is to have established a platform capable of generating consistent cash flows across business cycles. We will measure success by compound annual growth in product support gross profit dollars. Institutionalizing this metric ensures we focus not just on revenue growth but pulling more dollars to the bottom line. Overall product support gross profit improved 4.8% in 2019 and 5.5% in 2018. In five years, we aspire to be running a business capable of achieving 8-10% CAGR in this KPI. To deliver, we will need a combination of new business lines, new systems, new product offerings, stronger customer engagement and more efficient cost structures.

Product Support Gross Profit Growth



- **Absorption:** Calculated by dividing product support gross profit dollars by operating costs (excluding whole-goods commissions and floorplan interest), absorption is an indicator of our ability to generate profitability across market cycles. At 100% absorption, our operations achieve breakeven profitability before selling any equipment. To move the needle on absorption, we must grow product support margin and/or reduce operating costs. Efficient expense structure is essential, as is innovative service delivery. In 2019, our absorption ranged from 87% to 99%, with a five-year goal to achieve absorption of 100% to 115% depending on the industry we serve. It will take a concerted effort to achieve this KPI and our entire organization is aligned to this goal.

Absorption



We will measure progress using Key Performance Indicators that we have now entrenched in our managment process.

PROGRESSION

Progression speaks to our commitment to continuously move our Company forward through a combination of organic and inorganic growth. We aspire to achieve sustainable equilibrium between revenues from new equipment sales and product support in five years' time. A move toward a 50/50 split between these activities is a move toward more predictable and sustainable cash flow and defensive earnings stream in cyclical industries. The rationale is straightforward. On the one hand, continued emphasis on equipment sales and market share growth is critical to building and maintaining a large machine population in our territories (which fuels product support opportunities) and sustaining our valued OEM relationships. On the other, increased emphasis on product support is essential to delivering a great customer experience, improving the predictability of our revenues, and achieving profit margins that will drive shareholder value.

Within our plan, organic growth will come from adding service solutions beyond bricks and mortar, introducing new product support offerings, expanding our industry footprint and rental business as well as training and racking solutions businesses. Inorganic growth will be achieved through selective acquisitions that fit our business model and can be integrated in a straightforward manner. We will be disciplined and purposeful in our prioritization of acquisitions based on geographic location relative to existing operations and the existence of complementary opportunities.

Our future opportunities will be dramatically influenced by the velocity of change driven by innovation and technology with data being among the most valuable assets within the customer-dealer-OEM partnership. Further, I believe the dealer of tomorrow will be differentiated to a large degree by employees who are technologically savvy and who possess the capabilities (and technology tools) to help customers optimize their equipment and maximize the value of their operations.

In 2019, our absorption ranged from 87% to 99%, with a five-year goal to achieve absorption of 100% to 115% depending on the industry we serve.

We aspire to achieve sustainable equilibrium between revenues from new equipment sales and product support in five years' time.

Adopting a creative and customer-solutions mindset is now imperative for two reasons:

- First, customers expect more from their dealer than equipment. They want a high-touch, ongoing relationship punctuated by rapid, expert and consistent advice and service customized to their business needs.

- Second, equipment is becoming ever more capable and complex. With complexity, comes greater need for technology-savvy employees to offer and deliver end-to-end solutions.

Telematics-enabled machine tracking produces opportunities for 24/7 remote monitoring and diagnostics and expands possibilities for the delivery of preventative maintenance. Sophisticated onboard capabilities create an ongoing need for training as a service. Against this backdrop, many customers are increasingly reluctant to take on the role of servicing their own machines because it is difficult and costly to recruit, train and equip mechanics. Cervus has built the foundation to deliver solutions. Now we need to expand it for the future.

Our strategy dedicates us to creating value for shareholders realized in two ways: dividends and appreciation in our stock price. As Cervus performs, we see increased profitability and cash generation to be correlated with a stable, growing shareholder distribution and a rising share price.

Looking Ahead

As we enter 2020, we have charted our new path to performance. We have introduced detailed strategies to become the leading full-service equipment solutions provider in our industries and implemented targeted, carefully-selected and aggressive KPIs to measure and account for our progress. We have an organizational structure that supports growth, empowerment and innovation. We have a talented management group with the depth of experience and expertise we need to operate a large, diversified international business and to capture value from growth: past, present and future. We have added new capabilities to drive enterprise-wide innovation and best practices. Most importantly, we have an ambitious, responsive team of 1,500 that cares deeply about our customers, shareholders and OEMs and believes in our Vision, Mission and disciplined approach.

It should be noted that transformation at the scale and scope we seek will happen incrementally, which is why we have set five-year targets. Our customer markets will also influence the cadence of improvement. Does this mean we need to wait five years to see progress? Absolutely not. The disciplines we are embedding in our culture will begin to positively influence our activities starting in 2020.

I look forward to a future of performance and progression that rewards all partners. I encourage you to be part of that future and I thank you for placing your trust in Cervus.

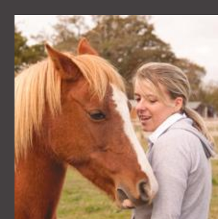
Yours sincerely,

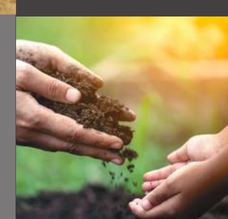
Angela Lekatsas

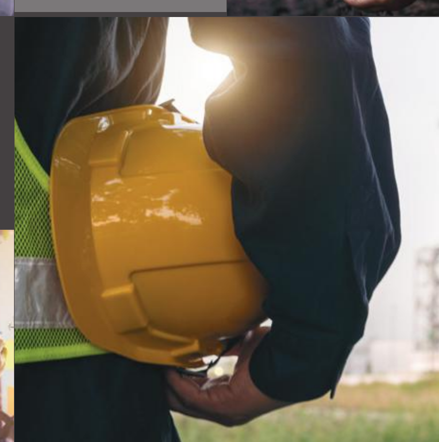
President and Chief Executive Officer

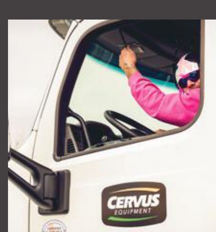
SUSTAINABILITY

Our objective is to create industry-leading value for our partners – customers, shareholders, employees and Original Equipment Manufacturers – in a sustainable way, conserving resources and earning the trust of the communities we serve. We are proud of our efforts and quick to acknowledge the need to continuously improve in all priority areas: safety, employee development and recruiting, diversity and inclusion and community impact. Our sustainability report provides a synopsis of our activities in 2019.









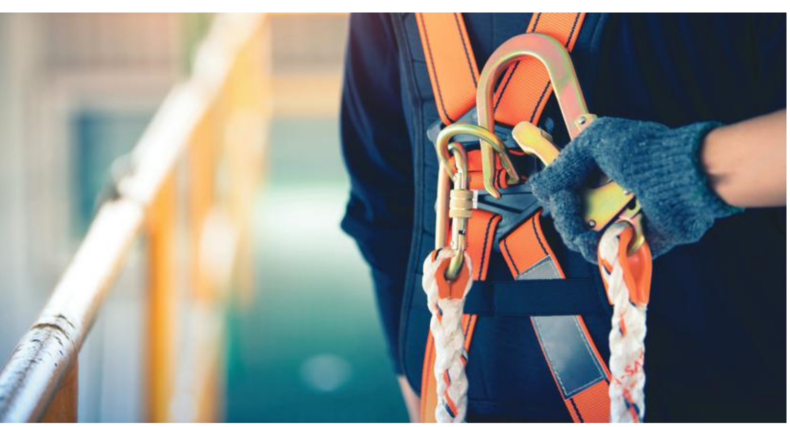
Safety

Sustainability at Cervus starts with protecting our employees. We are accountable for their safety, and for modelling the right behaviours, and we accept these responsibilities as our most important priority.

To demonstrate our commitment, Cervus is COR™ certified. Certificate of Recognition (COR™) is a provincially recognized health and safety accreditation program open to employers that go beyond the legal requirements of the Workers Compensation Act and Occupational Health and Safety to take a best-practice approach to implementing health and safety programs. To maintain its standing, Cervus is recertified every three years and must conduct internal maintenance audits and comply with all the terms set out by COR™. This program helps us to constantly improve.

Nothing, however is more important than making annual investments in training, coaching, recognition and employee engagement. This spending is targeted to nurture our health and safety culture, build accountability for safety at all levels – not just management – and ensure all employees start and finish the jobs they are assigned in a safe manner. We hold weekly Toolbox meetings to underscore the importance of safety in all daily activities and in 2019, employees completed over 50,000 hours of safety training.

In 2019, we implemented our "Good Catch" program to improve our level of near-miss reporting at every level of our organization. A near miss is an event that did not result in injury or damage – but had the potential to do so. We believe – and experience shows – that encouraging employees to report these close calls provides important teaching opportunities that prevent incidents in the future.



Our continued focus on safety in our operations has resulted in a 72% reduction in lost-time days due to workplace injuries over the past three years. Our Board closely monitors our health and safety outcomes and expects employees at all levels to continue to drive towards an injury-free workplace and achieve a sustainable safety culture.

We are also pleased to help our customers achieve their safety objectives. Through formal online, in-class and on-site training, we equip customers with the knowledge they need to avoid injury while operating a variety of material handling equipment. Courses are held throughout the year and focus on theory followed by intensive hands-on education and final evaluation. In 2019, 11,511 graduates of our courses received Operator Equipment Safety Certification. Customers tell us they appreciate training as it gives them the insight they need to get the most out of their equipment, safely.

Workforce Development and Recruitment

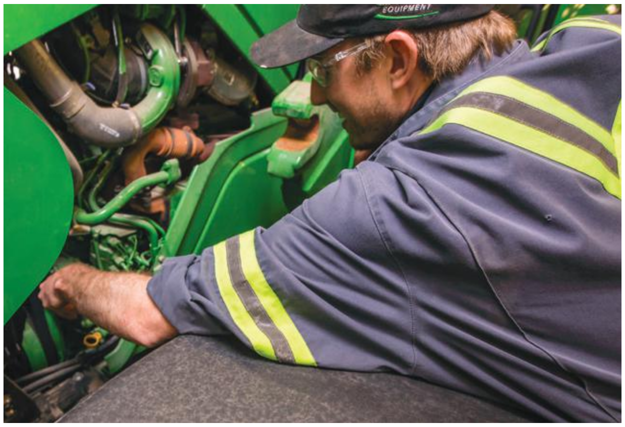
Ensuring that we have a talented workforce with employees who are engaged, inspired, invested and properly skilled empowers our business strategy and the achievement of the goals that we set for the Company. We invest in our people and take steps to advance employee knowledge, skills and engagement and create opportunities for them to maximize their overall contribution.

In 2019, Cervus focused on structured training to engage cultural transformation and leadership development skills. This training and development provided a strong base for sustained motivation and engagement.

We also provided numerous OEM workshops and other sessions to learn best practices and to foster skills and insights in key financial concepts, sales and operational excellence strategies.

Product support is a major focus of our coming five-year transformation. We are keenly and strategically committed to growing and retaining our workforce, including our technical service team. Our Service Technician Apprenticeship Program provides 80% apprenticeship tuition top up and education reimbursement for skills development. We also operate a Technician Exchange program across our operations in Canada, Australia and New Zealand. This international exchange program is an attractive feature for technicians and a competitive advantage for Cervus in meeting workforce needs.

In 2019, we brought greater focus to standardizing our recruiting and on-boarding process across Cervus to enhance the candidate experience. These improvements streamlined our ability to source top talent and to integrate new employees to our culture.



Skills development is just one of the ways we invest in our workforce. Another is the Cervus Employee Share Purchase Program (ESPP). As shareowners of Cervus, participating employees have another direct stake in their own success and alignment of interest with public shareholders. We are proud that more than 45% of our employees participate in the ESPP program.

Succession planning helps us to identify and develop our future leaders and is critically important to our sustainability efforts and to our Board of Directors. In 2019, we introduced the Cervus framework for succession planning, which will be further enhanced in 2020 to include Talent Reviews and development through targeted work experiences and mentorships.

Total Rewards Reallocated for Greater Value

In 2019, we redesigned our health benefit program and changed the benefit administrator, which will result in enhanced benefits with no projected health-care premium increases for three years. This change will also improve efficiency for our HR and Payroll teams.

Our compensation program was also redesigned to drive our business strategy and align Short-Term and Long-Term incentives with financial metrics tied to our Key Performance Indicators. We began the redesign by completing a competitive review with the goal of implementing a job band structure to ensure alignment within the markets in which we compete for talent. We introduced a consistent job-band compensation structure and piloted a skill-based Service Technician Productivity Incentive program in Ontario (alignment of skill to work). This incentive program will expand to other divisions in 2020.

Diversity and Inclusion

We recognize the advantage of a diverse and inclusive team. We ensure all individuals enjoy respect and dignity in a safe work environment, free from discrimination, harassment and workplace violence and intentionally seek to encourage diverse candidates to participate in our industry and join our Company.

The first face of Cervus that many candidates see is our recruiting materials. In 2019, we made a conscious effort to reflect the diversity we seek by updating our marketing campaigns and Careers section of our website.

During 2019, we initiated a recruitment campaign in Africa to source and hire seasoned John Deere Service Technicians. Working in partnership, our Operations and Human

Resources teams recruited eight Service Technicians from Johannesburg, South Africa. Seven of our newest team members are now working in various Cervus locations in Saskatchewan, with the 8th to start in mid-2020. Our culture of caring was key in supporting our new recruits as they took up residence in Canada. Our local management teams engaged with our prospective employees months in advance of their relocation, set up a dedicated Facebook page for their families to communicate and provided assistance to secure housing and arrange temporary vehicles.

Gender equality is important at Cervus. We continued our efforts to increase the proportion of women in our workforce and in our leadership. We made inroads in various roles, including the Board of Directors (two of seven now women) and in our senior leadership ranks (33% female). In 2019, the Board appointed our first-ever female CEO, proving that no position at Cervus is out of reach for women or any other underrepresented group in our industry.

In 2019, we conducted a gender pay gap review across the Company and were pleased the results indicated our organization was very balanced in its compensation practices. Where we did identify a few gender-pay gaps, management took action to correct them.

As mandated by our Board of Directors, Cervus operates with an Employment Equity Policy and all employment decisions – including hiring, promotions, job assignments, compensation, access to benefits and training and performance management – are based on individual merit.

Community Investment

For Cervus and our employees, thinking and acting locally is about helping our customers as well as helping the communities, in and around our locations, to grow and thrive.

Youth development and education is important to us. We are a long-time partner of 4-H Alberta and 4-H Saskatchewan. In collaboration with 4-H, we award scholarships to students with strong community involvement and excellent academic standing. These scholarships support students in attending Olds College in Alberta, a school specializing in agriculture, horticulture, land and environmental stewardship. We also make contributions and donations to a number of worthy schools and educational programs in the communities in which we operate.

Beginning in 2019, Cervus partnered with the College of Agriculture and Bioresources at the University of Saskatchewan to send students to the AgBio Discovery Camp. It offers an entertaining, hands-on introduction to modern agriculture for campers from both urban and rural backgrounds. We also support local Agricultural Societies that have been an active part of our communities for generations as well as numerous local community rodeos including the Calgary Stampede.

Our employees and stores are generous and thoughtful members of the community. Every year – including in 2019 – they raise funds to support minor sports leagues, community arenas, local food banks and booster clubs. We are a proud sponsor of Ronald McDonald House Charities in support of families seeking vital medical treatment for their seriously ill or injured children.

In late 2019, when vast areas of Australia were consumed by wildfires that threatened residents and their homes as well as indigenous wildlife, Cervus donated $5,000 to the Victoria Bushfire Appeal. Our employee volunteers organized events and promotions to raise money for relief in February 2020 and have raised more than $40,000 for both the New South Wales and Victoria Rural fire services and the World Wildlife Fund.

Giving back to the communities where we live and work matters to us and we're passionate about helping to build healthy, sustainable communities.

Our Role in Sustainable Agriculture Practices

We recognize that agricultural producers are stewards of the land that needs to be protected for future generations, and we have a vital role to play in supporting sustainable agriculture practices. Cervus is engaged in advancing the adoption of science-based sustainable practices and incorporating technology and innovation into farming operations.

The fight against climate change is one we and our business partners take seriously. To reduce greenhouse gas emissions, our OEM partners have developed engine technologies that reduce exhaust particulate matter and improve energy efficiency. We are doing our part with a zero-tolerance policy on selling or servicing engines with tampered emissions control devices or with modifications affecting power levels.

As farm equipment has become much more technologically advanced, it has also increased the complexity of how to run equipment to its fullest potential. Cervus Equipment has developed a sophisticated Precision Ag team with the skills needed to help farmers properly optimize their farm technology.

Our Precision Ag services help our customers get the most out of their machines by:

- Optimizing combine settings ensuring more crop ends up in the bin instead of out the back of the machine
- Optimizing machine guidance to get across the field with the fewest passes reducing fuel usage and wear
- Training, on-site, to be sure operators understand the capabilities and impacts of equipment technology with practical, hands-on courses
- Performing machine calibrations so the best field application results are realized

The future focus for Cervus is advancing from equipment optimization to data optimization. With proper data, a producer will be able to make intelligent and informed decisions on how better to manage their operations economically and sustainably. In addition to helping customers make the most of their machine data, we assist customers with yield and profit mapping services.

Our expertise in data interpretation combined with our customers' deep knowledge of farming ensures the right ingredients are matched to the right types of soils at the right time of the year and in the right amounts needed to optimize yield, lower costs and minimize environmental impacts.

Code of Conduct

We expect our Board of Directors, officers, employees, contractors and consultants to comply with our corporate values. The three most important are:

- Honest, fair and trustworthy business behaviour
- Compliance with laws & regulations
- Safety and respect for our personnel and our customers

We provide online Code of Conduct training and certify compliance with the Code annually for Directors and those in management positions as well as all new hires. All employees retrain and rededicate themselves to the Code every second year. The Code explicitly covers workplace behaviors, anti-discrimination, harassment prevention, safe work environment, bribery and anti-corruption.

Cervus maintains a global Whistleblower policy, available at **cervusequipment.com** and encourages all of its partners to raise questions or concerns and report misconduct. We protect any employee who reports misconduct in good faith.

Cervus Equipment Corporation Management's Discussion + Analysis

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

Management's Discussion & Analysis

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

Forward-Looking Statements

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

Key Performance Indicators and Non-GAAP Financial Measures

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

Company Overview

Corporate Profile

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

Reporting Segments

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

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

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

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

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

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

Business Model

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

CEO Appointment

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

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

Strategic Framework

Strategic Goal

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

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

From experience, we have found that product support offers a variety of benefits, including the opportunity to provide valued ongoing services to customers, in addition to their equipment purchases. While typical product support offerings include parts, service, rentals, training and storage solutions, we see emerging opportunities to expand these offerings through application and interpretation of innovation and technology that complements and/or leverages the technology in the equipment we sell. We believe the recurring nature of product support makes it a stable business that can improve overhead absorption in our dealerships, while delivering customer affinity for Cervus and our OEM partners.

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

Overview of 2019 Results

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

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

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

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

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

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

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

Consolidated Results

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

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

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

2019 Annual Financial Results

Revenue

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

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

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

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

Gross Profit

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

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

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

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

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

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

Income

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

Balance Sheet

Inventory

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

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

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

Shareholder Distributions

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

Fourth Quarter 2019 Results – Q4 2019 v Q4 2018

Revenue

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

Gross Profit

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

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

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

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

SG&A expenses excluding equipment commissions, decreased 1%, primarily due to a decrease in annual performance incentives and marketing expenditures, partly offset by the inclusion of the Red Deer Agriculture dealership acquired late in the fourth quarter of 2018.

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

Income

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

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

Key Performance Indicators

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

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

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

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

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

Return on Invested Capital

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

Product Support Gross Profit Growth

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

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

Absorption Percentage

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

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

Equipment Inventory Turnover

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

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

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

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

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

Agriculture

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

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

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

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

Transportation

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

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

Industrial

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

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

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

Business Segment Results

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

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

Summary of Annual Business Segment Results

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

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

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

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

Summary of Fourth Quarter Business Segment Results

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

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

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

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

Agriculture Segment Results

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

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

Revenue and Gross Profit

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

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

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

SG&A and Net Finance Costs

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

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

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

Income

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

Transportation Segment Results

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

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

Revenue and Gross Profit

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

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

Gross profit decreased $0.5 million in the quarter and $1.9 million for the year, primarily due to lower equipment revenues and the rental fleet reduction discussed above. The increase in gross profit margin as a percent of revenue, for the quarter and the year, reflected the shift in sales mix towards higher margin product support revenues.

SG&A and Net Finance Costs

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

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

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

Income

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

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

Industrial Segment Results

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

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

Overview

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

Industrial Segment Same Store Highlights

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

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

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

Revenue and Gross Profit

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

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

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

SG&A and Net Finance Costs

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

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

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

Income

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

Cash Flow

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

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

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

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

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

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

Adjusted Free Cash Flow

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

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

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

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

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

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

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

Product Support Revenue By Segment

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

Summary of Annual Product Support Revenue

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

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

Summary of Fourth Quarter Product Support Revenue

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

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

Consolidated Financial Position & Liquidity

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

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

Working Capital

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

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

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

Liquidity Risk

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

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

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

Contractual Obligations

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

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

Inventories

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

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

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

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

Accounts Receivable

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

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

Capital Resources

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

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

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

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

Operating and Other Bank Credit Facilities

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

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

During the third quarter of 2019, the definition of Cervus' fixed charge coverage ratio under the Syndicated credit facility was amended to exclude certain restructuring costs in the determination of adjusted EBITDA and to exclude share purchases under the Normal Course Issuer Bid ("NCIB") from shareholder distributions for the period in which purchases under the NCIB are suspended.

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

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

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

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

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

Capital Facilities

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

Floor Plan Facilities

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

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

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

Outstanding Share Data

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

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

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

Normal Course Issuer Bid ("NCIB")

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

Dividends Paid and Declared to Shareholders

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

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

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

Dividend Reinvestment Plan ("DRIP")

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

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

Taxation

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

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

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

Summary of Annual Results

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

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

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

Summary of Quarterly Results

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

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

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

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

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

Off-Balance Sheet Arrangements

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

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

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

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

Transactions with Related Parties

Key Management Personnel Compensation

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

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

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

Other Related Party Transactions

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

Business Risks and Uncertainties

Risk Management Framework

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

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

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

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

Market Risk

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

Commodity Price

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

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

Foreign Currency Exposure

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

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

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

Interest Rate Risk

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

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

Reliance on our Key Manufacturers and Dealership Arrangements

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

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

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

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

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

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

Inventory Risk

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

Industry Competitive Factors

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

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

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

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

Seasonality and Cyclicality

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

Human Resources

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

Legislative

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

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

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

Environmental Risks

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

Acquisition and Integration Risks

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

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

Credit Risk

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

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

Capital Risk Management

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

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue or repurchase shares, raise or retire term debt, and/or adjust the amount of distributions paid to shareholders.

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

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

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

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

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

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

Debt Financing

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

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

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

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

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

Cyber Security and Terrorism

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

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

Critical Accounting Estimates and Judgments

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

Determination of Fair Values

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Property, Plant and Equipment

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

Intangible Assets

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

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

Trade and Other Receivables
The fair value of trade and other receivables is estimated at the present value of the future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes or when such assets are acquired in a business combination.

Other Non-Derivative Financial Liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Derivative Financial Instruments
The fair value of foreign currency derivative financial instruments is calculated based on a market comparison technique. The fair value is based on similar contracts in an active market and based on quotes using the prevailing foreign exchange translation rate from the Bank of Canada or similar sources.

Taxation Matters

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

Lease Arrangements

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

Net Realizable Value of Inventories

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

Asset Impairment

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

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

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

Changes in Significant Accounting Policies

IFRS 16 Leases

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

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

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

Consolidated

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

Agriculture

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

Transportation

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

Industrial

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

Corporate

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

Responsibility of Management and Board

Disclosure Controls

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

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

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

Internal Controls over Financial Reporting

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

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

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

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

Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

Material Assumptions and Risks for 2024 Targets

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

Return on Invested Capital

Material assumptions:

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

Material risks:

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

Product Support Gross Profit Growth

Material assumptions:

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

Material risks:

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

Absorption Percentage

Material assumptions:

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

Material risks:

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

Equipment Inventory Turnover

Material assumptions:

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

Material risks:

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

Additional GAAP Financial Measures

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

Gross Profit

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

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

Income (Loss) from Operating Activities

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

Non-GAAP Financial Measures

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

Working Capital

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

Adjusted Free Cash Flow

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

Adjusted (Loss) Income

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

Adjusted (Loss) Income

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

Adjusted (Loss) Income Before Income Tax Expense

Three Months Ended December 31, 2019

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

Year Ended December 31, 2019

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

Three Months Ended December 31, 2018

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

Year Ended December 31, 2018

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

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

EBITDA

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

Three Months Ended December 31, 2019

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

Year Ended December 31, 2019

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

Three Months Ended December 31, 2018

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

Year Ended December 31, 2018

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

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

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

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

Return On Invested Capital

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

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

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

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

Product Support Gross Profit Growth and Absorption

Product Support Gross Profit Growth

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

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

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

Absorption Percentage

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

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

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

Reconciliation of Product Support Gross Profit Growth and Absorption

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

Consolidated

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

Agriculture

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

Transportation

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

Industrial

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

Equipment Inventory Turnover

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

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

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

Consolidated Financial Statements of

CERVUS EQUIPMENT CORPORATION

For the years ended December 31, 2019 and 2018

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Cervus Equipment Corporation

Opinion

We have audited the consolidated financial statements of Cervus Equipment Corporation (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

KPMG

Emphasis of Matter – Prospective Change in Accounting Policy

We draw attention to Note 4 to the consolidated financial statements which indicates that the Entity has changed its accounting policy for leases and has applied that change on a modified retrospective basis.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

– the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

– the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

– Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Shane Doig.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 11, 2020

CERVUS EQUIPMENT CORPORATION
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018

($ thousands)	Note	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		**$ 7,946**	$ 6,106
Accounts receivable and other assets	6	**74,942**	71,969
Inventories	7	**319,619**	328,186
Total current assets		**402,507**	406,261
Non-current assets			
Other long-term assets	8	**13,599**	9,375
Property and equipment	9	**138,705**	58,328
Intangible assets	10	**38,015**	42,640
Goodwill	10	**22,897**	21,624
Total non-current assets		**213,216**	131,967
Total assets		**$ 615,723**	$ 538,228
Liabilities			
Current liabilities			
Trade and other liabilities	11	**$ 63,183**	$ 77,713
Floor plan payables	12	**182,379**	157,615
Current portion of term debt	12	**9,795**	13,964
Current portion of lease obligation	13	**8,799**	3,770
Total current liabilities		**264,156**	253,062
Non-current liabilities			
Term debt	12	**33,370**	25,123
Lease obligation	13	**84,084**	7,501
Deferred income tax liability	14	**6,975**	8,843
Total non-current liabilities		**124,429**	41,467
Total liabilities		**388,585**	294,529
Equity			
Shareholders' capital	16	**83,740**	86,540
Deferred share plan	20	**10,271**	8,693
Other reserves		**5,195**	5,195
Accumulated other comprehensive (loss) income		**(136)**	506
Retained earnings		**128,068**	142,765
Total equity		**227,138**	243,699
Total liabilities and equity		**$ 615,723**	$ 538,228

Approved by the Board:
"Peter Lacey" Director "Wendy Henkelman" Director

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

CERVUS EQUIPMENT CORPORATION
Consolidated Statements of Comprehensive (Loss) Income
For the years ended December 31, 2019 and 2018

($ thousands)	Note	2019	2018
Revenue			
Equipment sales		**$ 813,393**	$ 1,041,835
Parts		**218,888**	206,128
Service		**87,878**	82,860
Rentals and other		**18,875**	19,213
Total revenue		**1,139,034**	1,350,036
Cost of sales		**(969,683)**	(1,140,958)
Gross profit		**169,351**	209,078
Other income	18	**3,844**	3,443
Selling, general and administrative expense	19	**(171,278)**	(173,045)
Income from operating activities		**1,917**	39,476
Finance income		**687**	854
Finance costs		**(13,056)**	(6,352)
Net finance costs	21	**(12,369)**	(5,498)
Share of profit of equity accounted investees, net of income tax		**6**	124
(Loss) income before income tax expense		**(10,446)**	34,102
Income tax recovery (expense)	14	**1,828**	(9,325)
(Loss) income for the year		**(8,618)**	24,777
Other comprehensive (loss) income			
Foreign currency translation differences for foreign operations, net of tax		**(642)**	315
Total comprehensive (loss) income for the year		**(9,260)**	25,092
Net (loss) income per share:			
Basic	22	**$** (0.56)	$ 1.58
Diluted	22	**$** (0.56)	$ 1.51

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

CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018

Attributable to Equity Holders of the Company

($ thousands)	Note	Share capital	Deferred share plan	Other reserves	Cumulative translation account	Retained earnings	Total
Balance December 31, 2017		**$ 88,163**	**$ 7,455**	**$ 5,195**	**$ 191**	**$ 124,249**	**$ $ 225,253**
Comprehensive income for the year							
Profit		-	-	-	-	24,777	24,777
Other comprehensive income							
Foreign currency translation adjustments, net of tax		-	-	-	315	-	315
Total comprehensive income for the year		-	-	-	315	24,777	25,092
Transactions with owners, recorded directly in equity							
Dividends to equity holders		-	-	-	-	(6,261)	(6,261)
Shares issued through DRIP		710	-	-	-	-	710
Shares issued through deferred share plan		276	(276)	-	-	-	-
Share-based payment transactions		-	1,514	-	-	-	1,514
Common shares repurchased		(2,609)	-	-	-	-	(2,609)
Transactions with owners		(1,623)	1,238	-	-	(6,261)	(6,646)
Balance December 31, 2018		**$ 86,540**	**$ 8,693**	**$ 5,195**	**$ 506**	**$ 142,765**	**$ $ 243,699**
Balance at January 1, 2019, as previously reported		86,540	8,693	5,195	506	142,765	243,699
Impact of change in accounting policy	4	-	-	-	-	690	690
Adjusted balances at January 1, 2019		**$ 86,540**	**$ 8,693**	**$ 5,195**	**$ 506**	**$ 143,455**	**$ $ 244,389**
Comprehensive loss for the year							
Loss		-	-	-	-	(8,618)	(8,618)
Other comprehensive loss							
Foreign currency translation adjustments, net of tax		-	-	-	(642)	-	(642)
Total comprehensive loss for the year		-	-	-	(642)	(8,618)	(9,260)
Transactions with owners, recorded directly in equity							
Dividends to equity holders	16	-	-	-	-	(6,769)	(6,769)
Shares issued through DRIP	16	770	-	-	-	-	770
Shares issued through deferred share plan	16	370	(370)	-	-	-	-
Share-based payment transactions		-	1,948	-	-	-	1,948
Common shares repurchased	16	(3,940)	-	-	-	-	(3,940)
Transactions with owners		(2,800)	1,578	-	-	(6,769)	(7,991)
Balance December 31, 2019		**$ 83,740**	**$ 10,271**	**$ 5,195**	**$ (136)**	**$ 128,068**	**$ $ 227,138**

CERVUS EQUIPMENT CORPORATION
Consolidated Statement of Cash Flows
For the years ended December 31, 2019 and 2018

($ thousands)	Note	2019	2018
(Loss) income for the year		**$ (8,618)**	$ 24,777
Adjustments for:			
Income tax (recovery) expense	14	**(1,828)**	9,325
Depreciation	9	**19,714**	10,856
Amortization of intangibles	10	**4,655**	4,255
Equity-settled share-based payment transactions		**1,948**	1,514
Net finance costs	21	**13,332**	6,661
Unrealized foreign exchange (gain) loss	18	**(1,847)**	1,199
Non-cash impairment of inventories	7	**24,006**	11,513
(Gain) on sale of property and equipment	18	**(436)**	(1,889)
Share of (profit) of equity accounted investees, net of tax		**(6)**	(124)
Change in non-cash working capital	23	**(1,815)**	(36,432)
Cash provided from operating activities		**49,105**	31,655
Cash taxes paid		**(8,016)**	(11,454)
Interest paid		**(14,018)**	(7,512)
Net cash provided from operating activities		**27,071**	12,689
Cash flows from investing activities			
Interest received		**687**	854
Business acquisitions (net of cash received)		**-**	(12,595)
Purchase of property and equipment	9	**(15,671)**	(12,854)
Proceeds from (payments for) intangible assets and goodwill	10	**693**	(622)
Insurance proceeds for property and equipment		**-**	1,971
Proceeds from disposal of property and equipment	9	**2,616**	4,911
Proceeds from sale of Commercial operations		**-**	14,218
Net cash (used in) investing activities		**(11,675)**	(4,117)
Cash flows from financing activities			
Net proceeds (repayments) from term debt		**4,588**	(4,355)
Dividends paid	16	**(5,867)**	(5,093)
(Payment) of lease obligation		**(9,256)**	(5,249)
Receipt (payment) of deposits with manufacturers		**599**	(447)
Purchase of common shares	16	**(3,941)**	(2,609)
Net cash (used in) financing activities		**(13,877)**	(17,753)
Increase (decrease) in cash and cash equivalents		**1,519**	(9,181)
Effect of foreign currency translation on cash		**321**	785
Cash and cash equivalents, beginning of year		**6,106**	14,502
Cash and cash equivalents, end of year		**$ 7,946**	$ 6,106

1. Reporting Entity

Cervus Equipment Corporation ("Cervus" or the "Company") is incorporated under the Canada Business Corporations Act and is domiciled in Canada. The registered office of the Company is situated at 5201 – 333, 96th Avenue N.E., Calgary, Alberta, Canada, T3K 0S3. The consolidated financial statements of the Company as at and for the year ended December 31, 2019, comprise the Company and its subsidiaries ("the Group").

Cervus Equipment Corporation ("Cervus" or "Company") provides equipment solutions to customers in agriculture, transportation, and industrial markets across Canada, Australia, and New Zealand. Throughout its territories and across its diverse markets, Cervus dealerships are united in delivering sales and support of the market-leading equipment our customers depend on to earn a living. The Company operates 63 Cervus dealerships and is the authorized representative of leading Original Equipment Manufacturers ("OEMs") including: John Deere agricultural equipment; Peterbilt transportation equipment; and Clark, Sellick, Doosan, JLG and Baumann material handling equipment. The common shares of Cervus are listed on the Toronto Stock Exchange and trade under the symbol "CERV".

2. Basis of Preparation

Statement of Compliance

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

The Board of Directors authorized the issue of these consolidated financial statements on March 11, 2020.

Basis of Measurement

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

Presentation Currency

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

Basis of Consolidation

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

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

2. Basis of Preparation (continued)

Details of the Company's subsidiaries at December 31, 2019 and December 31, 2018 are as follows:

Proportion of Ownership Interest and Voting Power Held	2019	2018
Cervus AG Equipment LP	**100%**	100%
Cervus AG Equipment Ltd	**100%**	100%
Evergreen Equipment Ltd.	**100%**	100%
Cervus Collision Center LP	**100%**	100%
Cervus Contractors Equipment LP	**100%**	100%
Cervus Contractors Equipment Ltd	**100%**	100%
Cervus Equipment NZ Ltd.	**100%**	100%
101169185 Saskatchewan Ltd	**100%**	100%
520781 Alberta Ltd	**100%**	100%
Cervus Equipment Holdings Australia Pty Ltd.	**100%**	100%
Cervus Equipment Australia Pty Ltd.	**100%**	100%

Use of Judgments and Estimates

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

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

Judgments

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

- Classification of a lease arrangement where the Company is the lessor, as an operating or finance lease; judgment is required to determine whether substantially all of the significant risks and rewards of ownership are transferred to the customer or remain with the Company. (Note 13)
- Impairment tests on long-lived assets; judgment is used in identifying impairment triggers and determining cash generating units or groups of cash generating units at which goodwill, intangible assets, and property and equipment are tested for impairment, as well as determining the appropriate discount rate for these calculations. (Note 10)

Assumptions and Estimation Uncertainties

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

- Recoverability of inventories and key assumptions regarding the net realizable value of inventory. (Note 7)
  Impairment tests on long-lived assets; estimates on key assumptions related to the future operating results and the appropriate discount rate. (Note 10)
- Depreciation and amortization expense; assumptions on the useful lives of property and equipment and intangible assets. (Note 9 and 10)

2. Basis of Preparation (continued)

Determination of Fair Values

A number of the group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods outlined below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, Plant and Equipment

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

Intangible Assets

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

Inventories

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

Comparative Figures

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

3. Significant Accounting Policies

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

Business Segments

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are reviewed regularly by the Corporation's Chief Executive Officer in order to make decisions regarding the allocation of resources to the segment. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Corporation has three reportable operating segments: Agriculture, Transportation and Industrial, based on the industry which they serve. The Agriculture segment consists of John Deere dealership locations in Alberta, Saskatchewan, British Columbia, New Zealand, and Australia. The Transportation segment consists of Peterbilt dealership locations in Saskatchewan and Ontario. The Industrial segment consists of Clark, Sellick, Doosan, and JLG dealership locations in Alberta, Saskatchewan, and Manitoba.

The Corporation also reports activities not directly attributable to an operating segment under a fourth Corporate segment. The corporate head office incurs certain costs which are not considered directly attributable to an operating segment. Corporate expenses consist of certain overheads and shared services provided to the divisions, along with public company costs, salaries, share-based compensation, office and administrative costs relating to corporate employees and officers, and interest cost on general corporate borrowings. These corporate costs are not allocated to the business segments and are reported within the Corporate segment.

These audited annual financial statements for the year ended December 31, 2019, are the first set of the Company's financial statements whereby the Corporate segment is reported as its own segment. This change to the composition of the segments is described in further detail in Note 25. Prior period financial information for 2018 has also been restated to reflect the change in segment composition.

Business Combinations

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

Foreign Currency Translation

Foreign Currency Transactions

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

3. Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

Foreign Operations

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

Cash and Cash Equivalents

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

Inventories

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

Property and Equipment

Items of property and equipment are recorded at cost, less any accumulated depreciation and accumulated impairment losses. Properties under construction are measured at cost less any accumulated impairment. Assets are moved from the construction phase and begin depreciation when the asset is available for use.

Right-of-use assets related to leased properties are also presented as property, plant and equipment in the statement of financial position. Right-of-use assets are measured at recognition at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred, less any lease incentives received.

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

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

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

3. Significant Accounting Policies (continued)

Property and Equipment (continued)

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

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

Intangible Assets

Intangible Assets

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

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

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

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

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

Goodwill

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

Assets Held for Sale

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

3. Significant Accounting Policies (continued)

Leases

Policy applicable from January 1, 2019
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i. As a lessee
The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily be determined, the Company's incremental borrowing rate. Generally, the Company uses the incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index rates as at the commencement date;
- amounts expected to be payable under a residual value guarantee, and
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

3. Significant Accounting Policies (continued)

The lease liability is initially measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'Property and equipment' on the statement of financial position. Lease liabilities are presented based on when the underlying payments become due. Short-term lease liabilities (due within 12 months of statement of financial position date) are presented in 'Current portion of lease obligation'. Long-term lease liabilities (due later than 12 months) are presented in 'Lease obligation'.

ii. As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease if for the major part of the economic life of asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of the sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If the sub-lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'Rentals and other' revenue.

3. Significant Accounting Policies (continued)

ii. Policy applicable before January 1, 2019

For contracts entered before January 1, 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

i. As a lessee

In the comparative period, as a lessee, the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were expensed in profit or loss on a straight-line basis over the term of the lease.

ii. As a lessor

When the Company acted as lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards of ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, the it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Income Tax

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

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

3. Significant Accounting Policies (continued)

Provisions

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

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

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position at the time the Company becomes a party to the contractual provisions. The Company's financial assets and liabilities consist primarily of cash and cash equivalents, trade and other accounts receivable, trade and other accrued liabilities, dividends payable, floor plan payables, foreign currency hedging instruments, leases, and term debt.

Classification and Measurement of Financial Assets and Financial Liabilities

A financial asset is classified and is measured at:

- Amortised cost; or
- Fair value through other comprehensive income (OCI); or
- Fair value through profit or loss.

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Trade receivables without a significant financing component are initially measured at the transaction price. Otherwise, a financial asset is initially measured at:

- Fair value; or
- Fair value, plus transaction costs that are directly attributable to its acquisition, for items not at fair value through profit or loss.

The Company's financial liabilities are classified as Other liabilities initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method. The Company's other financial liabilities include trade and other accrued liabilities, floor plan payables, term debt, and lease obligations.

3. Significant Accounting Policies (continued)

Classification and Measurement of Financial Assets and Financial Liabilities (continued)

Subsequent measurement of financial assets is described below.

Financial assets at fair value through profit or loss	These assets are subsequently measured at fair value. Gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at fair value through OCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at fair value through OCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Impairment

Financial Assets (Including Receivables)

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

ECLs are a probability weighted estimate of credit losses the Company expects to incur. Under the expected credit loss model, the Company calculates the allowance for credit losses by determining, on a discounted basis, the cash shortfalls it would incur in various probability-weighted default scenarios for prescribed future periods and multiplying these shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes.

Under IFRS 9, loss allowances are measured on either of the following bases:

a) *12-month expected credit losses:* These are expected credit losses that could result from possible default events within the 12 months after the reporting date; and

b) *Lifetime expected credit losses:* These are expected credit losses that could result from all possible default events over the expected life of a financial instrument.

3. Significant Accounting Policies (continued)
Impairment (continued)

Non-Financial Assets

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

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

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

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

Reversals of Previously Recognized Impairments

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

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

3. Significant Accounting Policies (continued)

Revenue Recognition

Revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, whether at a point in time or over time, requires judgment.

Type of product/ service	Nature, timing and satisfaction of performance obligations, significant payment terms
Equipment Revenue	Revenue is recognized when the customer obtains control of the equipment product. Revenue is not recognized before there are indicators that control has passed, including the customer having: a present obligation to pay, physical possession or legal title, risks and rewards of ownership and accepted the asset. The Company considers a customer to have accepted the asset and risks and rewards of ownership when delivery has occurred, required deposits have been received, and a formal contract is signed. For bill-and-hold arrangements, revenue is recognized before delivery when the customer obtains control of the equipment, and Cervus has received payment. Control is transferred to the customer when the reason for the bill-and-hold arrangement is substantive, the Company cannot sell the equipment to another customer, the equipment can be identified separately and is ready for physical transfer to the customer. Invoices are usually payable when financing has been agreed upon along with the signed bill of sale, or within 30 days from the invoice date.
Parts Revenue	Parts revenue is recognized when the customer receives the part. Payment is due upon receipt of the invoice, or net 30 days from the invoice date for the Industrial segment.
Service Revenue	Service revenue is recognized upon completion of the service work. Payment is due upon receipt of the invoice, or net 30 days from the invoice date for the Industrial segment.
Rentals and Operating Lease Revenue	Rentals and operating lease revenue are recorded at the time the service is provided, recognized evenly over the term of the rental or lease agreement with the customer. Payment is due when the rental contract is signed at the beginning of each month, and within 30 days for the Industrial segment.

3. Significant Accounting Policies (continued)

Finance Income and Finance Costs

Finance income comprises interest income on funds invested.

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

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

Per Share Amounts

Basic per share amounts are computed by dividing earnings (loss) by the weighted average number of shares outstanding for the period. Diluted earnings per share are calculated giving effect to the potential dilution that would occur if share options or other dilutive instruments were exercised or converted to shares. The treasury stock method is used to determine the dilutive effect of share options and other similar dilutive instruments. This method assumes that any proceeds upon the exercise or conversion of dilutive instruments, for which market prices exceed exercise price, would be used to purchase shares at the average market price of the shares during the period.

Short-Term Employee Benefits

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

Share-Based Payment Transactions

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

4. Changes in Significant Accounting Policies

IFRS 16 Leases

The Company adopted IFRS 16 *Leases* effective January 1, 2019. IFRS 16 replaces existing lease guidance, including IAS 17 Lease, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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

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

Leases in which the Company is Lessee

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

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

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

i. Leases classified as Operating Leases under IAS 17

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

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

ii. Leases previously classified as Finance Leases under IAS 17

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

4. Changes in Significant Accounting Policies (continued)

Leases in which the Company is Lessor

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

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

Impacts on Financial Statements

On transition to IFRS 16, the Company recognized $84 million of right-of-use assets and $84 million of lease liabilities.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate applicable to the assets at January 1, 2019. The weighted average rate applied is 8%.

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

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at December 31, 2019. There were no onerous contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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

$ thousands	**December 31, 2019**	**January 1, 2019**
Buildings	**$ 79,310**	$ 82,748
Motor vehicles	**2,008**	1,341
Office equipment	**87**	140
Total right-of-use assets	**$ 81,405**	$ 84,229

5. Seasonality

The Canadian, New Zealand and Australian 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.

6. Accounts Receivable and Other Assets

($ thousands)	2019	2018
Trade receivables	$ 40,565	$ 54,939
Allowance for doubtful debts[(a)]	(1,155)	(1,078)
Trade receivables, net	39,410	53,861
Prepaid expenses	26,151	17,576
Income tax receivable	6,586	-
Other receivables	2,795	532
Total accounts receivable and other assets	**$ 74,942**	$ 71,969

(a) Changes in allowance for doubtful debts during the year has been recorded in selling, general and administrative expense, the details of which are disclosed in Note 19.

7. Inventories

($ thousands)	2019	2018
New equipment	$ 149,025	$ 114,667
Used equipment	118,754	161,703
Parts and accessories	50,607	50,285
Work-in-progress	1,233	1,531
Total inventories	**$ 319,619**	$ 328,186

During the year ended December 31, 2019, inventories included in costs of sales were $892 million (2018 - $1,078 million). The total inventory impairment recorded during the year ended December 31, 2019, and included in cost of goods sold was $24 million (2018 - $12 million). The Company’s inventory has been pledged as security for floor plan payables under terms of the floorplan agreements and for long-term debt under general security agreements.

8. Other Long-Term Assets

($ thousands)	2019	2018
Long-term receivables	**$ 4,355**	$ 748
Deposits with manufacturers	**2,260**	2,913
Other investments [(a)]	**6,984**	5,714
Other long-term assets	**$ 13,599**	$ 9,375

(a) In 2016, the Company purchased units in Skyline Commercial REIT as a deposit on long-term leases. The units have been classified as other investments measured at fair value through profit and loss.

Deposits with Manufacturers

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

The maximum liability that may arise related to these arrangements is limited to the deposits of $2.3 million (December 31, 2018 - $2.9 million). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

9. Property and Equipment

($ thousands) Cost	Land and Buildings	Rental Equipment	Automotive and Trucks	Equipment	Right-of-use assets (Note 13)	Total
Balance at January 1, 2018	**26,102**	**40,453**	**20,632**	**18,691**	**-**	**105,878**
Additions	1,414	4,855	4,015	2,570	-	12,854
Additions for finance lease	-	742	-	-	-	742
Disposals[(a)]	(2,259)	(5,326)	(1,937)	(612)	-	(10,134)
Transfers	-	(3,805)	27	195	-	(3,583)
Currency translation effects	9	254	25	50	-	338
Balance at December 31, 2018	**25,266**	**37,173**	**22,762**	**20,894**	**-**	**106,095**
Balance at January 1, 2019	**25,266**	**37,173**	**22,762**	**20,894**	**-**	**106,095**
Adjustments on transition to IFRS 16[(b)]	**-**	(19,234)	-	-	10,961	(8,273)
Recognition of right-of-use assets on initial application of IFRS 16 (Note 13)	**-**	-	-	-	84,229	84,229
Adjusted balance at January 1, 2019	**25,266**	**17,939**	**22,762**	**20,894**	**95,190**	**182,051**
Additions	7,433	3,492	2,565	2,181	-	15,671
Right of use additions	-	-	-	-	1,777	1,777
Disposals	(28)	(3,305)	(1,449)	(3,990)	-	(8,772)
Transfers and adjustments	21	3,294	1,160	1,277	(6,300)	(548)
Remeasurements	-	-	-	-	5,896	5,896
Currency translation effects	(36)	(393)	(331)	(204)	(456)	(1,420)
Balance at December 31, 2019	**32,656**	**21,027**	**24,707**	**20,158**	**96,108**	**$ 194,656**

9. Property and Equipment (continued)

($ thousands) Accumulated Depreciation and Impairment	Land and Buildings	Rental Equipment	Automotive and Trucks	Equipment	Right-of-use assets (Note 13)	Total
Balance at January 1, 2018	**4,717**	**13,858**	**12,815**	**12,313**	**-**	**43,703**
Depreciation expense	937	5,179	2,530	2,210	-	10,856
Disposals[(a)]	(230)	(2,414)	(1,500)	(483)	-	(4,627)
Transfers	-	(2,271)	11	-	-	(2,260)
Currency translation effects	2	37	13	43	-	95
Balance at December 31, 2018	**5,426**	**14,389**	**13,869**	**14,083**	**-**	**47,767**
Balance at January 1, 2019	**5,426**	**14,389**	**13,869**	**14,083**	**-**	**47,767**
Adjustments on transition to IFRS 16[(b)]	-	(7,611)	-	-	4,871	(2,740)
Adjusted balance at January 1, 2019	**5,426**	**6,778**	**13,869**	**14,083**	**4,871**	**45,027**
Depreciation expense	1,134	2,628	2,682	2,182	11,088	19,714
Disposals	(12)	(1,592)	(1,257)	(3,731)	-	(6,592)
Transfers and adjustments	25	(171)	1,202	1,241	(4,207)	(1,910)
Currency translation effects	(4)	(59)	(76)	(142)	(8)	(289)
Balance at December 31, 2019	**6,569**	**7,584**	**16,420**	**13,633**	**11,744**	**$ 55,950**

($ thousands) Carrying Value	Land and Buildings	Rental Equipment	Automotive and Trucks	Equipment	Right-of-use assets (Note 13)	Total
Balance at December 31, 2018	19,840	22,784	8,893	6,811	-	$ 58,328
Balance at December 31, 2019	**26,087**	**13,443**	**8,287**	**6,525**	**84,363**	**$ 138,705**

(a) Included in total disposals for the year ended December 31, 2018 were capital assets damaged by the fire in the Company's agriculture dealership in Rosthern, for a total net book value of $1.2 million.

(b) On transition to IFRS 16, leased rental equipment was transferred from property and equipment to right-of-use assets or was derecognized as the associated sub-leases were reclassified as finance leases.

Depreciation expense related to rental and lease fleets have been recorded in cost of sales in the amount of $4.3 million (2018 - $5 million) and selling, general and administrative expenses of $15 million (2018 - $6 million). The Company's property and equipment has been pledged as security for its long-term debt.

10. Intangible Assets and Goodwill

Intangible Assets

Intangible assets are comprised of the following:

($ thousands) Cost	Dealership Distribution Agreements	Customer Lists	Non-Competition Agreements	Software Costs	Total
Balance at January 1, 2018	**46,901**	**14,857**	**2,608**	**3,766**	**68,132**
Additions	-	-	-	622	622
Effect of movements in exchange rates	4,470	1,840	310	-	6,620
Additions through business acquisition	(108)	16	3	-	(89)
Balance at December 31, 2018	**51,263**	**16,713**	**2,921**	**4,388**	**75,285**
Additions	-	-	-	247	247
Effect of movements in exchange rates	(217)	-	-	-	(217)
Balance at December 31, 2019	**51,046**	**16,713**	**2,921**	**4,635 $**	**75,315**

($ thousands) Accumulated Depreciation	Dealership Distribution Agreements	Customer Lists	Non-Competition Agreements	Software Costs	Total
Balance at January 1, 2018	**11,620**	**13,143**	**2,122**	**1,505**	**28,390**
Amortization expense	2,381	971	284	619	4,255
Balance at December 31, 2018	**14,001**	**14,114**	**2,406**	**2,124**	**32,645**
Amortization expense	2,589	1,110	265	691	4,655
Balance at December 31, 2019	**16,590**	**15,224**	**2,671**	**2,815 $**	**37,300**

($ thousands) Carrying Value	Dealership Distribution Agreements	Customer Lists	Non-Competition Agreements	Software Costs	Total
Balance at December 31, 2018	37,262	2,599	515	2,264 $	42,640
Balance at December 31, 2019	**34,456**	**1,489**	**250**	**1,820 $**	**38,015**

Amortization expense of $4.7 million (2018 - $4.3 million) has been recorded in selling, general and administrative expense.

10. Intangible Assets and Goodwill (continued)

Goodwill

The movements in the net carrying amount of goodwill is as follows:

($ thousands)	
Balance at January 1, 2018	$ 18,880
Additions through business acquisition	2,722
Impact of translation of goodwill held in foreign currencies	22
Balance at December 31, 2018	$ 21,624
Valuation adjustment on business combination [(a)]	1,417
Impact of translation of goodwill held in foreign currencies	(144)
Balance at December 31, 2019	**$ 22,897**

(a) During the year ended December 31, 2019, the Company had an adjustment to goodwill of $1.4 million on the final holdback payments for the acquisition of Deermart Equipment Sales Ltd.

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

($ thousands)	**2019**	**2018**
Agriculture Segment		
Agriculture - Alberta	**$ 16,127**	$ 14,710
Agriculture - Saskatchewan	**327**	327
Agriculture - New Zealand	**2,064**	2,144
Agriculture - Australia	**1,166**	1,230
Industrial Segment		
Industrial	**666**	666
Transportation Segment		
Transportation - Ontario	**2,547**	2,547
Carrying value of goodwill	**$ 22,897**	$ 21,624

10. Intangible Assets and Goodwill (continued)

Annual Impairment Test

The Company performed the annual impairment test of goodwill and intangible assets as at December 31, 2019. The test for impairment is to compare the recoverable amount of the CGUs to their carrying value. Goodwill and intangible assets are assessed for impairment at the CGU level to which they are allocated.

The recoverable amount of all CGUs are determined based on a value-in-use calculation. The value-in-use calculation uses future cash flow projections, based on the following:

- A review of 2019 revenue which was then adjusted through the projection period for the outlook of the CGU at the date of impairment testing. Revenues used in the projection period did not exceed prior historical revenue levels of the CGU, other than the impact of assumed inflation.
- Gross profit margin, expenses and cash requirements for working capital were benchmarked by CGU based on historical amounts as a percent of annual historical revenue.
- The projections were assessed for reasonability against the demonstrated historical performance of the CGUs and the financial budget approved by senior management for a one-year period.
- For the annual impairment testing purposes, the cash flows subsequent to the five-year projection period were extrapolated using a 2.0% growth rate which represents the expected growth in the markets in which the Company operates.

The discount rate applied to each CGU to determine value-in-use, is a post-tax rate that reflects an optimal debt-to-equity ratio and considers the risk-free rate, market equity risk premium, size premium and the risks specific to each CGU's cash flow projections. The post-tax discount rates ranged from 10.3% to 11.5% (pre-tax discount rate of 14.1% to 15.8%). As a result of the analysis, management determined there was no impairment of goodwill or indefinite lived intangible assets.

Sensitivity testing is conducted as part of the annual impairment tests, including stress testing the post-tax discount rate and projected cash flows with all other assumptions being held constant. Had the estimated post-tax discount rate been 1% higher than management's estimates the recoverable amount of the CGUs would continue to exceed their carrying amount. Alternatively, holding the post-tax discount rate unchanged from that utilized in the annual impairment tests, had the annual estimated cash flows of each CGU in the forecast and terminal period decreased by 6%, the recoverable amounts of each CGU would continue to exceed their carrying amounts. A decrease in the cash flow assumption of between 6% and 12% would result in $1.8 million of impairment. Any additional negative changes in the cash flow assumption would cause goodwill to be impaired, with such impairment loss recognized in net earnings.

11. Trade and Other Liabilities

($ thousands)	2019	2018
Trade and other payables	**$ 40,189**	$ 39,548
Non-trade payables and accrued expenses	**17,680**	28,629
Contract liabilities	**2,829**	6,512
Dividends payable (Note 16)	**1,688**	1,556
Income taxes payable	**-**	1,392
Foreign exchange contracts	**797**	76
Total trade and other liabilities	**$ 63,183**	$ 77,713

12. Loans and Borrowings

Bank Indebtedness

At December 31, 2019, the Company has a revolving credit facility (the "Syndicated Facility"), with a syndicate of lenders. The principal amount available under this facility is $120 million. The facility was amended and extended on December 18, 2018. The facility is committed for a four year term, but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an $80 million accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2019, there was $25 million drawn on the facility and $10 million had been utilized for outstanding letters of credit to John Deere. The Company's credit facility bears interest at the lender's prime rate plus the Applicable Margin (currently 0%). Applicable Margin can range from 0% to 1.75% (2018 – 0% to 1.75%) and is based on a liabilities to income ratio.

Term Debt Borrowings

The Syndicated Facility is secured by a general security agreement, a priority agreement; trade accounts receivable, unencumbered inventories, assignment of fire insurance and guarantees from the Company's subsidiaries. As terms under the Syndicated Facility, the Company must maintain certain leverage, income coverage, and asset coverage ratios, which the Company has complied with throughout 2019, see Note 24 for further discussion on covenants. Costs directly attributable to the completion of the Syndicated Facility have been deferred and will be amortized over the four year term.

12. Loans and Borrowings (continued)

Outstanding Borrowings

($ thousands)	Year of Maturity	2019	2018
Operating and Other Bank Credit Facilities			
Revolving credit facility, lenders prime rate plus the Applicable Margin (currently 0.0%). Applicable Margin can range from 0% to 1.75% and is based on a liabilities to income ratio	2022	**$ 25,000**	$ 20,494
National Australian Bank, Australia, revolving credit facility, interest at 6.48%	2022	**-**	577
ANZ National Bank, New Zealand, flexible credit facility, interest at 4.49%	2020	**788**	-
Capital Facilities			
Farm Credit Corporation, mortgages payable in monthly instalments of $22 thousand including interest at 5.21%, a rate of lenders prime plus 1% per annum (December 31, 2018 - 5.21%)	2019	**-**	109
Farm Credit Corporation, mortgages payable in monthly instalments of $39 thousand including interest at 4.50%, a rate of lenders prime plus 1% per annum (December 31, 2018 - 4.95%)	2024	**3,945**	4,210
Affinity Credit Union, mortgages payable in monthly installments of $17 thousand, including interest at 3.99% per annum (December 31, 2018 - 3.69%)	2020	**5,422**	5,623
Rental Equipment Term Loans			
John Deere finance contracts, New Zealand, payable in monthly instalments including interest at the rate of 4.50% to 6.45% per annum, secured by related equipment	Various	**7,163**	7,332
Hire purchase contracts, Australia, finance contracts payable in monthly installments ranging up to AUD $3 thousand including interest at a rate of 3.95% to 5.35%, secured by related equipment	Various	**861**	1,191
Finance contracts, various, repayable in monthly instalments ranging per month including interest from 2.99% to 4.95%	Various	**267**	81
Total		**43,446**	39,617
Less: current portion		**(9,795)**	(13,964)
Less: deferred debt issuance costs		**(281)**	(530)
Carrying value of term debt at December 31		**$ 33,370**	$ 25,123

12. Loans and Borrowings (continued)

Floor Plan Payables

The Company utilizes floor plan financing arrangements with various suppliers for inventory purchases. The terms of these arrangements may include an interest-free period followed by a term during which interest is charged at rates ranging from 3.95% to 8.85% at December 31, 2019. Settlement of the floor plan liability occurs at the earlier of sale of the inventory, in accordance with terms of the financing arrangement, or based on management's discretion. Floor plan payables are secured by specific new and used equipment inventories.

($ thousands)	Interest Rate	2019	2018
John Deere Financial, Canada	5.00% - 8.85%	**$ 91,342**	$ 95,907
Wells Fargo Vendor Finance	5.91% - 6.04%	**103**	2,223
John Deere Financial, New Zealand and Australia	5.34% - 5.75%	**21,571**	19,297
PACCAR Financial	3.95% - 4.22%	**67,089**	36,531
Other Floor Plan Facilities	4.95% - 5.75%	**2,274**	3,657
Total floor plan payable		**$ 182,379**	$ 157,615

Pre-Approved Credit Limits and Available Credit Facilities

The Company has various facilities, the amount available under which are limited to the lesser of pre-approved credit limits or the available unencumbered assets. A summary of the Company's maximum pre-approved credit limits on available credit facilities as at December 31, 2019, are as follows:

	December 31, 2019				December 31, 2018			
($ thousands)	Total Limits	Borrowings	Letters of Credit	Amount Available	Total Limits	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	**122,735**	**25,788**	**9,600**	**87,347**	122,867	21,071	2,400	99,396
Capital facilities	**(a)**	**9,367**				9,942		
Floor plan facilities and rental equipment term loan financing	**(b)**	**190,670**				166,219		
Total borrowing		**225,825**				197,232		
Total current portion long term debt		**(9,795)**				(13,964)		
Total inventory floor plan facilities		**(182,379)**				(157,615)		
Deferred debt issuance costs		**(281)**				(530)		
Total long term debt		**33,370**				25,123		

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

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

As at December 31, 2019, the Company is in compliance with all its covenants.

12. Loans and Borrowings (continued)

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

	Financial Liabilities			
($ thousands)	Dividend payable	Lease obligation	Term debt	Total
Balance at January 1, 2018	1,098	15,777	43,292	60,167
Changes from financing cash (outflows) inflows				
Cash dividends paid	(5,093)	-	-	(5,093)
Payment of finance lease liabilities	-	(5,249)	-	(5,249)
Repayment of term debt	-	-	(4,205)	(4,205)
Total (outflows) inflows from financing cash flows	(5,093)	(5,249)	(4,205)	(14,547)
Effect of changes in foreign exchange rates	-	-	-	-
Liability related changes				
Dividends issued through DRIP	(710)	-	-	(710)
Dividends declared	6,261	-	-	6,261
New finance leases	-	743	-	743
Interest expense	-	-	-	-
Interest paid	-	-	-	-
Total liability related other increase (decrease)	5,551	743	-	6,294
Balance at December 31, 2018	**1,556**	**11,271**	**39,087**	**51,914**
Balance at January 1, 2019, as previously reported	1,556	11,271	39,087	51,914
Impact of change in accounting policy		84,229		84,229
Adjusted balances at January 1, 2019	1,556	95,500	39,087	136,143
Changes from financing cash (outflows) inflows				
Cash dividends paid	(5,867)	-	-	(5,867)
Payment of lease obligation	-	(9,256)	-	(9,256)
Advance of term debt	-	-	4,588	4,588
Total (outflows) inflows from financing cash flows	(5,867)	(9,256)	4,588	(10,535)
Effect of changes in foreign exchange rates	-	(1,037)	(510)	(1,547)
Liability related changes				
Dividends issued through DRIP	(770)	-	-	(770)
Dividends declared	6,769	-	-	6,769
New lease obligation	-	7,676	-	7,676
Interest expense	-	-	-	-
Interest paid	-	-	-	-
Total liability related other increase (decrease)	5,999	7,676	-	13,675
Balance at December 31, 2019	**1,688**	**92,883**	**43,165**	**137,736**

13. Leases

(a) Leases as lessee

The Company leases buildings, vehicles, office equipment, and rental equipment.

The Company's building leases range from 3 to 20 years in term duration, and typically include options to renew the lease after the initial maturity date. Most of the Company's building leases are for its equipment dealership locations and were entered into as combined leases of land and building. The Company also leases a fleet of vehicles for certain employees that typically run for a period of 5 years. Previously, these building and vehicle leases were classified as operating leases under IAS 17.

Information about leases for which the Company is a lessee is presented below.

i. Lease obligation

The following table sets out a maturity analysis of lease obligations, showing the undiscounted lease payments to be paid by the Company after the reporting date.

($ thousands)		2019
Less than one year	$	15,471
One to two years		13,945
Two to five years		36,345
More than five years		82,373
Total undiscounted lease obligation	**$**	**148,134**
Accrued interest expense		55,251
Present value of lease obligation	**$**	**92,883**

ii. Right-of-use assets

Right-of-use assets related to leased properties are presented as property, plant and equipment in the statement of financial position.

($ thousands)		Buildings		Vehicles		Office equipment		Rental equipment		Total
2019										
Balance at January 1, 2019	$	82,748	$	1,341	$	140	$	6,090	$	90,319
Transfers		-		-		-		(2,093)		(2,093)
Depreciation charge for the year		(8,994)		(406)		(49)		(1,639)		(11,088)
Additions to right-of-use assets		222		955		-		600		1,777
Remeasurements		5,778		118		-		-		5,896
Currency translation effects		(444)		-		(4)		-		(448)
Balance at December 31, 2019	**$**	**79,310**	**$**	**2,008**	**$**	**87**	**$**	**2,958**	**$**	**84,363**

13. Leases (continued)

iii. Amounts recognized in profit or loss

($ thousands)		
2019 - Leases under IFRS 16		
Interest expense on lease liabilities	$	7,140
Income from sub-leasing right-of-use assets presented in 'Rental Income'		1,478
Occupancy expense relating to short-term leases and leases of low-value assets		1,281
2018 - Operating leases under IAS 17		
Lease expense	$	12,347
Sub-lease income presented in 'Rental income'		1,773

iv. Amounts recognized in statement of cash flows

($ thousands)		**2019**
Total cash outflow for leases	**$**	**13,609**

v. Extension options

Some building leases contain extension options exercisable by the Company before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

As at December 31, 2019, the Company has estimated that the lease liability resulting from extension options reasonably certain to be exercised is $11 million.

(**b) Leases as lessor**

The Company is the intermediate lessor in several sub-lease arrangements with its customers, whereby equipment is first leased (the "head lease) by the Company (or "intermediate lessor") from its original equipment manufacturer (or "head lessor"), and subsequently sub-leased by the Company to its customers for dedicated use. The head-leases and corresponding sub-leases have terms typically between 1 and 7 years. On the maturity of the lease, the Company will sell the equipment. The difference between the Company's proceeds and the residual value per the lease arrangement remains with the Company.

The Company classifies each sub-lease as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease.

i. Finance leases

In cases where the sub-lease term is for the major part of the remaining term of the right-of-use asset arising from the head-lease, the sub-lease is classified and accounted for as a finance lease.

13. Leases (continued)

(b) Leases as lessor (continued)

At the commencement date of the sub-lease, the Company derecognizes the right-of-use asset relating to the head-lease that it transfers to the customer and recognizes a lease receivable (measured as the net investment in the sub-lease). Any difference between the carrying amount of the right-of-use asset and the net investment in the sub-lease is recognized in profit or loss.

The Company continues to recognize the lease liability relating to the head lease, which represents the lease payments owed to the head lessor.

Over the term of the sub-lease, the Company recognizes both interest income on the sub-lease and interest expense on the head lease. During 2019, the Company recognized interest income on lease receivables of $0.3 million (2018 - $0.1 million).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

($ thousands)		2019
Less than one year	$	2,070
One to two years		1,801
Two to five years		2,525
More than five years		-
Total undiscounted lease receivable	**$**	**6,396**
Unearned finance income		571
Net investment in the lease	**$**	**5,825**

ii. Operating leases

In cases where the sub-lease term is not a major part of the remaining term of the right-of-use asset arising from the head-lease, or the sub-lease term meets the short-term lease exemption (less than 12 months), the sub-lease is classified and accounted for as an operating lease. The right-of-use asset from the head lease remains with the Company and is depreciated over the term of the head lease. Lease payments from customers are recognized by the Company as rental income upon receipt.

Rental income recognized by the Company during 2019 was $3.3 million (2018 - $3.5 million).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

13. Leases (continued)

(b) Leases as lessor (continued)

($ thousands)	2019
2019 - Operating leases under IFRS 16	
Less than one year	920
Between one and five years	604
More than five years	-
Total	1,524
2018 - Operating leases under IAS 17	
Less than one year	3,101
Between one and five years	5,326
More than five years	-
Total	8,427

14. Income Taxes

Tax (Recovery) Expense

($ thousands)		2019		2018
Current income tax expense	**$**	**40**	$	10,436
Deferred income tax (recovery)		**(1,868)**		(1,111)
Income tax (recovery) expense	**$**	**(1,828)**	$	9,325

The corporate tax rate decrease in Alberta for current and future periods that was enacted in the second quarter of 2019 resulted in a decrease in the deferred income tax expense. The estimated impact of the corporate tax rate decrease on deferred tax expense for the year ended December 31, 2019 was $0.5 million.

Using federal and provincial statutory rates of 26.7% (2018 – 26.9%), the income tax expense for the year can be reconciled to the statement of comprehensive income as follows:

($ thousands)		2019		2018
(Loss) income before income tax expense	**$**	**(10,446)**	$	34,102
Expected income tax (recovery) expense		**(2,785)**		9,167
Non-deductible costs and other		**957**		158
Income tax (recovery) expense	**$**	**(1,828)**	$	9,325

14. Income Taxes (continued)

Deferred Tax Assets and Liabilities

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

($ thousands)	2018	Recognized in Comprehensive Income	2019
Tangible assets	$ 6,672	$ 15,755	**$ 22,427**
Intangible assets	4,144	(974)	**3,170**
Lease obligation	(3,029)	(18,247)	**(21,276)**
Unrealized foreign exchange and other	1,056	1,598	**2,654**
Net deferred tax liability	$ 8,843	$ (1,868)	**$ 6,975**

The Company has not recognized the benefits associated with net capital losses of $35 million (2018 - $35 million) and non-capital losses of $0.8 million (2018 - $0.9 million), as the timing and ultimate application of these tax loss carryforwards are uncertain.

15. Financial Instruments

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

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

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

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

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

Carrying Value and Fair Value of Financial Assets and Liabilities

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

15. Financial Instruments (continued)

($ thousands)	Category	2019			2018		
			Fair Value			Fair Value	
		Carrying	Level 1	Level 2	Carrying	Level 1	Level 2
Financial Assets							
Cash and cash equivalents [a]	Amortised cost	**$ 7,946**			$ 6,106		
Accounts receivable and other assets [a]	Amortised cost	**72,384**			71,700		
Derivative financial instruments	Fair value through profit and loss	**776**		776	77		77
Other investments	Fair value through profit and loss	**6,548**		6,548	5,238		5,238
Other long-term assets	Amortised cost	**2,576**			3,504		
Finance lease receivables[a]	Amortised cost	**5,821**			349		396
Financial Liabilities							
Trade and other liabilities [a]	Other liabilities	**62,386**			82,046		
Floor plan payables [a]	Other liabilities	**182,379**			157,615		
Term debt [b]	Other liabilities	**43,165**		43,165	39,087		39,087
Derivative financial liability	Held-for-trading	**797**		797	76		76
Lease obligation	Other liabilities	**92,883**			11,271		11,986

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

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

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

16. Capital and Other Components of Equity

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

Share Capital

(thousands)	Number of common shares	Total carrying amount
Balance at January 1, 2018	15,675	$ 88,163
Issued under the DRIP plan	52	710
Issued under the deferred share plan	30	276
Repurchased under the NCIB	(198)	(2,609)
Balance at December 31, 2018	15,559	$ 86,540
Issued under the DRIP plan	**68**	**770**
Issued under the deferred share plan	**31**	**370**
Repurchased under the NCIB	**(310)**	**(3,940)**
Balance at December 31, 2019	**15,349**	**$ 83,740**

Common Shares

Shareholders are entitled to:

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

Normal Course Issuer Bid

On September 10, 2018, the Company announced a Normal Course Issuer Bid (the "September 2018 Bid"), which commenced on September 13, 2018, to purchase up to a maximum of 1.0 million common shares (the "Shares") for cancellation before September 12, 2019. Cervus appointed Raymond James Ltd. as its broker, to conduct the Bid on behalf of the Company. All purchases were made in accordance with the September 2018 Bid at the prevailing market price of the Shares at the time of purchase. This normal course issuer bid expired on September 12, 2019. Prior to expiry Cervus repurchased and cancelled 0.5 million common shares through the bid at a weighted average price of $12.78 per share.

On September 10, 2019, the Company announced a Normal Course Issuer Bid (the "Bid"), which commenced on September 16, 2019, to purchase up to a maximum of 1.1 million common shares (the "Shares") for cancellation before September 15, 2020. Cervus appointed Raymond James Ltd. as its broker, to conduct the Bid on behalf of the Company.

16. Capital and Other Components of Equity (continued)

Normal Course Issuer Bid (continued)

All purchases are to be made in accordance with the September 2019 Bid at the prevailing market price of the Shares at the time of purchase.

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

Dividends Declared

($ thousands)	2019	2018
$0.44 per qualifying common share (2018 - $0.40)	**$ 6,769**	$ 6,261

Total dividends paid in cash during the year were $6 million (2018 - $5 million). Dividends payable as at December 31, 2019, was $1.7 million (2018 - $1.6 million).

Dividend Reinvestment Plan

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

Accumulated and Other Comprehensive Income

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

17. Revenue

The Company's contract liabilities primarily relate to advance consideration received from customers for wholegoods equipment, parts and services. The amount of $7 million recognized in contract liabilities at the beginning of the year has been recognized as revenue for the year ended December 31, 2019. In the current year, the Company has received $2.8 million from customers, but has not fulfilled the performance obligations as at December 31, 2019.

18. Other Income

Other income for the years ended December 31, 2019 and 2018 is comprised of the following:

($ thousands)	2019	2018
Net gain on sale of property and equipment [a]	**$ 436**	$ 1,409
Gain on sale of Commercial operations	**-**	480
Unrealized foreign exchange gain (loss)[b]	**1,847**	(1,199)
Extended warranty commission	**(34)**	(217)
Financial compensation and consignment commissions	**772**	877
Other income	**823**	2,093
Total other income	**$ 3,844**	$ 3,443

(a) 2018 net gain on sale of property and equipment includes a $0.8 million gain on insurance recoveries, related to the derecognition of capital assets for damage caused by fire, as discussed in Note 9.

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

19. Selling, General and Administrative Expenses By Nature

($ thousands)	2019	2018
Wages and benefits	**101,203**	102,204
Depreciation and amortization	**20,031**	9,884
Occupancy costs including maintenance	**10,008**	21,607
Operating and administrative expenses	**40,036**	39,350
Total selling, general and administrative expenses	**$ 171,278**	$ 173,045

20. Wages and Benefits

($ thousands)	2019	2018
Included in cost of sales:		
Wages and benefits	**$ 38,091**	$ 35,439
Included in selling, general and administrative expenses:		
Wages and benefits	**99,255**	100,690
Share-based payments	**1,948**	1,514
Total wages and benefits included in selling, general and administrative expenses	**101,203**	102,204
Total wages and benefits	**$ 139,294**	$ 137,643

Employee Share Purchase Plan

The Company has an employee share purchase plan available to all employees on a voluntary basis. Under the plan, employees are able to contribute 2% to 4% of their annual salaries, based on years of service. The Company contributes between 15% and 150%, depending on the Company's annual financial performance, on a matching basis to a maximum of $5,000 per year, per employee. The shares are purchased on the open market through a trustee; therefore, there is no dilutive effect to existing shareholders. Included in selling, general and administrative wages and benefits expense are $1.1 million (2018 - $0.9 million) of expenses incurred by the Company to match the employee contributions.

Mid-Term Management Incentive Plan

The Company offers a mid-term incentive plan (the "MTIP") to certain senior key employees. Under the MTIP, participants receive annual grants of performance share units ("PSUs") which are settled in cash based on the achievement of performance targets at the end of a three year performance period. A liability for MTIP obligation is recognized at its fair value of cash payable, and is re-measured each reporting period until the liability is settled on the third anniversary of initial grant. Any changes in the liability are recognized in the statement of comprehensive income. For the year ended December 31, 2019, MTIP expense recognized during the year amounted to $nil (2018 – $0.5 million).

Deferred Share Plan

During 2019, the Company had a deferred share plan (the "Deferred Share Plan") available to officers, directors and executives whereby, if elected, certain payments to these individuals could be deferred, ranging in amounts up to $50 thousand per individual, where the Company also matched the deferred portion. The deferred shares were granted as approved by the board of directors based on 95% of the 10-day average share price prior to the date of grant. The matched component of the plan vests over a period of 5 years (50% after 3 years, 25% after 4 years and 25% after 5 years) and is recorded as selling, general and administrative expense as it vests.

The Company also had a deferred share plan (the "Management Deferred Share Plan") available to management whereby, if elected, certain payments to these individuals could be deferred, ranging in amounts up to $10 thousand per individual, where the Company also matches the deferred portion. The deferred shares were granted as approved by the board of directors based on 95% of the 10-day average share price prior to the date of grant. The matched component of the plan vests and is redeemable on December 1st of the 3rd year following the year for which the deferred shares were issued, and is recorded as selling, general and administrative expense upon vesting.

20. Wages and Benefits (continued)

Deferred Share Plan (continued)

The Deferred Share Plan and the Management Deferred Share Plan were discontinued for employees in 2020 and no future elections can be made. Existing deferred share plan units as at December 31, 2019 will remain in place and any unvested units will continue to vest according to the vesting schedules mentioned above. Effective January 1, 2020, the Deferred Share Plan will be replaced with a PSU plan, based on the single measure of total shareholder return.

Participants in the Deferred Share Plan were offered in 2019 to redeem all or a portion of their vested and unvested units into common shares. The immediate vesting of the 0.3 million deferred share units resulted in $0.7 million of share-based payment expense recognized for the year ended December 31, 2019.

As at December 31, 2019, the Company has 1.2 million shares reserved for issuance under these plans. As at December 31, 2019, 0.9 million (2018 – 0.8 million) deferred shares have been issued under these plans and remain outstanding. Of the outstanding deferred shares, 0.7 million (2018 – 0.6 million) can be converted to common shares. Total deferred shares payable as of December 31, 2019 was $10 million (2018 - $9 million).

	2019 Number of units	**2018 Number of Units**
Balance, January 1	**801**	696
Units granted	**211**	180
Units redeemed	**(35)**	(36)
Units forfeited	**(65)**	(39)
Balance, end of year	**912**	801

21. Finance Income and Finance Costs

($ thousands)	**2019**	**2018**
Finance income	**$ 687**	$ 854
Interest expense on mortgage and term debt obligations	**(2,338)**	(1,900)
Interest expense on financial liabilities	**(11,681)**	(5,615)
Finance costs	**$ (14,019)**	$ (7,515)
Net finance costs recognized separately	**(12,369)**	(5,498)
Net finance costs recognized in cost of sales	**(963)**	(1,163)
Total net finance costs	**$ (13,332)**	$ (6,661)

22. Earnings per Share

Per Share Amounts

Both basic and diluted earnings per share have been calculated using the net earnings attributable to the shareholders of the Company as the numerator. No adjustments to net earnings were necessary for the years ended December 31, 2019 and 2018.

Weighted Average Number of Common Shares

The weighted average number of shares for the purposes of diluted (loss) earnings per share is as follows:

($ thousands)	2019	2018
Issued common shares opening	**15,559**	15,675
Effect of shares issued under the DRIP plan	**42**	31
Effect of shares issued under the deferred share plan	**18**	12
Effect of shares repurchased from NCIB	**(206)**	(62)
Weighted average number of common shares	**15,413**	15,656

Weighted Average Number of Diluted Shares

The calculation of diluted (loss) income per share at December 31, 2019 and 2018 was based on the (loss) income attributable to common shareholders and the weighted average number of common shares outstanding. The weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares which consist of the following:

($ thousands)	2019	2018
Weighted average number of common shares (basic)	**15,413**	15,656
Effect of dilutive securities:		
Deferred share plan	**-**	801
Weighted average number of shares (diluted)	**15,413**	16,457

All deferred shares of 0.9 million for the year ended December 31, 2019 have been excluded, as they are considered anti-dilutive.

23. Supplemental Cash Flow Information

($ thousands)	2019	2018
Changes in non-cash working capital:		
Inventory	**(20,443)**	(40,045)
Floorplan	**27,204**	23,703
Trade and other receivables	**4,127**	(18,757)
Trade and other liabilities	**(12,703)**	(1,333)
Total change in non-cash working capital	**(1,815)**	(36,432)

24. Financial Risk Management

Overview

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

Risk Management Framework

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

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

Credit Risk

Trade and Other Receivables

By granting credit sales to customers, it is possible these entities, to which the Company provides services, may experience financial difficulty and be unable to fulfill their obligations. A substantial amount of the Company's revenue is generated from customers in the farming, transportation and industrial equipment industries. This results in a concentration of credit risk from customers in these industries. A significant decline in economic conditions within these industries would increase the risk customers will experience financial difficulty and be unable to fulfill their obligations to the Company. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable, finance lease receivables, long-term receivables and deposits with manufacturers (see Note 6).

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

The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding and establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information. In our industries, customers typically pay invoices within 30 to 60 days. No single outstanding customer balance represented more than 10% of total accounts receivable.

24. Financial Risk Management (continued)

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

($ thousands)	2019	2018
Trade receivables	**$ 40,565**	$ 54,939
Other receivables	**7,391**	3,930
Total	**$ 47,956**	$ 58,869

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

($ thousands)	2019	2018
Domestic	**$ 33,125**	$ 46,267
New Zealand	**3,481**	4,198
Australia	**3,959**	4,474
Total	**$ 40,565**	$ 54,939

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

($ thousands)	2019	2018
Current - 60 days	**$ 36,882**	$ 50,976
Past due – 61-90 days	**2,090**	2,191
Past due – 91 to 120 days	**568**	962
Past due more than 120 days	**1,025**	810
Total	**$ 40,565**	$ 54,939

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

($ thousands)	2019	2018
Balance at January 1	**$ 1,078**	$ 1,579
Additional allowance recorded	**362**	(213)
Amounts written-off as uncollectible	**(285)**	(288)
Balance at December 31	**$ 1,155**	$ 1,078

24. Financial Risk Management (continued)

Guarantees

The Company has irrevocable standby letters of credit to John Deere in the amount of $10 million (2018 - $2.4 million). The letter of credit agreements allow for John Deere to draw upon it in whole or in part in the event of any default by the Company of any or all obligations. The increase in letters of credit from 2018 is due to the replacement of personal guarantees, as described in Note 27.

In addition to these guarantees, the Company has also guaranteed the residual value of certain equipment leases which have been entered into between our Customers and John Deere. For these leases, Cervus is responsible to purchase the equipment from John Deere upon the maturity of the lease between the customer and John Deere. The Company's purchase price for the equipment is the residual value agreed to at the inception of the lease between John Deere, the Customer, and Cervus. On lease maturity, the equipment is purchased by the Company and is included in the Company's used inventory. Cervus regularly assesses residual values of customer equipment under lease with John Deere, to assess its carrying value and if any allowance is necessary. At December 31, 2019, total residual values maturing over the next 12 months was $42 million (2018 – $32 million) and the total residual values maturing in the next five years is $316 million (2018 - $321 million).

Liquidity Risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the ability to raise funds to meet purchase commitments and financial obligations and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. As described in Note 12, the Company has available for its current use under its Syndicated Facility, $120 million less $25 million drawn on the facility and $10 million for irrevocable letters of credit issued to John Deere.

The Company expects that continued cash flows from operations in 2020, together with currently available cash on hand and credit facilities, will be sufficient to fund its requirements for investments in working capital, capital assets and dividend payments through the next 12 months. The following are the contractual maturities of financial liabilities existing as at December 31, 2019.

($ thousands)		Carrying amount	Contractual principal maturities	12 months or less	1 – 2 Years	2 – 5 Years	5+ Years
Trade and other accrued liabilities	$	62,386	62,386	62,386	-	-	-
Floor plans payable		182,379	182,379	182,379	-	-	-
Dividends payable		1,688	1,688	1,688	-	-	-
Term debt payable		43,165	43,446	9,795	3,397	30,254	-
Derivative financial liability		797	797	797			
Lease obligation		92,883	148,134	15,471	13,945	36,345	82,373
Total contractual maturities of financial liabilities	$	383,298	438,830	272,516	17,342	66,599	82,373

24. Financial Risk Management (continued)

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

Monitoring inventory levels, 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.

Currency Risk

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

Further, a portion of the Company's owned inventory is floor planned in U.S. dollars. As such, U.S. dollar denominated floor plan payables are exposed to fluctuations in the U.S. dollar exchange rate until the unit is sold and the floorplan is repaid. The fluctuation in the U.S. dollar floorplan payable is recorded in unrealized gain/loss on foreign exchange within other income. When the equipment is sold, equipment is priced based on the prevailing spot USD/CAD exchange rate at the time of sale, plus applicable margin. In so doing, the Company's proceeds on sale directly offset the prevailing U.S. Dollar floorplanned cost of the equipment. If the Company was unable to recapture fluctuations in the US/CAD dollar in the sales price for equipment floor planned in U.S. dollars, a $0.01 change in the U.S. exchange rate would have increased (decreased) comprehensive income by $0.3 million (2018 - $0.1 million), based on the U.S. dollar floor plan balances at December 31, 2019.

24. Financial Risk Management (continued)

From time to time the Company also enters into foreign exchange forward contracts to provide the Company Canadian dollar cost certainty for equipment ordered for the Customer from the manufacturer in U.S. dollars, having quoted the customer a fixed Canadian dollar price at the time the order was placed. In addition, the Company is exposed to foreign currency fluctuation related to translation adjustments upon consolidation of its Australian and New Zealand operations. These foreign subsidiaries report operating results in Australia and New Zealand dollars, respectively. Movements in these currencies relative to the Canadian dollar will impact the results of these operations upon consolidation.

Interest Rate Risk

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

Interest Bearing Financial Instruments

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

($ thousands)	2019	2018
Fixed Rate		
Lease obligation	**92,883**	11,271
Variable Rate		
Floor plan payables		
Floor plan payables - interest bearing	**180,650**	155,705
Floor plan payables - interest free period [(a)]	**1,729**	1,910
Term debt	**43,446**	39,617
Total interest bearing financial instruments	**$ 318,708**	$ 208,503

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

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. A change in 100 basis points in interest rates would have increased or decreased interest costs for the year ended December 31, 2019 by approximately $2.3 million (2018 -$2.0 million).

Capital Risk Management

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

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue or repurchase shares, raise or retire term debt, and/or adjust the amount of distributions paid to the shareholders.

24. Financial Risk Management (continued)

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

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

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

Covenant Compliance

The Company must meet certain financial covenants as part of its current Syndicated Facility, and the Company was in compliance as at December 31, 2019. The covenants under the Syndicated Credit Facility are consistent in principle with the internal ratios used by the Company in determining appropriate capital levels, however calculations are not directly comparable, as the Company's internal ratios are broader to consider all stakeholders, while the Syndicate Covenants are specifically tailored by the Syndicate for their specific security position. The three core covenants under the Syndicated Credit Facility, as contained in the Syndicated Credit agreement requires:

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

The specific calculations of the covenants under the Syndicated lending agreement include numerous lender, and agreement specific, non-IFRS measures. The specific calculations and defined terms thereof are available for retrieval at www.SEDAR.ca. The Company's compliance as at December 31, 2019 with the covenants contained in the Syndicated Credit Agreement is set out below:

	As at December 31, 2019		As at December 31, 2018	
	Covenant	**Result**	Covenant	Result
Total Liabilities to Tangible Net Worth*	Less than 4.0:1.0	**2.64**	Less than 4.0:1.0	2.39
Fixed Charge Coverage Ratio*	Greater than 1.1:1.0	**1.57**	Greater than 1.1:1.0	2.38
Asset Coverage Ratio*	Greater than 3.0:1.0	**6.24**	Greater than 3.0:1.0	11.82

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

25. Segment Information

For management purposes, the Corporation is organized into divisions based on the nature of the services and products provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment. The Corporation has four reportable segments, as described in Note 3.

In 2019, the Company changed the composition of its reportable segments to include the Corporate segment, which reports activities not directly attributable to an operating segment. Corporate expenses consist of certain overheads and shared services provided to the divisions, along with public company costs, salaries, share-based compensation, office and administrative costs relating to corporate employees and officers, and interest cost on general corporate borrowings. Prior period financial information for 2018 has also been restated to reflect the change in segment composition.

Financial information for each reportable segment is presented in the table below, which includes the disaggregation of revenues by type of service or good.

($ thousands)	Agriculture	Transportation	Industrial	Corporate	Total
Segmented income figures					
Year ended December 31, 2019					
Revenue					
Equipment sales	$ 596,155	$ 193,957	$ 23,281	$ -	**$ 813,393**
Parts	106,829	100,594	11,465	-	**218,888**
Service	46,286	31,849	9,743	-	**87,878**
Rentals and other	6,172	3,853	8,850	-	**18,875**
Total revenue	$ 755,442	$ 330,253	$ 53,339	$ -	**$ 1,139,034**
Total other income	524	2,516	704	100	**3,844**
Depreciation and amortization	13,836	6,641	3,440	452	**24,369**
Finance income	201	-	6	480	**687**
Finance expense including amounts in costs of sales	(7,695)	(4,009)	(336)	(1,979)	**(14,019)**
(Loss) income for the year before income tax	(7,588)	5,151	1,327	(9,336)	**(10,446)**
Capital additions	7,867	814	493	6,497	**15,671**
Segmented assets and liabilities as at December 31, 2019					
Reportable segment assets	$ 379,702	$ 174,340	$ 27,651	$ 34,030	**$ 615,723**
Intangible assets	24,241	10,039	3,735	-	**38,015**
Goodwill	19,684	2,546	667	-	**22,897**
Reportable segment liabilities	219,230	107,997	13,159	48,199	**388,585**

25. Segment Information (continued)

($ thousands)	Agriculture	Transportation	Industrial	Corporate	Total
Segmented income figures					
Year ended December 31, 2018					
Revenue					
Equipment sales	$ 783,788	$ 228,569	$ 29,478	$ -	$ 1,041,835
Parts	95,925	96,118	14,085	-	206,128
Service	41,442	31,078	10,340	-	82,860
Rentals and other	5,730	6,391	7,092	-	19,213
Total revenue	$ 926,885	$ 362,156	$ 60,995	$ -	$ 1,350,036
Total other income	1,463	292	1,003	685	3,443
Depreciation and amortization	7,295	5,969	1,847	-	15,111
Finance income	399	-	(12)	467	854
Finance expense including amounts in costs of sales	(2,718)	(3,247)	(72)	(1,478)	(7,515)
Income (loss) for the year before income tax	34,199	7,122	2,253	(9,472)	34,102
Capital additions	9,216	887	619	2,132	12,854
Segmented assets and liabilities as at December 31, 2018					
Reportable segment assets	$ 362,843	$ 122,022	$ 31,079	$ 22,284	$ 538,228
Intangible assets	27,614	10,975	4,051	-	42,640
Goodwill	18,411	2,546	666	-	21,624
Reportable segment liabilities	182,496	73,737	12,348	25,948	294,529

The Company primarily operates in Canada, but includes subsidiaries in Australia (Cervus Australia Pty Ltd.) and in New Zealand (Cervus NZ Equipment Ltd.), which together operate 15 agriculture equipment dealerships. Gross revenues for the year ended December 31, 2019, for the New Zealand and Australian territories were $184 million (2018 – $191 million). Non-current assets for New Zealand and Australia as at December 31, 2019, were $30 million (2018 – $22 million). The Australia and New Zealand operations are included in the Agriculture Segment.

26. Commitments and Contingencies

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

Financing Arrangements

John Deere Credit Inc. ("Deere Credit") and other financing companies provide financing to certain of the Company's customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2019, payments in arrears by such customers aggregated $1.4 million (2018 - $0.8 million).

In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit and other financing companies through recourse arrangements for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2019, the net residual value of such leases aggregated $316 million (2018 - $321 million). Management believes that the potential liability in relation to the amounts outstanding is negligible and consequently, no accrual has been made in these financial statements in relation to any potential loss on assumed lease obligations.

27. Related Party Transactions

Key Management Personnel Compensation

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

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

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

Other Related Party Transactions

During 2019, certain officers and dealer managers of the Company provided guarantees to John Deere aggregating $7 million (2018 – $7 million). During the year ended December 31, 2019 and 2018, the Company paid those individuals $0.2 million (2018 - $0.2 million) for providing these guarantees. In December 2019, these guarantees were replaced with letters of credit, as mentioned in Note 24. This compensation for guarantees was recorded at the amount agreed to between the Company and the guarantors, are included in selling, general and administrative expense and has been fully paid during the year.

SHAREHOLDER & CORPORATE INFORMATION

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Annual Meeting of Shareholders

Thursday April 23, 2020, 4:00 p.m. (Mountain Daylight Time)
Cervus Equipment Corporation
5201, 333 – 96th Avenue NE,
Calgary, Alberta, Canada

Auditors

KPMG LLP

Board of Directors

Don Bell
Corporate Director

Larry Benke
Corporate Director

Steven Collicutt
Corporate Director

Peter Lacey
Chair of the Board and Corporate Director

Angela Lekatsas
President and Chief Executive Officer Cervus Equipment Corporation

Dan Sobic
Corporate Director

Wendy Henkelman
Corporate Director

Officers

Angela Lekatsas
President and Chief Executive Officer

Adam Lowther
Chief Financial Officer

Devin P. Mylrea
Corporate Counsel and Corporate Secretary

Stella Cosby
Vice President, People

Fred Hnatiw
Vice President, Operations, Transportation and Industrial

Scott Johnston
Vice President, Agriculture Canada

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