

# ACCELERATING PERFORMANCE



# ABOUT CERVUS EQUIPMENT

Cervus Equipment Corporation (“Cervus”, the “Corporation”, the “Company”, “Our” or “We”) is a leading equipment solutions provider to customers in agriculture, transportation, and industrial markets across Canada, Australia and New Zealand. Throughout our territories and across our diverse markets, Cervus dealerships are united by the sales and support of the market-leading equipment our customers depend on to grow their business. The Company operates 64 Cervus dealerships and is the authorized representative of leading Original Equipment Manufacturers (“OEMs”) including: John Deere agricultural equipment; Peterbilt transportation equipment; and Clark, Sellick, Doosan, JLG and Baumann material handling equipment. Cervus operates an extensive product-support network including a fleet of mobile service vehicles and over 500 service bays. One third of the Cervus workforce of more than 1,500 dedicated employees is comprised of technicians with specialized skills to support our customers’ equipment diagnostics, maintenance and repair needs.

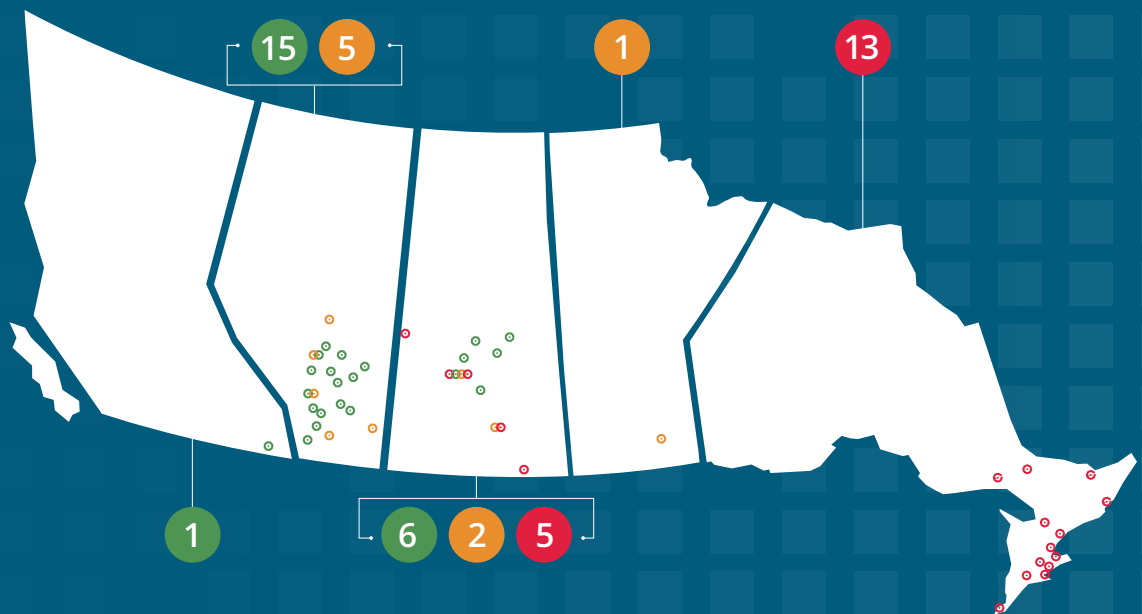
Cervus common shares are listed on the Toronto Stock Exchange and trade under the symbol “CERV”.

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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, 2020, available on [sedar.com](https://www.sedar.com).

# OUR LOCATIONS



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# A MESSAGE FROM **PETER LACEY**

CHAIR OF THE BOARD

Once again, I am honoured to serve as Board Chair of Cervus and I am very proud of the way that our teams have come together in a year full of uncertainty to make excellent progress towards our goals.

Fellow Shareholders,

In last year's report, we outlined the many changes that were coming to Cervus, and why they were so important. You will recall that we introduced a strategy that was designed to increase profitability and deliver tangible benefits to all stakeholders; and I could not be more pleased with the results so far.

When I wrote my letter last year, I do not think that any of us could have predicted the impact that the COVID-19 pandemic would have on global economies and businesses. Early in the pandemic response Cervus divisions were designated as essential businesses, and we have taken that role very seriously. Our stores have remained open, and our employees have been working diligently to ensure that our customers continue to receive the same level of excellent service and availability that they have come to depend on us for.

Overall, we have made tremendous progress, even in a year that was as challenging as 2020. There is still a lot of work to be done, but we are on the right path and accelerating our performance.



Peter Lacey | Chair of the Board

## 2020 RESULTS

Looking at our operating and financial performance, 2020 could not be more different from 2019. Equipment sales in Western Canadian Agriculture solidly rebounded from 2019 and Australia and New Zealand Agriculture delivered record results. Transportation and Industrial were resilient and maintained profitability throughout the pandemic due to nimble responsiveness in managing through this global crisis. The changes we implemented to place a spotlight on product support started to produce results and all divisions performed very well in parts growth, whereas service and other product support areas were harder hit by the pandemic.

## THE CHANGING DEALERSHIP LANDSCAPE

As an equipment dealer of premier brands, the greatest challenge we experience is that of competitor products trying to capture an increasing share of our premium equipment industry market. We expect this competitive pressure to continue with the potential impact of margin compression on new equipment sales. Additionally, the increasing cost of equipment and a weaker Canadian dollar is expected to contribute to this pressure. It is imperative that dealerships adapt to these obstacles in order to succeed. In our view, success in the future will be critically tied to a stable equipment population and growing product support offerings as the predictable and higher-margin portion of our business.

Partnership with our OEM's is continuing to evolve and the evolution of our strategy to grow product support is totally aligned with both John Deere's Smart Industrial Strategy and Peterbilt's focus on Platinum Service Certification for our repair shops. These strategies align completely with Cervus' long-term 50/50 strategy of balancing equipment sales with product support while focusing on the increasing role that innovation and technology play in the growth of product support offerings.

## OUR 50/50 STRATEGY

The challenges we have seen throughout our operations in the past year, coupled with the changing dealership landscape have validated our 50/50 strategy. We know that stability will be achieved when we counterbalance the cyclicity of wholegoods sales with Product Support revenues. Cyclicity of the wholegoods sales cycle is compounded by the effects of OEM

incentives which are not always controllable by the dealerships. 50/50 provides stability to our revenue stream, protection from downswings in the cycle and, ultimately, protection for shareholder returns.

## BOARD ACTIVITIES

While COVID-19 caused unprecedented turmoil around the world in 2020, the Board of your company remained focused on driving our strategy forward and strengthening Cervus. Seeing an opportunity to create additional value for our shareholders we temporarily reallocated a portion of our quarterly shareholder distribution to our Normal Course Issuer Bid. Throughout the course of the year, we repurchased and cancelled 290 thousand shares at an average price of \$7.35/ share for a total cost of \$2.1 million. These shares were repurchased at a significant discount to tangible book value, and subsequently cancelled. The ability to retain shareholder distributions, whether by dividend or share repurchases, speaks to the strength and resilience of our balance sheet.

In December, we announced the retirement of Larry Benke from your Board of Directors. Mr. Benke brought widespread technical and executive experience, including extensive governance expertise. His contributions will be missed, and we wish Mr. Benke all the best in his retirement.

## OUR PATH IS CLEAR

After nearly 40 years in the equipment industry, I can honestly say that the 2020 pandemic was unprecedented. The exemplary response and management of this crisis from the Cervus team provides me with the confidence that we have the team that can move our company forward. Our path is clear:

- In 2019 we set the path to performance.
- Through 2020 we have accelerated that performance.
- This year I look forward to business as usual with focused execution of our strategic priorities.

Yours Sincerely,



**Peter Lacey**

Chairman of the Board of Directors

# A MESSAGE FROM **ANGELA LEKATSAS**

PRESIDENT & CHIEF EXECUTIVE OFFICER

Fellow Shareholders,

As I look back on the year that was 2020, I am in awe of the challenges we faced while also humbled by how successfully our teams tackled those challenges. This was the first year executing our new strategy and it withstood the assault of the global pandemic better than we could have anticipated. In fact, we not only weathered the storms of 2020, but we delivered substantially increased profitability.

While the path towards our long-term objectives will not be linear, the strategic initiatives that were in the works aided in mitigating the impacts of the pandemic on Cervus. While the global economy attempts to return to a steady state, our strategic priorities will have us prepared to take advantage of an eventual recovery.

## 2020 RESILIENCE DELIVERS PERFORMANCE

Any discussion of 2020 must begin with the world-wide COVID-19 pandemic. While the pandemic affected people and companies across the world in different ways, it helped to expose our greatest strengths as an organization.

Cervus' predominant strength is our people. Early in the pandemic, all divisions of Cervus were recognized as essential services. This status meant that, while our stores and operations were able to remain open, our employees had to implement significant changes to ensure the safety of all in their daily roles. I am very proud of the way that Cervus employees rallied together to ensure our valued customers were fully supported and received the same levels of service and accessibility that they have come to depend on us to provide.

Angela Lekatsas | President & CEO



Our new sales, trade-in and refurbishment practices complemented this customer service focus and delivered an increase in new equipment sales of 10%.

Those same employees also helped to leverage another of our strengths—innovation and technology. Working through the pandemic required creative thinking and leveraging technology to get the job done when we were not able to travel or meet face-to-face. We accelerated the adoption of technology for streamlined paperless sales processes, including the introduction of electronic signatures and online-parts ordering. Timely implementation of initiatives such as curbside parts pickup, On the Road Sales, and the Parts OnSite program supported an overall growth of 8% in parts revenue despite the global pandemic.

And last but not least, the resilience of customers in our largest business segment, Agriculture, is a core strength in our business. Our progress was aided by the stability of agriculture through the pandemic. While there were some negative impacts, particularly on service revenues, farmers and agribusinesses kept going to feed the world. Crops were planted and harvested, and equipment was essential to keeping our producers in the field. As a result, our Agriculture segment delivered an impressive growth of 12% in whole-goods sales and 18% in parts sales.

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**We accelerated the adoption of technology for streamlined paperless sales processes including the introduction of electronic signatures and online parts ordering.**

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Conversely, service revenues were negatively impacted by two factors. The reduction in prior year new Agriculture equipment sales resulted in reduced service

requirements throughout 2020, as well as impacts from the pandemic as fewer customers brought equipment into the shop for service. This was compounded by customers restricting access for on-site service calls and preventative maintenance as economies were shuttered and customers fixed what they could and deferred larger repairs. Similarly, rentals and training were essentially shuttered along with the rest of the economy as restrictions were imposed in our geographies. As a result, product support revenues, excluding parts, declined by 6%. Initiatives to increase service sales and deliver Platinum Certification in all our Peterbilt locations are anticipated to contribute to improved service results in 2021.



When talking about the resiliency of our organization, I am particularly proud of our team down under in Australia and New Zealand. This team is really firing on all cylinders and putting up some great numbers. We have featured our southern hemisphere operations in a special section of this report to showcase this part of our business.

During the year, we focused on building a leaner organization from the top down. This rightsizing included the introduction of a new Chief Operating Officer in Scott Johnston, as well as further restructuring of our executive and management teams. This process also allowed us to standardize operating procedures and leverage complementary skill sets across divisions.

As part of our ongoing pursuit of performance during the COVID-19 pandemic, we implemented several measures which helped us to reduce G&A while keeping employee reductions to a minimum. Some of these measures included cuts in pay for the Board of Directors and corporate-level executives, temporary layoffs, and reduced work hours. We also recognize that our people are the backbone of our organization and have been working the frontlines at Cervus throughout the pandemic. To acknowledge their passion, commitment, and resilience, we proudly provided a one-time cash bonus to our front-line workers.

## 2021 PRIORITIES

### NEW TECHNOLOGY MEETS OLD EQUIPMENT

The adage goes that if something isn't broken, don't fix it. While I generally live by that ethos personally, we also recognize that there are often opportunities to take something that isn't necessarily broken and make it better with updated technology. This is particularly true in the Agriculture side of our business, where we see opportunity to work with our customers to upgrade older equipment with newer technologies such as JDLink, Operations Centre and Connected Support, all of which will help to make their operations more efficient and more effective.

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## In less than 12 months we achieved our sustainable long-term target for Agriculture used inventory turns

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Our premier brands of John Deere and Peterbilt offer technology solutions that turn "Data to Dollars" for our customers. Our priority is to provide the tools to interpret that data and increase the financial return for our customers' investment in equipment. In addition, we have implemented programs to bring customers with older equipment back to the dealership for the quality service that our trained technicians provide.

### ADDING VALUE TO OUR CUSTOMERS BUSINESSES

Technology on its own can only go so far, and there comes a point when we need to be able to add value to our customers' business through new programs and service offerings. To that end, we are also focused on developing innovative new programs such as online parts sales, mobile parts and service, equipment optimization, seasonal inspections, and planned maintenance packages to name a few. These programs are already providing value to our customers, while also helping us to increase our revenue streams from product support in line with our 50/50 strategy.





## PROFESSIONAL SALES MANAGEMENT AND LEADERSHIP

We made a giant leap forward last year as we travelled the journey of cultural change in our sales force and branch leadership teams. These changes have helped solidify our position as a trusted advisor for customers. Disciplined trade-in practices, focus on inventory turns, forward selling of new and used equipment, and sales pipeline management are just a few of the initiatives we introduced last year, and we continue to refine these practices. We plan to continue investing in our leadership and sales skills through training and customer engagement programs.

## OUR FIVE-YEAR STRATEGY

Our vision of the future is that revenues will be balanced 50/50 between equipment sales and product support. This is our “North Star”. Equipment sales create the machine population essential for product support revenues, however, they are cyclical and dependent on factors outside our control such as OEM pricing and incentives. Product support revenues generate higher profitability and typically carry a dealer through the bottom of economic cycles; however, they are dependent on machine population. And there you have it – they are interdependent but equally important.

Attaining our vision will require a shift from “equipment seller” to “equipment advisor” with a focus on machine optimization and technological advancements. This shift plays directly into the strategy for growth of product support revenues. To ensure we are on track towards our long-term vision, we have an intense focus on our top three goals discussed below – ROIC, Product Support Gross Margin Growth, and Absorption.

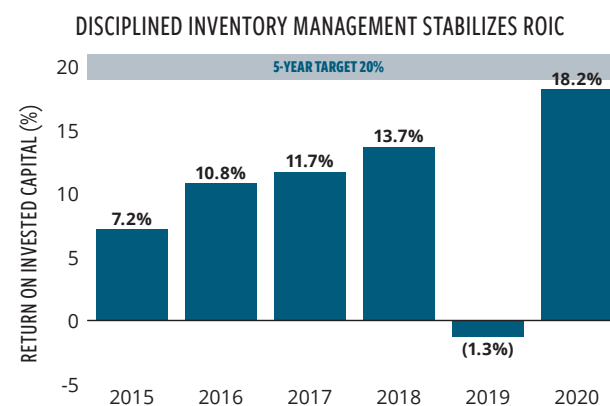
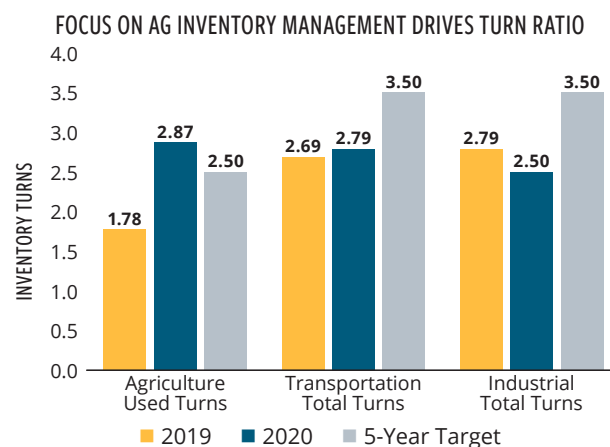
Throughout the course of the year, we made good progress on our journey towards our five-year objectives, particularly in our Agriculture division. In less than 12 months we achieved our sustainable long-term target for Agriculture used inventory turns and are very close to achieving our long-term divisional goal for absorption. Disciplined inventory management and sales practices throughout the company helped deliver an incredible 18.2% Return on Invested Capital (“ROIC”) in 2020. This brings our five-year trailing average back up to 10.6%, well on our way to achieving our goal of 20% as we continue accelerating our performance.

## RETURN ON INVESTED CAPITAL

ROIC measures our ability to allocate capital effectively and our long-term goal is to build a business capable of achieving 20% ROIC on a sustained basis. Driving ROIC upward requires greater focus to inventory turns as inventory is the largest asset on our balance sheet. Higher inventory turns will improve the efficiency of asset utilization and ROIC.

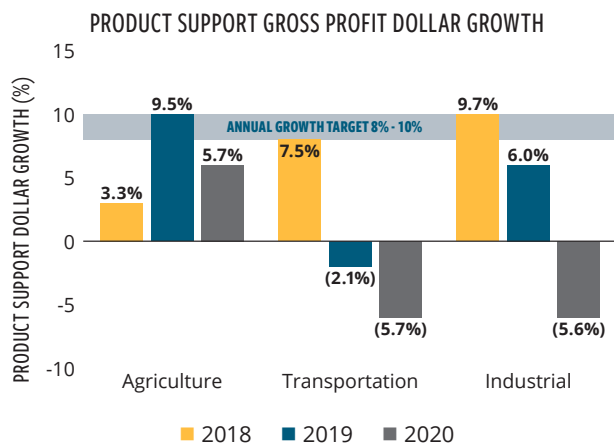
Integral to improving inventory turns is providing exceptional refurbishment of used equipment trade-ins – a differentiating product support capability. Additionally, expanding our knowledge of customer profiles and preferences allows us to match reliable used equipment with customer needs. Our focus on used agriculture inventory in late 2019 and early 2020 drove those inventory turns to above our target. This disciplined approach to inventory management has provided the foundation to support sustainable ROIC.

Finally, regular assessment of asset performance is essential to sustainable ROIC and we have instituted this process in our Board and Management reviews.



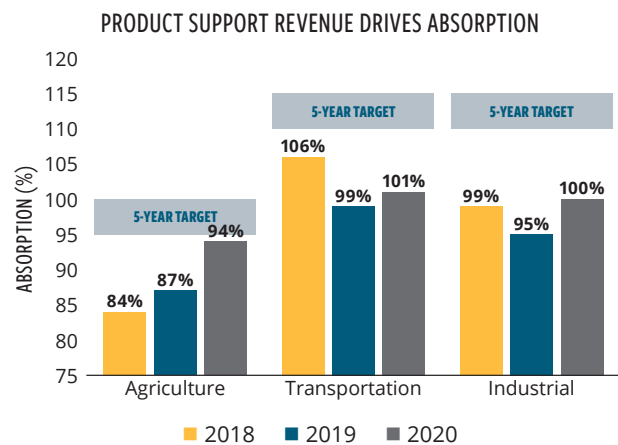
## PRODUCT SUPPORT PROFIT GROWTH

Sustainable Product Support is the lifeblood of any dealership and our long-term goal is balanced revenues from equipment sales and product support – the 50/50 goal. 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. Service, training, and rental revenues were particularly impacted by the global pandemic resulting in overall product support gross profit increase of 0.6% in 2020. Post pandemic recovery, our target is to be running a business capable of achieving 8-10% CAGR in Product Support. To deliver this aggressive goal, we will need a combination of new business lines, new systems, new product offerings, stronger customer engagement and more efficient cost structures.



## ABSORPTION

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, our plan is to grow product support margin and reduce operating costs. Efficient expense structure is essential, as is innovative product and service delivery. In 2020, our absorption ranged from 94% to 101%, with agriculture outperforming our expectations and achieving absorption of 94%. Our five-year goal is to achieve absorption of 95% to 115% depending on the respective industry. It will take a concerted effort to achieve this KPI and our entire organization is aligned to this priority.



## LOOKING TO THE HORIZON

I am proud of our team's substantial success in product support growth initiatives. This was no small feat in a year when customers were pulling back. Examples of this include:


- Parts growth in Agriculture of 18%.
- Precision Agriculture revenue growth.
- New parts distributorship acquired in New Zealand.
- New locations – parts and service centre in Nipawin, Saskatchewan and a full dealership in Colac, Australia.
- Expanding parts and service programming directed at aging equipment.
- Standardized process for trade-in valuation and refurbishment and warranty claim efficiency.
- Platinum Certification for our Peterbilt dealerships which included advanced service technician training, expanded service hours, parts availability, and days in repair to name a few.

The tenacity demonstrated in 2020 will aid us in delivering on our long-term goals and I am optimistic that the future is bright.

The last two years have been a period of revitalization – leadership restructuring to create a leaner nimble management team, cost reductions, company-wide reorganization to leverage our strengths and capture synergies of past acquisitions, and focused efforts to strengthen our balance sheet and reduce used inventory levels. Cervus is a re-energized and agile organization that is focused on both stability and dynamism at the same time. This provides a strong foundation for a defense against commoditization of machinery and competitive margin pressure.

I expect 2021 will be a year of investing in our strategy after a year of navigating a crisis. Investment in the form of employee training and development, growing market share and bringing new products and services to our customers.

Yours Sincerely,



Angela Lekatsas

President & Chief Executive Officer

# NEW GROWTH DOWN UNDER

## SPOTLIGHT ON AUSTRALIA AND NEW ZEALAND

More than a decade ago, we were looking to expand our footprint globally.

Why did we choose Australia and New Zealand (“ANZ”) for international expansion? The cultural fit between Canada, Australia and New Zealand is very strong. Despite being on opposite sides of the world our employees and customers share similar expectations from businesses they choose to work for and do business with. From an OEM perspective, the business approach is also similar between Canada and ANZ, leading to greater efficiencies for our operations.

The cultural similarities are an obvious advantage, however, by expanding into new geographies, we were able to use our existing strengths and knowledge to diversify. The abundance of agriculture in both countries provides significant opportunity for us to build larger dealership groups in both Australia and New Zealand as smaller dealers look for succession opportunities.

Further, while expansion to ANZ supplied access to markets in those countries, it also provided access to support high-growth agricultural export markets in Asia.

Today, our operations down under are running full steam ahead and turning in excellent results.

### WHERE WE’VE COME FROM

Starting with a minority ownership in one store in New Zealand over a decade ago, our dealer network has expanded to 16 locations in both New Zealand and Australia at the end of 2020; a footprint which provides the scale required to run a stand-alone dealer group. During this time, we have built a professional team, implemented standardized operational processes, and formed strong and lasting relationships with our customers. It has taken some time, but we are confident that we have the business structure and management team in place to position us well for future growth.

**JUL 2012** Cervus acquires 30% of Windmill Ag (AU)

**NOV 2012** Addition of Maffra Dealership (AU)

**MAY 2013** Cervus increases holding in Windmill to 53% (AU)

2010

2012

2013

**JUL 2010** Cervus acquires 60% of Agriturf (NZ)

**JUL 2012** Cervus increases ownership in Agriturf to 100% (NZ)

**OCT 2012** Cervus acquires Bayquip and Fieldpower (NZ)

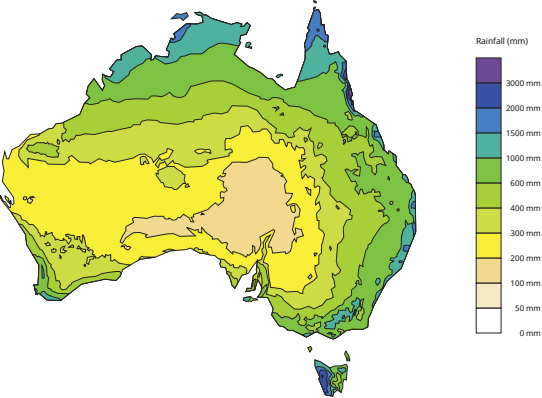
# COMPETITIVE ADVANTAGES OF AUSTRALIA AND NEW ZEALAND

## GEOGRAPHIC LOCATIONS

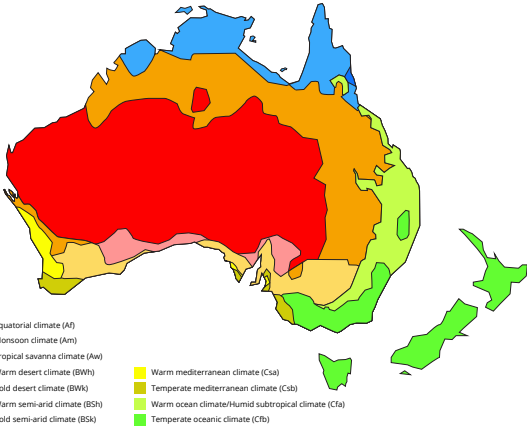
Australia and New Zealand are often characterized by volatile climate challenges, whether those be droughts or wildfires in Australia or excessive rain fall in New Zealand. The climate can be wildly different from the middle of the country to the coastline given the incredible size of the landmass, particularly in Australia. We have nine locations in the North Island of New Zealand and seven locations in Victoria State, in the southeast corner of Australia. We have purposefully built our dealership locations in the areas with the best growing conditions in Australasia.

map, our territory which is situated around the Melbourne tip of southeast Australia, averages 800 mm of rainfall per year. In general, we get consistent rainfall across our New Zealand territory with an average rainfall of 1,250 mm per year. With these rainfall statistics, our locations in both countries provide ideal growing conditions for our customer base year-round.

Our strategy for growth in Australia is to stay in the “green zone” of temperate oceanic climate which provides the greatest stability for agricultural operations and the highest net cash receipts for our producer customers. The entire North and South Islands of New Zealand are in the green zone. As well, the surrounding areas of our current Australia locations are also in the green zone. We find ourselves well positioned to take advantage of contiguous acquisition opportunities as smaller dealerships look at their succession plans.



The key leading indicator for the agriculture industry in Australia is rainfall; with limited irrigation, very little happens without rain. As can be seen in this rainfall



**APR 2014** Cervus increases ownership in Windmill to 100% (AU)

**APR 2014** Addition of Sunshine Dealership (AU)

**SEP 2020** Acquired Colac dealership (AU)



**JUL 2019** ANZ Shared Resource Office established

**FEB 2021** Acquired Vapormatic Distribution Rights (NZ)

## DIVERSIFICATION OF ANZ AGRICULTURE INDUSTRY

The industry mixes across Australasia are well diversified as are the end markets. For example, across our seven locations in Australia, our farmers cover the entire agriculture industry from dairy to broad-acre crops and from beef producers to small grains. Similarly, in New Zealand, the climate, soil quality and topography support agriculture in dairy, horticulture, sheep and beef.

This diversity and the longer growing cycle provide a competitive advantage for Cervus. There is very little downtime for our customers throughout the year. This means that equipment works 12 months of the year and this hardworking equipment requires product support year around.

As an example, for dairy farmers, hay and silage is a key activity during the full year. For horticulture, our customers will often have a winter and summer crop and it is not uncommon for three to four crop rotations to occur in the same field during a calendar year.

For broadacre crops, we sow in the southern hemisphere autumn and then spray to protect crops across all four seasons. It is interesting that, given the differences in our weather between Canada and Australia, wheat,

barley and canola are the three main crops in both geographies. Additionally, small grain crops spend nine months in the ground, a lot longer than in Canada.

Given all of this activity, customer equipment clocks up significant hours. For dairy and broadacre the average tractor would do 600 hours per year. This compares to 350 hours for equivalent tractors in Canada. Our horticulture customers will put over 1,000 hours per year on their primary tractors. We have horticulture customers that will double shift their tractors to run 24 hours a day and clock up over 2,000 hours per year!

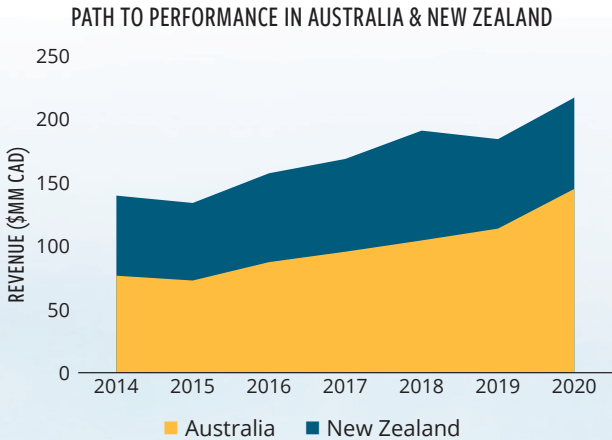
In summary, this competitive advantage for our dealerships is strategically aligned with our priority of growing the product support side of our business to achieve 50/50 balance between equipment sales and product support.



## HOW WE'RE DOING TODAY

Despite the global pandemic, our ANZ teams posted a record year for profitability.

Executing on our strategic initiatives delivered improved inventory turns and absorption at all 16 locations. We also achieved product support gross profit growth of 9.1% for ANZ, which is even more impressive when factoring in some challenging weather and pandemic headwinds. All of this culminated in achieving 2020 John Deere Leader's Club status recognizing Cervus Equipment as a top-performing dealer in ANZ.



In October 2020, our ANZ footprint continued to grow with the acquisition of JB Scott's John Deere business in Australia. Upon closing the acquisition, we relocated the dealership to Colac, an area that will provide an opportunity for additional growth.

The global collaboration between our three operational countries is stronger than ever. Our "Global Collaboration – Local Execution" initiative has leveraged the ideas, support and guidance provided by the larger Cervus team, while our outstanding ANZ teams have been able to focus on executing locally.

## WHERE WE ARE GOING

This positions us to continue accelerating performance throughout 2021 and beyond. Commodity prices and climatic conditions are both favourable for continued performance over the next 12 months.

Over the past couple of years, we have focused on the basics of our business, and building a strong foundation for growth. We see significant opportunities to grow revenue through equipment sales—providing increased market share—and through proactive after-market activities including service packages, on road parts sales and Precision Ag offerings. As an example, we recently announced the acquisition of a parts distribution business in New Zealand that blends well with our existing operations in the area. As it relates to precision agriculture technology, the historic focus on grain producers is rapidly transitioning to other agricultural sectors, which is encouraging for our diverse market.

Overall, we have accelerated performance throughout 2020, and we're not letting off the gas pedal.



# SAFETY

## OUR LICENSE TO OPERATE

At Cervus, operating sustainably begins and ends with safety. Ensuring that each of our employees goes home safely at the end of each day is paramount; as is the safety of our customers, communities, and other stakeholders. We take this responsibility very seriously and will not rest until we can ensure the well-being of all our people.

Safety in 2020 looked very different due to the COVID-19 pandemic. While our ultimate safety goals didn't change, our tools and tactics for achieving those goals were quite different this year. Early in the pandemic we established many new procedures and protocols to ensure the safety of our people and our customers. While some of these changes may have posed a minor inconvenience for some people, they proved to be very effective. As an organization of over 1,500 people, we registered only 5 confirmed cases of COVID-19 within our employee population. None of those cases were contracted while at the workplace, and there was no spread of the virus within our organization.

Outside of our enhanced COVID-19 related safety protocols we are committed to remaining 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. Participation in this program helps us to continually improve our safety practices.





Another important avenue for continuous safety improvement at Cervus is to leverage existing and new technology to improve overall performance and a more consistent approach. An integral part of our safety program is our weekly toolbox meetings. These meetings focus on a different aspect of our safety culture each week and help to underscore the importance of safety in all our daily activities.

Over the course of the year, we made some important structural changes to our Health & Safety program. One of the primary changes was to reorganize the reporting structure to the CEO to elevate the focus of our safety program to the highest levels of the organization. Another revision was to introduce a matrix reporting structure to support the integration of safety in all aspects of operational leadership.

The continued commitment to safety in our operations has resulted in a reduction of 21% in our Total Reportable Incident Frequency rate in 2020 compared to 2019. Our Board continuously monitors our health and safety outcomes and expects employees at all levels to drive towards an injury-free workplace and achieve a sustainable safety culture.

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## The continued commitment to safety in our operations has reduced our Total Reportable Incident Frequency rate by 21%

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We pride ourselves on our ability to help our customers achieve their safety objectives. In 2020 8,691 graduates of our courses received Operator Equipment Safety Certification. We continue to offer 9 safety training courses to our customers and the public across 3 provinces. In 2020, we offered 6 of those courses in an online environment to provide ongoing support to our customers, even in the face of the pandemic.

As we move through 2021 and beyond, safety will continue to be vital in everything we do. Our priorities this year include providing additional safety training for our leadership teams, job skills training for our people, and additional accountability over our operations. As always, we are working strategically and collaboratively to further refine our positive safety culture and safe working environments.



# MANAGEMENT'S DISCUSSION & **ANALYSIS**

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

CERVUS EQUIPMENT CORPORATION



*People. Power. Service.™*

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## Management's Discussion & Analysis

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Management's Discussion & Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Cervus Equipment Corporation ("Cervus" or the "Company") for the three and twelve-month periods ended December 31, 2020. It was prepared as of March 10, 2021. This MD&A should be read in conjunction with the accompanying Audited Consolidated Financial Statements for the year ended December 31, 2020, and notes contained therein. The accompanying Audited Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Cervus' functional and reporting currency is the Canadian dollar. Additional information relating to Cervus, including Cervus' Annual Information Form, is available on the Company's website at [www.cervusequipment.com](http://www.cervusequipment.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

### Forward-Looking Statements

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

### Key Performance Indicators and Non-GAAP Financial Measures

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

## Company Overview

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### Corporate Profile

Cervus is a leading equipment solutions provider to customers in agriculture, transportation, and industrial markets across Canada, Australia and New Zealand. Throughout our territories and across our diverse markets, Cervus dealerships are united by the sales and support of the market-leading equipment our customers depend on to grow their business. The Company operates 64 Cervus dealerships and is the authorized representative of leading Original Equipment Manufacturers (“OEMs”) including: John Deere agricultural equipment; Peterbilt transportation equipment; and Clark, Sellick, Doosan, JLG and Baumann material handling equipment. Cervus operates an extensive product-support network including a fleet of mobile service vehicles and over 500 service bays. One third of the Cervus workforce of more than 1,500 dedicated employees is comprised of technicians with specialized skills to support our customers’ equipment diagnostics, maintenance and repair needs.

Cervus common shares are listed on the Toronto Stock Exchange and trade under the symbol "CERV".

### Reporting Segments

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

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

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

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

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

### Business Model

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

## Strategic Framework

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### Strategic Goal

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

Through our sales activities (past and present), we have achieved a significant installed base of equipment in our markets. This installed base has created a sizeable opportunity for follow-on product support. Product support revenue adds stability and predictability to reduce volatility experienced in our cyclical industries. Over the past five years, the ratio of overall equipment sales to product support revenue has averaged approximately 75:25. We believe the Company can deliver enhanced performance across business cycles by advancing the sales to product support revenue ratio to 50:50. Accordingly, we have set a goal of achieving this balanced position by the end of 2024.

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

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

## Consolidated Results

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

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

## 2020 Annual Financial Results

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

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

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

### Revenue

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

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

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

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

### Gross Profit

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

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

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



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

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

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

### **Income**

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

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

## **Balance Sheet**

### **Inventory**

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

### **Shareholder Distributions**

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

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

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

## Fourth Quarter 2020 Results – Q4 2020 v Q4 2019

### Revenue

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

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

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

### Gross Profit

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

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

### General and Administrative Expenses and Net Finance Costs

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

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

### Income

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

## Business Segment Results

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

Corporate expenses consist of certain overheads and shared services provided to the divisions, along with public company costs, salaries, share-based compensation, office and administrative costs relating to corporate employees and officers, and interest cost on general corporate borrowings.

### Summary of Fourth Quarter Business Segment Results

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

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

<b>Three months ended December 31, 2019</b> <b>(\$ thousands)</b>	<b>Total</b>	<b>Agriculture</b>	<b>Transportation</b>	<b>Industrial</b>	<b>Corporate</b>
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)
<b>(Loss) income before income tax expense</b>	<b>(8,807)</b>	<b>(5,798)</b>	<b>122</b>	<b>(628)</b>	<b>(2,503)</b>
Unrealized foreign exchange (gain) included in other income	(831)	—	(826)	(5)	—
<b>Adjusted (loss) before income tax expense<sup>(1)</sup></b>	<b>\$ (9,638)</b>	<b>\$ (5,798)</b>	<b>\$ (704)</b>	<b>\$ (633)</b>	<b>\$ (2,503)</b>

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

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

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

<b>Year ended December 31, 2019</b> <b>(\$ thousands)</b>	<b>Total</b>	<b>Agriculture</b>	<b>Transportation</b>	<b>Industrial</b>	<b>Corporate</b>
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)
<b>(Loss) income before income tax expense</b>	<b>(10,446)</b>	<b>(7,588)</b>	<b>5,151</b>	<b>1,327</b>	<b>(9,336)</b>
Unrealized foreign exchange (gain) included in other income	(1,847)	—	(1,821)	(26)	—
<b>Adjusted (loss) income before income tax expense<sup>(1)</sup></b>	<b>\$ (12,293)</b>	<b>\$ (7,588)</b>	<b>\$ 3,330</b>	<b>\$ 1,301</b>	<b>\$ (9,336)</b>

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

## Agriculture Segment Results

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

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

### Revenue and Gross Profit

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

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

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

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

#### **G&A and Net Finance Costs**

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

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

#### **Income**

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

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

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

## Transportation Segment Results

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

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

### **Revenue and Gross Profit**

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

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

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

### **G&A and Net Finance Costs**

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

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

### **Income**

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

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

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



## Industrial Segment Results

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

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

### **Revenue and Gross Profit**

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

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

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

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

### **G&A and Net Finance Costs**

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

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

### **Income**

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

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

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

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

### COVID-19 Impact

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

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

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

### Agriculture

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Agriculture, particularly in Western Canada, remains the driving variable in the Company’s results. Canadian producers manage complex, capital intensive businesses, and are heavily influenced by seasonal weather conditions, commodity prices, and input costs. The Canadian agriculture industry has remained resilient despite the pandemic, with the sector performing well relative to other industries. Favorable weather conditions resulted in above average crop yield and quality in our geography and supported an earlier harvest for farmers. Agriculture and Agri-Food Canada projects farmers will achieve record profits in 2020, with net cash farm income forecasted to increase 21.8% in the year,<sup>3</sup> a welcome improvement following two years of reduced farm income.

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

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

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

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

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

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

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

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

## Transportation

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

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

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

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

## Industrial

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

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

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<sup>6</sup> Rural Bank, *2021 Australian agriculture outlook*, December 2020, <https://www.ruralbank.com.au/>

<sup>7</sup> Rabobank, *New Zealand Agribusiness Outlook 2021*, January 2021, <https://research.rabobank.com/far/en/sectors/regional-food-agri/nz-agribusiness-outlook-2021.html>

<sup>8</sup> TD Economics, *Provincial Economic Forecast: It's Always Darkest Before Dawn*, December 2020, <https://economics.td.com/provincial-economic-forecast>

<sup>9</sup> PACCAR, *PACCAR Achieves Good Annual Revenues and Net Income: Strong Truck Deliveries and Aftermarket Sales Drive Results*, January 2021, [www.paccar.com](http://www.paccar.com)

<sup>10</sup> PACCAR, *PACCAR Achieves Strong Quarterly Revenues and Earnings*, October 2020, [www.paccar.com](http://www.paccar.com)

## Key Performance Indicators

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

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

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

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

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

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

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

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

## **Return on Invested Capital**

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

## **Product Support Gross Profit Growth**

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

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

## **Absorption Percentage**

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

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

## **Equipment Inventory Turnover**

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

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

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

## Cash Flow

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

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

### Operating Activities

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

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

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

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

### Investing Activities

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

### Financing Activities

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

## Adjusted Free Cash Flow

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

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

(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 plan facilities and the Syndicated credit facility. However, floor plan facilities are included in non-cash working capital, while the Syndicated credit facility is included in financing activities due to the committed term of the facility. In periods where a portion of inventory is financed through OEM floor plan facilities, operating cash flow increases, while cash provided from financing activities decreases.

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

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



## Product Support Revenue by Segment

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

### Summary of Fourth Quarter Product Support Revenue

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

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
<b>Total product support revenue</b>	<b>\$ 80,498</b>	<b>\$ 40,474</b>	<b>\$ 33,157</b>	<b>\$ 6,867</b>

### Summary of Annual Product Support Revenue

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

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
<b>Total product support revenue</b>	<b>\$ 325,641</b>	<b>\$ 159,287</b>	<b>\$ 136,296</b>	<b>\$ 30,058</b>

## Consolidated Financial Position & Liquidity

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

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

### Working Capital

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

Based on inventory levels at December 31, 2020, the Company had the ability to floor plan an additional \$14 million of inventory and held \$443 million of undrawn floor plan capacity.

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

### Liquidity Risk

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

The Company expects that continued cash flows from operations in 2021, together with currently available cash on hand and credit facilities, will be sufficient to fund its requirements for investments in working capital, capital assets and dividend payments through the next 12 months. The Company's contractual obligations and availability of borrowing facilities at December 31, 2020 are described further in the sections below.

The Company has guaranteed the net residual value of certain leases between customers and John Deere Financial ("JDF") as set out in Note 23 to the Audited Consolidated Financial Statements for the year ended December 31, 2020. The Company regularly assesses the residual value of the JDF lease portfolio relative to wholesale values for comparable equipment. On the maturity of customers' leases, the equipment can be returned to the Company and if so, it is sold as used equipment. Upon the return of equipment, JDF will provide the Company floor planning based on John Deere's pricing guide. Of the lease portfolio at December 31, 2020, leases with a residual value of \$57 million are scheduled to mature in 2021.

## Contractual Obligations

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

(\$ thousands)	Total Carrying Value	Contractual principle repayments	12 months or less	1 - 2 years	2 - 5 years	5+ Years
Term debt payable	\$ 5,810	\$ 5,996	\$ 2,872	\$ 2,362	\$ 762	\$ —
Lease obligation	88,340	138,877	14,329	14,105	33,609	76,834
<b>Total</b>	<b>\$ 94,150</b>	<b>\$ 144,873</b>	<b>\$ 17,201</b>	<b>\$ 16,467</b>	<b>\$ 34,371</b>	<b>\$ 76,834</b>

## Inventories

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

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

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

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

## Accounts Receivable

For the year ended December 31, 2020, the average time to collect the Company's outstanding accounts receivable was approximately 9 days (2019 - 15 days). At December 31, 2020 no single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company closely monitors the amount and age of balances outstanding on an ongoing basis and establishes provisions for bad debts based on account aging, combined with specific customers' credit risk, historical trends, and other economic information.

The Company's allowance for doubtful collections was \$0.9 million at December 31, 2020 (2019 - \$1.2 million), which represents 3.2% (2019 - 3.8%) of outstanding trade accounts receivable and 0.1% (2019 - 0.1%) of gross revenue on an annual basis. Bad debt expense for the year ended December 31, 2020 amounted to a \$0.1 million recovery (2019 - \$0.4 million recovery)

## Capital Resources

We use our capital to finance current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize shareholder value is to use a combination of equity and debt financing to leverage our operations. A summary of the Company's available credit facilities as at December 31, 2020 are as follows:

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

- (a) During the year, the Company repaid all amounts owing under its capital facilities, and there is no additional amount available under the facilities as at December 31, 2020. The additional amount available under the facilities was limited to the pre-approved credit limit of \$9.4 million as at December 31, 2019. The Company has unencumbered assets available for financing which are estimated at \$16 million as at December 31, 2020 (December 31, 2019 - \$7 million).
- (b) For floorplan facilities, the amount available under the facilities is limited to the lesser of the pre-approved credit limit of \$443 million (December 31, 2019 - \$449 million) or the available unencumbered assets which are estimated at \$14 million as at December 31, 2020 (December 31, 2019 - \$17 million).

## Operating and Other Bank Credit Facilities

The Company has a revolving credit facility with a syndicate of underwriters. The principal amount available under this facility is \$120 million. The facility was amended and extended on December 18, 2018. The facility is committed for a four-year term but may be extended on or before the anniversary date with the consent of the lenders. The facility contains an \$80 million accordion which the Company may request as an increase to the total available facility, subject to lender approval. As at December 31, 2020, there were no amounts drawn on the facility and \$9.6 million had been utilized for outstanding letters of credit to John Deere.

We believe that the credit facilities available to the Company are sufficient to meet our revenue targets and working capital requirements for 2021.

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

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

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

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

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

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

### Capital Facilities

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

### Floor Plan Facilities

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

Floor plan payables at December 31, 2020 represented approximately 36% of our inventories (December 31, 2019 – 54%). Floor plan payables fluctuate significantly from quarter to quarter based on the timing between the receipt of equipment inventories and their actual repayment so that the Company may take advantage of any programs made available by its key suppliers.

Interest on floor plans at the contractual rate were largely offset by dealer rebates and interest-free periods. Total Agriculture segment interest otherwise payable on John Deere floor plans approximates \$2.4 million for the year ended December 31, 2020 (December 31, 2019 – \$4.0 million). This amount was offset by rebates applied during the year ended December 31, 2020, of \$1.9 million (December 31, 2019 - \$3.4 million). At December 31, 2020, approximately 19% (December 31, 2019 – 44%) of the Industrial segment's and 8% (December 31, 2019 – 1%) of the Transportation segment's outstanding floor plan balances were non-interest bearing due to various incentives and interest-free periods in place.

### Outstanding Share Data

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

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

### Normal Course Issuer Bid (“NCIB”)

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

### Dividends Paid and Declared to Shareholders

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

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

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

### Dividend Reinvestment Plan (“DRIP”)

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

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

## **Dividend Taxation**

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Cervus' 2020 dividends declared and paid through December 31, 2020, are considered to be eligible dividends for tax purposes on the date paid.

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

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

## Summary of Annual Results

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

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



## Summary of Quarterly Results

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

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

(\$ thousands, except per share amounts)	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Revenue	\$ 259,549	\$ 317,082	\$ 327,605	\$ 234,798
(Loss) income	(7,048)	(1,675)	2,817	(2,714)
Gross profit	36,901	42,847	46,879	42,722
Gross profit margin	14.2%	13.5%	14.3%	18.2%
EBITDA <sup>(1)</sup>	838	8,230	11,981	6,893
(Loss) income per share:				
Basic	(0.46)	(0.11)	0.18	(0.17)
Diluted	(0.46)	(0.11)	0.17	(0.17)
Adjusted (loss) income per share <sup>(1)</sup>				
Basic	(0.50)	(0.10)	0.15	(0.20)
Diluted	(0.50)	(0.10)	0.14	(0.20)
Weighted average shares outstanding				
Basic	15,344	15,326	15,445	15,546
Diluted	15,344	15,326	16,394	15,546

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

## Off-Balance Sheet Arrangements

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

John Deere Credit Inc. (“Deere Credit”) provides financing to certain of the Company’s customers. A portion of this financing is with recourse to the Company if the amounts are uncollectible. At December 31, 2020, payments in arrears by such customers aggregated \$1.2 million (December 31, 2019 - \$1.4 million). In addition, the Company is responsible for assuming the net residual value of all customer lease obligations held with Deere Credit, at the maturity of the contract, should the customer not elect to buy out the equipment at maturity. At December 31, 2020, the net residual value of such leases aggregated \$301 million (December 31, 2019 - \$316 million).

The Company is liable for a potential deficiency in the event that the customer defaults on their lease obligation or retail finance contract. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the Company may owe Deere Credit under this obligation. The deposits are capped at between 1% and 3% of the total dollar amount of the lease and finance contracts outstanding. The maximum liability that can arise related to these arrangements is limited to the deposits of \$3.0 million at December 31, 2020 (December 31, 2019 - \$2.3 million). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

The Company has issued irrevocable standby Letters of Credit to Deere Credit and another supplier in the aggregate amount of \$9.6 million at December 31, 2020 (December 31, 2019 - \$9.6 million). The Letters of Credit were issued in accordance with the dealership arrangements with the suppliers that would allow the supplier to draw upon the letter of credit if the Company was in default of any of its obligations.

## Transactions with Related Parties

### Key Management Personnel Compensation

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

Total remuneration of key management personnel and directors during the years ended December 31, 2020 and 2019 was:

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

## Business Risks and Uncertainties

### Risk Management Framework

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

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

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

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

### COVID-19

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

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

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

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

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

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

### **Market Risk**

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

### ***Commodity Price***

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

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

### ***Foreign Currency Exposure***

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

Further, a portion of the Company's owned inventory is floor planned in U.S. dollars. As such, U.S. dollar-denominated floor plan payables are exposed to fluctuations in the U.S. dollar exchange rate until the unit is sold and the floorplan is repaid. At the time of sale, the Company determines a margin based on the replacement cost of the inventory at the time of sale, not the initial cost of the inventory at the time of purchase. In so doing, the

Company's objective is to obtain a target margin on the sale of inventory, by calculating the sale margin based on the cost of repaying the U.S. dollar floorplan as at the sale date. If the Company was unable to recapture fluctuations in the U.S./Canadian dollar in the sales price for equipment floor planned in U.S. dollars, a \$0.01 change in the U.S. exchange rate would have increased (decreased) comprehensive income by \$0.1 million (2019 - \$0.3 million), based on the U.S. dollar floor plan balances at December 31, 2020. From time to time, the Company also enters into foreign exchange forward contracts to provide the Company Canadian dollar cost certainty for equipment ordered for customers from the manufacturer in U.S. dollars, having quoted customers a fixed Canadian dollar price at the time the order was placed.

In addition, the Company is exposed to foreign currency fluctuation related to translation adjustments upon consolidation of its Australian and New Zealand operations. These foreign subsidiaries report operating results in Australia and New Zealand dollars, respectively. Movements in these currencies relative to the Canadian dollar will impact the consolidated results of these operations. Based on the Company's results reported from its foreign subsidiaries, a strengthening or weakening of the Canadian dollar by 5% against the New Zealand dollar at December 31, 2020 would have increased (decreased) comprehensive income by \$0.8 million (2019 - \$0.5 million). A strengthening or weakening of the Canadian dollar by 5% against the Australian dollar at December 31, 2020 would have increased (decreased) comprehensive income by \$0.8 million (2019 -\$0.5 million).

### ***Interest Rate Risk***

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

Based on the Company's outstanding long-term variable rate debt at December 31, 2020, a change in 100 basis points in interest rates would impact the Company's annual interest expense by approximately \$0.9 million (2019 - \$2.3 million).

### **Reliance on our Key Manufacturers and Dealership Arrangements**

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

The dealership agreements with John Deere obligate the Company to assume leased equipment at residual value upon the maturity of customers' leases with John Deere. This equipment is then sold by Cervus as used equipment. In a market of declining equipment demand, residual values set at the beginning of a 5-year lease term may exceed market value of the equipment upon lease maturity. Cervus routinely reviews the residual values and maturity of customers' leases with John Deere and is satisfied with the residual values reflected in the leases and the Company's ability to profitably market the equipment as leases mature. At December 31, 2020, customer equipment leases with John Deere represented residual values of \$301 million, maturing over the next five years.

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

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

- (i) circumstances will not arise which give these equipment manufacturers the right to terminate their dealership agreements, or
- (ii) one or more of the equipment manufacturers will decide not to renew their dealership agreements with us upon expiry.

### **Inventory Risk**

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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**

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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 manufactures 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 Cyclicalities**

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The Canadian, Australian and New Zealand retailing of agriculture, transportation, and industrial equipment is influenced by seasonality. Sales activity for the Agriculture segment is normally highest between April and September during growing seasons in Canada and July through December in New Zealand and Australia. Sales in the Transportation and Industrial segments are not as heavily impacted by seasonality but do see slower sales activity in the winter months. As a result, profit or losses may not accrue uniformly from quarter to quarter.

## Credit Risk

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

A significant decline in economic conditions within these industries would increase the risk that customers will experience financial difficulty and be unable to fulfill their obligations to the Company. This includes the ongoing economic disruptions caused by the COVID-19 pandemic, which has the potential to limit the liquidity of some customers and their ability to repay the Company, particularly in our Transportation and Industrial segments. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable, and deposits and guarantees with John Deere. The Company's revenues are normally invoiced with payment terms of due on invoice or net 30 days. The average time to collect the Company's outstanding accounts receivable was approximately 9 days for the year ended December 31, 2020 and 15 days for 2019. No single outstanding customer balance, excluding sales contract financing receivables, represented more than 10% of total accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The Company closely monitors the amount and age of balances outstanding on an on-going basis and establishes provisions for bad debts based on specific customers' credit risk, historical trends, and other economic information.

## Capital Risk Management

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

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

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

- a) Net Debt to Total Capital ratio (long-term debt plus current portion of long-term debt, less cash divided by long-term debt plus current portion of long-term debt plus book value of equity);
- b) Return on Invested Capital ratio (income before income tax expense, excluding unrealized gains or losses from foreign currency, plus finance costs, less floorplan interest interest, divided by average total invested capital);
- c) Debt to Tangible Assets ratio (calculated as total debt divided by total assets less goodwill and intangibles); and,
- d) Fixed Charge Coverage ratio (calculated as adjusted earnings divided by contractual principle, interest, shareholder distributions, and lease payments).

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

## Debt Financing

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

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

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

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

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

## Human Resources

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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

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

Increased political pressure on carbon emissions has led to the institution of carbon taxes. The impact to our immediate business is the cash flow implications for our customers. While the full impact of carbon pricing cannot



yet be determined, the Company is managing this risk by increased focus on emissions control features in the products we sell and being knowledgeable regarding recent developments in new techniques for reducing carbon emissions for our farm customers.

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

### **Environmental Risks**

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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**

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

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

### **Cyber Security and Terrorism**

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

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

## Critical Accounting Estimates and Judgments

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

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

### Determination of Fair Values

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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

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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**

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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**

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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**

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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**

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

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

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

## Responsibility of Management and Board

### Disclosure Controls

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

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

The CEO and the CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s disclosure controls and procedures. Based on that evaluation, the CEO and the CFO concluded that the Company’s disclosure controls and procedures were effective as at December 31, 2020.

### Internal Controls over Financial Reporting

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

The CEO and the CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s internal control over financial reporting as at December 31, 2020, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), (2013). Based on that evaluation, the CEO and the CFO concluded that the Company’s internal control over financial reporting was effective as at December 31, 2020.

There have been no changes in the design of the Company’s internal control over financial reporting during 2020 that would materially affect, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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

## Cautionary Note Regarding Forward-Looking Statements

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

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

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

The most recent quarterly dividend payment of \$0.0600 per share was made to the shareholders of record as of December 31, 2020, on January 15, 2021. See “Capital Resources - Cautionary Note Regarding Dividends” for a cautionary note regarding future dividends.

## Material Assumptions and Risks for 2024 Targets

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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

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#### *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

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#### *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

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#### *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

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#### *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

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

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

### Income (Loss) from Operating Activities

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

## Non-GAAP Financial Measures

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

### Working Capital

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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

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

## Adjusted Income (Loss)

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

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

## Adjusted Income (Loss) Before Income Tax Expense

### Three Months Ended December 31, 2020

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

### Three Months Ended December 31, 2019

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



**Year Ended December 31, 2020**

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

**Year Ended December 31, 2019**

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

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

## EBITDA

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

### Three Months Ended December 31, 2020

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

### 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 <sup>(1)</sup>	838	(511)	3,038	322	(2,011)
EBITDA margin <sup>(2)</sup>	0.3%	(0.3%)	3.9%	2.9%	
<b>Reconciliation of adjusted EBITDA<sup>(1)</sup>:</b>					
EBITDA <sup>(1)</sup>	838	(511)	3,038	322	(2,011)
Adjustments:					
Unrealized foreign exchange (gain)	(831)	—	(826)	(5)	—
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 7</b>	<b>\$ (511)</b>	<b>\$ 2,212</b>	<b>\$ 317</b>	<b>\$ (2,011)</b>

**Year ended December 31, 2020**

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

**Year ended December 31, 2019**

<b>EBITDA (\$ thousands)</b>					
<b>Year ended December 31, 2019</b>	<b>Total</b>	<b>Agriculture</b>	<b>Transportation</b>	<b>Industrial</b>	<b>Corporate</b>
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 <sup>(1)</sup>	27,942	13,943	15,801	5,103	(6,905)
EBITDA margin <sup>(2)</sup>	2.5%	1.8%	4.8%	9.6%	
<b>Reconciliation of adjusted EBITDA<sup>(1)</sup>:</b>					
EBITDA <sup>(1)</sup>	27,942	13,943	15,801	5,103	(6,905)
Adjustments:					
Unrealized foreign exchange (gain)	(1,847)	—	(1,821)	(26)	—
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 26,095</b>	<b>\$ 13,943</b>	<b>\$ 13,980</b>	<b>\$ 5,077</b>	<b>\$ (6,905)</b>

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

Adjusted EBITDA is defined as profit before interest, taxes, depreciation, and amortization, adjusted for unrealized (gains) losses from foreign currency, sale of real estate, dealerships and government wage subsidies.

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

## Return on Invested Capital

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

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

The reconciliation of ROIC is presented in the table below.

Reconciliation of Return On Invested Capital (\$ thousands, except as noted)	2020				2019				2018			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Income (loss) before tax	\$ 8,313	\$18,304	\$11,267	\$(3,555)	\$(8,807)	\$(2,308)	\$ 2,811	\$(2,144)	\$ 7,642	\$15,820	\$13,582	\$(2,941)
(+) Unrealized foreign exchange (gain) loss	(712)	(667)	(2,365)	4,077	(831)	207	(625)	(598)	1,256	(730)	38	635
(+) Finance costs	2,008	2,419	2,921	3,449	3,188	3,598	3,233	3,037	1,684	1,696	1,629	1,343
(-) Floorplan interest expense	(309)	(589)	(1,014)	(1,383)	(1,210)	(1,139)	(1,050)	(1,009)	(1,129)	(1,234)	(1,263)	(1,012)
<b>Return</b>	<b>9,300</b>	<b>19,467</b>	<b>10,809</b>	<b>2,588</b>	<b>(7,660)</b>	<b>358</b>	<b>4,369</b>	<b>(714)</b>	<b>9,453</b>	<b>15,552</b>	<b>13,986</b>	<b>(1,975)</b>
Shareholders' equity	248,708	243,297	231,767	220,136	227,138	232,742	237,885	240,747	243,700	240,018	230,502	223,806
(+) Long-term debt	2,938	3,158	18,645	44,544	33,370	31,621	75,691	45,995	25,123	39,263	30,346	27,354
(+) Current portion of long-term debt	2,872	2,840	8,150	10,199	9,795	11,204	12,048	13,488	13,964	7,976	8,958	10,485
(-) Cash	(26,697)	(26,762)	(30,586)	(24,473)	(7,946)	(7,146)	(10,256)	(2,562)	(6,106)	(8,810)	(1,930)	(3,236)
<b>Total Invested Capital</b>	<b>227,821</b>	<b>222,533</b>	<b>227,976</b>	<b>250,406</b>	<b>262,357</b>	<b>268,421</b>	<b>315,368</b>	<b>297,668</b>	<b>276,681</b>	<b>278,447</b>	<b>267,876</b>	<b>258,409</b>
Return - trailing 12 months	42,164	25,204	6,095	(346)	(3,647)	13,466	28,660	38,278	37,016	33,640	31,967	29,775
Total Invested Capital - 4 quarter average	232,184	240,818	252,290	274,138	285,954	289,535	292,041	280,168	270,353	264,694	263,322	262,544
<b>Return On Invested Capital - trailing 12 months</b>	<b>18.2%</b>	<b>10.5%</b>	<b>2.4%</b>	<b>(0.1%)</b>	<b>(1.3%)</b>	<b>4.7%</b>	<b>9.8%</b>	<b>13.7%</b>	<b>13.7%</b>	<b>12.7%</b>	<b>12.1%</b>	<b>11.3%</b>

## **Product Support Gross Profit Growth and Absorption**

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### **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 cyclicity of income, while also enhancing customer affinity for Cervus and our OEM partners.

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

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

### **Absorption Percentage**

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

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

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

### **Reconciliation of Product Support Gross Profit Growth and Absorption**

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

**Consolidated**

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

**Agriculture**

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

## Transportation

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



**Industrial**

Reconciliation of Product Support Gross Profit Dollars Growth and Absorption - Industrial	2020					2019					2018				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
(\$ thousands, except as noted)															
Product support revenues - reported	\$27,945	\$ 7,838	\$ 6,812	\$ 6,216	\$ 7,079	\$30,058	\$ 6,867	\$ 7,432	\$ 8,560	\$ 7,199	\$27,907	\$ 7,053	\$ 7,059	\$ 7,260	\$ 6,535
(+) Product support revenues - internal activity	1,846	575	359	454	458	1,974	402	478	543	551	2,031	540	465	567	459
Product support revenues - total	29,791	8,413	7,171	6,670	7,537	32,032	7,269	7,910	9,103	7,750	29,938	7,593	7,524	7,827	6,994
Product support cost of sales - reported	15,178	4,563	3,551	3,287	3,777	16,540	3,823	4,141	4,706	3,870	15,239	3,847	3,958	3,929	3,505
(+) Product support cost of sales - internal activity	869	271	160	208	230	926	193	238	235	260	951	280	207	249	215
Product support cost of sales - total	16,047	4,834	3,711	3,495	4,007	17,466	4,016	4,379	4,941	4,130	16,190	4,127	4,165	4,178	3,720
<b>Product Support Gross Profit</b>	<b>13,744</b>	<b>3,579</b>	<b>3,460</b>	<b>3,175</b>	<b>3,530</b>	<b>14,566</b>	<b>3,253</b>	<b>3,531</b>	<b>4,162</b>	<b>3,620</b>	<b>13,748</b>	<b>3,466</b>	<b>3,359</b>	<b>3,649</b>	<b>3,274</b>
Product support gross profit dollars growth (\$)	(822)	326	(71)	(987)	(90)	818	(213)	172	513	346	1,215	305	167	222	521
<b>Product Support Gross Profit Growth (%)</b>	<b>(5.6%)</b>	<b>10.0%</b>	<b>(2.0%)</b>	<b>(23.7%)</b>	<b>(2.5%)</b>	<b>6.0%</b>	<b>(6.1%)</b>	<b>5.1%</b>	<b>14.1%</b>	<b>10.6%</b>	<b>9.7%</b>	<b>9.7%</b>	<b>5.2%</b>	<b>6.5%</b>	<b>18.9%</b>
Total SG&A expenses	14,630	3,819	3,095	3,619	4,097	16,351	4,419	3,750	3,934	4,248	15,045	4,001	3,795	3,858	3,391
(-) Equipment commissions expense	(690)	(218)	(144)	(171)	(157)	(813)	(167)	(207)	(211)	(228)	(726)	(200)	(195)	(214)	(118)
(-) Amortization of intangibles	(411)	(102)	(101)	(104)	(104)	(441)	(119)	(108)	(107)	(107)	(404)	(44)	(120)	(120)	(120)
(+) Net finance costs	249	59	72	66	52	232	35	60	70	67	(23)	5	7	(21)	(14)
(-) Floorplan interest	(34)	(8)	(7)	(12)	(7)	(73)	(11)	(15)	(25)	(23)	(43)	(20)	(10)	(7)	(6)
<b>Total Operating Costs</b>	<b>13,744</b>	<b>3,550</b>	<b>2,915</b>	<b>3,398</b>	<b>3,881</b>	<b>15,256</b>	<b>4,157</b>	<b>3,480</b>	<b>3,661</b>	<b>3,957</b>	<b>13,849</b>	<b>3,742</b>	<b>3,477</b>	<b>3,496</b>	<b>3,133</b>
<b>Absorption</b>	<b>100%</b>	<b>101%</b>	<b>119%</b>	<b>93%</b>	<b>91%</b>	<b>95%</b>	<b>78%</b>	<b>101%</b>	<b>114%</b>	<b>91%</b>	<b>99%</b>	<b>93%</b>	<b>97%</b>	<b>104%</b>	<b>104%</b>

## Equipment Inventory Turnover

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

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

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

# CONSOLIDATED **FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

CERVUS EQUIPMENT CORPORATION



*People. Power. Service.™*



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders 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, 2020 and 2019
- 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, 2020 and 2019, 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 ethical 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.



## ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

### ***Assessment of the net realizable value of used equipment inventory in the Agriculture Segment***

#### ***Description of the matter***

We draw attention to note 2, note 3 and note 6 to the financial statements. The Entity records inventory at the lower of cost and net realizable value. Net realizable value approximates the estimated selling price less all estimated cost of completion and necessary cost to complete the sale. Significant estimates are required to be made to determine the net realizable value of used equipment inventory. The Entity has \$75.1 million of used equipment inventory the majority of used equipment inventory pertains to the Agriculture Segment.

#### ***Why the matter is a key audit matter***

We identified the assessment of the net realizable value of used equipment inventory in the Agriculture Segment as a key audit matter. Significant auditor judgment was required in evaluating the results of our audit procedures regarding the estimated selling price of used equipment inventory in the Agriculture Segment.

#### ***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

For a selection of used equipment in the Agriculture Segment we compared the estimated selling price of the used equipment at December 31, 2019 to the actual selling price realized in 2020 to assess the Entity's ability to accurately estimate the selling price.

We compared a sample of used equipment inventory costs in the Agriculture Segment at December 31, 2020 to the Entity's estimate of net realizable value. The selling price used in the estimated net realizable value was compared to either:

- The sale price subsequent to year-end of the selected used piece of equipment inventory
- The sale price of a similar used piece of equipment inventory sold subsequent to year-end



- The sale price of a similar used piece of equipment inventory sold during 2020
- The sale price of a similar used piece of equipment inventory as listed on external market sources.

### ***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 entitled "2020 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 and a document entitled 2020 Annual Report filed with the relevant Canadian Securities Commissions 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.

### ***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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

*KPMG LLP*

Chartered Professional Accountants

Calgary, Canada  
March 10, 2021



## CERVUS EQUIPMENT CORPORATION

Consolidated Statements of Financial Position

As at December 31, 2020 and 2019

(\$ thousands)	Note	December 31, 2020	December 31, 2019
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 26,697	\$ 7,946
Accounts receivable and other assets	5	53,486	66,555
Inventories	6	229,208	319,619
<b>Total current assets</b>		<b>309,391</b>	394,120
<b>Non-current assets</b>			
Other long-term assets	7	11,660	13,599
Property and equipment	8	134,685	138,705
Intangible assets	9	37,223	38,015
Goodwill	9	23,138	22,897
<b>Total non-current assets</b>		<b>206,706</b>	213,216
<b>Total assets</b>		<b>\$ 516,097</b>	\$ 607,336
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other liabilities	10	\$ 82,731	\$ 63,183
Floor plan payables	11	83,509	173,992
Current portion of term debt	11	2,872	9,795
Current portion of lease obligation	12	7,998	8,799
<b>Total current liabilities</b>		<b>177,110</b>	255,769
<b>Non-current liabilities</b>			
Term debt	11	2,938	33,370
Lease obligation	12	80,342	84,084
Deferred income tax liability	13	6,999	6,975
<b>Total non-current liabilities</b>		<b>90,279</b>	124,429
<b>Total liabilities</b>		<b>267,389</b>	380,198
<b>Equity</b>			
Shareholders' capital	15	85,525	83,740
Deferred share plan	19	5,290	10,271
Other reserves		5,207	5,195
Accumulated other comprehensive income (loss)		2,632	(136)
Retained earnings		150,054	128,068
<b>Total equity</b>		<b>248,708</b>	227,138
<b>Total liabilities and equity</b>		<b>\$ 516,097</b>	\$ 607,336

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 Income (Loss)  
For the years ended December 31, 2020 and 2019

(\$ thousands)	Note	2020	2019
<b>Revenue</b>			
Equipment sales		\$ 891,876	\$ 813,393
Parts		235,538	218,888
Service		83,543	87,878
Rentals and other		16,930	18,875
Total revenue		1,227,887	1,139,034
Cost of sales		(1,025,552)	(969,683)
<b>Gross profit</b>		<b>202,335</b>	169,351
Other income	17	9,728	3,844
Selling, general and administrative expense	18	(167,146)	(171,278)
<b>Income from operating activities</b>		<b>44,917</b>	1,917
Finance income		587	687
Finance costs		(10,797)	(13,056)
Net finance costs	20	(10,210)	(12,369)
Share of (loss) profit of equity accounted investees, net of income tax		(378)	6
<b>Income (loss) before income tax expense</b>		<b>34,329</b>	(10,446)
Income tax (expense) recovery	13	(9,242)	1,828
<b>Income (loss) for the year</b>		<b>25,087</b>	(8,618)
<b>Other comprehensive income (loss)</b>			
Foreign currency translation differences for foreign operations, net of tax		2,768	(642)
<b>Total comprehensive income (loss) for the year</b>		<b>27,855</b>	(9,260)
<b>Net income (loss) per share:</b>			
Basic	21	\$ 1.62	\$ (0.56)
Diluted	21	\$ 1.56	\$ (0.56)

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, 2020 and 2019

Attributable to Equity Holders of the Company

(\$ thousands)	Note	Accumulated						Total
		Shareholder's capital	Deferred share plan	Other reserves	Comprehensive Income (Loss)	Retained earnings	Other	
<b>Balance December 31, 2018</b>		\$ 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		—	—	—	—	690	690	
<b>Adjusted balances at January 1, 2019</b>		\$ 86,540	\$ 8,693	\$ 5,195	\$ 506	\$ 143,455	\$ 244,389	
<b>Loss for the year</b>		—	—	—	—	(8,618)	(8,618)	
Foreign currency translation adjustments, net of tax		—	—	—	(642)	—	(642)	
Total comprehensive loss for the year		—	—	—	(642)	(8,618)	(9,260)	
<b>Transactions with owners, recorded directly in equity</b>								
Dividends to equity holders		—	—	—	—	(6,769)	(6,769)	
Shares issued through DRIP		770	—	—	—	—	770	
Shares issued through deferred share plan		370	(370)	—	—	—	—	
Share-based payment transactions		—	1,948	—	—	—	1,948	
Common shares repurchased		(3,940)	—	—	—	—	(3,940)	
Transactions with owners		(2,800)	1,578	—	—	(6,769)	(7,991)	
<b>Balance December 31, 2019</b>		\$ 83,740	\$ 10,271	\$ 5,195	\$ (136)	\$ 128,068	\$ 227,138	
<b>Income for the year</b>		—	—	—	—	25,087	25,087	
Foreign currency translation adjustments, net of tax		—	—	—	2,768	—	2,768	
<b>Total comprehensive income for the year</b>		—	—	—	2,768	25,087	27,855	
<b>Transactions with owners, recorded directly in equity</b>								
Dividends to equity holders		—	—	—	—	(3,101)	(3,101)	
Shares issued through DRIP	15	405	—	—	—	—	405	
Shares issued through deferred share plan	15	3,514	(3,514)	—	—	—	—	
Share-based payment transactions		—	(1,467)	12	—	—	(1,455)	
Common shares repurchased	15	(2,134)	—	—	—	—	(2,134)	
Transactions with owners		1,785	(4,981)	12	—	(3,101)	(6,285)	
<b>Balance December 31, 2020</b>		\$ 85,525	\$ 5,290	\$ 5,207	\$ 2,632	\$ 150,054	\$ 248,708	

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

## CERVUS EQUIPMENT CORPORATION

### Consolidated Statement of Cash Flows

For the years ended December 31, 2020 and 2019

(\$ thousands)	Note	2020	2019
<b>Cash flows from operating activities</b>			
Income (loss) for the year		\$ 25,087	\$ (8,618)
Adjustments for:			
Income tax expense (recovery)	13	9,242	(1,828)
Depreciation	8	18,107	19,714
Amortization of intangibles	9	3,887	4,655
Equity-settled share-based payment transactions		(1,455)	1,948
Net finance costs	20	10,985	13,332
Unrealized foreign exchange loss (gain)	17	333	(1,847)
Non-cash impairment of inventories	6	3,754	24,006
Gain on sale of property and equipment	17	(180)	(436)
Share of loss (profit) of equity accounted investees, net of tax		378	(6)
Change in non-cash working capital	22	22,704	(1,815)
Cash provided from operating activities		92,842	49,105
Cash taxes paid		(421)	(8,016)
Interest paid		(11,602)	(14,018)
<b>Net cash provided from operating activities</b>		<b>80,819</b>	<b>27,071</b>
<b>Cash flows from investing activities</b>			
Interest received		587	687
Purchase of property and equipment	8	(8,311)	(15,671)
(Payments for) proceeds from intangible assets	9	(2,908)	693
Proceeds from disposal of property and equipment	8	2,632	2,616
<b>Net cash (used in) investing activities</b>		<b>(8,000)</b>	<b>(11,675)</b>
<b>Cash flows from financing activities</b>			
Net (repayments) proceeds from term debt		(37,515)	4,588
Dividends paid	15	(3,463)	(5,867)
Payment of lease obligation		(12,077)	(9,256)
(Payment) receipt of deposits with manufacturers		(684)	599
Purchase of common shares	15	(2,134)	(3,940)
<b>Net cash (used in) financing activities</b>		<b>(55,873)</b>	<b>(13,876)</b>
Increase in cash and cash equivalents		16,946	1,520
Effect of foreign currency translation on cash		1,805	320
Cash and cash equivalents, beginning of year		7,946	6,106
<b>Cash and cash equivalents, end of year</b>		<b>\$ 26,697</b>	<b>\$ 7,946</b>

# CERVUS EQUIPMENT CORPORATION

## Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019

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### 1. Reporting Entity

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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 6302 – 333, 96<sup>th</sup> Avenue N.E., Calgary, Alberta, Canada, T3K 0S3. The consolidated financial statements of the Company as at and for the year ended December 31, 2020, comprise the Company and its subsidiaries (“the Group”).

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 64 Cervus dealerships and is the authorized representative of leading Original Equipment Manufacturers (“OEMs”) including: John Deere agricultural equipment; Peterbilt transportation equipment; and Clark, Sellick, Doosan, JLG and Baumann material handling equipment. The common shares of Cervus are listed on the Toronto Stock Exchange and trade under the symbol “CERV”.

### 2. Basis of Preparation

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#### Statement of Compliance

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

The Board of Directors authorized the issue of these consolidated financial statements on March 10, 2021.

#### 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 (loss) from the effective date of acquisition and up to the effective date of disposal, as appropriate.

## CERVUS EQUIPMENT CORPORATION

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

## 2. Basis of Presentation (continued)

Details of the Company's subsidiaries at December 31, 2020 and December 31, 2019 are as follows:

Proportion of Ownership Interest and Voting Power Held	2020	2019
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. The uncertainty of estimates and judgments increases in periods of high market volatility and rapid unprecedented change, which is currently occurring due to impacts of COVID-19 (see Note 27).

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 12)
- 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 9)

### 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 6). The estimated net realizable value of used equipment inventory has an increased level of estimation uncertainty, and involves estimating the selling price of the equipment. Management estimates the net realizable value of used equipment inventory based on numerous factors including the sale price of the equipment it sold subsequent to period end, the sale price of similar equipment that was sold during the most recent fiscal year or subsequent thereto, and external market sources.

## CERVUS EQUIPMENT CORPORATION

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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## 2. Basis of Presentation (continued)

### ***Assumptions and Estimation Uncertainties (continued)***

- Impairment tests on long-lived assets; estimates on key assumptions related to the future operating results and the appropriate discount rate. (Note 9)
- Depreciation and amortization expense; assumptions on the useful lives of property and equipment and intangible assets. (Notes 8 and 9)

### **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.

## CERVUS EQUIPMENT CORPORATION

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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#### 3. Significant Accounting Policies

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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 Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are reviewed regularly by the Company'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 Company 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 Company 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 costs on general corporate borrowings. These corporate costs are not allocated to the business segments and are reported within the Corporate segment.

##### **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.

###### ***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.



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

**Cash and Cash Equivalents**

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

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific identification method for new and used equipment, average cost for parts and a specific job basis for work-in-progress. Net realizable value approximates the estimated selling price less all estimated cost of completion and necessary cost to complete the sale. Previous 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 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.

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

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

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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### 3. Significant Accounting Policies (continued)

#### **Intangible Assets**

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

Intangible assets include software, dealership distribution agreements, customer lists and non-competition agreements and are recorded at cost less accumulated amortization and any accumulated impairment losses. Software costs 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 using the straight-method 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.

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

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### 3. Significant Accounting Policies (continued)

#### Leases

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.

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'.

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

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### 3. Significant Accounting Policies (continued)

#### Leases (continued)

##### *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 is 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.

#### Income Tax

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

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

#### Provisions

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

## CERVUS EQUIPMENT CORPORATION

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

##### **Provisions (continued)**

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.

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 3. Significant Accounting Policies (continued)

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

Subsequent measurement of financial assets is described below.

<b>Financial assets at fair value through profit or loss</b>	These assets are subsequently measured at fair value. Gains and losses, including any interest or dividend income, are recognized in profit or loss.
<b>Financial assets at amortised cost</b>	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.
<b>Debt investments at fair value through OCI</b>	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.
<b>Equity investments at fair value through OCI</b>	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)***

The Company applies the 'expected credit loss' (ECL) model under IFRS 9 to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income (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 31<sup>st</sup> as our annual impairment test date, although impairment tests are conducted more frequently if indicators of impairment are present at dates other than December 31<sup>st</sup>.

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

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

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

***Reversals of Previously Recognized Impairments***

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

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

## CERVUS EQUIPMENT CORPORATION

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

#### 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, depends on the type of product and service provided to customers.

Type of product/ service	Nature, timing and satisfaction of performance obligations, significant payment terms
Equipment Revenue	<p>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 the risks and rewards of ownership when delivery has occurred, required deposits have been received and a formal contract is signed.</p> <p>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.</p> <p>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.</p>
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.
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.
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, or within 30 days from the invoice date.



## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

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### 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 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.

#### Government Grants

Government grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Refer to Note 17 Other Income for further details on how the Company accounts for government grants.

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 4. 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 experience slower sales activity in the winter months. As a result, profit or losses may not accrue uniformly from quarter to quarter.

### 5. Accounts Receivable and Other Assets

(\$ thousands)	2020	2019
Trade receivables	\$ 32,669	\$ 32,178
Allowance for doubtful debts <sup>(a)</sup>	(946)	(1,155)
Trade receivables, net	31,723	31,023
Prepaid expenses	18,153	26,151
Income tax receivable	—	6,586
Other receivables	3,610	2,795
<b>Total accounts receivable and other assets</b>	<b>\$ 53,486</b>	<b>\$ 66,555</b>

(a) Changes in allowance for doubtful debts during the year has been recorded in selling, general and administrative expense (see also Note 23).

### 6. Inventories

(\$ thousands)	2020	2019
New equipment	\$ 96,247	\$ 149,025
Used equipment	75,077	118,754
Parts and accessories	56,957	50,607
Work-in-progress	927	1,233
<b>Total inventories</b>	<b>\$ 229,208</b>	<b>\$ 319,619</b>

During the year ended December 31, 2020, inventories included in costs of sales were \$888 million (2019 - \$892 million). The total inventory impairment recorded during the year ended December 31, 2020, and included in cost of goods sold was \$3.8 million (2019 - \$24 million). The Company's inventory has been pledged as security for floor plan payables under terms of the floor plan agreements and for long-term debt under general security agreements.

## CERVUS EQUIPMENT CORPORATION

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

#### 7. Other Long-Term Assets

(\$ thousands)	2020	2019
Long-term receivables	\$ 2,049	\$ 4,355
Deposits with manufacturers	3,002	2,260
Other investments <sup>(a)</sup>	6,609	6,984
<b>Other long-term assets</b>	<b>\$ 11,660</b>	<b>\$ 13,599</b>

(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 \$3.0 million (December 31, 2019 - \$2.3 million). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company.

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 8. Property and Equipment

(\$ thousands) Cost	Land and Buildings	Rental Equipment	Automotive and Trucks	Equipment	Right-of- use assets (Note 12)	Total
<b>Balance at January 1, 2019</b>	\$ 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)
<b>Balance at December 31, 2019</b>	\$ 32,656	\$ 21,027	\$ 24,707	\$ 20,158	\$ 96,107	\$ 194,655
Additions	1,830	1,524	2,641	2,316	—	8,311
Right of use additions	—	—	—	—	2,219	2,219
Disposals	(226)	(2,722)	(2,641)	(821)	—	(6,410)
Transfers and adjustments	—	1,121	(15)	55	(4,489)	(3,328)
Remeasurements	—	—	—	—	4,755	4,755
Currency translation effects	134	398	382	330	634	1,878
<b>Balance at December 31, 2020</b>	\$ 34,394	\$ 21,348	\$ 25,074	\$ 22,038	\$ 99,226	\$ 202,080

**CERVUS EQUIPMENT CORPORATION**

 Notes to Consolidated Financial Statements  
 For the years ended December 31, 2020 and 2019

**8. Property and Equipment (continued)**

(\$ thousands) Accumulated Depreciation and Impairment	Land and Buildings	Rental Equipment	Automotive and Trucks	Equipment	Right-of- use assets (Note 12)	Total
<b>Balance at January 1, 2019</b>	\$ 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)
<b>Balance at December 31, 2019</b>	\$ 6,569	\$ 7,584	\$ 16,420	\$ 13,633	\$ 11,744	\$ 55,950
Depreciation expense	1,101	2,261	2,421	2,125	10,199	18,107
Disposals	(95)	(1,056)	(2,059)	(748)	—	(3,958)
Transfers and adjustments	(1)	(1,079)	(11)	—	(2,167)	(3,258)
Remeasurements	—	—	—	—	(150)	(150)
Currency translation effects	1	109	199	248	147	704
<b>Balance at December 31, 2020</b>	\$ 7,575	\$ 7,819	\$ 16,970	\$ 15,258	\$ 19,773	\$ 67,395

(\$ thousands) Carrying Value	Land and Buildings	Rental Equipment	Automotive and Trucks	Equipment	Right-of- use assets (Note 12)	Total
<b>Balance at December 31, 2019</b>	\$ 26,087	\$ 13,443	\$ 8,287	\$ 6,525	\$ 84,363	\$ 138,705
<b>Balance at December 31, 2020</b>	\$ 26,819	\$ 13,529	\$ 8,104	\$ 6,780	\$ 79,453	\$ 134,685

Depreciation expense related to rental and lease fleets have been recorded in cost of sales in the amount of \$3.1 million (2019 - \$4.3 million) and selling, general and administrative expenses of \$15 million (2019 - \$15 million). The Company's property and equipment has been pledged as security for its long-term debt.

**CERVUS EQUIPMENT CORPORATION**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

**9. Intangible Assets and Goodwill**

***Intangible Assets***

Intangible assets are comprised of the following:

(\$ thousands)	Dealership Distribution	Customer	Non- Competition	Software	Total
Cost	Agreements	Lists	Agreements	Costs	
<b>Balance at January 1, 2019</b>	\$ 51,263	\$ 16,713	\$ 2,921	\$ 4,388	\$ 75,285
Additions	—	—	—	247	247
Effect of movements in exchange rates	(217)	—	—	—	(217)
<b>Balance at December 31, 2019</b>	\$ 51,046	\$ 16,713	\$ 2,921	\$ 4,635	\$ 75,315
Additions	—	—	—	2,446	2,446
Effect of movements in exchange rates	266	—	—	—	266
Additions through business acquisition	363	20	—	—	383
<b>Balance at December 31, 2020</b>	\$ 51,675	\$ 16,733	\$ 2,921	\$ 7,081	\$ 78,410

(\$ thousands)	Dealership Distribution	Customer	Non- Competition	Software	Total
Accumulated Amortization	Agreements	Lists	Agreements	Costs	
<b>Balance at January 1, 2019</b>	\$ 14,001	\$ 14,114	\$ 2,406	\$ 2,124	\$ 32,645
Amortization expense	2,589	1,110	265	691	4,655
<b>Balance at December 31, 2019</b>	\$ 16,590	\$ 15,224	\$ 2,671	\$ 2,815	\$ 37,300
Amortization expense	2,595	369	62	861	3,887
<b>Balance at December 31, 2020</b>	\$ 19,185	\$ 15,593	\$ 2,733	\$ 3,676	\$ 41,187

(\$ thousands)	Dealership Distribution	Customer	Non- Competition	Software	Total
Carrying Value	Agreements	Lists	Agreements	Costs	
<b>Balance at December 31, 2019</b>	\$ 34,456	\$ 1,489	\$ 250	\$ 1,820	\$ 38,015
<b>Balance at December 31, 2020</b>	\$ 32,490	\$ 1,140	\$ 188	\$ 3,405	\$ 37,223

Amortization expense of \$3.9 million (2019 - \$4.7 million) has been recorded in selling, general and administrative expense.

**9. Intangible Assets and Goodwill (continued)**

**Goodwill**

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

(\$ thousands)	
<b>Balance at January 1, 2019</b>	\$ 21,624
Valuation adjustment on business combination <sup>(a)</sup>	1,417
Impact of translation of goodwill held in foreign currencies	(144)
<b>Balance at December 31, 2019</b>	\$ 22,897
Additions through business acquisition	79
Impact of translation of goodwill held in foreign currencies	162
<b>Balance at December 31, 2020</b>	\$ <b>23,138</b>

(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)	2020	2019
<b>Agriculture Segment</b>		
Agriculture - Alberta	\$ 16,127	\$ 16,127
Agriculture - Saskatchewan	327	327
Agriculture - New Zealand	2,138	2,064
Agriculture - Australia	1,333	1,166
<b>Industrial Segment</b>		
Industrial	666	666
<b>Transportation Segment</b>		
Transportation - Ontario	2,547	2,547
<b>Carrying value of goodwill</b>	\$ <b>23,138</b>	\$ 22,897

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

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

#### *Annual Impairment Test*

The Company performed the annual impairment test of goodwill and intangible assets as at December 31, 2020. 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 2020 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 8.9% to 10.1% (pre-tax discount rate of 11.5% to 14.1%). 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 12%, the recoverable amounts of each CGU would continue to exceed their carrying amounts. Any additional negative changes in the cash flow assumption would cause goodwill to be impaired, with such impairment loss recognized in net earnings.



## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 10. Trade and Other Liabilities

(\$ thousands)	2020	2019
Trade and other payables	\$ 41,329	\$ 40,189
Non-trade payables and accrued expenses	26,784	17,680
Contract liabilities	9,349	2,829
Dividends payable (Note 15)	921	1,688
Income taxes payable	2,212	—
Foreign exchange contracts	2,136	797
<b>Total trade and other liabilities</b>	<b>\$ 82,731</b>	<b>\$ 63,183</b>

### 11. Loans and Borrowings

#### **Bank Indebtedness**

At December 31, 2020, 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, 2020, there were no amounts drawn on the facility and \$9.6 million had been utilized for outstanding letters of credit to John Deere. The Syndicated Facility bears interest at the lender’s prime rate plus the Applicable Margin (currently 0%). Applicable Margin can range from 0% to 1.75% (2019 – 0% to 1.75%) and is based on a liabilities to income ratio.

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 2020, see Note 23 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.

**CERVUS EQUIPMENT CORPORATION**

 Notes to Consolidated Financial Statements  
 For the years ended December 31, 2020 and 2019

**11. Loans and Borrowings (continued)**
***Outstanding Borrowings***

(\$ thousands)	Year of Maturity	2020	2019
<b>Operating and Other Bank Credit Facilities</b>			
Syndicated 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
ANZ National Bank, New Zealand, flexible credit facility, interest at 4.49%	2021	—	788
<b>Capital Facilities</b>			
Farm Credit Corporation, mortgages payable in monthly instalments including interest, a rate of lenders prime plus 1% per annum (December 31, 2019 - 4.50%)	2024	—	3,945
Affinity Credit Union, mortgages payable in monthly instalments including interest per annum (December 31, 2019 - 3.99%)	2020	—	5,422
<b>Rental Equipment Term Loans</b>			
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	5,191	7,163
Hire purchase contracts, Australia, finance contracts payable in monthly installments ranging up to AUD \$1 thousand including interest at a rate of 2.89% to 5.35%, secured by related equipment	Various	603	861
Finance contracts, various, repayable in monthly instalments ranging per month including interest at 3.45%	Various	202	267
Total		5,996	43,446
Less: current portion		(2,872)	(9,795)
Less: deferred debt issuance costs		(186)	(281)
<b>Carrying value of term debt at December 31</b>		<b>\$ 2,938</b>	<b>\$ 33,370</b>

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 11. 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 2.40% to 7.45% at December 31, 2020. 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	2020	2019
John Deere Financial, Canada	3.70% - 7.45%	\$ 48,504	\$ 82,955
Wells Fargo Vendor Finance	4.94%	3,310	103
John Deere Financial, New Zealand and Australia	5.25%	5,798	21,571
PACCAR Financial	2.40% - 2.72%	21,827	67,089
Other Floor Plan Facilities	2.49% - 3.94%	4,070	2,274
<b>Total floor plan payable</b>		<b>\$ 83,509</b>	<b>\$ 173,992</b>

#### 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, 2020, are as follows:

(\$ thousands)	December 31, 2020				December 31, 2019			
	Total Limits	Letters of Borrowings	of Credit	Amount Available	Total Limits	Letters of Borrowings	of Credit	Amount Available
Operating and other bank credit facilities	\$122,288	\$ —	\$ 9,600	\$ 112,688	\$ 122,735	\$ 25,788	\$ 9,600	\$ 87,347
Capital facilities	(a)	—				9,367		
Floor plan facilities and rental equipment term loan financing	(b)	89,505				182,283		
<b>Total borrowing</b>		<b>89,505</b>				<b>217,438</b>		
Total current portion long term debt		(2,872)				(9,795)		
Total inventory floor plan facilities		(83,509)				(173,992)		
Deferred debt issuance costs		(186)				(281)		
<b>Total long term debt</b>		<b>\$ 2,938</b>				<b>\$ 33,370</b>		

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

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 11. Loans and Borrowings (continued)

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

As at December 31, 2020, the Company is in compliance with all its covenants.

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

(\$ thousands)	Financial Liabilities			
	Dividend payable	Lease obligation	Term debt	Total
<b>Balances at January 1, 2019</b>	\$ 1,556	\$ 95,500	\$ 39,087	\$ 136,143
<b>Changes from financing cash (outflows) inflows</b>				
Cash dividends paid	(5,867)	—	—	(5,867)
Payment of lease obligation	—	(9,256)	—	(9,256)
Advance of term debt	—	—	4,588	4,588
<b>Total (outflows) inflows from financing cash flows</b>	<b>(5,867)</b>	<b>(9,256)</b>	<b>4,588</b>	<b>(10,535)</b>
Effect of changes in foreign exchange rates	—	(1,037)	(510)	(1,547)
<b>Liability related changes</b>				
Dividends issued through DRIP	(770)	—	—	(770)
Dividends declared	6,769	—	—	6,769
New lease obligation	—	7,676	—	7,676
<b>Total liability related other increase</b>	<b>5,999</b>	<b>7,676</b>	<b>—</b>	<b>13,675</b>
<b>Balance at December 31, 2019</b>	<b>\$ 1,688</b>	<b>\$ 92,883</b>	<b>\$ 43,165</b>	<b>\$ 137,736</b>
<b>Changes from financing cash (outflows) inflows</b>				
Cash dividends paid	(3,463)	—	—	(3,463)
Payment of lease obligation	—	(12,077)	—	(12,077)
Repayment of term debt	—	—	(37,515)	(37,515)
<b>Total (outflows) from financing cash flows</b>	<b>(3,463)</b>	<b>(12,077)</b>	<b>(37,515)</b>	<b>(53,055)</b>
Effect of changes in foreign exchange rates	—	410	160	570
<b>Liability related changes</b>				
Dividends issued through DRIP	(405)	—	—	(405)
Dividends declared	3,101	—	—	3,101
New lease obligation	—	7,124	—	7,124
<b>Total liability related other increase</b>	<b>2,696</b>	<b>7,124</b>	<b>—</b>	<b>9,820</b>
<b>Balance at December 31, 2020</b>	<b>\$ 921</b>	<b>\$ 88,340</b>	<b>\$ 5,810</b>	<b>\$ 95,071</b>

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 12. 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.

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)	2020	2019
Less than one year	\$ 14,329	\$ 15,471
One to two years	14,105	13,945
Two to five years	33,609	36,345
More than five years	76,834	82,373
<b>Total undiscounted lease obligation</b>	<b>\$ 138,877</b>	<b>\$ 148,134</b>
Accrued interest expense	50,537	55,251
<b>Present value of lease obligation</b>	<b>\$ 88,340</b>	<b>\$ 92,883</b>

#### ii. Right-of-use assets

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

(\$ thousands)	Buildings	Vehicles	Office Equipment	Rental Equipment	Total
<b>Balance at January 1, 2019</b>	<b>\$ 82,748</b>	<b>\$ 1,341</b>	<b>\$ 140</b>	<b>\$ 6,090</b>	<b>\$ 90,319</b>
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)
<b>Balance at December 31, 2019</b>	<b>\$ 79,310</b>	<b>\$ 2,008</b>	<b>\$ 87</b>	<b>\$ 2,958</b>	<b>\$ 84,363</b>
Transfers	—	—	—	(2,322)	(2,322)
Depreciation charge for the year	(8,929)	(466)	(46)	(758)	(10,199)
Additions to right-of-use assets	931	70	146	1,072	2,219
Remeasurements	4,955	(50)	—	—	4,905
Currency translation effects	477	—	10	—	487
<b>Balance at December 31, 2020</b>	<b>\$ 76,744</b>	<b>\$ 1,562</b>	<b>\$ 197</b>	<b>\$ 950</b>	<b>\$ 79,453</b>

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 12. Leases (continued)

#### iii. Amounts recognized in profit or loss

(\$ thousands)	2020	2019
Interest expense on lease obligations	\$ 6,908	\$ 7,140
Income from sub-leasing right-of-use assets presented in 'Rental Income'	994	1,478
Occupancy expense relating to short-term leases and leases of low-value assets	1,335	1,281

#### iv. Amounts recognized in statement of cash flows

(\$ thousands)	2020	2019
Total cash outflow for leases	\$ 13,412	\$ 10,537

#### 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, 2020, the Company has estimated that the lease liability resulting from extension options reasonably certain to be exercised is \$12 million (2019 - \$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.

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.

## CERVUS EQUIPMENT CORPORATION

### Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019

#### 12. Leases (continued)

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 2020, the Company recognized interest income on lease receivables of \$0.2 million (2019 - \$0.3 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)	2020	2019
Less than one year	\$ 1,505	\$ 2,070
One to two years	1,427	1,801
Two to five years	433	2,525
More than five years	—	—
<b>Total undiscounted lease receivable</b>	<b>\$ 3,365</b>	<b>\$ 6,396</b>
Unearned finance income	225	571
<b>Net investment in the lease</b>	<b>\$ 3,140</b>	<b>\$ 5,825</b>

#### 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 2020 was \$2.8 million (2019 - \$3.3 million).

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

(\$ thousands)	2020	2019
Less than one year	\$ 615	\$ 920
Between one and five years	329	604
More than five years	—	—
<b>Total</b>	<b>\$ 944</b>	<b>\$ 1,524</b>

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
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### 13. Income Taxes

#### *Tax Expense (Recovery)*

(\$ thousands)	2020	2019
Current income tax expense	\$ 9,218	\$ 40
Deferred income tax expense (recovery)	24	(1,868)
<b>Income tax expense (recovery)</b>	<b>\$ 9,242</b>	<b>\$ (1,828)</b>

In the second quarter of 2020, as part of its economic recovery plan, Alberta announced the accelerated reduction of its general corporate income tax rate to 8% (from 10%) effective July 1, 2020. Previously the general corporate income tax rate was not scheduled to decrease to 8% until 2022. The impact of the corporate tax rate decrease on deferred tax expense for the year ended December 31, 2020 was not significant.

Using federal and provincial statutory rates of 25.6% (2019 – 26.7%), the income tax expense for the year can be reconciled to the statement of comprehensive income as follows:

(\$ thousands)	2020	2019
Income (loss) before income tax expense	\$ 34,329	\$ (10,446)
Expected income tax expense (recovery)	8,778	(2,785)
Non-deductible costs and other	464	957
<b>Income tax expense (recovery)</b>	<b>\$ 9,242</b>	<b>\$ (1,828)</b>

#### *Deferred Tax Assets and Liabilities*

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

(\$ thousands)	2019	Recognized in Comprehensive Income	2020
Tangible assets	\$ 22,427	\$ (992)	\$ 21,435
Intangible assets	3,170	221	3,391
Lease obligation	(21,276)	1,547	(19,729)
Unrealized foreign exchange and other	2,654	(752)	1,902
<b>Net deferred tax liability</b>	<b>\$ 6,975</b>	<b>\$ 24</b>	<b>\$ 6,999</b>

The Company has not recognized the benefits associated with net capital losses of \$35 million (2019 - \$35 million) and non-capital losses of \$0.8 million (2019 - \$0.8 million), as the timing and ultimate application of these tax loss carryforwards are uncertain.



**CERVUS EQUIPMENT CORPORATION**  
Notes to Consolidated Financial Statements  
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**14. Financial Instruments**

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

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

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

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

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

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

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

(\$ thousands)	Category	2020		2019	
		Carrying	Fair Value Level 1    Level 2	Carrying	Fair Value Level 1    Level 2
<b>Financial Assets</b>					
Cash and cash equivalents <sup>(a)</sup>	Amortised cost	\$ 26,697		\$ 7,946	
Accounts receivable and other assets <sup>(a)</sup>	Amortised cost	31,916		37,846	
Derivative financial instruments	Fair value through profit and loss	2,075	2,075	776	776
Other investments	Fair value through profit and loss	6,548	6,548	6,548	6,548
Other long-term assets	Amortised cost	3,253		2,576	
Finance lease receivables <sup>(a)</sup>	Amortised cost	3,140		5,821	
<b>Financial Liabilities</b>					
Trade and other liabilities <sup>(a)</sup>	Other liabilities	80,595		62,386	
Floor plan payables <sup>(a)</sup>	Other liabilities	83,509		173,992	
Term debt <sup>(b)</sup>	Other liabilities	5,810	5,810	43,165	43,165
Derivative financial liability	Held-for-trading	2,136	2,136	797	797
Lease obligation	Other liabilities	88,340		92,883	

(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.

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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### 14. Financial Instruments (continued)

#### *Carrying Value and Fair Value of Financial Assets and Liabilities (continued)*

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.

## CERVUS EQUIPMENT CORPORATION

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For the years ended December 31, 2020 and 2019

### 15. 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*

<b>(thousands)</b>	<b>Number of common shares</b>	<b>Total carrying amount</b>
<b>Balance at January 1, 2019</b>	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)
<b>Balance at December 31, 2019</b>	15,349	83,740
Issued under the DRIP plan	<b>59</b>	<b>405</b>
Issued under the deferred share plan	<b>246</b>	<b>3,514</b>
Repurchased under the NCIB	<b>(290)</b>	<b>(2,134)</b>
<b>Balance at December 31, 2020</b>	<b>15,364</b>	<b>\$ 85,525</b>

#### *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, 2019, the Company announced a Normal Course Issuer Bid (the "September 2019 Bid"), which commenced on September 16, 2019, to purchase a maximum of 1,050 thousand 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. All purchases were made in accordance with the September 2019 Bid at the prevailing market price of the Shares at the time of purchase. This normal course issuer bid expired on September 15, 2020. Prior to expiry, Cervus repurchased and cancelled 0.3 million shares at a weighted average price of \$7.35 per share.

On September 16, 2020, the Company announced a Normal Course Issuer Bid (the "September 2020 Bid"), which commenced on September 21, 2020, to purchase a maximum of 1,050 thousand common shares (the "Shares") for cancellation before September 20, 2021. Cervus appointed Raymond James Ltd. as its broker, to conduct the Bid on behalf of the Company. All purchases are to be made in accordance with the September 2020 Bid at the prevailing market price of the Shares at the time of purchase.

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

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

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

#### *Dividends Declared*

<b>(\$ thousands)</b>	<b>2020</b>	<b>2019</b>
\$0.20 per qualifying common share (2019 - \$0.44)	\$ 3,101	\$ 6,769

Total dividends paid in cash during the year were \$3.5 million (2019 - \$6 million). Dividends payable as at December 31, 2020, was \$0.9 million (2019 - \$1.7 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.

### 16. Revenue

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The Company's contract liabilities primarily relate to advance consideration received from customers for wholegoods equipment, parts and services. The amount of \$2.8 million recognized in contract liabilities at the beginning of the year has been recognized as revenue for the year ended December 31, 2020 (2019 - \$7 million). In the current year, the Company has received \$9 million from customers, but has not fulfilled the performance obligations as at December 31, 2020 (2019 - \$2.8 million).

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 17. Other Income

Other income for the years ended December 31, 2020 and 2019 is comprised of the following:

(\$ thousands)	2020	2019
Net gain on sale of property and equipment	\$ 180	\$ 436
Unrealized foreign exchange (loss) gain <sup>(a)</sup>	(333)	1,847
Government wage subsidies <sup>(b)</sup>	6,970	—
Extended warranty commission	(117)	(34)
Financial compensation and consignment commissions	775	772
Other income	2,253	823
<b>Total other income</b>	<b>\$ 9,728</b>	<b>\$ 3,844</b>

- (a) Unrealized foreign exchange (loss) gain 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.
- (b) On April 11, 2020, the Government of Canada enacted The Canada Emergency Wage Subsidy (“CEWS”), which introduced a wage subsidy of up to 75% of eligible remuneration to qualifying entities, retroactive to March 15, 2020. On July 27, 2020, the Government of Canada enacted changes to the existing subsidy legislation which allowed employers using paymaster arrangements, such as Cervus, to qualify for the subsidy.

Included in other income for the year ended December 31, 2020, is \$6 million related to CEWS. Also included in other income for the year ended December 31, 2020, is a \$0.9 million government wage subsidy received by Agriculture New Zealand related to the COVID-19 pandemic. Government grants are recognized at their fair value in other income when there is reasonable assurance that the grant will be received, and the Company will comply with all relevant conditions of the grant.

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

(\$ thousands)	2020	2019
Wages and benefits	\$ 102,979	\$ 101,203
Depreciation and amortization	18,930	20,031
Occupancy costs including maintenance	9,505	10,008
Operating and administrative expenses	35,732	40,036
<b>Total selling, general and administrative expenses</b>	<b>\$ 167,146</b>	<b>\$ 171,278</b>

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 19. Wages and Benefits

(\$ thousands)	2020	2019
Included in cost of sales:		
Wages and benefits	\$ 35,305	\$ 38,091
Included in selling, general and administrative expenses:		
Wages and benefits	104,434	99,255
Share-based payments	(1,455)	1,948
Total wages and benefits included in selling, general and administrative expenses	102,979	101,203
<b>Total wages and benefits</b>	<b>\$ 138,284</b>	<b>\$ 139,294</b>

#### *Employee Share Purchase Plan*

The Company has an employee share purchase plan available to all employees on a voluntary basis. Under the plan, employees are able to contribute 2% to 4% of their annual salaries, based on years of service. The Company contributes between 15% and 150%, depending on the Company's annual financial performance, on a matching basis to a maximum of \$5,000 per year, per employee. The shares are purchased on the open market through a trustee; therefore, there is no dilutive effect to existing shareholders. Included in selling, general and administrative wages and benefits expense are \$0.8 million (2019 - \$1.1 million) of expenses incurred by the Company to match the employee contributions.

#### *Mid-Term Management Incentive Plan and Performance Share Unit Plan*

During 2019, the Company offered a mid-term incentive plan (the "MTIP") to certain senior key employees. Under the MTIP, participants received annual grants of performance share units which are settled in cash based on the achievement of performance targets at the end of a three year performance period. Effective January 1, 2020, the MTIP was replaced with the Performance Share Unit Plan (the "PSU Plan"). Under the PSU plan participants received annual grants of performance share units ("PSUs") which are settled in cash based on the achievement on the single measure of total shareholder return over a three year performance period.

A liability for MTIP or PSU Plan 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, 2020, no grants were issued and MTIP and PSU Plan expense recognized during the year amounted to \$nil (2019 - \$nil).

#### *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. For officers and executives, 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. For directors, the matched component vests immediately on grant date, and is recorded as selling, general and administrative expense.

## CERVUS EQUIPMENT CORPORATION

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

#### 19. Wages and Benefits (continued)

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 1<sup>st</sup> of the 3<sup>rd</sup> year following the year for which the deferred shares were issued, and is recorded as selling, general and administrative expense upon vesting.

The Deferred Share Plan and the Management Deferred Share Plan were discontinued for employees and officers in 2020 and no future elections could be made. The Deferred Share Plan remains in place for directors. Existing deferred share plan units as at December 31, 2020 will remain in place and any unvested units will continue to vest according to the vesting schedules mentioned above.

As at December 31, 2020, the Company has 1.0 million shares reserved for issuance under these plans. As at December 31, 2020, 0.5 million (2019 – 0.9 million) deferred shares have been issued under these plans and remain outstanding. Of the outstanding deferred shares, 0.5 million (2019 – 0.7 million) can be converted to common shares. Total deferred shares payable as of December 31, 2020 was \$5 million (2019 - \$10 million).

The continuity below details the number of Deferred Share Plan and Management Deferred Share Plan units in 2020 and 2019.

	2020	2019
	Number of units	Number of Units
Balance, January 1	912	801
Units granted	67	211
Units redeemed	(391)	(35)
Units forfeited	(62)	(65)
<b>Balance, end of year</b>	<b>526</b>	<b>912</b>

#### 20. Finance Income and Finance Costs

(\$ thousands)	2020	2019
<b>Finance income</b>	<b>\$ 587</b>	<b>\$ 687</b>
Interest expense on mortgage and term debt obligations	(1,127)	(2,338)
Interest expense on financial liabilities	(10,445)	(11,681)
<b>Finance costs</b>	<b>\$ (11,572)</b>	<b>\$ (14,019)</b>
Net finance costs recognized separately	(10,210)	(12,369)
Net finance costs recognized in cost of sales	(775)	(963)
<b>Total net finance costs</b>	<b>\$ (10,985)</b>	<b>\$ (13,332)</b>

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 21. Earnings per Share

#### *Per Share Amounts*

Both basic and diluted per share amounts have been calculated using the net earnings (loss) of the Company as the numerator. No adjustments to net earnings (loss) were necessary for the years ended December 31, 2020 and 2019.

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

The weighted average number of shares for the purposes of basic per share amounts is as follows:

<b>(\$ thousands)</b>	<b>2020</b>	<b>2019</b>
Issued common shares opening	15,349	15,559
Effect of shares issued under the DRIP plan	47	42
Effect of shares issued under the deferred share plan	206	18
Effect of shares repurchased from NCIB	(128)	(206)
<b>Weighted average number of common shares</b>	<b>15,474</b>	<b>15,413</b>

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

The calculation of diluted earnings (loss) per share at December 31, 2020 and 2019 was based on the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding. The weighted average number of common shares outstanding, after adjustment for effects of dilutive potential common shares, consists of the following:

<b>(\$ thousands)</b>	<b>2020</b>	<b>2019</b>
Weighted average number of common shares (basic)	15,474	15,413
Effect of dilutive securities:		
Deferred share plan	470	—
Options	121	—
<b>Weighted average number of shares (diluted)</b>	<b>16,065</b>	<b>15,413</b>

### 22. Supplemental Cash Flow Information

<b>(\$ thousands)</b>	<b>2020</b>	<b>2019</b>
<b>Changes in non-cash working capital:</b>		
Inventory	\$ 89,524	\$ (20,443)
Floorplan	(92,684)	31,489
Trade and other receivables	10,414	(158)
Trade and other liabilities	15,450	(12,703)
<b>Total change in non-cash working capital</b>	<b>\$ 22,704</b>	<b>\$ (1,815)</b>



## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

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### 23. Financial Risk Management

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#### **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 Notes 5 and 7).

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.

**CERVUS EQUIPMENT CORPORATION**

## Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

**23. 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)	2020	2019
Trade receivables	\$ 32,669	\$ 32,178
Other receivables	7,126	7,391
<b>Total</b>	<b>\$ 39,795</b>	<b>\$ 39,569</b>

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

(\$ thousands)	2020	2019
Canada	\$ 24,370	\$ 24,738
New Zealand	3,383	3,481
Australia	4,916	3,959
<b>Total</b>	<b>\$ 32,669</b>	<b>\$ 32,178</b>

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

(\$ thousands)	2020	2019
Current - 60 days	\$ 29,278	\$ 28,495
Past due – 61-90 days	2,287	2,090
Past due – 91 to 120 days	651	568
Past due more than 120 days	453	1,025
<b>Total</b>	<b>\$ 32,669</b>	<b>\$ 32,178</b>

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

(\$ thousands)	2020	2019
Balance at January 1	\$ 1,155	\$ 1,078
Additional (recovery) allowance	(42)	362
Amounts written-off as uncollectible	(167)	(285)
<b>Balance at December 31</b>	<b>\$ 946</b>	<b>\$ 1,155</b>

**CERVUS EQUIPMENT CORPORATION**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

**23. Financial Risk Management (continued)**

***Guarantees***

The Company has irrevocable standby letters of credit to John Deere in the amount of \$9.6 million (2019 - \$9.6 million). The letter of credit agreements allow for John Deere to draw upon it in whole or in part in the event of any default by the Company of any or all obligations.

In addition to these guarantees, the Company has also guaranteed the residual value of certain equipment leases which have been entered into between our customers and John Deere. For these leases, Cervus is responsible to purchase the equipment from John Deere upon the maturity of the lease between the customer and John Deere. The Company's purchase price for the equipment is the residual value agreed to at the inception of the lease between John Deere, the customer, and Cervus. On lease maturity, the equipment is purchased by the Company and is included in the Company's used inventory. Cervus regularly assesses residual values of customer equipment under lease with John Deere, to assess its carrying value and if any allowance is necessary. At December 31, 2020, total residual values maturing over the next 12 months was \$57 million (2019 - \$42 million) and the total residual values maturing in the next five years is \$301 million (2019 - \$316 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 11, as at December 31, 2020, the Company had a \$120 million Syndicated Facility, and had used \$9.6 million of this for irrevocable letters of credit issued to John Deere.

The Company expects continued cash flows from operations in 2021, together with currently available cash on hand and credit facilities, will be sufficient to fund its requirements for investments in working capital, capital assets and dividend payments through the next 12 months. The following are the contractual maturities of financial liabilities existing as at December 31, 2020.

(\$ thousands)	Carrying amount	Contractual				
		principal maturities	12 months or less	1 – 2 Years	2 – 5 Years	5+ Years
Trade and other accrued liabilities	\$ 79,674	\$ 79,674	\$ 79,674	\$ —	\$ —	\$ —
Floor plans payable	83,509	83,509	83,509	—	—	—
Dividends payable	921	921	921	—	—	—
Term debt payable	5,810	5,996	2,872	2,362	762	—
Derivative financial liability	2,136	2,136	2,136	—	—	—
Lease obligation	88,340	138,877	14,329	14,105	33,609	76,834
<b>Total contractual maturities of financial liabilities</b>	<b>\$ 260,390</b>	<b>\$ 311,113</b>	<b>\$ 183,441</b>	<b>\$16,467</b>	<b>\$34,371</b>	<b>\$ 76,834</b>

## CERVUS EQUIPMENT CORPORATION

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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#### 23. 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 crop 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 significantly 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 floor planned 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 \$0.1 million (2019 - \$0.3 million), based on the U.S. dollar floor plan balances at December 31, 2020.

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 23. 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)	2020	2019
<b>Fixed Rate</b>		
Lease obligation	\$ 88,340	\$ 92,883
<b>Variable Rate</b>		
Floor plan payables		
Floor plan payables - interest bearing	80,956	172,263
Floor plan payables - interest free period <sup>(a)</sup>	2,553	1,729
Term debt	5,996	43,446
<b>Total interest bearing financial instruments</b>	<b>\$ 177,845</b>	<b>\$ 310,321</b>

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

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. A change in 100 basis points in interest rates would have increased or decreased interest costs for the year ended December 31, 2020 by approximately \$0.9 million (2019 - \$2.3 million).

#### **Capital Risk Management**

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

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

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 23. 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 (Trailing twelve months income before income tax, excluding unrealized (gains) losses from foreign currency, plus finance costs, less floorplan interest expense (referred to as "Return"), divided by 4 quarter average total invested capital. Total invested capital is calculated as net debt plus the book value of equity);
- 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, 2020. 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](http://www.SEDAR.ca). The Company's compliance as at December 31, 2020 with the covenants contained in the Syndicated Credit Agreement is set out below:

	As at December 31, 2020		As at December 31, 2019	
	Covenant	Result	Covenant	Result
Total Liabilities to Tangible Net Worth*	Less than 4.0:1.0	<b>1.60</b>	Less than 4.0:1.0	2.64
Fixed Charge Coverage Ratio*	Greater than 1.1:1.0	<b>3.19</b>	Greater than 1.1:1.0	1.57
Asset Coverage Ratio*	Greater than 3.0:1.0	<b>25.46</b>	Greater than 3.0:1.0	6.24

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

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019

### 24. Segment Information

The Company has four reportable segments: Agriculture, Transportation, Industrial and Corporate.

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.

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
<b>Segmented income figures</b>					
<b>Year ended December 31, 2020</b>					
Revenue					
Equipment sales	\$ 667,979	\$ 204,813	\$ 19,084	\$ —	\$ 891,876
Parts	125,808	98,941	10,789	—	235,538
Service	47,044	27,530	8,969	—	83,543
Rentals and other	5,878	2,865	8,187	—	16,930
<b>Total revenue</b>	<b>\$ 846,709</b>	<b>\$ 334,149</b>	<b>\$ 47,029</b>	<b>\$ —</b>	<b>\$1,227,887</b>
Total other income (loss)	2,966	5,434	1,342	(14)	9,728
Depreciation and amortization	13,341	5,324	2,785	544	21,994
Finance income	125	—	1	461	587
Finance expense including amounts in costs of sales	(6,650)	(3,645)	(353)	(924)	(11,572)
Income (loss) for the year before income tax	32,070	9,251	2,702	(9,694)	34,329
Capital additions	5,647	536	318	1,810	8,311
<b>Segmented assets and liabilities as at December 31, 2020</b>					
Reportable segment assets	\$ 326,837	\$ 125,641	\$ 30,886	\$ 32,733	\$ 516,097
Intangible assets	22,588	9,054	5,581	—	37,223
Goodwill	19,925	2,547	666	—	23,138
Reportable segment liabilities	176,080	64,293	15,914	11,102	267,389

**CERVUS EQUIPMENT CORPORATION**

## Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

**24. Segment Information (continued)**

(\$ thousands)	Agriculture	Transportation	Industrial	Corporate	Total
<b>Segmented income figures</b>					
<b>Year ended December 31, 2019</b>					
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
<b>Total revenue</b>	<b>\$ 755,442</b>	<b>\$ 330,253</b>	<b>\$ 53,339</b>	<b>\$ —</b>	<b>\$ 1,139,034</b>
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
<b>Segmented assets and liabilities as at December 31, 2019</b>					
Reportable segment assets	\$ 371,315	\$ 174,340	\$ 27,651	\$ 34,030	\$ 607,336
Intangible assets	24,241	10,039	3,735	—	38,015
Goodwill	19,684	2,547	666	—	22,897
Reportable segment liabilities	210,843	107,997	13,159	48,199	380,198

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 16 agriculture equipment dealerships. Gross revenues for the year ended December 31, 2020, for the New Zealand and Australian territories were \$217 million (2019 – \$184 million). Non-current assets for New Zealand and Australia as at December 31, 2020, were \$31 million (2019 – \$30 million). The Australia and New Zealand operations are included in the Agriculture Segment.



**25. Commitments and Contingencies**

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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, 2020, payments in arrears by such customers aggregated \$1.2 million (2019 - \$1.4 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, 2020, the net residual value of such leases aggregated \$301 million (2019 - \$316 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.

**26. Related Party Transactions**

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***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)	2020	2019
Short-term benefits	\$ 1,939	\$ 2,515
Share-based payments	169	550
<b>Total</b>	<b>\$ 2,108</b>	<b>\$ 3,065</b>

## CERVUS EQUIPMENT CORPORATION

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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### 27. COVID-19 Impact

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In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, including the countries where the Company operates, have enacted measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to businesses globally resulting in an economic slowdown. In addition, global oil prices have declined due to a significant decrease in demand due to COVID-19. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable. There also still remains uncertainty around the timing, availability, and efficacy of the vaccine. These factors may impact customer demand, cause disruptions to our operations and supply chains, result in increased government regulation, all of which may negatively impact the business, financial results and conditions of the Company.

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

The Company performs impairment tests on its goodwill at least annually and when events or changes in circumstances, such as the impact of COVID-19 on certain areas of our business, indicate that a test is required. At December 31, 2020, management concluded there were no impairment losses in relation to the Company's goodwill and intangible assets.

Estimates and judgements made by management in the preparation of these financial statements are subject to a higher degree of measurement uncertainty during this volatile period. Estimates at December 31, 2020 could change materially as the impact of the COVID-19 pandemic and its impact on the economy and the clients the Company serves continues to evolve.

# SHAREHOLDER & CORPORATE INFORMATION

## CORPORATE HEAD OFFICE

6302, 333 – 96th Avenue NE  
Calgary, Alberta, Canada  
T3K 0S3  
T: 1-877-567-0339

## INVESTOR RELATIONS

### **Angela Lekatsas**

*President and Chief Executive Officer*  
alekatsas@cervusequipment.com

### **Adam Lowther**

*Chief Financial Officer*  
alowther@cervusequipment.com

## WEBSITE

cervusequipment.com

## STOCK LISTING

TSX: CERV

## TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada  
800, 324 - 8th Avenue SW  
Calgary, Alberta, Canada  
T2P 2Z2  
T. 403-267-6800  
computershare.com

## AUDITORS

KPMG LLP

## ANNUAL MEETING OF SHAREHOLDERS

Thursday April 22, 2021, 4:00 p.m. (Mountain Daylight Time)  
Virtual Online Meeting  
<https://web.lumiagm.com/291753597>

## BOARD OF DIRECTORS

### **Peter Lacey**

*Chair of the Board and Corporate Director*

### **Don Bell**

*Corporate Director*

### **Steven Collicutt**

*Corporate Director*

### **Wendy Henkelman**

*Corporate Director*

### **Dan Sobic**

*Corporate Director*

### **Angela Lekatsas**

*Corporate Director, President and Chief Executive Officer*

## OFFICERS

### **Angela Lekatsas**

*President and Chief Executive Officer*

### **Adam Lowther**

*Chief Financial Officer*

### **Scott Johnston**

*Chief Operating Officer*

### **Devin P. Mylrea**

*Corporate Counsel and Corporate Secretary*



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