

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CERVUS EQUIPMENT CORPORATION FOR THE PERIOD FROM JANUARY 1, 2011 TO MARCH 31, 2011

The following Management's Discussion & Analysis ("MD&A") was prepared as of May 10, 2011 and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or "Company") financial performance for the three month period ended March 31, 2011 and significant trends that may affect future performance of Cervus. This MD&A should be read in conjunction with the accompanying interim unaudited consolidated financial statements for the period ended March 31, 2011 and the notes contained therein. The accompanying interim unaudited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "IFRSs") and Cervus' functional and reporting currency is the Canadian dollar. Cervus' shares trade on the Toronto Stock Exchange under the symbol "CVL".

Additional information relating to Cervus is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at [www.sedar.com](http://www.sedar.com).

This MD&A contains forward-looking statements. Please see the section "Note Regarding Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to those statements. This MD&A also makes reference to certain non-IFRS financial measures to assist users in assessing Cervus' performance. Non-IFRS financial measures do not have any standard meaning prescribed by IFRSs and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Non-IFRS Financial Measures".

## OVERVIEW OF CERVUS

Cervus is a diversified corporation and has historically operated in two separate business segments, an agricultural equipment segment and a construction and industrial segment. These segments are managed separately and strategic decisions are made on the basis of their respective operating results. The agricultural equipment segment consists primarily of 21 John Deere dealerships with 15 in Alberta, Saskatchewan and British Columbia and 6 in New Zealand. The construction and industrial equipment segment consists primarily of 15 dealerships, 5 Bobcat and JCB dealerships operating in Alberta and 10 Clark, Sellick, Nissan and Doosan material handling equipment dealerships operating in Alberta, Saskatchewan and Manitoba. Cervus owns directly or indirectly, 100% of Cervus LP, Cervus AG Equipment LP and Cervus Contractors Equipment LP, together with 100% of the outstanding and issued shares of their respective general partners, Cervus GP Ltd., Cervus AG Equipment Ltd. and Cervus Contractors Equipment Ltd. and 60.3% of Agriturf Limited, a New Zealand company and its 100% interest in its subsidiary, Agriturf Rental and Leasing Limited. In addition to the aforementioned subsidiaries, Cervus owns a 20% interest in Maple Farm Equipment Partnership in Saskatchewan and Manitoba that is comprised of 7 John Deere dealerships. The cash flow of Cervus is primarily dependent on the results of the underlying limited partnerships and is derived from the flow-through of income of the LP's to Cervus by means of partnership allocations.

## ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

On January 1, 2011, Cervus adopted IFRSs for financial reporting purposes with a transition date of January 1, 2010. The unaudited consolidated financial statements for the three months ended March 31, 2011, including comparative information, have been prepared in accordance with IFRSs, *First-time Adoption of International Financial Reporting Standards* and with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). The Company previously prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”).

The adoption of IFRSs has not had a significant impact on the Company's operations and its cash flows. The most significant area of impact in the adoption of IFRSs was IAS12, *Income Taxes*, which required previously recognized deferred credits as a result of the Company's acquisition of tax losses to be recorded as an adjustment to opening retained earnings and equity. Further information on the IFRS impacts is provided in the Accounting Policies and Estimates Section of this MD&A, including reconciliations between previous GAAP and IFRS Net Earnings, Operating Earnings and other financial matrices.

## NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute “forward-looking statements”. All statements, other than statements of historical fact, that address activities, events, or developments that Cervus or a third party expects or anticipates will or may occur in the future, including our future growth, results of operations, performance and business prospects and opportunities, and the assumptions underlying any of the foregoing, are forward-looking statements. These forward-looking statements reflect our current beliefs and are based on information currently available to us and on assumptions we believe are reasonable. Actual results and developments may differ materially from the results and developments discussed in the forward-looking statements as they are subject to a number of significant risks and uncertainties, including those discussed under “Business Risks” and elsewhere in this MD&A. Certain of these risks and uncertainties are beyond our control. Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, Cervus. These forward-looking statements are made as of the date of this MD&A, and we assume no obligation to update or revise them to reflect subsequent information, events, or circumstances unless otherwise required by applicable securities legislation.

In the Market Outlook section of our December 31, 2010 MD&A, we discussed the wet weather conditions from 2010 that may impact spring seeding and eventually, crop yields in the latter part of 2011. It would appear that colder than normal spring conditions, combined with some precipitation, has caused delays in spring planting in certain of the Company’s area of operations. We estimate that areas at risk due to excessive moisture to be approximately 10% to 15% of our Saskatchewan trade area.

In our December 31, 2010 MD&A we discussed that Cervus expects to make quarterly dividend payments to its shareholders of \$0.18 per common share. The most recent quarterly dividend payment was made to the shareholders of record on March 31, 2011 on April 15, 2011. At this time, there is no reason to believe that the quarterly dividend will be changed for the remainder of 2011, however the payments of dividends is always subject to certain risk (see “cautionary note regarding dividends”).

# MARKET OUTLOOK (SEE “NOTE REGARDING FORWARD-LOOKING STATEMENTS”)

## AGRICULTURAL EQUIPMENT

Based on the 2011 market outlook prepared by Agriculture and Agri-Food Canada’s 2011, preliminary forecasts have indicated that farm income will decline somewhat as increased expenses and decreased program payments will be greater than the increase in receipts from higher grain prices and livestock prices.

Agriculture and Agri-Food Canada’s Medium Term Outlook indicates that many of the forces affecting farm incomes in Canada in 2010 and 2011 may continue into future years. This includes an increase in world-wide demand for feed grains, a rising price of crude oil, a Canadian dollar near par with the American dollar, and Canadian population growth of 1.2 % per year and its required increase in domestic food demands.

## CONSTRUCTION AND INDUSTRIAL EQUIPMENT

In their first quarter 2011 Housing Outlook, CMHC has reported that Alberta’s economic expansion in 2011 and 2012, combined with the expected turnaround in oil sands investment and oil prices has been sufficient to restart many of the halted oil sands projects. There is significant upside for energy investment as these projects become viable. As a result, the Government of Alberta is predicting over a 3% real gross domestic product growth for 2011 based on Alberta’s Finance and Enterprise 2011 – 2014 Economic Outlook.

In addition, AEM is reporting over a 60% increase in the number of units sold in our industries over 2010 unit numbers in most of our major product categories. We believe that this is a continuation of the economic turnaround experienced in 2009 and a continuation of the increases experienced in the latter part of 2010. Though some components of this segment’s supply were interrupted by the tsunami that hit Japan, the manufacturer (primarily NISSAN), is continuing to ship and supply products and we should not see any significant impact on our future financial results.

## OVERALL

During 2011, we expect the construction and industrial equipment segment results will improve at a more rapid pace than our agricultural equipment segment as a result of the factors noted above. This is primarily based on improved performance in the first quarter of 2011 which is consistent with AEM’s estimate of construction equipment unit statistics for the first quarter of 2011. We believe we will grow at, or slightly above, market growth expectations.

## HIGHLIGHTS OF THE QUARTER

- Revenue has increased by \$17.1 million (same store \$11.7 million) to \$84.3 million from \$67.2 million.
- Net cash from operating activities increased by \$3.5 million to \$525 thousand from a use of cash of \$3.0 million in the same period of 2010.
- Net loss for the period decreased to \$155 thousand from \$613 thousand for the same period of 2010, an increase in earnings of \$458 thousand.

## OVERALL PERFORMANCE

During the first three months of 2011 revenue grew by \$17.1 million to \$84.3 million compared to \$67.2 million in 2010, an increase of 25%. Same store sales increased by \$11.7 million or 17% (\$5.4 million or 12% in the agricultural equipment segment and \$6.3 million or 28% in the construction and industrial equipment segment).

For the three months ended March 31, 2011, gross margin decreased by 1.2% to 21.5% when compared to 22.7% for the same period of 2010. Our agricultural equipment segment gross margin decreased to 17.7% when compared to 18.8% and our construction and industrial equipment segment which decreased to 28.6% when compared to 30.3% for the same period of 2010. The decrease in our gross margin is primarily related to our new and used equipment revenue per unit which has decreased as a result of the strengthening Canadian dollar, putting margin pressures on previously purchased equipment. We plan to continue our efforts to reduce overall used equipment inventories and compete aggressively for new and used equipment sales (see "Note Regarding Forward-Looking Statements").

The net loss for the three months ended March 31, 2011 decreased by \$458 thousand to \$155 thousand or \$0.01 per basic share from \$613 thousand or \$0.04 per basic share for the same period of 2010. The agricultural equipment segment reported a net loss of \$792 thousand (an increase of \$274 thousand over a net loss of \$518 thousand in 2010) and the construction and industrial equipment segment reported net profit of \$637 thousand (an increase of \$732 thousand over a net loss of \$95 thousand reported in 2010). The primary change in the agricultural equipment segment's reported net loss was from the acquisition of Agriturf in the third quarter of 2010 which reported a net loss of \$243 thousand and this was offset by an increase in the construction and industrial equipment segment as a result of significant increases in sales activity from the lows experienced in 2009.

As a result of our increase in earnings, depreciation and amortization, and other non-cash working capital adjustments, net cash flows from operating activities increased to \$525 thousand (\$0.04 per basic share) from a net use of cash flows \$3.0 million (\$0.21 per basic share) in 2010 and EBITDA increased to \$2.1 million (\$0.15 per basic share) in 2011 when compared to \$1.2 million (\$0.09 per basic share) for 2009.

## SELECTED QUARTERLY INFORMATION

<b>\$ thousands, except per share amounts</b>	<b>March 31, 2011</b>	<b>March 31, 2010</b>	<b>% change</b>
Revenues	84,273	67,201	25.4
Gross profit	18,094	15,272	18.5
Gross margin	21.5%	22.7%	(5.3)
Loss for the period	(155)	(613)	(74.7)
Per share - Basic and diluted	(0.01)	(0.04)	(75.0)
Net cash provided by (used in) operating activities	525	(2,960)	n/a
Per share - Basic	0.04	(0.20)	n/a
EBITDA <sup>1</sup>	2,137	1,244	71.8
EBITDA margin <sup>1</sup>	2.5%	1.8%	38.9
Per share - basic	0.15	0.09	100.0
Dividends to preferred shareholders	78	78	-
Dividends declared to common shareholders	2,557	2,547	0.4
Per share	0.18	0.18	-
Weighted average shares outstanding			
Basic	14,201	14,150	0.4
Diluted	14,654	14,484	1.3
Actual common shares outstanding	14,204	14,151	0.4
Closing market price per share	16.15	13.40	20.5
Total assets	267,524	252,574	6.0
Long-term liabilities	9,986	11,478	(13.0)
Total liabilities	96,418	86,537	11.4
Total equity	171,106	166,037	3.1
Net book value per share - diluted	11.68	11.47	1.8

Notes: (1)

These financial measures are identified and defined under the section "Non-IFRS Financial Measures".

# RESULTS OF OPERATIONS

## REVENUES

\$ thousands	March 31, 2011	March 31, 2010	% change
<b>Revenues by segment:</b>			
Equipment:	41,174	33,918	21.4
New	26,010	20,889	24.5
Used	15,164	13,029	16.4
Parts	8,015	6,305	27.1
Service	5,299	4,029	31.5
Rental and other	603	60	905.0
<b>Agricultural equipment</b>	<b>55,091</b>	<b>44,312</b>	<b>24.3</b>
Equipment	16,113	12,176	32.3
New	13,706	9,868	38.9
Used	2,407	2,308	4.2
Parts	6,615	5,209	27.0
Service	4,620	3,858	19.8
Rental and other	1,834	1,646	11.4
<b>Construction and industrial equipment</b>	<b>29,182</b>	<b>22,889</b>	<b>27.5</b>
<b>Total</b>	<b>84,273</b>	<b>67,201</b>	<b>25.4</b>

## AGRICULTURAL EQUIPMENT

Revenue for our agricultural equipment segment increased by \$10.8 million (same store increased \$5.4 million or 12.1%) for the three month period ended March 31, 2011 when compared to the same period of 2010. Same store sales exclude the acquisition of Agriturf in July 2010.

New equipment sales increased by \$5.1 million (same store \$2.6 million or 12.7%) during the first three months of 2011 when compared to the same period of 2010. Used equipment sales also increased by \$2.1 million (same store increased \$1.7 million or 13.0%) for the first three months of 2011 when compared to the same period of 2010. The increase in our new equipment sales is primarily related to the timing of the arrival of the new equipment and eventual delivery to our customers. Used equipment sales have increased as a result of the additions to inventories from trade-ins on new equipment sales as well as management's continuing effort to reduce and keep used equipment inventories at manageable levels.

Our parts revenue has increased \$1.7 million (same store \$463 thousand or 7.3%) during the three month period ended March 31, 2011 when compared to the same period of 2010. Service revenue has also increased \$1.3 million (same store \$394 thousand or 9.8%) for the first three months of 2011 when compared to the same period of 2010. The increase in parts and service revenue is primarily related to the increase in our machine population combined with work required to be performed to prepare both new and used equipment for sale.

Rental and other revenue increased \$543 thousand (same store increased \$163 thousand). The primary reason for the increase in rental and other revenue on a same store basis is related to long-term lease agreements entered into for the use of 10 combines in the third quarter of 2010 and on a combined basis, due to the acquisition of Agriturf which realizes more income from lease arrangements than what has historically been experienced in our Canadian agricultural operations.

## CONSTRUCTION AND INDUSTRIAL EQUIPMENT

Revenue from our construction equipment segment increased by \$6.3 million for the three month period ended March 31, 2011 when compared to the same period of 2010.

New equipment sales have increased by \$3.8 million during the first three months of 2011 when compared to the same period of 2010. This increase in revenue is directly related to AEM's market share unit reports that have indicated a 62% overall increase in unit sales in our industry year-to-date when compared to the same period of 2010. Used equipment sales have increased only slightly by \$99 thousand.

Parts revenues have increased \$1.4 million and service revenue has increased by \$762 thousand during the first three months of 2011 when compared to the same period of 2010. The overall parts and service revenue increase is related primarily to an increase in activity from our customers in putting previously owned machines back to work prior to purchasing new machines.

Rental income has increased \$188 thousand for the three month period ended March 31, 2011 when compared to the same period of 2010. The increase in rental income is also related to customers wanting to rent equipment prior to purchase on the overall increase in economic activity being experienced from the lows of 2009.

## GROSS PROFIT

	March 31, 2011	March 31, 2010	% change
<b>Gross profit margin by segment:</b>			
Agricultural equipment	17.7%	18.8%	(5.9)
Construction and industrial equipment	28.6%	30.3%	(5.6)
<b>Total</b>	<b>21.5%</b>	<b>22.7%</b>	<b>(5.3)</b>

## AGRICULTURAL EQUIPMENT

Gross profit dollars have increased by \$1.3 million (same store increased slightly by \$93 thousand) during the first three months of 2011 when compared to the first three months of 2010. Gross profit margin however decreased 1.1 basis points overall to 17.7% in 2011 from 18.8% in 2010.

The most significant factor affecting the combined gross profit margin has been from the segment's equipment sales which have been affected by a combination of equipment pricing fluctuations caused by foreign exchange changes, management's continued aggressive efforts to reduce overall used equipment inventories and from competition being experienced in the new equipment market.

The Canadian dollar has appreciated with an average foreign exchange rate that has increased by approximately 5.3% when comparing January to March 2011 to the same period of 2010. This strengthening Canadian dollar has resulted in pressure on selling prices of equipment which has decreased overall margins being realized, especially from used equipment inventories that were purchased when the Canadian dollar was weaker.

Part margins and service margins have increased primarily as a result of a change in sales mix of parts from our original equipment manufacturers and outside suppliers.

## CONSTRUCTION AND INDUSTRIAL EQUIPMENT

Gross profit dollars have increased by \$1.4 million during the first three months of 2011 when compared to the same period of 2010. Gross profit margin however has decreased by 1.7 basis points to 28.6% in 2011 compared to 30.3% in 2010.

The most significant change in gross margin continued to be from new and used aged equipment which is being sold at lower margins due to the increasing Canadian dollar as explained above which negatively affects the margins on current inventory as new machines can be purchased at a lessor cost.

The reduction in new and used equipment margins has been neutralized somewhat by an increase in service margin due to increased efficiency from personnel as a result of increased market activity. Parts margins remain consistent with the prior year.

Rental equipment margin has increased for the first three months of 2011 when compared to the same period of 2010. This is primarily a result of a rationalization of the rental equipment fleet, which has reduced depreciation and interest expense, as well as better utilization being experienced on the remaining fleet as activity increases.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

\$ thousands	March 31, 2011	March 31, 2010	% change
<b>Selling, general and administrative expenses by segment:</b>			
Agricultural equipment	10,964	9,064	21.0
Construction and industrial equipment	7,376	6,974	5.8
<b>Total</b>	<b>18,340</b>	<b>16,038</b>	<b>14.4</b>
<b>% of revenue</b>			
Agricultural equipment	19.9	20.5	(2.9)
Construction and industrial equipment	25.3	30.5	(17.1)
<b>Total</b>	<b>21.8</b>	<b>23.9</b>	<b>(8.8)</b>

## AGRICULTURAL EQUIPMENT

The agricultural equipment segment reported an increase in selling, general and administrative expenses of \$1.9 million (same store increased \$352 thousand or 3.9%) during the first three months of 2011 when compared to the same period of 2010. Same store selling, general and administrative expenses increased primarily due to an increase in commission expense on an increase in same store sales as explained above as well as general wage and salary increase of approximately 3%. It should be noted that Agriturf's selling, general and administrative expenses as a percentage to revenue is significantly higher than our Canadian operations. This is primarily due to continuing efforts surrounding the merging of store activities in New Zealand.

## CONSTRUCTION AND INDUSTRIAL EQUIPMENT

The construction and industrial equipment segment's selling, general and administrative expenses increased \$402 thousand or 5.8% during the first three months of 2011 when compared to the first three months of 2010. The increase was primarily related to commission increase on increased sales activity as well as an increase in wages as a result of salary increases as explained above. The segment has been able to control expenses as well on increased sales activity which has resulted in the reduction of expenses as a percentage of revenue from the prior period.

## DEPRECIATION AND AMORTIZATION

\$ thousands	March 31, 2011	March 31, 2010	\$ change
<b>Depreciation and amortization by segment:</b>			
Agricultural equipment:			
Depreciation on equipment included in cost of sales	218	-	218
Depreciation on equipment	421	296	125
Amortization of intangible assets	199	202	(3)
	838	498	340
Construction and industrial equipment:			
Depreciation on equipment included in cost of sales	521	611	(90)
Depreciation on equipment	164	121	43
Amortization of intangible assets	415	477	(62)
	1,100	1,209	(109)
<b>Total</b>	<b>1,938</b>	<b>1,707</b>	<b>231</b>

### AGRICULTURAL EQUIPMENT

The agricultural equipment segment depreciation and amortization increased by \$340 thousand (same store increased \$2 thousand) during the three month period ended March 31, 2011 when compared to the same period of 2010. The acquisition of Agriturf in July 2010 accounted for most of the \$340 thousand increase which included \$218 thousand of rental equipment depreciation included in the results of Agriturf.

### CONSTRUCTION EQUIPMENT

The construction equipment segment reported a decrease of \$109 thousand for the first three months of 2011 compared to the first three months of 2010. The decrease is related to both a reduction in overall rental equipment fleet, reducing the charge to cost of sales, and a decrease in intangible asset amortization for items that are completely amortized.

## FINANCE INCOME AND COSTS

\$ thousands	March 31, 2011	March 31, 2010	\$ change
Finance income by segment			
Agricultural equipment	26	15	11
Construction and industrial equipment	23	14	9
Finance income	49	29	20
Finance cost by segment:			
Agricultural equipment	121	156	(35)
Construction and industrial equipment	188	228	(40)
Finance costs	309	384	(75)
Net finance costs	260	354	(94)

Finance costs are comprised primarily of interest expense related to the Company's financing of its short-term debt for floor-plan financing arrangements and long-term debt related to certain equipment financing arrangements, primarily rental equipment. Due to excess cash and cash equivalents on hand, management has utilized excess cash to reduce floor plan financing of inventories.

Floor plan liabilities as a percentage of inventories at March 31, 2011 and 2010 were approximately 50% and December 31, 2010 and 2009, approximately 45%. Rental equipment financing as a percentage of the original cost of short-term rental equipment has increased to 45% at December 31, 2010 when compared to 34% at December 31, 2009. The increase is primarily due to the addition of ARW and Agriturf rental fleet equipment. In addition, there is an increase in interest expense related to the note payable that financed a portion of the ARW acquisition in 2010.

Overall, the simple average interest rate for 2010 was 3.7% compared to 2.1% during 2009. The increase in the simple average rate was primarily caused by the increase in the prime lending rate during 2010 in Canada in addition to higher borrowing costs related to Agriturf's finance contracts.

## INCOME TAXES

As at March 31, 2011, Cervus has the following tax pools available to be used in future periods:

	(\$ thousands)	
Carrying values in excess of tax values	\$	(3,624)
Non-capital losses carry-forward		52,245
Federal investment tax credits		12,746
Capital losses carried forward		19,357
Total estimated future tax asset		80,724
Less: valuation allowance for non-capital and capital losses carried forward		(19,553)
<b>Balance, March 31, 2011</b>	<b>\$</b>	<b>61,171</b>

As a result of the Company's transition to IFRS, deferred credits previously recognized as a liability and a reduction in income tax expense have been recorded as an increase in equity as a result of applying IAS 12 *Income Taxes*. As a result of a business combination completed in 2009, the fair value of the assets purchased exceeded the purchase price resulting in negative goodwill. Under IFRSs, this negative goodwill would have been brought directly into income and therefore, the balance outstanding at December 31, 2009 has been recorded as a transitional adjustment at January 1, 2010.

In addition, for the four quarterly periods ending in 2010, income tax expense will be recognized for a much higher amount due to the inability to offset the expense with deferred credits. The differences in the 2010 previously reported income taxes under Canadian GAAP and income taxes reported under IFRSs are as follows:

In \$ thousands	Previously Reported	Reversal of deferred credit	Movement of income tax between periods	Total Income Tax Recovery (Expense)
				Quarter ending:
March 31, 2010	\$ -	\$ -	\$ 236	\$ 236
June 30, 2010	(182)	(2,074)	288	(1,968)
September 30, 2010	(175)	(1,989)	(1,910)	(4,074)
December 31, 2010	(217)	(2,457)	1,386	(1,288)
	\$ (574)	\$ (6,520)	\$ -	\$ (7,094)

## LOSS FOR THE PERIOD AND TOTAL COMPREHENSIVE LOSS

The Company has a foreign subsidiary, Agriturf which upon consolidation, results in unrealized gains (losses) on translation of financial statements of a self-sustaining foreign operation. As a result, \$38 thousand has been recorded as other comprehensive income for the three month period ended March 31, 2011 (\$nil for the three month period ended March 31, 2010 as Agriturf was purchased in the third quarter of 2010). This translation adjustment is the only difference between the loss for the period and total comprehensive loss for the period at March 31, 2011.

The loss for the period, excluding other comprehensive income for the three month periods ended March 31 is as follows:

	2011	2010	% change
<b>(\$ thousands except net earnings per share):</b>			
Agricultural equipment	(791)	(526)	50.1
Construction and industrial equipment	636	(87)	n/a
<b>Total</b>	<b>(155)</b>	<b>(613)</b>	<b>(74.7)</b>
<b>% of revenue</b>			
Agricultural equipment	(1.4)	(1.2)	16.7
Construction and industrial equipment	2.2	(0.4)	n/a
<b>Total</b>	<b>(0.2)</b>	<b>(0.9)</b>	<b>(77.8)</b>
<b>Loss per share:</b>			
<b>Shares outstanding - basic</b>	<b>14,201</b>	<b>14,150</b>	<b>0.4</b>
Agricultural equipment	(0.06)	(0.04)	50.0
Construction and industrial equipment	0.05	(-)	n/a
<b>Total</b>	<b>(0.01)</b>	<b>(0.04)</b>	<b>(75.0)</b>

The most significant contributing factor to our \$458 thousand decrease in the net loss reported for the three month period ended March 31, 2011 was due to a \$723 thousand increase in earnings reported by the construction and industrial equipment segment. This is primarily related to the increase in this segment's sales activity when compared to the previous period.

Though the agricultural equipment segment reported an increase in same store sales during the three month period ended March 31, 2011 when compared to the same period of 2010, the loss increased by \$265 thousand. A significant portion of this increase in the net loss is attributed to Agriturf which is continuing to consolidate its operations.

## EBITDA

(See Non-IFRS Financial Measures)

\$ thousands	March 31, 2011	March 31, 2010	\$ change
<b>EBITDA by segment:</b>			
Agricultural equipment			
Net earnings (loss) and comprehensive income (loss)	(791)	(518)	(273)
Add:			
Income taxes (recovery)	(257)	(200)	(57)
Interest	138	112	26
Depreciation and amortization	838	499	339
<b>EBITDA</b>	<b>(72)</b>	<b>(107)</b>	<b>35</b>
Construction and industrial equipment			
Net earnings (loss) and comprehensive income (loss)	636	(95)	731
Add:			
Income taxes (recovered)	236	(36)	272
Interest	237	274	(37)
Depreciation and amortization	1,100	1,208	(108)
<b>EBITDA</b>	<b>2,209</b>	<b>1,351</b>	<b>858</b>
<b>Total EBITDA</b>	<b>2,137</b>	<b>1,244</b>	<b>893</b>
<b>% of revenue</b>	<b>2.5</b>	<b>1.8</b>	

EBITDA is used by management to monitor its results and compare its profitability between itself and other entities in its industries. It is primarily used to evaluate potential business acquisitions.

For the three month period ended March 31, 2011, EBITDA increased by \$829 thousand or 1.0% of gross revenue reported for the period when compared to the three month period ended March 31, 2010. The largest contributing factor for the increase was the increase in net profit of the construction and industrial equipment segment which increased its earnings by \$731 thousand.

## SUMMARY OF QUARTERLY RESULTS

The 2010 quarterly results have been restated to reflect the Company's transition to IFRSs. An explanation of the transitional differences is shown below the quarterly summary which includes primarily the increase in deferred share compensation and the change in income taxes as shown above.

\$ thousands, except per share amounts	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Revenues	84,273	109,542	164,461	127,927
Net profit (loss)	(155)	2,189	6,753	3,254
Basic earnings (loss) per share	(0.01)	0.15	0.48	0.23
Diluted earnings (loss) per share	(0.01)	0.15	0.47	0.22
Weighted average shares outstanding				
- Basic	14,201	14,189	14,176	14,162
- Fully diluted	14,654	14,616	14,517	14,504

\$ thousands, except per share amounts	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
Revenues	67,201	84,239	121,195	105,701
Net earnings	(613)	(573)	8,745	7,330
Basic earnings (loss) per share	(0.04)	(0.04)	0.61	0.52
Diluted earnings (loss) per share	(0.04)	(0.04)	0.61	0.51
Weighted average shares outstanding				
- Basic	14,150	14,138	14,117	14,087
- Fully diluted	14,474	14,449	14,361	14,258

The financial data shown above has been prepared in accordance with IFRSs as of the date of transition being January 1, 2010 and Canadian generally accepted accounting principles for the three quarters of 2009 shown.

Sales activity for the agricultural segment is normally highest between April and September during growing seasons in Canada and the impact on the growing seasons for New Zealand has not materially impacted the above results as the purchase occurred in July 2010. The construction and industrial equipment sector is not as volatile but does see slower sales activity in the winter months. As a result, earnings or losses may not accrue uniformly from quarter to quarter. The primary reason for the change in net earnings for the four quarters of 2011/2010 when compared to 2010/2009 is from the acquisition of ARW in January 2010 and the increase in net earnings being experienced from our same store activities in the construction and industrial equipment segment.

The following is a reconciliation of changes in profit (loss) for the four quarterly periods of 2010 from the date of transition of January 1, 2010.

In \$ thousands	Note	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	Total
Net profit (loss) previously reported		\$ (827)	\$ 5,062	\$ 10,679	\$ 3,287	\$ 18,201
Change in amortization of deferred share plan	1	(22)	(22)	(27)	(27)	(98)
Change in income taxes	2	236	(1,786)	(3,899)	(1,071)	(6,520)
Net profit (loss) as revised		\$ (613)	\$ 3,254	\$ 6,753	\$ 2,189	\$ 11,583

Notes to transitional adjustments:

1. Under IFRS 2, *Share-Based Payments*, awards will continue to be measured at fair value, with compensation expense under share-based plans recognized over the service period. However, IFRS does not permit the attribution of costs on a straight-line basis for stock options with graded vesting provisions whereas Canadian GAAP does.
2. As a result, the Company has recalculated deferred shares issued and is recognizing the compensation cost over the vesting period which has accelerated some of the overall costs, however, the costs in total will remain the same over the life of the plan.
3. IFRS requires that if the fair value of the net assets acquired is greater than the cost of the business combination, any excess remaining is immediately recognized in profit or loss. Under Canadian GAAP, if the amount assigned to assets acquired and liabilities assumed exceeds the cost of the purchase, the excess is eliminated to the extent possible by allocating it as a pro rata reduction across all the acquired non-current and non-financial assets (with certain exceptions).
4. As a result, in applying IAS 12 *Income Taxes*, the Company has recorded the deferred credit at December 31, 2009 in opening equity as if the amount had been recorded in profit or loss on the date of acquisition. As a result, previously recorded deferred credits in profit (loss) have been reversed and shown above as a change in income taxes during the year.

## LIQUIDITY

<b>\$ thousands, except ratio amounts</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Current assets	151,602	143,496
Total assets	267,524	260,760
Current liabilities	86,432	75,481
Long-term liabilities	9,986	11,692
Shareholders' equity	171,106	173,587
Working capital (see "Non-IFRS Financial Measures")	65,170	68,015
Working capital ratio (see "Non-IFRS Financial Measures")	2.3	2.1

## WORKING CAPITAL

Our working capital decreased by \$2.8 million to \$65.2 million at March 31, 2011 when compared to \$68.0 million at December 31, 2010. In accordance with outstanding debt agreements, the Company is required to maintain a working capital ratio of no less than 1.25 to 1.

The Company's ability to generate sufficient cash and cash equivalents is determined by continued strong gross revenue performance, maintaining existing gross margins and controlling its costs. 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 primarily on the use of cash and cash equivalents to fund future business acquisitions as well as due to the seasonal nature of our business. Cash resources can normally be restored by accessing floor plan monies from unencumbered used equipment inventories. Also, the seasonality of our business requires greater use of cash resources in the first and fourth quarter of each year as explained above to fund general operations caused by the cyclical 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 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. The Company's contractual obligations at March 31, 2011 are described below.

The Company has available for its current use, \$16.5 million of operating credit facilities (\$15 million in Canada and \$1.5 million in New Zealand) less \$2.4 million for irrevocable letters of credit issued to John Deere and \$163 thousand of financial guarantees provided for which \$1.1 million of advances have been made from its New Zealand facilities. In addition, the Company has a committed reducing term facility in the amount of \$1.5 million to finance capital asset additions of which no amounts have been advanced.

The Company also has \$2.4 million of irrevocable letters of credit issued to John Deere Limited ("JDL"). The letters of credit were provided to JDL in an effort to reduce personal guarantees required of our senior management and as collateral for past business acquisitions.

The Company has approximately \$14.7 million in cash and cash equivalents on hand at March 31, 2011 which consists of \$5.7 million in funds on deposit and \$10.1 million in money market funds and term deposits and is reduced by \$1.1 million of credit facilities drawn on by our foreign subsidiary, Agriturf. The money market funds and term deposit are available immediately upon request.

As at March 31, 2011, inventories had increased by \$11.9 million to \$109.7 million. Used equipment represents \$50.1 million (December 31, 2010 - \$45.8 million) of the equipment inventories and is represented by \$44.7 million in the agricultural equipment segment and \$5.4 million in the construction and industrial equipment segment.

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 agricultural equipment sales come with a trade-in while our construction and industrial equipment sales usually do not have trade-ins. This is why we have a higher amount of used agriculture equipment than used construction and industrial. In addition, the majority of our new John Deere equipment is on consignment from John Deere whereas we purchase the new equipment from our other manufacturers. These factors directly impact the amount of used and new equipment carried on our books. A majority of our product lines in both segments are manufactured in the US with pricing based in US dollars but invoiced in Canadian dollars.

The market value of aged new and used equipment has been affected by the strengthening Canadian dollar throughout the first three months of 2011 and fiscal 2010. This provides for less expensive new equipment, causing downward pressure on used equipment pricing. As at March 31, 2011, the Company believes that its recoverable amounts on its used equipment inventories exceed their respective carrying values and no impairment reserve is required or has been recorded.

## MARKET RISK

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market factors and is comprised of currency risk, interest rate risk and other price risks.

## FOREIGN CURRENCY EXPOSURE

Other than the Company's exposure to foreign currency fluctuations on its translation of its foreign subsidiary, Agriturf, the Company is not exposed to fluctuations in foreign currency in its sales and expenditures as they are incurred in Canadian dollars. 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. However, this may cause fluctuations in the sales values assigned to equipment and parts inventories as the Company's price structure is to maintain consistent gross margins. Both sales revenues and gross margins may fluctuate based on the foreign exchange rate in effect at the time of purchase. Certain of the Company's manufacturers also have programs in place to facilitate and/or reduce the effect of foreign currency fluctuations, primarily on new equipment inventory purchases. Based on the Company's results reported from its foreign subsidiary, an increase or decrease of 5% in foreign currency exchange rates would impact the Company's consolidated net earnings by approximately \$5 thousand.

## 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. Based on the Company's outstanding long-term debt at March 31, 2011, a one percent increase or decrease in market interest rates would impact the Company's annual interest expense by approximately \$676 thousand. The Company's other financial instruments are not exposed to interest rate risk.

## ENVIRONMENTAL RISKS

Our dealerships routinely handle hazardous and non-hazardous wastes as part of their day-to-day operations and though the Company tries to achieve full compliance with applicable laws, from time-to-time, 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 is also in the process of establishing an environmental management program to reduce the risk of these incidents from occurring. The Company is not aware of any material environmental liabilities at this time,

## CREDIT RISK

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 and construction 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 that customers will experience financial difficulty and be unable to fulfill their obligations to the Company. The Company's exposure to credit risk arises from granting credit sales and is limited to the carrying value of accounts receivable and deposits with John Deere. The Company's revenues are normally invoiced with payment terms of net, 30 days. The average time to collect the Company's outstanding accounts receivable was approximately 16 days for the rolling 12 month period ended March 31, 2011 (15 days for the year ended December 31, 2010) and 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 and establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information.

The Company's allowance for doubtful collections has decreased by \$36 thousand to \$418 thousand at March 31, 2011 which represents approximately 1.7% of outstanding trade accounts receivable. No amounts were written-off during the three month period ended March 31, 2011.

## CASH AND CASH EQUIVALENTS

Consistent with the Companies accounting policy choice under IAS7, Statement of Cash Flows, interest paid has been moved into the body of the Statement of Cash Flows, whereas they were previously disclosed as supplementary information. There are no other material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under previous Canadian GAAP.

Cervus' primary sources and uses of cash flows for the three months ended March 31 are as follows:

## SUMMARY OF CASH FLOWS<sup>1</sup>

\$ thousands	2011	2010
<b>Net cash flows used in operating activities</b>	<b>\$ 525</b>	<b>\$ (2,960)</b>
Investing activities:		
Interest received	49	29
Business acquisitions and deposits recovered	-	1,680
Advances from (to) related parties	24	(299)
Purchase of property and equipment, net	(1,505)	(596)
Proceeds from investments, at equity	400	300
Increase in other long-term assets	(4)	(1,075)
<b>Cash flows provided by (used in) investing activities</b>	<b>(1,036)</b>	<b>39</b>
Financing activities:		
Repayment of term debt and notes payable	(2,579)	(833)
Advances from non-controlling interest	150	-
Dividends/Distributions	(2,480)	(2,406)
Decrease (increase) in deposits with manufacturers	528	162
<b>Cash flows used in financing activities</b>	<b>(4,381)</b>	<b>(3,077)</b>
Decrease in cash	(4,892)	(5,997)
Cash and cash equivalents, beginning of period	19,605	13,453
<b>Cash and cash equivalents, end of period</b>	<b>\$ 14,713</b>	<b>\$ 7,456</b>

1. See the Interim Unaudited Consolidated Statements of Cash Flows for additional details.

Net cash from operating activities increased by \$3.5 million to \$525 thousand for the three month period ended March 31, 2011 when compared to the same period of 2010. The primary reason for the increase in cash flows from operating activities was due to both an increase in net earnings of \$458 thousand and the net change in non-cash working capital of \$2.6 million. The change in non-cash working capital related to operations for the three month period ended March 31, 2011 of \$1.3 million was primarily related to the difference in inventories purchased and floor plan financing incurred between December 2010 and March 2010. Management uses its discretion to either pre-pay or buy down certain floor plans and thereby reduce the related interest costs associated with the debt. As the facilities are available at any time, management is prepared to increase its floor plan payables if it is deemed necessary.

During the three month period ended March 31, 2011, the Company used \$1.0 million of net cash flows for investing activities. The most significant items were the purchase of property and equipment of \$1.5 million, net of proceeds received and the receipt of \$400 thousand from the Company's equity investment in Maple Farm Equipment Partnership.

During the three month period ended March 31, 2011, financing activities used \$4.4 million of net cash flows. The primary use of cash was the payment of dividends in the amount of \$2.5 million and the repayment of term debt in the amount of \$2.5 million related primarily to rental equipment fleet financing. In addition, the Company received \$528 thousand from its deposits with John Deere.

## CONTRACTUAL OBLIGATIONS

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

\$ in thousands	Total	Due 2012	Due 2013 through 2015	Due 2016 through 2017	Due thereafter
Long-term debt	8,018	3,275	4,743	-	-
Notes payable	7,965	2,722	5,243	-	-
Operating leases	22,519	4,637	10,585	3,924	3,373
Total contractual obligations	38,502	10,634	20,571	3,924	3,373

## CAPITAL RESOURCES

We use our capital to finance our current operations and growth strategies. Our capital consists of both debt and equity and we believe the best way to maximize our 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 March 31, 2011 are as follows:

In \$ thousands	Total amount	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	16,461	1,461	2,400	12,600
Term loans	1,813	313	-	1,500
Floor plan facilities and rental equipment term loan financing	180,900	62,981	-	117,919
Total	199,174	64,755	2,400	132,019

We believe that the credit facilities available to the Company and outlined above are sufficient to meet our market share targets for 2011.

## OPERATING AND OTHER BANK CREDIT FACILITIES

Operating and other bank credit facilities include both the Canadian and New Zealand amounts. The borrowings of \$1.5 million represent the Company's advances from its New Zealand bank. We believe that the credit facilities available to the Company and outlined above are sufficient to meet our market share targets for 2011.

## OPERATING AND OTHER BANK CREDIT FACILITIES

Operating and other bank credit facilities are discussed above in the liquidity risk section.

## TERM LOANS

The Company also has two term loans with the bank, a committed reducing term facility and an uncommitted term facility. The committed reducing term facility was provided to the Company in 2005 as part of a business acquisition in the original amount of \$5.0 million. The facility requires principal repayments of \$104 thousand per month plus interest and its balance at March 31, 2011 is \$313 thousand which has subsequently been repaid in full. The uncommitted term facility amounts to \$1.5 million and is provided for the purchase of capital assets. As at March 31, 2011, no amounts had been drawn on this facility.

## FLOOR PLAN FACILITIES

Floor plan payables consist of financing arrangements for the Company's inventories and rental equipment financing with John Deere Limited, John Deere Financial, GE Canada Equipment Financing G.P., General Electric Canada Equipment Financing G.P., GE Commercial Distribution Finance Canada, Textron Financial, US Bank and Royal Bank. At March 31, 2011, floor plan payables related to inventories were \$55.0 million (December 31, 2010 - \$44.2 million) and rental equipment term loan financing was \$7.5 million (December 31, 2010 - \$9.4 million). Floor plan payables at March 31, 2011 and December 31, 2010 represented approximately 50% and 45% of our inventories, respectively. 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 to the Company by its key suppliers.

## OUTSTANDING SHARE DATA

As of the date of this report, there are 14,647 thousand common shares, 33 share options, and 424 deferred shares outstanding. As at March 31, 2011 and 2010, the Company had the following weighted average shares outstanding:

In thousands	March 31, 2011	March 31, 2010
Basic weighted average number of shares outstanding	14,201	14,150
Dilutive impact of deferred share plan	424	316
Dilutive impact of share options	29	18
Diluted weighted average number of shares outstanding	14,654	14,484

Also, as at March 31, 2011 and as part of the ARW acquisition, the Company has 425 thousand series 1 preferred shares with a 7% cumulative dividend rate, redeemable and retractable when certain conditions are met. On April 6, the preferred shares, together with cumulative dividends of \$78 thousand were redeemed for 432,836 common shares of the Company.

## 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 and/or payable for the three month period ended March 31, 2011 (\$ thousands, except per share amounts):

Record Date	Dividend per Share	Dividend Payable	Dividends Reinvested	Net Dividend Paid
March 31, 2011	0.18	2,556	159	2,397
Preferred shares		78	-	78
<b>Total dividends/distributions</b>		<b>2,634</b>	<b>159</b>	<b>2,475</b>

Cash dividends are paid quarterly and are paid on or about the 15<sup>th</sup> day of the month following the record date. As of the date of this report, all common share dividends as described above were paid and the preferred share dividends were converted into common shares as explained above.

## DIVIDEND REINVESTMENT PLAN (“DRIP”)

The DRIP was implemented to allow shareholders to reinvest monthly dividends into additional Cervus shares. Shareholders who elect to participate will see their periodic cash dividends 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 may 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.

## TAXATION

Cervus' dividends to March 31, 2011 are considered to be eligible dividends for tax purposes on the date paid.

## CAUTIONARY NOTE REGARDING DIVIDENDS

The payment of future dividends are not assured and may be reduced or suspended. Our ability to continue making cash dividend payments and the actual amount paid 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 common shares may decline if we were 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.

## OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we enter into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants, and service agreements. We have also agreed to indemnify our general partner's directors, officers, and employees in accordance with our limited partnership agreement 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 March 31, 2011, payments in arrears by such customers aggregated \$174 thousand. In addition, the Company is responsible for assuming all lease obligations held by its customers with Deere Credit, Agrifinance and Roynat Lease Finance for the net residual value of the lease outstanding at the maturity of the contract. At March 31, 2011, the net residual value of such leases aggregated \$57.4 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 owes 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 may arise related to these arrangements is limited to the deposits of \$1.2 million at March 31, 2011. Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the Company. During the three month period ended March 31, 2011, the Company received \$527 thousand of excess amounts.

As part of the business acquisition in 2009 of Ranchers and the 2010 investment in Agriturf, the Company issued irrevocable standby Letters of Credit to John Deere Limited (“JDL”) in the amount of \$1.5 million and \$900 thousand respectively. The Letters of Credit were issued in accordance with the dealership arrangement that would allow JDL to draw upon the letter of credit if the Company was in default of any of its obligations to JDL. Also, the Company's foreign subsidiary, Agriturf, has \$170 thousand of financial guarantees issued for the purposes of providing financial guarantees to creditors and for a bankcard facility.

## 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, 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. In addition, no directors or executive officers are part of the share option plan.

The remuneration of key management personnel and directors during the three month period ended March 31 was:

	2011		2010
Short-term benefits	\$ 318	\$	402
Share-based payments	30		30
	\$ 348	\$	432

### KEY MANAGEMENT PERSONNEL AND DIRECTOR TRANSACTIONS

Key management and directors of the Company control approximately 34% of the common voting shares of the Company.

During the three months ended March 31, 2011, the Company transacted in the normal course of business, \$9 thousand (2010 - \$16 thousand) of parts and service sales with a company controlled by a Director.

### OTHER RELATED PARTY TRANSACTIONS

The CEO of the Company is the CEO of Proventure Income Fund (the "Fund"). He is also the single largest equity holder of the Company and the Fund. It must be noted that the Company and the Fund share a common board of directors. In addition to transactions discussed elsewhere in these financial statements, the Company had the following transactions with the Fund which are in the normal course of business and are recorded at fair value which is the amount agreed to between the two parties:

	2011		2010
Expenses:			
Real estate leases	\$ 736	\$	657
Guarantee fees	\$ 21	\$	21
Revenue:			
Management fees for administration	\$ 8	\$	8
Interest on advances	\$ 22	\$	17

The Company receives \$2.5 thousand per month to carry out all administrative and management tasks related to the Fund's operations.

The Company pays a guarantee fee to the Fund equal to 3% per annum for the guaranteed amounts that the Fund has provided to John Deere. This guarantee is a result of guarantees provided to John Deere prior to the establishment of the Fund and for which John Deere has not yet released the Fund from the contractual obligation. At March 31, 2011 and 2010, the Fund has outstanding guarantees with John Deere aggregating \$2,750 thousand.

Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating \$6,400 thousand. During the three month period ended March 31, 2011 and 2010, the Company paid those individuals \$192 thousand for providing these guarantees. These transactions were recorded at the amount agreed to between the Company and the guarantors and are included in selling, general and administrative expense.

## CRITICAL ACCOUNTING ESTIMATES

Preparation of audited consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the audited consolidated financial statements. Our significant accounting estimates include estimating bad debts on accounts receivable; amortization of intangible assets and property, plant, and equipment; the fair value of assets and liabilities acquired in business combinations; estimated impairment of long-lived assets; the fair value of share-based awards; the fair value of reporting shares for goodwill impairment testing purposes; and estimates of various taxation matters. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results.

### PROVISION FOR DOUBTFUL ACCOUNTS RECEIVABLE

We perform ongoing credit evaluations of our customers and grant credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. Our history of bad debt losses has been within expectations and is generally limited to specific customer circumstances. However, given the cyclical nature of the agricultural business in which many of our customers operate, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

### DEPRECIATION AND AMORTIZATION OF INTANGIBLE ASSETS AND PROPERTY AND EQUIPMENT

Our intangible assets and property, plant, and equipment are depreciated and amortized based upon estimated useful lives and salvage values. We review our historical experience with similar assets to ensure that these amortization rates are appropriate. However, the actual useful life of the assets may differ from our original estimate due to factors such as technological obsolescence and maintenance activity.

### FAIR VALUE OF INVENTORIES

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

### FAIR VALUE OF ASSETS AND LIABILITIES ACQUIRED IN BUSINESS COMBINATIONS

The value of acquired assets and liabilities on the acquisition date require the use of estimates to determine the purchase price allocation. Estimates are made as to the valuations of property, plant, and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant, and equipment and intangible assets acquired, we rely on independent third party valuations.

## ASSET IMPAIRMENT

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

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the reporting share to the estimated fair value to ensure that the fair value is greater than the carrying value. We arrive at the estimated fair value of a reporting share using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including future revenue growth, expected earnings, and earnings multiples. Estimating the fair value of a reporting share 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.

## TAXATION MATTERS

Income tax provisions, including current and future income tax assets and liabilities, may 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. Although there are tax matters that have not yet been confirmed by taxation authorities, we believe that the provision for the Company's income taxes is adequate.

## FAIR VALUE OF SHARE-BASED AWARDS

The fair value of share options granted is determined at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. Because changes in subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a single reliable measure of the fair value of our share options granted.

## IFRSS CHANGES

At the date of authorization of these financial statements, the following standards and interpretations were issued but not yet effective.

Conceptual Framework for Financial Reporting	Issued	Effective Date
IFRS 1 First-time Adoption of International Financial Reporting Standards – Amendments regarding <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ” to provide guidance for entities emerging from severe hyperinflation and to provide relief for first – time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs.	December 2010	Annual periods beginning on or after July 1, 2011
IFRS 7 Financial Instruments: Disclosures – Amendments to enhance the disclosure requirements for transfers of financial assets that result in derecognition.	October 2010	Annual periods beginning on or after July 1, 2011
IFRS 9 Financial Instruments – Amendments to provide guidance on the classification and reclassification of financial liabilities, their measurement and the presentation of gains and losses on financial liabilities designated at fair value through profit and loss.	October 2010	Annual periods beginning on or after January 1, 2013
IAS 12 Income Taxes – Amendments regarding <i>Deferred Tax: Recovery of Underlying Assets</i> to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model .	December 2010	Annual periods beginning on or after January 1, 2012

The above revisions to IFRSs will not have a material impact on the Company’s financial statements.

## BUSINESS RISKS AND UNCERTAINTIES

### RELIANCE ON OUR KEY MANUFACTURERS AND DEALERSHIP ARRANGEMENTS

Cervus’ primary source of income is from the sale of farm and construction equipment and products and services pursuant to agreements to act as an authorized dealer. The agreement with 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 Company also has dealership agreements in place with Bobcat, JCB, Clark, Sellick, Nissan, and Doosan. These agreements are one or two year agreements and are normally renewed annually, except for unusual situations such as bankruptcy or fraud.

The success of our dealership 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 suppliers. There can be no guarantee that circumstances will not arise which gives these equipment manufacturers the right to terminate their dealership agreements.

## DEPENDENCE ON INDUSTRY SECTORS

Authorized John Deere agricultural dealerships sell John Deere agricultural and lawn and garden products and equipment. The majority of sales are derived from the agricultural sector. Consequently, grain and livestock prices, weather conditions, Canadian vs. U.S. currency exchange rates, interest rates, disease, Canadian and U.S. government trade policies and customer confidence have an impact on demand for equipment, parts and service.

The retail farm 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, Case, Kubota and New Holland dealerships that may be located in and around communities that the Company’s dealerships are located. Presently, 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 manufacture high quality, competitively priced products or maintain its market share in the future.

We have mitigated these risks by geographical diversification in Western Canada within the agricultural sector and industry diversification into the construction sector in Alberta.

The construction equipment group sells light and medium construction equipment and is comprised of several lines of equipment from two major manufacturers, Bobcat and JCB. The major competitors are Caterpillar, Komatsu, CNH (Case), John Deere, Volvo, Hitachi and Liebherr. The light and medium construction equipment market is very much dependent upon residential construction of new housing. Over the past few years the residential construction markets in Alberta have been very strong, however we have seen reductions in this market beginning in 2008 and carrying through 2010. However based on CMHC’s first quarter housing report, the 2011 market appears to be somewhat improving and we expect this to have a positive impact on our 2011 operating results for our construction equipment segment.

The industrial equipment group sells material handling equipment from several manufacturers, Clark, Sellick, Nissan, and Doosan being the major suppliers. Their major competitors are Toyota, Hyster, and Caterpillar. The materials handling equipment is primarily sold to oilfield supply companies, building supply companies, warehousing, food processors, and the grocery industry. This customer diversity mitigates to some degree the risks inherent in any one of these customer segments. However, this group has been impacted negatively by the general slowdown in the oil and gas and building sectors.

Presently the majority of the construction and industrial equipment division’s revenue is derived from the sale of Bobcat, JCB, Doosan, Nissan, Clark and Sellick equipment and products. All these equipment manufacturers have established themselves as industry leaders in the Western Canada market for the manufacture and delivery of light construction and industrial equipment. There can be no assurance however that these suppliers will continue to manufacture high quality, competitively priced products or maintain its market share in the future.

## OTHER RISKS

Although the Company has conducted investigations of, and engaged legal counsel to review, the corporate, legal, financial and business records of Vasogen, there may be liabilities and risks that the Company did not uncover in its due diligence investigation and that these liabilities and risks could have individually or in the aggregate, a material adverse effect on the business, financial condition and results of operations of Cervus.

The steps under the plan of arrangement, pursuant to which the corporate conversion was completed, were structured to be tax-deferred to the Company and the Company’s shareholders based on certain rules under the Income Tax Act (Canada). There is a risk that the tax consequences contemplated by the Company or the tax consequences of the plan of arrangement to the Company and the shareholders may be materially different from the tax consequences anticipated by the Company in undertaking the conversion. While the Company is confident in its current position, there is a risk that the Canada Revenue Agency could successfully challenge the tax consequences of the plan of arrangement or prior transactions of Vasogen. Such a challenge could potentially affect the availability or amount of the tax basis or other tax accounts of Cervus.

# INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the periods in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. All control systems by their nature have inherent limitations and, therefore, the Company's DC&P are believed to provide reasonable, but not absolute, assurance that the objectives of the control systems are met. The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian IFRS.

Although DC&P and ICFR were in place as of March 31, 2011, the Company was not required to evaluate the effectiveness of DC&P and ICFR, as the Company only became a reporting issuer in January 2011. Management will be required to certify the design of the Company's DC&P and ICFR as of June 30, 2011, and will be required to certify the effectiveness of DC&P and ICFR as of December 31, 2011. The evaluation of ICFR will be based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations. Cervus is in the final stages of completion of the project to support the certification of the design of DC&P and ICFR, and will continue to work to complete the project to support the certification of effectiveness by December 31, 2011.

It should be noted that while the Company's management including the Chief Executive Officer and Chief Financial Officer believe that the Company's ICFR and DC&P provide a reasonable level of assurance that they are effective, they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## NON-IFRS 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 net earnings 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 earnings 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:

**EBITDA**; is defined as earnings before interest, taxes, depreciation, and amortization. We believe, in addition to net earnings, 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.

**EBITDA margin**; EBITDA margin is calculated as EBITDA divided by revenue.

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

**Senior debt to EBITDA**; senior debt to EBITDA ratio is defined as all interest bearing indebtedness for borrowed money, interest bearing liabilities, capital lease obligations, vendor take back agreements but excluding accounts payable, floor plan financing arrangements, subordinated related debt and other short-term non-interest bearing liabilities and future income taxes divided by EBITDA.