

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CERVUS EQUIPMENT CORPORATION

FOR THE PERIOD FROM JANUARY 1, 2011 TO JUNE 30, 2011

The following Management's Discussion & Analysis ("MD&A") was prepared as of August 9, 2011 and is provided to assist readers in understanding Cervus Equipment Corporation's ("Cervus" or "Company") financial performance for the three and six month periods ended June 30, 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 June 30, 2011 and the notes contained therein. The accompanying interim unaudited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("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 IFRS 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 and six month period ended June 30, 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 Income Taxes and Summary of Quarterly Results sections of this MD&A, including reconciliations between previous IFRS 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 our June 30, 2011 MD&A we discuss 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 as of June 30, 2011 on July 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

The most recent data from the Association of Equipment Manufacturers (“AEM”) regarding Canada Unit Retail Sales for new equipment sales for the first six months of the year is showing total farm tractors sales have increased by 2.3% and self-propelled combine sales have increased of 8.8% from the same period in 2010. This appears to be consistent with the Company’s results for the first six months of 2011 with the exception of harvest equipment which is related to the timing of equipment arrivals from our OEM’s.

Significant rainfall has been experienced in western Canada during the spring planting season, primarily in central east and south east Saskatchewan, and Manitoba. Moisture levels have been good in Alberta and have had a positive impact on haying operations as well as pasture growth.

The moisture issues in Saskatchewan did not have a direct impact on Cervus’ sales territories, but may have a material impact on the sales and operations of Maple Farm Equipment Partnership (“Maple”) in which Cervus has a 20% ownership interest. Therefore, future earnings from the partnership may be lower than originally expected or earned in past periods.

### CONSTRUCTION AND INDUSTRIAL EQUIPMENT

In their second quarter 2011 Housing Outlook, Canada Mortgage and Housing Corporation (“CMHC”) is forecasting a 5% decline in housing starts for 2011 when compared to 2010; however it is estimating an increase of 13% in 2012 when compared to 2011.

The segment is experiencing an increase in sales activity from the lows reported in 2009, however, the activity is primarily coming from the oil and gas sector. This is supported by the Government of Alberta July economic spotlight which indicated that oil and gas investment would increase by 18% in 2011. In addition, the segment is experiencing certain delays in the delivery of its equipment from its OEM’s out of the United States. Due to the economic downturn experienced in the past couple of years, the OEM’s have not brought their capacity up to meet the current demands being experienced in the industry. This appears to be a common factor throughout the industry and therefore future sales may be impacted, though management believes not materially by these delays.

## OVERALL

As described above, market indicators in our agriculture segment, combined with increased oil and gas activity in Alberta, suggest healthy unit sales for the remainder of 2011 in both our operating segments. Moisture conditions in parts of Saskatchewan and Manitoba will not directly impact Cervus' territories but will most likely impact the results reported by Cervus from our investment in Maple. Based on the results being experienced by the construction and industrial equipment segment through the first six months of 2011, it appears that improvement in the industry is occurring.

## HIGHLIGHTS OF THE QUARTER

- Gross revenue increased by \$19.2 million or by 15% to \$147.1 million for the second quarter of 2011 over \$127.9 million reported in the second quarter of 2010. Same store sales accounted for \$13.5 million or 10.5% of the increase.
- Net profit for the period increased by \$2.4 million or 76% to \$5.7 million for the second quarter of 2011 from \$3.3 million reported in the second quarter of 2010.
- EBITDA ("see Non-IFRS Financial Measures") increased by \$3.1 million or 41% to \$10.7 million in the second quarter of 2011 from \$7.6 million reported in the same period of 2010.
- Cervus ranked 324th out of 1000 in The Globe and Mail's Top 1000 which ranks Canadian companies based on profit.
- Cervus ranked 434th out of 500 in the Financial Post Magazine's 2011 listing of Canada's 500 Largest Corporations 2011 based on gross revenue.

## OVERALL PERFORMANCE

During the three month period ended June 30, 2011, revenue increased by \$19.2 million (\$11.6 million for our agricultural equipment segment and \$7.6 million for our construction and industrial equipment segment) to \$147.1 million from \$127.9 million, an increase of 15.0%. Same store revenue increased \$13.5 million or 10.5%. Our agricultural equipment segment remained strong and reported an increase in gross revenue of \$11.6 million (same store \$6.0 million or 5.7%) and our construction and industrial equipment segment reported an increase in gross revenues of \$7.5 million or 26.0%.

For the three month period ended June 30, 2011, overall gross margin increased to 18.9% from 17.3% reported in the same period of 2010, an increase in the margin of 1.6 basis points. The increase in our gross margin was primarily led by an increase in our gross profit margin being experienced on our used equipment sales. Used equipment margins were lower in 2010 due to used equipment sent to auction.

The increase in our sales, combined with an overall increase in our gross profit margins, resulted in an increase in our net profit. Selling, general and administrative expenditures remained consistent as a percentage of sales during the 2nd quarter of 2011 when compared to the same period of 2010.

## SELECTED QUARTERLY INFORMATION

\$ thousands, except per share amounts	Three Months Ended			Six Months Ended		
	June 30, 2011	June 30, 2010	% change	June 30, 2011	June 30, 2010	% change
Revenues	147,091	127,927	15.0	231,364	195,128	18.5
Gross profit	27,808	22,190	25.3	45,903	37,462	22.5
Gross margin	18.9%	17.3%	9.2	19.8%	19.2%	3.1
Net profit	5,730	3,254	76.1	5,576	2,641	111.1
Net profit attributable to shareholders	5,912	3,254	81.7	5,855	2,641	121.7
Per share - Basic	0.40	0.23	73.9	0.39	0.19	115.8
Per share - Diluted	0.39	0.22	77.2	0.38	0.18	116.7
Cash provided by (used in) operating activities	7,243	4,166	73.9	7,768	1,352	474.6
Per share - Basic	0.50	0.29	72.4	0.54	0.10	440.0
EBITDA <sup>1</sup>	10,687	7,561	41.3	12,824	8,761	46.4
EBITDA margin <sup>1</sup>	7.3%	5.9%	23.7	5.5%	4.5%	22.2
Per share - basic	0.73	0.53	37.7	0.89	0.62	43.5
Dividends declared to shareholders	2,637	2,550	3.4	5,194	5,097	1.9
Per share	0.18	0.18	-	0.36	0.36	-
Weighted average shares outstanding						
Basic	14,618	14,162	3.2	14,410	14,156	1.8
Diluted	15,074	14,504	3.9	14,865	14,500	2.5
Actual shares outstanding				14,649	14,164	3.4
Closing market price per share				17.00	10.65	59.6
Total assets				278,407	260,733	6.8
Long-term liabilities				7,767	10,767	(27.9)
Total liabilities				103,899	93,737	10.8
Shareholders' equity				174,933	166,996	4.7
Net book value per share - diluted				11.76	11.52	2.1

Notes: (1)

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

# RESULTS OF OPERATIONS

## REVENUES

\$ thousands	Three Months Ended			Six Months Ended		
	June 30, 2011	June 30, 2010	% change	June 30, 2011	June 30, 2010	% change
Revenues by segment:						
Equipment	91,406	83,815	9.9	133,882	117,733	13.7
New	58,980	57,694	2.2	84,991	78,582	8.2
Used	32,426	26,121	24.1	47,589	39,151	21.6
Parts	11,653	8,937	30.4	19,667	15,242	29.0
Service	6,852	5,890	16.3	12,151	9,919	22.5
Rental and other	699	335	108.7	1,302	395	229.6
<b>Agricultural equipment</b>	<b>110,610</b>	<b>98,977</b>	<b>11.7</b>	<b>165,700</b>	<b>143,289</b>	<b>15.6</b>
Equipment	23,191	16,982	36.6	39,304	29,158	34.8
New	20,587	14,961	37.6	34,293	24,829	38.1
Used	2,604	2,021	28.8	5,011	4,329	15.8
Parts	6,519	5,465	19.3	13,134	10,674	23.0
Service	4,769	4,531	5.3	9,390	8,389	11.9
Rental and other	2,002	1,972	1.5	3,836	3,618	6.0
<b>Construction and industrial equipment</b>	<b>36,481</b>	<b>28,950</b>	<b>26.0</b>	<b>65,664</b>	<b>51,839</b>	<b>26.7</b>
<b>Total</b>	<b>147,091</b>	<b>127,927</b>	<b>15.0</b>	<b>231,364</b>	<b>195,128</b>	<b>18.6</b>

## AGRICULTURAL EQUIPMENT

Revenue for our agricultural equipment segment increased by \$11.6 million (\$6.0 million or 5.7% on a same store basis) for the three month period ended June 30, 2011 when compared to the same period of 2010 and \$22.4 million year to date (\$11.3 million or 7.3% on a same store basis). Same store sales exclude the results of Agriturf which was acquired in July 2010.

New equipment sales increased by \$1.3 million (same store decreased by \$1.2 million or 2.2%) during the three month period ended June 30, 2011 when compared to the same period of 2010 and \$6.4 million (same store increased by \$1.4 million or 1.8%) year to date. Used equipment sales increased by \$6.3 million (same store increased \$5.4 million or 17.0%) for the three month period ended June 30, 2011 when compared to the same period of 2010 and increased \$8.4 million (same store increased \$7.0 million or 15.3%) year to date. The primary reason for the increase in same store sales was related to the timing of equipment arrivals from our OEM's and delivery to our customers as well as management's concerted efforts in marketing used equipment.

Our parts revenue has increased by \$2.7 million (same store increased \$1.5 million or 14.4%) during the three month period ended June 30, 2011 when compared to the same period of 2010 and increased \$4.4 million (same store increased \$2.0 million or 11.4%) year to date. Service revenue increased by \$962 thousand (same store increased \$176 thousand or 2.9%) for the three month period ended June 30, 2011 when compared to the same period of 2010 and \$2.2 million (same store increased \$570 thousand or 5.4%) year to date. The overall increase in parts and service sales was a combination of continued effort to market our products and services as well as parts and service required as a result of our increase in new and used equipment sales.

Rental revenue increased \$335 thousand (same store \$139 thousand) during the three month period ended June 30, 2011 and \$907 thousand (same store \$302 thousand) for the six month period ended June 30, 2011 when compared to the same periods of 2010. This increase is directly related to the purchase of Agriturf in July 2010.

## CONSTRUCTION AND INDUSTRIAL EQUIPMENT

Revenue from our construction and industrial segment increased by \$7.5 million for the three month period ended June 30, 2011 when compared to the same period of 2010 and increased \$13.8 million year to date.

New equipment sales increased by \$5.6 million during the three month period ended June 30, 2011 when compared to the same period of 2010 and \$9.5 million year to date. Used equipment sales increased by \$583 thousand for the three month period ended June 30, 2011 when compared to the same period of 2010 and increased \$682 thousand year to date. The increase in our new and used equipment sales is primarily due to the increased activity being experienced in the oil and gas sector of Alberta.

Parts revenues have increased \$1.1 million and service revenue has increased by \$238 thousand during the three months ended June 30, 2011 when compared to the same period of 2010 and parts revenue has increased \$2.5 million and service revenue has increased \$1.0 million year to date. The overall increase parts and service revenues are consistent with the increase in economic activity being observed in the oil and gas sector as well as customers completing their own service work, resulting in a greater increase in parts revenue compared to service revenue.

Rental income has not changed significantly over the three and six month periods ended June 30, 2011 when compared to the same period of 2010.

## GROSS PROFIT

Percentage	Three Months Ended			Six Months Ended		
	June 30, 2011	June 30, 2010	% change	June 30, 2011	June 30, 2010	% change
Gross profit by segment:						
Agricultural equipment	16.6%	14.8%	12.2	17.0%	16.1%	5.6
Construction and industrial equipment	26.0%	26.0%	-	27.1%	27.9%	(2.9)
<b>Total</b>	<b>18.9%</b>	<b>17.3%</b>	<b>9.2</b>	<b>19.8%</b>	<b>19.2%</b>	<b>3.1</b>

## AGRICULTURAL EQUIPMENT

Gross profit dollars increased \$3.7 million (same store increased \$2.7 million or 12.0%) during the three month period ended June 30, 2011 when compared to the same period of 2010 and \$5.1 million (same store increased \$2.8 million or 12.4%) year to date.

The most significant factor affecting the combined gross profit margin has been from the segment's used equipment sales which was primarily lower in 2010 due to the liquidation of used equipment through auction in the second quarter of 2010.

## CONSTRUCTION AND INDUSTRIAL EQUIPMENT

Gross profit dollars have increased by \$1.9 million during the three month period ended June 30, 2011 when compared to the same period of 2010 and increased \$3.3 million year to date. The overall increase in gross margin dollars is directly related to the increase in gross sales activity as there have been nominal changes in the gross margin overall.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

\$ thousands	Three Months Ended			Six Months Ended		
	June 30, 2011	June 30, 2010	% change	June 30, 2011	June 30, 2010	% change
Selling, general and administrative expenses by segment:						
Agricultural equipment	12,647	10,719	18.0	23,611	19,777	19.4
Construction and industrial equipment	7,603	6,824	11.4	14,980	13,804	8.5
<b>Total</b>	<b>20,250</b>	<b>17,543</b>	<b>15.4</b>	<b>38,591</b>	<b>33,581</b>	<b>14.9</b>
% of revenue						
Agricultural equipment	11.4	10.8	5.6	14.2	13.8	2.9
Construction and industrial equipment	20.8	23.6	(11.9)	22.8	26.6	(14.3)
<b>Total</b>	<b>13.8</b>	<b>13.7</b>	<b>0.7</b>	<b>16.7</b>	<b>17.2</b>	<b>(2.9)</b>

### AGRICULTURAL EQUIPMENT

The agricultural equipment segment reported an increase in selling, general and administrative expenses of \$1.9 million (same store increased \$668 thousand or 3.4%) for the three month period ended June 30, 2011 when compared to the same period of 2010 and \$3.8 million (same store increased \$1.0 million or 5.2%) year to date. The increase in selling, general and administrative expenses overall is primarily caused by the purchase of Agriturf in July 2010 and the same store expenses have increased primarily due to a general increase in wages and benefits provided to employees and an increase in commissions due to higher sales volumes.

### CONSTRUCTION AND INDUSTRIAL EQUIPMENT

The construction and industrial equipment segment's selling, general and administrative expenses increased \$779 thousand for the three month period ended June 30, 2011 when compared to the same period of 2010 and \$1.2 million year to date. The primary reason for the overall increase in selling, general and administrative expenses was due to personnel costs which increased from a combination of general salary increases and additions to staff levels and an increase in commissions due to higher sales volumes.

## DEPRECIATION AND AMORTIZATION

Depreciation and amortization is presented separately as the amounts are included in selling, general and administrative expenses as shown above and for additional information purposes.

\$ thousands	Three Months Ended			Six Months Ended		
	June 30, 2011	June 30, 2010	\$ change	June 30, 2011	June 30, 2010	\$ change
Depreciation and amortization by segment:						
Agricultural equipment	843	560	283	1,682	1,058	624
Construction and industrial equipment	1,107	1,301	(194)	2,206	2,510	(304)
<b>Total</b>	<b>1,950</b>	<b>1,861</b>	<b>89</b>	<b>3,888</b>	<b>3,568</b>	<b>320</b>

### AGRICULTURAL EQUIPMENT

The agricultural equipment segment depreciation and amortization increased by \$283 thousand (same store increased \$52 thousand) during the three month period ended June 30, 2011 when compared to the same period of 2010 and increased \$624 thousand (same store increased \$143 thousand) year to date. The primary reason for the increase in depreciation and amortization was due to the business acquisition made in the third quarter of 2010 and a general increase in capital assets during the year.

### CONSTRUCTION AND INDUSTRIAL EQUIPMENT

The construction and industrial equipment segment reported a decrease of \$194 thousand for the three month period ended June 30, 2011 when compared to the same period of 2010 and a decrease of \$304 thousand year to date. The decrease in the segment's total depreciation and amortization is due to a combination of intangible assets that have been fully amortized and a reduction in the segment's rental fleet.

## FINANCE INCOME AND COSTS

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

Floor plan liabilities as a percentage of inventories at June 30, 2011 and 2010 were approximately 56% and 45% respectively.

Overall, the simple average interest rate for 2011 was 5.0% compared to 5.7% during 2010. 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 as well as the interest on notes payable for the purchase of ARW.

## INCOME TAXES

As at June 30, 2011, Cervus has the following tax pools available to be used in future periods:

	(\$ thousands)	
Carrying values in excess of tax values	\$	(3,751)
Non-capital losses carry-forward		50,173
Federal investment tax credits		12,746
Capital losses carried forward		19,336
Total estimated future tax asset		78,504
Less: valuation allowance for non-capital and capital losses carried forward		(19,336)
<b>Balance, June 30, 2011</b>	<b>\$</b>	<b>58,686</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.

Under previously reported Canadian GAAP, income tax expense represented a proportionate share of deferred credits used to offset the income tax expense that would normally be recorded, resulting in a lower than expected income tax expense. Under IFRS and as explained above, the deferred credits are recognized directly into equity resulting in future income tax expense being calculated and recorded at the Company's effective tax rate using the profit for the period. As a result, the 2010 quarterly income taxes previously reported under Canadian GAAP have been adjusted to reflect the higher tax expense amount recorded under IFRS and the quarterly impact for 2010 is as follows:

Income tax recovery (expense)	Previously Reported	Reversal of deferred credit	Movement of income taxes and deferred credits between periods	Net change in income taxes	Total Income Tax Recovery (Expense)
Quarter ending:					
March 31, 2010	\$ -	\$ -	236	\$ 236	\$ 236
June 30, 2010	(182)	(2,074)	288	(1,786)	(1,968)
September 30, 2010	(175)	(1,989)	(1,910)	(3,899)	(4,074)
December 31, 2010	(217)	(2,457)	1,386	(1,071)	(1,288)
	\$ (574)	\$ (6,520)	\$ -	\$ (6,520)	\$ (7,094)

## NET PROFIT AND COMPREHENSIVE INCOME

The Company has a foreign subsidiary, Agriturf, which upon consolidation, results in unrealized gains (losses) on currency translation of the financial statements of a foreign operation with a non-Canadian dollar as their functional currency. As a result, \$199 thousand has been recorded as other comprehensive income for the three month period ended June 30, 2011 and \$237 thousand year to date (\$nil for the three and six month periods ended June 30, 2010 as Agriturf was purchased in July 2010). This translation adjustment is the only difference between the profit for the period and total comprehensive profit for the three and six month periods ending June 30, 2011.

The profit for the period, excluding other comprehensive income and non-controlling interest for the three and six month periods ended June 30 is as follows:

\$ thousands	Three Months Ended			Six Months Ended		
	June 30, 2011	June 30, 2010	\$ change	June 30, 2011	June 30, 2010	\$ change
Net earnings by segment:						
Agricultural equipment	4,608	3,423	1,185	3,817	2,418	1,399
Construction and industrial equipment	1,122	(169)	1,291	1,759	223	1,536
<b>Total</b>	<b>5,730</b>	<b>3,254</b>	<b>2,476</b>	<b>5,576</b>	<b>2,641</b>	<b>2,935</b>
<b>% of revenue</b>						
Agricultural equipment	4.2	3.5		2.3	1.7	
Construction and industrial equipment	3.1	(0.6)		0.9	(1.6)	
<b>Total</b>	<b>3.9</b>	<b>2.5</b>		<b>2.2</b>	<b>5.2</b>	
<b>Net Earnings per share</b>						
Shares outstanding - basic (\$ thousands except per share amounts)	14,618	14,162		14,410	14,156	
Agricultural equipment	0.32	0.24		0.26	0.17	
Construction and industrial equipment	0.07	(0.01)		0.13	0.02	
<b>Total</b>	<b>0.39</b>	<b>0.23</b>		<b>0.39</b>	<b>0.19</b>	

The most significant contributing factor to our \$2.5 million and \$2.9 million increase in earnings during the three and six month period ended June 30, 2011 when compared to the same periods of 2010 was the increase in gross sales and gross profit margins.

## EBITDA (SEE NON-IFRS FINANCIAL MEASURES)

\$ thousands, except %	Three Months Ended			Six Months Ended		
	June 30, 2011	June 30, 2010	\$ change	June 30, 2011	June 30, 2010	\$ change
<b>EBITDA by segment:</b>						
<b>Agricultural equipment</b>						
Net earnings	4,608	3,423	1,185	3,817	2,418	1,399
Add:						
Interest	311	217	94	450	328	122
Income taxes	1,768	1,146	622	1,510	936	574
Depreciation and amortization	843	560	283	1,682	1,058	624
<b>Total</b>	<b>7,530</b>	<b>5,346</b>	<b>2,184</b>	<b>7,459</b>	<b>4,740</b>	<b>2,719</b>
<b>% of revenue</b>	<b>6.8</b>	<b>5.4</b>		<b>4.5</b>	<b>3.3</b>	
<b>Construction and industrial equipment</b>						
Net earnings (loss)	1,122	(169)	1,291	1,759	223	1,536
Add:						
Interest	211	217	(6)	446	491	(45)
Income taxes	717	822	(105)	954	796	158
Depreciation and amortization	1,107	1,301	(194)	2,206	2,510	(304)
<b>Total</b>	<b>3,157</b>	<b>2,171</b>	<b>986</b>	<b>5,365</b>	<b>4,020</b>	<b>1,345</b>
<b>% of revenue</b>	<b>8.7</b>	<b>7.5</b>		<b>8.2</b>	<b>7.8</b>	
<b>Total EBITDA</b>	<b>10,687</b>	<b>7,517</b>	<b>3,170</b>	<b>12,824</b>	<b>8,760</b>	<b>4,064</b>
<b>% of revenue</b>	<b>7.3</b>	<b>5.9</b>		<b>5.5</b>	<b>4.5</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 June 30, 2011, EBITDA increased by \$3.2 million or 2.2% of gross revenue reported for the period when compared to the three month period ended June 30, 2010 and increased \$4.1 million or 1.8% of gross revenue reported year to date when compared to 2010. The most significant factor contributing to the increase in EBITDA during the three and six month periods ended June 30, 2011 when compared to the same period of 2010 was the increase in net earnings reported in both segments.

## 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	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Revenues	147,091	84,273	109,542	164,461
Net profit (loss)	5,730	(155)	2,189	6,753
Basic earnings (loss) per share	0.39	(0.01)	0.15	0.48
Diluted earnings (loss) per share	0.38	(0.01)	0.15	0.47
Weighted average shares outstanding				
Basic	14,618	14,201	14,189	14,176
Fully diluted	15,074	14,654	14,616	14,517

\$ thousands, except per share amounts	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Revenues	127,927	67,201	84,239	121,195
Net earnings	3,254	(613)	(573)	8,745
Basic earnings (loss) per share	0.23	(0.04)	(0.04)	0.61
Diluted earnings (loss) per share	0.22	(0.04)	(0.04)	0.61
Weighted average shares outstanding				
Basic	14,162	14,150	14,138	14,117
Fully diluted	14,504	14,474	14,449	14,361

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 two 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.

As a result, the Company has recalculated reinvested deferred shares 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.

2. 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).

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

\$ thousands, except ratio amounts	June 30, 2011	December 31, 2010
Current assets	164,561	143,496
Total assets	278,407	260,760
Current liabilities	96,132	75,481
Long-term liabilities	7,767	11,692
Shareholders' equity	174,933	173,587
Working capital (see "Non-IFRS Financial Measures")	68,429	68,015
Working capital ratio (see "Non-IFRS Financial Measures")	1.7	1.9

## WORKING CAPITAL

Our working capital increased by \$414 thousand to \$68.4 million at June 30, 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 June 30, 2011 are described below.

The Company has available for its current use, \$16.2 million of operating credit facilities (\$15 million in Canada and NZ\$1.5 million in New Zealand). This is reduced by \$2.4 million for irrevocable letters of credit described below and NZ\$210 thousand of financial guarantees provided in New Zealand. Of the \$16.2 million available, NZ\$1.5 million has been drawn by our New Zealand subsidiary. In addition to the operating facilities, 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 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 \$15.3 million in cash and cash equivalents on hand at June 30, 2011 which consists of \$3.0 million in funds on deposit and \$12.9 million in money market funds and term deposits and is reduced by \$716 thousand of credit facilities drawn on by our foreign subsidiary, Agriturf. The money market funds and term deposit are available immediately upon request.

As at June 30, 2011, inventories had increased by \$16.9 million to \$114.7 million. Used equipment represents \$51.1 million (December 31, 2010 - \$45.8 million) of the equipment inventories and is represented by \$46.6 million in the agricultural equipment segment and \$4.5 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 six months of 2011 and fiscal 2010. This provides for less expensive new equipment, causing downward pressure on used equipment pricing. The Company believes that it has minimized the impact of the downward pressure by properly valuing current trade-ins. As at June 30, 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 \$33 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 June 30, 2011, a one percent increase or decrease in market interest rates would impact the Company's annual interest expense by approximately \$618 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 has established safety programs to help reduce these risks. 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 June 30, 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 increased by \$424 thousand to \$788 thousand at June 30, 2011 which represents approximately 2.5% of outstanding trade accounts receivable. No significant amounts were written-off during the three and six month periods ended June 30, 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 flow for the three and six month periods ended June 30 are as follows:

## OPERATING ACTIVITIES

Net cash from operating activities increased by \$3.0 million to \$7.2 million for the three month period ended June 30, 2011 when compared to the same period of 2010 and \$6.4 million to \$7.8 million for the six month period ended June 30, 2011 when compared to 2010. The primary reason for the increase in cash flows from operating activities was due to both an increase in net earnings of \$2.5 million and \$2.9 million and non-cash income taxes of \$517 thousand and \$733 thousand, respectively, for the three and six month period ended June 30, 2011 when compared to 2010. In addition, during the six month period ended June 30, 2010, the Company utilized additional cash resources to reduce floor plan liabilities which caused a net change in non-cash working capital to be \$2.6 million greater in 2010 than 2011.

## INVESTING ACTIVITIES

During the three and six month periods ended June 30, 2011, the Company used \$691 thousand and \$1.7 million respectively in net cash for investing activities. The most significant items during the three month period ended June 30, 2011 was the purchase of additional investments at equity of \$531 thousand, net of repayments (\$131 thousand for the six month period ended June 30, 2011) and the purchase of property and equipment of \$253 thousand (\$1.8 million for the six month period ended June 30, 2011).

## FINANCING ACTIVITIES

During the three and six month period ended June 30, 2011, financing activities used \$6.0 million and \$10.4 million respectively in net cash flows. The primary use of cash during the three month period ended June 30, 2011 was the payment of dividends in the amount of \$2.4 million (\$4.9 million for the six month period ended June 30, 2011) and the repayment of term debt in the amount of \$3.3 million (\$5.8 million for the six month period ended June 30, 2011).

## 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	4,580	2,121	2,459	-	-
Notes payable	7,929	2,621	5,308	-	-
Operating leases	21,327	4,417	10,212	3,587	3,111
Total contractual obligations	33,836	9,159	17,979	3,587	3,111

## 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 June 30, 2011 are as follows:

In \$ thousands	Total amount	Borrowings	Letters of Credit	Amount Available
Operating and other bank credit facilities	16,198	1,198	2,400	12,600
Term loans	1,500	-	-	1,500
Floor plan facilities and rental equipment term loan financing	176,900	64,050	-	112,850
Total	194,598	65,248	2,400	126,950

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

## OPERATING AND OTHER BANK CREDIT FACILITIES

Operating and other bank credit facilities include both the Canadian and New Zealand amounts. The operating facility borrowings of NZ\$1.5 million or \$1.2 million Canadian, 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 one term loan with the bank, an uncommitted term facility. The uncommitted term facility amounts to \$1.5 million and is provided for the purchase of capital assets. As at June 30, 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, TCF Commercial Finance Canada Inc., and US Bank. At June 30, 2011, floor plan payables related to inventories were \$64.1 million (December 31, 2010 - \$44.2 million) and rental equipment term loan financing was \$4.6 million (December 31, 2010 - \$9.4 million). Floor plan payables at June 30, 2011 and December 31, 2010 represented approximately 56% 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 14,660 thousand common shares, 99 thousand share options, and 424 deferred shares outstanding. As at June 30, 2011 and 2010, the Company had the following weighted average shares outstanding:

In thousands	June 30, 2011	June 30, 2010
Basic weighted average number of shares outstanding	14,410	14,156
Dilutive impact of deferred share plan	424	325
Dilutive impact of share options	31	19
Diluted weighted average number of shares outstanding	14,865	14,500

During the three months ended June 30, 2011, 425 thousand series 1 preferred shares, together with cumulative dividends of \$79 thousand were redeemed for 433 thousand 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 June 30, 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
June 30, 2011		2,637	178	2,459
Preferred shares		79	-	79
<b>Total dividends/distributions</b>		<b>5,272</b>	<b>337</b>	<b>4,935</b>

Cash dividends are paid quarterly and are paid on or about the 15th 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 June 30, 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 June 30, 2011, payments in arrears by such customers aggregated \$300 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 June 30, 2011, the net residual value of such leases aggregated \$59.9 million of which the Company believes are all recoverable.

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 \$1.3 million at June 30, 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 six month period ended June 30, 2011, the Company received \$363 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 \$168 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 and six month periods ended June 30 was:

(in \$ thousands)	Three month period ended		Six month period ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Short-term benefits	\$ 245	\$ 279	\$ 646	\$ 596
Share-based payments	30	22	61	43
	\$ 275	\$ 301	\$ 707	\$ 639

## 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 and six months ended June 30, 2011, the Company transacted in the normal course of business, \$513 thousand and \$522 thousand (2010 - \$43 thousand and \$59 thousand), respectively, 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:

	Three month period ended		Six month period ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Expenses				
Real estate rentals	\$ 615	\$ 677	\$ 1,351	\$ 1,334
Guarantee fees	21	21	41	41
Revenue				
Management fees	15	8	15	15
Interest on advances	22	15	44	31

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 June 30, 2011 and 2010, the Fund has outstanding guarantees with John Deere aggregating \$2.75 million.

Certain officers and dealer managers of the Company have provided guarantees to John Deere aggregating \$6,400 thousand. During the three and six month periods ended June 30, 2011 and 2010, the Company paid those individuals \$48 thousand and \$96 thousand, respectively, 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 goodwill for 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 Cash Generating Unit (“CGU”) to its estimated fair value to ensure that the fair value is greater than the carrying value. We arrive at the estimated fair value of a CGU 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 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.

## 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 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
IFRS 10	Consolidated Financial Statements, which provides guidance in replacing Standing Interpretations Committee 12, “Consolidation – Special Purpose Entities” and the consolidation requirements of IAS27, Consolidated and Separate Financial Statements. The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the whether to consolidate an entity.	May 2011	Annual periods beginning on or after January 1,2013
IFRS 11	Joint Arrangements which redefines joint operations and joint ventures and requires joint operations to proportionately consolidate and joint ventures to be accounted for under the equity method. Under IAS 31, joint ventures could be proportionately consolidated.	May 2011	Annual periods beginning on or after January 1,2013
IFRS 12	Disclosure of Interests in Other Entities outlines the required disclosures for interest in subsidiaries and joint arrangements. The new disclosures will require information that will enable financial statement users to evaluate the nature, risks and financial effects associated with an entity’s interest in subsidiaries and joint arrangements.	May 2011	Annual periods beginning on or after January 1,2013

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 second quarter housing report, the 2011 market estimate, though negative, appears to be an improvement over prior years and is expected to somewhat improve in 2012 and later years.

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 IFRS.

The Company's Chief Executive Officer and the Chief Financial Officer carried out an evaluation of the design of the Company's DC&P and ICFR as at June 30, 2011 pursuant to NI 52-109 and can certify that the design of the ICFR is reasonable and reliable and has been completed. Management 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 of the Treadway Commission. Cervus will continue to work to complete the evaluation of the effectiveness of DC&P and ICFR for certification 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 profit before interest, taxes, depreciation, and amortization. We believe, in addition to net profit, 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 gross 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.