

# **CERVUS LP**

## **Management's Discussion and Analysis**

**For the three and nine month periods ended September 30, 2009**

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The following Management's Discussion & Analysis ("MD&A") was prepared as of October 29, 2009 and is provided to assist readers in understanding Cervus LP's (the "LP" or "Cervus") financial performance for the three and nine month periods ended September 30, 2009 and significant trends that may affect future performance of the LP. This MD&A should be read in conjunction with the accompanying interim unaudited consolidated financial statements for the three and nine month periods ended September 30, 2009 and the notes contained therein. The accompanying interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the LP's reporting currency is the Canadian dollar. Cervus LP is a reporting issuer in the provinces of Alberta and British Columbia, Canada and its limited partnership units were traded on the TSX Venture Exchange under the symbol "CVL.UN". Due to the LP's change in organization as described below, the LP's limited partnership units have been exchanged for common shares of Cervus Equipment Corporation ("New Cervus") which are now traded under the symbol "CVL". Cervus Equipment Corporation is a reporting issuer in all provinces and territories."

Additional information relating to Cervus LP 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-GAAP financial measures to assist users in assessing Cervus LP's performance. Non-GAAP financial measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Non-GAAP Financial Measures".

### **Change of Organization**

On October 22, 2009, the LP completed a transaction with Vasogen Inc. ("Vasogen") which resulted in the LP converting to a publicly traded corporation. The transaction resulted in the unitholders of the LP becoming common shareholders of New Cervus. The cash consideration paid by the LP for the transaction was 7.5 million plus transaction costs estimated to be approximately \$925,000. The transaction has resulted in New Cervus increasing its tax basis by approximately \$71 million. In conjunction with the reorganization, each of the unitholders of the LP received three (3) common shares of New Cervus in exchange for each two (2) limited partnership units held.

Prior to the conversion, the consolidated financial statements included the accounts of the LP and its subsidiaries. After giving effect to the conversion, the consolidated financial statements will be prepared on a continuity of interest basis, which recognizes New Cervus as the successor entity to the LP. The continuity of interest basis requires that all comparative consolidated financial statement figures are those previously presented by the LP.

### **Future Dividends and Dividend Strategy**

New Cervus expects that due to the completion of the conversion from a limited partnership to a corporation, New Cervus will make quarterly dividend payments to shareholders of \$0.18 per share (\$0.72 per share on annualized basis) (see "Note Regarding Forward Looking Statements"). On an annualized basis, after adjustment for the 3 for 2 stock split, the anticipated quarterly cash dividend by New Cervus will be equal to the previous monthly cash distribution by the LP. It is not anticipated that Cervus will make any further monthly cash distributions. Investors are cautioned that the declaration of dividends is always at the discretion of the board of directors of New Cervus and the anticipated quarterly dividends may be increased, reduced or suspended at any time. New Cervus' dividend strategy is to provide stable dividends to shareholders while considering cash flow from operations, overall financial condition, financial leverage, working capital requirements, investment opportunities and regulatory restrictions.

### **Corporate Overview Changes**

In order to reflect its new corporate structure, New Cervus' disclosure and discussion of its businesses will be different than it was as a limited partnership. Important performance measures that will be used by management to evaluate the performance of New Cervus will primarily include "EBITDA" (see non-GAAP financial measures). We will carefully manage our cash flow and EBITDA to maximize our return to shareholders as we did as a limited partnership. The discussion of our business will focus on cash flow generated from operations along with the utilization of this cash flow to improve and grow our business as well as paying dividends to our shareholders.

### **Per unit data**

Readers are cautioned that due to the stock split mentioned above, all per unit amounts included in this report have been adjusted to reflect the three (3) common shares of New Cervus exchanged for each two (2) limited partnership units of the LP. All historical references to unit information have also been updated to reflect the stock split.

**Note Regarding Forward Looking Statements**

Certain statements contained in this MD&A including statements of information that contain terminology such as "anticipate", "believe", "intend", "expect", "may", "could", "will" and similar expressions constitute "forward-looking statements." All statements, other than statements of historical fact, that address activities, events, or developments that the Fund 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. A majority of the forward-looking statements are contained in the "Market Outlook" section of this MD&A and include statements regarding the affect on segment results of the late spring planting season and lack of moisture throughout parts of Western Canada and how this may affect crop yields as well as the reduction in North American unit sales and the volatility of the economy and its related impact on the construction equipment segment. 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 Uncertainties" and elsewhere in this MD&A as well as the risks identified in the LP's 2008 Annual Information Form. 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, the LP. 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 Outlook section of the MD&A we discuss that the current economic outlook and financial markets have had a material impact on the construction equipment gross revenues. The current market data provided by the Association of Equipment Manufacturers ("AEM") supports the decrease in results seen to September 30, 2009 and this, combined with lower oil prices and reduced capital investment in Alberta may cause the construction equipment segment's results to be materially impacted on a comparative basis into the near future.

We also discuss the impact of the changing U.S. dollar in our gross profit section where we discuss that as inventories purchased at lower exchange rates there may be downward pressure put on our gross profit margins in the fourth quarter of 2009 due to reduction in retail pricing with higher average cost inventories. This has not had an impact on the gross profit margins to September 30, 2009 however the strengthening Canadian dollar which has increased on an average basis from \$1.23 per U.S. dollar in January 2009 to \$1.08 per U.S. dollar in September 2009 indicates that this may be a possibility in the near future.

In the working capital section of the MD&A we discuss that we are not aware of any factors that will inhibit the LP's ability to generate sufficient cash resources to meet its short and long-term obligations. The LP has been strategically managing its floor plan financing as it relates to inventories. This was primarily done to receive a better return on our excess cash resources by paying off higher interest related floor plan debt than what the LP would receive had it invested these monies. The LP is confident that the cash and cash equivalents could be replaced if need be by re-financing current paid for inventories under our current floor plan arrangements or by selling the paid for whole-goods inventories. The LP has commenced financing some of these inventories and has increased its floor plan financing as a percentage of inventory to approximately 56% at September 30, 2009 compared to its lowest level at June 30, 2009 of 47%.

Also, in the liquidity risk section of the MD&A we discuss the challenges of borrowing money to finance existing operations and fund capital programs in the current capital market environment. Based on the LP's current debt agreements with its floor plan providers, our current aggregate facilities total approximately \$123 million and our current floor plans and term debt outstanding at September 30, 2009 with the providers of these facilities total \$54.4 million. This combined with the LP's cash and cash equivalents has led us to believe that our operations will not be materially impacted by these challenges.

## **Market Outlook**

### ***Agricultural equipment***

As discussed in the 2008 annual MD&A, the Association of Equipment Manufacturers ("AEM") forecasted machinery sales and component sales to remain strong on higher commodity prices relative to the last 5 year average. This combined with the reduction in input costs for 2009 and increasing demand for alternative energy supplies such as ethanol production, should result in stronger farm income. However, the most recent data from AEM regarding Canada Unit Retail Sales for new equipment is showing the following year to date results to September 2009: all categories of tractors are showing between 3% to 23% reductions from the same period of 2008 with an overall decrease of 22% year over year, and combines are showing an increase of almost 10% from the same period of 2008. This appears to be consistent with the LP's results for the nine month period ended September 30, 2009, however, the reduction in new tractor sales is offset by the increase in new combine sales and therefore, the agricultural equipment segment has maintained its 2009 gross revenues in comparison to 2008 on a same store basis with a majority of the same store sales increase being realized from used equipment sales. This is consistent with the segment's growing used equipment inventories caused by trade-ins on new equipment sales. We previously discussed that the late spring planting season and lack of moisture throughout parts of Western Canada may have delayed crop development and this combined with the risk of frost damage may result in a significant decline in yields and quality. Therefore, this may impact the segment's results in the fourth quarter of 2009 and impact its new equipment sales in 2010 through a reduction in early order program sales (see "Note Regarding Forward-Looking Statements").

### ***Construction equipment***

As discussed in our 2008 annual MD&A, Canada Housing and Mortgage Corporation ("CMHC") for the third year in succession, predicted housing starts across the Prairie Provinces were expected to fall by nearly one-third. According to their "Housing Market Outlook" released for the third quarter of 2009, provincial home builders need to adjust to the rise in completed unabsorbed units and weaker demand by reducing new house starts. Based on CMHC's forecast for Alberta, total housing starts are forecast to drop to 45% from the 2008 levels and have a moderate increase of 13% in 2010. Also, based on market information received from AEM to August 2009, North American unit sales within the construction segment's market area are down approximately 62% compared to 2008 total unit sales. In addition, with lower than expected oil prices, lower capital investment in drilling programs and the reduction in Alberta Oil Sands investment expected during 2009, it is not expected that the construction segment will rebound until the global economy begins to strengthen (see "Note Regarding Forward-Looking Statements").

As these forecasts indicate, the uncertain and volatile conditions affecting global financial markets makes it quite difficult to forecast market conditions for the construction equipment market and the corresponding impact this will have on our business for the remainder of 2009. We are therefore focusing our energies in this sector on cost containment, inventory control and other efficiencies.

## Highlights and Significant Events

- On October 22, 2009, the LP completed the conversion from a limited partnership to a corporation ("New Cervus") by way of a plan of arrangement for a total cost of approximately \$7.5 million plus transaction costs of approximately \$925 thousand.
- On September 10, 2009, the LP acquired all the net assets of Ranchers Supply Inc. ("Ranchers"), a John Deere and consumer products dealership with three (3) locations in Alberta and British Columbia for \$4.6 million.
- On September 10, 2009, the LP acquired all the issued and outstanding shares of 520781 Alberta Ltd., a private real estate company that owns the operating premises of Ranchers for \$3.5 million and intends to enter into an agreement with Proventure Income Fund, a related party, to sell those assets for \$3.5 million.
- Gross revenue has increased by \$14.4 million or 5.1% for the nine month period ended September 30, 2009 with our agricultural equipment segment increasing \$47.2 million or 23% and our construction equipment segment decreasing by \$32.8 million or 42% when compared to 2008.
- Same store sales in our agricultural equipment segment increased by \$11.7 million or 5.9%.
- The purchase of the John Deere dealership in September 2008 provided an increase in gross revenue in our agriculture segment of \$39.9 million for the nine month period ended September 30, 2009.
- Subsequent to September 30, 2009, New Cervus has purchased a 33.33% interest in a New Zealand company, Agriturf Limited ("Agriturf"). Agriturf's purpose is to consolidate John Deere dealerships on the North Island of New Zealand.
- On October 29, 2009, New Cervus entered into a binding letter agreement to purchase all the issued and outstanding shares of A.R. Williams Materials Handling for a purchase price of approximately \$23.7 million. It is anticipated that the proposed acquisition will close on January 1, 2010.

## Overall Performance

During the three month period ended September 30, 2009, revenue increased by \$13.6 million to \$121.2 million compared to \$107.6 million for the same period of 2008, an increase of 12.6%. The primary reason for the increase in gross revenue was a combination of same store agriculture dealerships which increased \$13.5 million, increase in gross revenue due to the addition of an agriculture equipment dealership in September 2008 which accounted for \$9.5 million and the \$9.4 million decline in gross revenue in our construction equipment segment. As discussed in our 2009 second quarter MD&A, the increase in same store revenues in our agriculture equipment segment was due primarily to the new equipment inventories that were delivered in the third quarter of 2009 to our customers.

For the three month period ended September 30, 2009, overall gross margin remained consistent at 19.2% from 19.4% for the same period of 2008, a decrease of 0.2%. The decrease in margin was a result of both changes in the sales revenue mix compared to 2008 as well as a reduction in gross margin on new and used equipment sales, led by the construction equipment segment, and offset by gross margin increases seen in our parts and service departments. In addition, our selling, general and administrative expenses have also increased to 11.3% of revenue for the three month period ended September 30, 2009 when compared to 10.7% for the same period of 2008. The increase in selling, general and administrative expense as a percentage of revenue has primarily been caused by the significant decrease in gross revenues reported in our construction equipment segment which the group continues to deal with, as well as continued increased expenditures being made in our sales and technician training programs and marketing programs.

During the three month period ended September 30, 2009, the LP provided \$17.1 million of cash flows from operating activities (\$1.21 per basic unit) when compared to \$10.9 million (\$0.79 per basic unit) for the three month period ended September 30, 2008. Cash flows from operating activities increased primarily due to a reduction in inventories and increase in overall floor plan payables in comparison to inventory balances for the three month period ended September 30, 2009. This was offset by an increase in accounts receivable with our manufacturers which were caused primarily by contracts in transit relating to sold machinery in the period.

Net earnings for the three months ended September 30, 2009 decreased by \$144 thousand to \$8.7 million with the agricultural equipment segment contributing \$8.3 million (an increase of 15% over \$7.2 million in 2008) and the construction equipment segment contributing \$430 thousand (a decrease of 74% or \$1.2 million from 2008). Revenues and earnings for the agriculture equipment segment are continuing to outperform the construction equipment segment, which had been anticipated due to stronger global grain commodity prices and farm income in contrast to the decreased housing and construction sectors of the Alberta economy.

EBITDA (see "Non-GAAP Financial Measures") decreased by \$138 thousand to \$10.1 million for the three month period ended September 30, 2009 when compared to \$10.2 million for the same period of 2008. The decrease is due primarily to a reduction in earnings of \$144 thousand.

### Selected Quarterly Information

\$ thousands, except per unit amounts	Three Months Ended			Nine Months Ended		
	Sep 30, 2009	Sep 30, 2008	% change	Sep 30, 2009	Sep 30, 2008	% change
Revenues	121,195	107,595	12.6	293,237	278,885	5.1
Gross profit	23,264	20,839	11.6	56,449	51,927	8.7
Gross margin	19.2%	19.4%	0.1	19.3%	18.6%	3.8
Net earnings	8,744	8,888	(1.6)	17,749	19,573	(9.3)
Per unit - Basic	0.62	0.64	(3.1)	1.26	1.53	(17.6)
Per unit - Diluted	0.61	0.63	(3.2)	1.24	1.52	(18.4)
Cash provided by (used in)						
operating activities	17,073	10,939	56.1	4,846	21,278	(77.2)
Per unit – Basic	1.21	0.79	53.2	0.34	1.67	(79.6)
EBITDA <sup>1</sup>	10,076	10,214	(1.4)	21,849	23,860	(8.4)
EBITDA margin <sup>1</sup>	8.3%	9.5%	(12.6)	7.4%	8.6%	(14.0)
Per Unit – basic	0.71	0.74	(4.1)	1.55	1.87	(17.1)
Distributions to general partner	90	107	(15.9)	154	148	4.1
Distributions declared to limited partners	2,542	2,541	-	7,607	6,957	9.3
Per unit	0.18	0.18	-	0.54	0.54	-
Weighted average units outstanding						
Basic	14,117	13,883	1.7	14,081	12,771	10.3
Diluted	14,361	14,003	2.6	14,337	12,897	11.2
Actual units outstanding				14,130	14,126	-
Closing market price per unit				9.27	9.47	(2.1)
Total assets				173,944	152,194	14.3
Long-term liabilities				2,596	6,485	(60.0)
Total liabilities				72,469	61,820	17.2
Unitholders' equity				101,475	90,374	12.3
Net book value per unit - diluted				7.08	7.00	1.1

Notes: (1) These financial measures are identified and defined under the section "Non-GAAP Financial Measures".

## Results of Operations

### Revenues

\$ thousands	Three Months Ended			Nine Months Ended		
	Sep 30, 2009	Sep 30, 2008	% change	Sep 30, 2009	Sep 30, 2008	% change
<b>Revenues by segment:</b>						
Equipment	86,558	66,690	29.8	203,849	165,939	22.8
<i>New</i>	47,087	34,160	37.8	124,632	104,889	18.8
<i>Used</i>	39,471	32,530	21.3	79,217	61,050	29.8
Parts	13,853	11,636	19.1	29,103	22,577	28.9
Service	6,148	5,255	17.0	15,461	12,746	21.3
Rental and other	123	133	(7.5)	284	247	15.0
<b>Agricultural equipment</b>	<b>106,682</b>	<b>83,714</b>	<b>27.4</b>	<b>248,697</b>	<b>201,509</b>	<b>23.4</b>
Equipment	8,683	16,648	(47.8)	27,322	57,284	(52.3)
<i>New</i>	7,293	14,701	(50.4)	22,084	51,050	(56.7)
<i>Used</i>	1,390	1,947	(28.6)	5,238	6,234	(16.0)
Parts	2,874	3,189	(9.9)	8,919	9,443	(5.5)
Service	1,616	2,161	(25.2)	4,917	5,889	(16.5)
Rental and other	1,340	1,883	(28.8)	3,381	4,760	(29.0)
<b>Construction equipment</b>	<b>14,513</b>	<b>23,881</b>	<b>(39.2)</b>	<b>44,539</b>	<b>77,376</b>	<b>(42.4)</b>
<b>Total</b>	<b>121,195</b>	<b>107,595</b>	<b>12.6</b>	<b>293,236</b>	<b>278,885</b>	<b>5.1</b>
<b>Revenue contribution</b>						
Agricultural equipment	88.0%	77.8%	13.1	84.8%	72.2%	17.5
Construction equipment	12.0%	22.2%	(45.9)	15.2%	27.8%	(45.3)

### **Agricultural equipment**

Revenue for our agricultural equipment segment increased by \$23.0 million for the three month period ended September 30, 2009 and \$47.2 million year to date when compared to the same period of 2008. Same store sales, which excludes the John Deere dealership purchased in 2008, increased by \$13.4 million for the three months ended September 30, 2009 and \$11.7 million year to date when compared to the same period of 2008. Sales continue to remain strong in the agriculture equipment segment due to strong balance sheet liquidity and revenue growth being experienced by our customers due to relatively strong commodity prices when compared to historic prices and reduced input costs being experienced in 2009 when compared to 2008.

New and other equipment sales increased \$12.9 million (same store increased \$9.5 million) during the three month period ended September 30, 2009 and increased \$19.7 million (same store increased \$1.1 million) for the first nine months of 2009 when compared to the same period of 2008. Used equipment sales have increased \$6.9 million (same store increased \$3.2 million) for the three month period ended September 30, 2009 and \$18.2 million year to date (same store increased \$1.7 million). Offsetting the increase in same store sales has been a reduction in our consumer products sales which have decreased \$1.1 million and \$3.1 million for the three and nine month period ended September 30, 2009. Another factor for the increase in our same store new equipment sales compared to 2008 is due in part to the timing of our new equipment delivery to our John Deere stores from our 2008 early order program and the eventual delivery to the customers which fluctuates from year-to-year. Used equipment sales have increased primarily due to demand caused by increased farmer cash flow and the increased availability of equipment for sale when compared to the first nine months of 2008 and a continued effort to re-sell trade-ins relating to the John Deere early order program.

Our parts and service revenue has increased by \$3.1 million (same store \$710 thousand) and \$9.2 million (same store \$3.0 million) respectively during the three and nine month periods ended September 30, 2009 when compared to the same periods of 2008. The increase in parts and service revenue is primarily related to the increased customer demand for parts, an increase in our used equipment sales which requires work to prepare used equipment for sale and our continuation of increasing our marketing efforts in our parts department to attract more customer business.

#### **Construction equipment**

Revenue from our construction equipment segment decreased by \$9.4 million (39%) and \$32.8 million (42%) for the three and nine month periods ended September 30, 2009 when compared to the same periods of 2008. The decrease in our revenues has been primarily caused by a reduction in our new equipment sales which accounted for \$7.4 million and \$29.0 million respectively in the three and nine month periods of 2009 when compared to 2008 and this represented a 57% reduction over the nine month period ended September 30, 2009 when compared to 2008. This reduction is a direct result of reduced housing starts in Alberta and a slow down being experienced in the oil & gas industry. As discussed above in the market outlook section, equipment unit sales for the construction segment overall market is down 62% based on year to date industry indicators to August 2009.

Parts and service revenues have decreased \$860 thousand (16.1%) and \$1.5 million (9.8%) for the three and nine month periods ended September 30, 2009 when compared to the same periods of 2008. The relatively low decline of parts and service revenue compared to the decrease of 57% in new equipment sales as mentioned above, is a continued result of strong unit sales in prior years which have increased the machine population for our aftermarket sales and support as well as the tightening economy that has seen customers extend the life of the equipment which has proportionately increased the demand for parts and service.

Rental revenue has decreased by \$543 thousand and \$1.4 million during the three and nine month periods ended September 30, 2009 when compared to the same periods of 2008. The decrease in rental equipment revenue is due primarily to the reduction in overall construction starts during 2009 whereas customers have required less additional equipment to complete ongoing construction contracts.

#### **Gross Profit**

<b>\$ thousands</b>	<b>Three Months Ended</b>			<b>Nine Months Ended</b>		
	<b>September 30, 2009</b>	<b>September 30, 2008</b>	<b>% change</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>	<b>% change</b>
Gross profit by segment:						
Agricultural equipment	18.7%	18.5%	1.1	18.7%	17.7%	5.6
Construction equipment	22.8%	22.4%	1.8	22.4%	20.9%	7.2
<b>Total</b>	<b>19.2%</b>	<b>19.4%</b>	<b>(1.0)</b>	<b>19.3%</b>	<b>18.6%</b>	<b>3.8</b>

***Agricultural equipment***

Gross profit dollars increased \$4.5 million and \$10.7 million (same store increased \$2.5 million and \$3.9 million) during the three and nine month periods ended September 30, 2009 respectively when compared to the same periods of 2008. Gross profit margin also increased overall by 0.2% to 18.7% for the three month period ended September 30, 2009 and 1.0% to 18.7% overall for the nine month period ended September 30, 2009 when compared to 2008.

Gross profit margin in the third quarter of 2009 has remained consistent with 2008 in our agriculture equipment sales departments with a minor decrease in our consumer products equipment department. The increase of 0.2% for the third quarter and 1.0% for the first nine months of 2009 has primarily been a result of increased gross profit margins being experienced in our parts and service departments. As explained in our 2009 first quarter MD&A, it was still possible that we would see a reduction in margins in the second and third quarters as our current inventories are sold and replaced with lower priced items from the strengthening Canadian dollar resulting at some point in downward pressure from the market (see "Note Regarding Forward-Looking Statements") however this has not materialized as yet. As the Canadian dollar has strengthened during the past nine months of 2009, this has resulted in lower cost parts and eventually lower retail pricing; however our historical parts inventories were purchased with a weaker Canadian dollar which in effect, should reduce our overall margins. Management is placing more effort on buying parts with higher discounts as well as reducing overall freight costs, and this combined with more dealer parts being sold in 2009 over 2008, has maintained and actually increased the overall margin in our parts department. Our service department gross profit margin has increased due to a continued effort by management to focus on efficiencies.

***Construction equipment***

Gross profit dollars have decreased by \$2.0 million and \$6.2 million during the three and nine month periods ended September 30, 2009 respectively when compared to the same periods of 2008. Gross profit margins have increased by 0.4% and 1.5% for the three and nine month periods ended September 30, 2009, respectively, when compared to the same periods in 2008. Though our gross profit percentage has increased, this increase is primarily related to the change in our overall sales mix and weighted average contribution of our products and services caused by higher gross margins reported in our parts and service departments which have not seen as dramatic a reduction in gross revenue as shown in our sales department.

The segment is experiencing tighter margins on new and used equipment sales from competitive market share pressures however, we have been able to respond by actually increasing the gross profit margin in our new and used equipment sales by effectively managing our inventories, ensuring properly priced used equipment taken on trade and by providing more value, not just pricing, to our customers which is a component of our new sales people training programs put in place during 2009. Margins have decreased in our parts department due to the strengthening Canadian dollar as described above. The service department has also experienced a decrease in gross profit margin as slowing markets has placed pressure on efficiencies, and as a result, management has been required to reduce the overall workforce in this department.

**Selling, General and Administrative Expenses**

\$ thousands	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	% change	September 30, 2009	September 30, 2008	% change
Selling, general and administrative expenses by segment:						
Agricultural equipment	11,014	7,945	19.0	28,458	21,636	27.4
Construction equipment	2,684	3,523	(16.9)	9,411	10,800	(7.6)
<b>Total</b>	<b>13,698</b>	<b>11,468</b>	<b>7.4</b>	<b>37,869</b>	<b>32,436</b>	<b>15.3</b>
% of revenue						
Agricultural equipment	10.3	9.5	10.3	11.4	10.7	5.2
Construction equipment	18.5	14.7	52.7	21.1	14.0	64.7
<b>Total</b>	<b>11.3</b>	<b>10.7</b>	<b>34.0</b>	<b>13.0</b>	<b>11.6</b>	<b>14.8</b>

**Agricultural equipment**

The agricultural equipment segment reported an increase in selling, general and administrative expenses of \$3.1 million for the third quarter of 2009 (same store \$2.1 million or 27%) when compared to the third quarter of 2008 and \$6.8 million (same store \$3.2 million or 15%) for the nine month period ended September 30, 2009 when compared to the same period of 2008. Contributing to the increase in selling, general and administrative expenses are the expenses associated with the new dealership purchased in September 2008.

The primary reason for same store selling, general and administrative expense increase in the third quarter and for the first nine months of 2009 was primarily a result of increased efforts in marketing expenses which have increased 18% over 2008 amounts to increase our after-market revenue potential and occupancy costs due primarily to both an increase in lease rates as well as repair and maintenance expense. In addition, personnel costs have increased 10% over 2008 year-to-date amounts and a combination of increased full-time equivalents as a result of increased activity, general increases in payroll costs for existing employees, increased training costs for our technicians and sales people and an increase in commissions as a percentage to sales due to the change in sales mix between new and used equipment revenues contributed to the increase.

**Construction equipment**

The construction equipment segment's selling, general and administrative expenses have decreased \$839 thousand (17%) and \$1.4 million (8%) for the three and nine month periods ended September 30, 2009 when compared to the same periods of 2008. The primary reason for the third quarter's reduction as compared to the prior year is that certain cost containment measures that were required due to the reduction in our overall sales volumes came into effect in the latter part of the first quarter and these are currently being realized through to the end of the third quarter of 2009. These reductions included personnel costs primarily from a reduction in administrative personnel, a reduction in commission expenses due to the reduction in equipment sales and a reduction in general operating expenses due to a focus on reducing discretionary expenses. The reductions have been offset in part by the continued investment by the group in training, including sales people and technicians which we believe is essential to continue to effectively operate in this new environment.

## Depreciation and amortization

\$ thousands	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	\$ change	September 30, 2009	September 30, 2008	\$ change
Depreciation and amortization by segment:						
Agricultural equipment	500	329	171	1,403	881	522
Construction equipment	613	821	(208)	2,006	2,286	(280)
<b>Total</b>	<b>1,113</b>	<b>1,150</b>	<b>(37)</b>	<b>3,409</b>	<b>3,167</b>	<b>242</b>

### Agricultural equipment

The agricultural equipment segment depreciation and amortization increased by \$171 thousand (same store \$66 thousand) during the third quarter of 2009 and \$522 thousand (same store \$199 thousand) for the nine month period ended September 30, 2009 when compared to the same periods of 2008. The primary factor for the increased depreciation and amortization was the amortization of other assets from the business acquisition made in 2008 which accounted for \$286 thousand of the \$522 thousand overall increase. Same store depreciation and amortization increased due to capital asset replacements and additions made during the past 12 months.

### Construction equipment

The construction equipment segment reported a decrease of \$208 thousand for the three month period ended September 30, 2009 and \$280 thousand year to date when compared to the same periods of 2008. The reduction in depreciation and amortization expense is a direct result of the group's efforts to reduce the rental equipment inventories over the past number of months, thereby reducing the depreciation and amortization charges recorded in cost of sales by \$209 thousand and \$300 thousand for the three and nine month periods ended September 30, 2009 when compared to the same periods of 2008.

## Interest

\$ thousands	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	\$ change	September 30, 2009	September 30, 2008	\$ change
Interest by segment:						
Agricultural equipment	122	22	100	399	548	(149)
Construction equipment	97	154	(57)	292	572	(280)
<b>Total</b>	<b>219</b>	<b>176</b>	<b>43</b>	<b>691</b>	<b>1,120</b>	<b>(429)</b>
<b>% of revenue</b>	<b>0.2</b>	<b>0.2</b>		<b>0.2</b>	<b>0.4</b>	

Interest expense is comprised primarily of the LP's financing of its short-term debt for floor-plan financing arrangements for equipment inventories and long-term debt related, primarily to short-term rental equipment. The LP has determined that excess cash resources should be used to reduce overall interest expense on the aforementioned financing and has primarily used the excess cash for the purchasing of certain equipment inventories during the first half of 2009 as the floor plan interest cost on a percentage basis is greater than the short-term investment opportunities available. Floor plan financing as a percentage of total inventories has increased to approximately 56% of inventories at September 30, 2009 when compared to 53% at December 31, 2008 and 56% at September 30, 2008. In addition, the LP has further reduced the overall rental equipment financed to 37% of rental equipment cost at September 30, 2009 from 45% at December 31, 2008 and 50% at September 30, 2008. Also, the LP is benefiting from a further reduction in the prime lending rate during the past 12 months where the prime lending rate has reduced from 4.75% at September 30, 2008 to 2.25% which was effective April 22, 2009.

**Income Taxes**

On October 22, 2009, the LP converted from a publicly traded limited partnership to a publicly traded corporation ("New Cervus") by way of a plan of arrangement with Vasogen for cash consideration of \$7.5 million. The transaction resulted in New Cervus increasing its tax basis by approximately \$71.4 million. New Cervus' calculation of current and future income taxes as shown below are based on the conversion to a corporate structure effective October 22, 2009, whereas New Cervus' calculation of current and future income taxes for the year ended December 31, 2008 and the first three quarters of 2009 are based on the LP being a publicly traded limited partnership. As such, no future income tax assets or liabilities have been recognized in prior periods as previously reported taxable income was allocated to the limited partners.

Future income taxes will be impacted by New Cervus' conversion to a corporation on October 22, 2009 for the impact of recording previously unrecognized future income tax assets and liabilities. The LP has estimated that the future income tax liability that will be recorded as an adjustment to equity on the date of conversion to be \$1.7 million and is comprised of a future income tax asset related to buildings and equipment of \$430 thousand and a future income tax liability related to other intangible assets of \$2.2 million. This is offset by the current future income tax liability recorded of approximately \$100 thousand.

The LP has estimated the tax pools available to be used in future periods based on the LP's conversion to a corporation and after giving effect to reducing those assets by the year-to-date taxable earnings of the limited partnership which will be reported as a flow-through amount to New Cervus, the LP has estimated the tax basis of the tax pools as follows at an overall effective rate of 26.2%:

		(\$ thousands)
Non-capital losses carry-forward, after giving effect to the LP's taxable income to the date of conversion	\$	51,035
Canadian scientific research expenditures		7,885
Investment tax credits		12,478
<b>Total estimated future tax asset</b>	<b>\$</b>	<b>71,398</b>

**Corporate Conversion Costs**

Corporate conversion transaction costs are estimated to be \$925 thousand of which \$757 thousand has been accrued and recorded in general and administrative expenses during the three month period ended September 30, 2009.

### Net Earnings and comprehensive income

The LP has no changes in net assets or equity from non-owner sources that would be considered as comprehensive income and therefore, net earnings and comprehensive income are the same.

\$ thousands	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	\$ change	September 30, 2009	September 30, 2008	\$ change
Net earnings by segment:						
Agricultural equipment	8,314	7,220	1,094	17,803	14,613	3,190
Construction equipment	430	1,668	(1,238)	(54)	4,960	(5,014)
Total	8,744	8,888	(144)	17,749	19,573	(1,824)
<b>% of revenue</b>						
Agriculture segment	8.1	8.6		8.8	7.3	
Construction segment	0.7	7.0		(0.1)	6.4	
Total	6.9	8.3		6.1	7.0	
<b>Net Earnings per unit</b>						
Units outstanding – basic (\$ thousands except per unit amounts)	14,117	13,883		14,081	12,771	
Agricultural equipment	0.59	0.52		1.26	1.14	
Construction equipment	0.03	0.12		-	0.39	
<b>Total</b>	0.62	0.64		1.26	1.53	

The most significant contributing factor to our \$144 thousand million decrease in earnings during the three month period ended September 30, 2009 was the reduction in earnings of our construction equipment segment which decreased \$1.2 million. This was somewhat offset by an increase in earnings from our third quarter acquisition in 2008 by our agriculture equipment segment.

### Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA")

\$ thousands	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2008	\$ change	September 30, 2009	September 30, 2008	\$ change
EBITDA by segment:						
Agricultural equipment	8,936	7,571	1,365	19,605	16,042	3,563
Construction equipment	1,140	2,643	(1,503)	2,244	7,818	(5,574)
Total	10,076	10,214	(138)	21,849	23,860	(2,011)
% of revenue	8.3	9.5		7.4	8.6	

EBITDA (see "Non-GAAP Financial Measures") 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 and nine month periods ended September 30, 2009, our EBITDA decreased by \$138 thousand or 0.1% of gross revenue and \$2.0 million or 0.7% of gross revenue respectively when compared to the same periods of 2008. The decrease in EBITDA can primarily be attributed to the reduction in net earnings that have primarily been caused by our construction segment results for the three and nine month periods ended September 30, 2009 when compared to the same periods of 2008.

**Summary of Quarterly Results**

\$ thousands, except per unit amounts	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Revenues	121,195	105,701	66,340	69,790
Net earnings	8,744	7,330	1,675	2,635
Basic earnings per unit	0.62	0.52	0.12	0.19
Diluted earnings per unit	0.61	0.51	0.12	0.19
Weighted average units outstanding -				
Basic	14,117	14,087	14,040	14,085
Fully diluted	14,361	14,258	14,190	14,147

  

\$ thousands, except per unit amounts	<b>September 30, 2008</b>	<b>June 30, 2008</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Revenues	107,595	112,626	58,664	59,790
Net earnings	8,888	8,444	2,241	755
Basic earnings per unit	0.64	0.70	0.20	0.07
Diluted earnings per unit	0.63	0.68	0.18	0.06
Weighted average units outstanding -				
Basic	13,883	12,102	11,274	11,478
Fully diluted	14,003	12,335	12,135	11,910

The financial data shown above has been prepared in accordance with Canadian Generally Accepted Accounting Principles.

Sales activity for the agriculture segment is normally highest between April and September during growing seasons in Canada. The construction 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. During the four quarters ending September 30, 2009, the LP reported 63% and of its revenues and recognized 79% of its net earnings for the period compared to 65% of its revenues and 85% of its net earnings for the same periods ending in 2008. These trends are supported by the seasonality of our business operations which consists of our agriculture and construction segments. Most of the activity surrounding agriculture in Western Canada is performed during the April to September period and a majority of our construction business is also performed during the same period. Changes in our construction revenues can fluctuate based on the amount of snowfall that is received during the period October through March and the need for snow removal equipment and services are required.

## Liquidity

<b>\$ thousands, except ratio amounts</b>	September 30, 2009	December 31, 2008	September 30, 2008
Current assets	140,974	113,918	121,428
Total assets	173,944	144,333	152,194
Current liabilities	69,873	49,440	55,336
Long-term liabilities	2,596	4,874	6,485
Unitholders' equity	101,475	90,019	90,374
Working capital	71,101	64,478	66,092
Working capital ratio (see "Non-GAAP Financial Measures")	2.02	2.31	2.19

### Working capital

Our working capital (see "Non-GAAP Financial Measures") increased to \$71.1 million at September 30, 2009 when compared to \$64.5 million at December 31, 2008, an increase of \$6.6 million. In accordance with outstanding debt agreements, the LP is required to maintain a working capital ratio of no less than 1.25 to 1.

The LP'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 LP's obligations as they come due (see "Note Regarding Forward-Looking Statements). 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 as well as management's decisions regarding the appropriate level of floor plan financing that should be used to control interest expenses. As discussed in our 2008 annual MD&A, management decided to utilize excess cash resources during the first and second quarters of 2009 to reduce floor plan payables and reduce interest expense. Floor plan financing as a percentage to inventories at September 30, 2009 are now at similar levels to the same period of 2008. Cash resources can normally be restored by accessing floor plan monies available for 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 a reduction in sales activity during these quarters.

### Liquidity risk

The LP'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 LP controls its liquidity risk by managing its working capital, cash flows, and the availability of borrowing facilities. At September 30, 2009, the LP's contractual obligations are described below. At September 30, 2009, the LP has an operating bank line of credit available to a maximum amount of \$15 million. The operating line of credit is an uncommitted facility that bears interest at rates ranging from prime plus 1.25% to prime plus 2.0% based on certain financial covenants and is secured by a general security agreement, a priority agreement, trade accounts receivable, unencumbered inventories, assignment of fire insurance and guarantees from the LP's subsidiaries and the general partner. At September 30, 2009 and December 31, 2008, the LP had not drawn on this operating line. In addition, the LP 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 LP had approximately \$24.7 million in cash and cash equivalents on hand at September 30, 2009 which consists of \$3.7 million of cheques issued in excess of cash on hand and in bank and \$28.4 million in money market funds. The money market funds are invested through the LP's primary financial institution and the funds are available immediately upon request.

Significant challenges are currently being experienced in both the domestic and international financial markets. These challenges are having an impact on the ability of certain borrowers to finance existing operations and to fund capital programs. To date, these issues in the financial markets have not had a direct impact on the operations of the LP; however have impacted the LP's credit facility with its current lender by increasing potential interest expense if the LP is required to use its current credit facility. While the current financial market conditions have not directly impacted the LP's ability to fund capital projects and ongoing operations, future borrowing may be impacted by these financial markets through increased carrying costs, including interest expense and the ability to raise debt and capital. The LP is unable to determine the outcome of these issues or how they may affect future operations (see "Note Regarding Forward-Looking Statements").

At September 30, 2009, inventories have increased by \$23.8 million to \$85.9 million when compared to \$62.1 at December 31, 2008. This is also an increase of \$18.8 million over the September 30, 2008 inventories balance of \$67.1 million. The most significant increases from the December 31, 2008 balances were in used equipment which accounted for \$17.3 million of the increase from December 31, 2008 and \$13.6 million of the increase from September 30, 2008. Parts inventories have also increased \$3.3 million from December 31, 2008 levels and \$2.5 million from September 30, 2008 to meet the demand for our increased sales activity and due to the addition of three (3) new dealership stores in September 2009 from the Ranchers business acquisition. Inventories generally are at their highest levels during the third quarter of each year; however the increase in used equipment is correlated to the increase in new equipment sales being experienced during 2009 when compared to 2008 (an increase of 18.8% from 2008). With the increase in new equipment sales, generally there is an increase in used equipment due to trade-ins being recognized. The purchase of Ranchers Supply Inc. has increased inventories by \$6.1 million.

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 John Deere equipment sales come with a trade-in while our Bobcat sales, and to a lesser extent our JCB and JLG sales, usually do not have trade-ins. This is why we have a higher amount of used agriculture equipment than used construction equipment. 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. Our John Deere, Bobcat, JCB and JLG product lines are manufactured in the U.S. with pricing based in U.S. dollars but invoiced in Canadian dollars.

The market value of used equipment in the agricultural equipment segment has been affected by the strength of the Canadian dollar throughout the primary selling season of the second and third quarters of 2009 which averaged approximately \$1.10 Canadian dollar per U.S. dollar and closed at approximately \$1.08 at September 30, 2009. This provided for less expensive new equipment during the primary selling season causing downward pressure on used equipment pricing; however more current used equipment inventories have been purchased with values using the lower U.S. dollar. This, combined with the strengthening U.S. dollar in the latter part of 2008 through the first quarter of 2009 (average U.S. exchange to the Canadian dollar has increased to 1.10 for the period January to September 2009 from 1.05 for the same period of 2008), has left current used inventories with recoverable carrying amounts and little indication of impairment issues. Though management is satisfied that the current inventories are recoverable, if the Canadian dollar remains strong, there will be future pressures on the LP to maintain gross margins experienced during the first nine months of 2009.

#### **Price risk**

Price risk is the risk that the fair value of financial instruments will fluctuate due to changes in market factors and adverse economic conditions which may impact the timing of collection and ultimate realization of equipment sales, parts, service and rental revenue. The LP derives substantially all of its operating revenue from agricultural and construction based clients. The agriculture segment is primarily based on commodity prices and the construction segment is primarily based on both housing and infrastructure starts. A 5% to 10% change in the market conditions affecting these segments would result in an increase or decrease to revenue of between \$18.1 and \$36.3 million on a rolling 12 month basis. Based on the return on sales experienced for the rolling 12 month period ended September 30, 2009, this would result in an increase or decrease in net earnings of between \$1.0 and \$2.0 million.

**Credit risk**

By granting credit sales to customers, it is possible these entities, to which the LP provides services, may experience financial difficulty and be unable to fulfill their obligations. A substantial amount of the LP'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 customers will experience financial difficulty and be unable to fulfill their obligations to the LP. The LP'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 LP's revenues are normally invoiced with payment terms of net, 30 days. In our industries, customers typically pay invoices within 30 to 60 days. The average time to collect LP's outstanding accounts receivable was approximately 20 days for the nine month period ended September 30, 2009 (year ended December 31, 2008 - 13 days) and no single outstanding customer balance represented more than 10% of total accounts receivable. The LP mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. The LP 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. For the nine month period ended September 30, 2009 and 2008, all customer balances provided as bad debts were calculated based on 25% of accounts between 90 to 120 days outstanding and 85% on amounts over 120 days outstanding unless allowance for certain specified accounts requires a greater amount to be allowed for. Of the \$28,026,426 of trade accounts receivable outstanding, \$17,148,696 is represented by sales contract financing receivables in transit and volume bonus receivables from John Deere and \$10,877,730 is represented by customer accounts receivable and other accounts receivable. The following is a summary of our aged accounts receivable and activity in our allowance for doubtful accounts as at September 30, 2009 and for the nine months then ended:

<b>Accounts receivable:</b>	
Current	\$ 24,849,259
30 – 60	2,123,177
Over 90 days	1,053,990
<b>Total</b>	<b>\$ 28,026,426</b>
<b>Allowance for doubtful accounts:</b>	
Balance, December 31, 2008	\$ 878,297
Additional allowance recorded	335,055
Amounts written-off as uncollectible	(417,981)
<b>Balance, September 30, 2009</b>	<b>\$ 795,371</b>

**Interest rate risk**

The LP'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 LP's outstanding long-term debt and its floor plan payables at September 30, 2009, a one percent increase or decrease in market interest rates would impact the LP's annual interest expense by approximately \$489,000. The LP's other financial instruments are not exposed to interest rate risk.

**Cash and cash equivalents**

Net cash used in operating activities was \$4.8 million for the nine month period ended September 30, 2009 versus net cash provided by operating activities of \$21.3 million for the same period of 2008, a net decrease in cash provided by operating activities of \$16.4 million.

The primary cause for the increase in the use of operating cash flow was due to the increase in inventories without increasing our floor plan on a pro-rata basis which used \$6.5 million and from an increase in our accounts receivable of \$15.2 million primarily caused by contracts in transit from John Deere. This was offset primarily by an increase in our accounts payable and accrued liabilities balance of \$5.0 million. We use our discretion to utilize operating cash flow to either pre-pay or buy down certain floor plans and reduce the related interest costs associated with the debt. As the facilities are available at any time, we are prepared to increase its floor plan payables if it is deemed necessary and we are currently financing approximately 56% of our inventories at September 30, 2009 when compared to 53% of our inventories at December 31, 2008.

During the nine month period ended September 30, 2009, financing activities used \$10.1 million of net cash flow compared to providing \$19.0 million for the same period of 2008. The primary uses of cash were for the \$7.8 million of distributions made, net of DRIP, to limited partners (2008 – \$7.0 million) and \$2.4 million repayment of term-debt (2008 - \$2.0 million). The other primary difference between 2009 and 2008 was the proceeds received in 2008 from the issuance of limited partnership units from the exercise of warrants of \$760 thousand (2008 - \$25.4 million primarily from the 2008 private placement).

Investing activities used \$5.8 million of cash flows for the nine month period ended September 30, 2009 when compared to \$7.9 million for the same nine months of 2008. The primary use of cash for investing activities arose from the \$7.1 million used for the business acquisitions on September 10, 2009 of Ranchers Supply Inc. and 520781 Alberta Ltd. In addition, \$1.0 million was received from the repayment of advances made to a related party, Proventure Income Fund (\$3.5 million provided to Proventure Income Fund in 2008) and \$705 thousand used to advance funds to Agriturf Limited in New Zealand for the purchase of certain assets of an agriculture dealership.

**Contractual obligations**

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

\$ in thousands	Total	Due 2010	Due 2011 through 2013	Due 2014 through 2015	Due thereafter
Long-term debt	6,121	4,137	1,984	-	-
Notes payable	858	367	491	-	-
Operating leases	14,323	3,472	6,408	1,310	3,133
<b>Total contractual obligations</b>	<b>21,302</b>	<b>7,976</b>	<b>8,883</b>	<b>1,310</b>	<b>3,133</b>

## **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 Unitholder value is to use a combination of equity and debt financing to leverage our operations.

We invested \$2.6 million in capital expenditures and have recovered \$2.3 million from disposals for a net investment in capital assets of \$292 thousand for the nine month period ended September 30, 2009. We originally budgeted 2009 capital needs to be approximately \$4.6 million (see "Note Regarding Forward-Looking Statements"), \$2.2 million of which is for the further expansion of our construction equipment rental fleet through floor plan financing of terms up to 4 years and \$2.4 million for equipment and leasehold improvements primarily funded by cash flows from operating activities. However, due to the reduction in our construction equipment segment revenues, we have put on hold, certain of our capital expenditure programs including the further expansion of our rental equipment fleet and have actually reduced the fleet during the nine months ended September 30, 2009. We have revised our budget for capital expenditures for the balance of 2009 to be approximately \$100 thousand for all other capital expenditures, excluding the rental equipment fleet.

### **Bank Indebtedness**

At September 30, 2009 and December 31, 2008 the LP has a non-committed operating bank line of credit to a maximum amount of \$15 million. The operating line of credit bears interest at rates ranging from bank prime plus 1.25% to prime plus 2.0% based on certain financial covenants and is secured by a general security agreement representing a first charge on all of the LP's assets and undertakings, a priority agreement between the bank, John Deere Limited and the LP, postponement and subordination of security interest between the bank, the LP, Cervus Corporation and Farm Credit Canada, unlimited guarantee of advances from the LP and a priority agreement between the bank and GE Canada Equipment Financing G.P. ("GE"), CIT Financial Ltd. ("CIT") and JCB Excavators Limited. As at September 30, 2009 and December 31, 2008, the LP had not drawn on this operating line. The bank indebtedness is also subject to certain financial and negative covenants in which we are in compliance with at September 30, 2009 and to the date of this report.

### **Floor plan payables**

Floor plan payables consist of financing arrangements for the LP's inventories. At September 30, 2009, floor plan payables are \$48.2 million, an increase of \$15.2 million from the December 31, 2008 balance of \$33.0 million and an increase of \$10.8 million from the September 30, 2008 balance of \$37.4 million. Floor plan payables represent approximately 56% of our inventories at September 30, 2009 compared to 53% at December 31, 2008 and 56% at September 30, 2008. 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 LP may take advantage of any programs made available to the LP by its key suppliers.

Our floor plan facilities are provided by our equipment manufacturers directly or through partnering arrangements that they have with third party lenders. We currently have an aggregate facility with John Deere Credit, GE and CIT of approximately \$123 million available for equipment inventory financing, which we believe is sufficient to meet our market share targets for 2009. In the second quarter of 2009, we were advised that CIT, which primarily finances our JCB product line, would be suspending their partner arrangement with JCB and that JCB was currently seeking an alternative arrangement with another financier. We have been advised that JCB has been successful in making arrangements for financing with GE.

### **Term debt and Note Payable**

Term debt consists primarily of financing arrangements for our short term rental equipment fleet, financing of our automotive and truck purchases, and term loans from business acquisitions. The term debt carries interest at rates ranging from prime plus 0.25% to prime plus 0.75% and also fixed rate facilities with interest ranging from 0% to 7.25%. Term debt decreased by \$2.4 million during the nine month period ended September 30, 2009 when compared to December 31, 2008 as a result of normal principal repayments and the reduction of rental equipment financing. As discussed above, rental equipment financing as a percentage of cost of the rental equipment has decreased to 37% at September 30, 2009 compared to 45% at December 31, 2008.

**Outstanding Unit Data**

As a result of the completed plan of arrangement and in conjunction with the conversion, three (3) common shares of New Cervus were exchanged for two (2) issued and outstanding limited partnership units of the LP. As a result, at the date of this report New Cervus has 14,136,272 shares outstanding, 36,721 unit options and 236,275 deferred units outstanding.

After giving effect to the 3 for 2 stock split as at September 30, 2009 and 2008, the LP had the following weighted average shares outstanding.

<b>\$ in thousands</b>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30, 2009</b>	<b>September 30, 2008</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Basic weighted average number of units outstanding	14,117	13,883	14,081	12,771
Dilutive impact of deferred unit plan	235	72	234	72
Dilutive impact of unit options	9	-	22	-
Dilutive effect of outstanding warrants	-	48	-	54
Diluted weighted average number of units outstanding	14,361	14,003	14,337	12,897

**Distributions/Dividends paid to Unitholders/Shareholders**

The LP, in accordance with its Limited Partnership Agreement, is entitled, at the discretion of the board of directors, to make cash distributions to its unitholders. The following table summarizes our distributions during the first nine months of 2009 (\$ thousands, except per unit amounts):

Record Date	Distribution per Unit	Distribution Payable	Distributions Reinvested	Net Distributions Paid
January 31, 2009	0.06	842	95	747
February 28, 2009	0.06	843	101	742
March 31, 2009	0.06	844	103	741
April 30, 2009	0.06	845	105	740
May 31, 2009	0.06	846	69	777
June 30, 2009	0.06	846	58	788
July 31, 2009	0.06	847	76	771
August 31, 2009	0.06	847	57	790
September 30, 2009	0.06	848	58	790
	0.54	7,608	722	6,886
General Partner		154	-	154
Total Distributions		7,762	722	7,040

Cash distributions are normally paid by the LP on a monthly basis to Unitholders of record on the last business day of each month. As a result of the LP's conversion to a corporation, New Cervus is anticipating that dividends will be paid quarterly, not on a monthly basis as done previously by the LP.

***Distribution reinvestment plan ("DRIP")***

The DRIP was implemented in 2004 and allows Unitholders to reinvest monthly distributions into additional Cervus LP units. Unitholders who elect to participate will see their periodic cash distributions automatically reinvested in Cervus LP units at a price equal to 95% of the volume-weighted average price of all units traded on the TSX Venture Exchange for the ten trading days preceding the applicable record date. Eligible Unitholders may participate in the DRIP by directing their broker, dealer, or investment advisor holding their LP units 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. The DRIP has been approved under New Cervus and unitholders/shareholders are advised to follow up with their respective investment advisors and/or Computershare due to the conversion to ensure the New Cervus shares will continue to participate under the new DRIP.

***Taxation***

The LP's distributions to September 30, 2009 are not taxable and are considered a return on capital. All future distributions by New Cervus will be considered to be eligible dividends for tax purposes. Also, all taxable income earned by the LP to the date of conversion will be allocated to New Cervus as the sole partner at December 31, 2009.

***Cautionary note regarding distributions***

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 LP is in breach of its debt covenants. As at the date of this report, the LP is not in violation of any of its covenants.

***Distributable cash calculated***

Distributable cash flow was a financial measure previously used by the LP. In the fourth quarter of 2009, as a result of the LP's conversion to a corporation, the LP and New Cervus will discontinue the use of this financial measure instead focusing on the measure EBITDA (see "Non-GAAP Financial Measures"). The primary difference between these measures is the focus and disclosure of capital expenditures. The LP has provided disclosure of adjusted operating cash flow on a comparative basis.

**Business Risks and Uncertainties*****Reliance on our key manufacturers and dealership arrangements***

Cervus LP's 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 John Deere Limited provides a framework under which John Deere Limited 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 LP has one year to restore any deficiencies.

The LP also has dealership agreements in place with Bobcat and JCB. These agreements are one year agreements; however the agreements are normally renewed on a year by year basis.

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 LP 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 LP'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 segment sells light and medium construction equipment and is comprised of several companies manufacturing and selling various lines of equipment. 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 believe that there will be a significant decline in 2009 which appears to be occurring based on the LP's reduction in construction equipment segment revenues.

Presently the majority of the construction equipment division's revenue is derived from the sale of Bobcat equipment and products. Bobcat has established itself as an industry leader in the Alberta market for the manufacture and delivery of light construction equipment. Bobcat has the largest market share in this niche in the Alberta market. There can be no assurance however that Bobcat will continue to manufacture high quality, competitively priced products or maintain its market share in the future.

***Other risks***

Although the LP 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 LP 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 New Cervus.

The steps under the plan of arrangement pursuant to which the corporate conversion was completed, were structured to be tax-deferred to the LP and the LP unitholders based on certain rules under the Income Tax Act (Canada). There is a risk that the tax consequences contemplated by the LP or the tax consequences of the plan of arrangement to the LP and the unitholders may be materially different from the tax consequences anticipated by the LP in the undertaking the conversion. While the LP 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 New Cervus.

### 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 LP's customers. A portion of this financing is with recourse to the LP if the amounts are uncollectible. At September 30, 2009, payments in arrears by such customers aggregated \$214 thousand (December 31, 2008 - \$188 thousand). In addition, the LP 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 September 30, 2009, the net residual value of such leases aggregated \$52 million (December 31, 2008 - \$50 million).

The LP is liable for a portion of the deficiency in the event that the customer defaults on their lease obligation. Deere Credit retains 1% of the face amount of the finance or lease contract for amounts that the LP 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 \$1.6 million at September 30, 2009. Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the LP.

As part of the business acquisition of Ranchers Supply Inc., the LP issued an irrevocable standby Letter of Credit to John Deere Limited ("JDL") in the amount of \$1.5 million. The Letter of Credit was issued in accordance with the dealership arrangement that would allow JDL to draw upon the letter of credit if the LP was in default of any of its obligations to JDL.

### Transactions with Related Parties

The CEO of the LP is the CEO of Proventure Income Fund ("Proventure" or "Fund"). In addition, the CEO is the single largest equity holder of the LP and the Fund and the LP and the Fund share common directors. The Fund is a public income trust that was originally formed in 2003 by transferring into a separate entity, the real property interests of John Deere dealerships operating at the time. Since that date, the Fund has continued to purchase the real property interests of the LP's John Deere dealerships and two of the LP's Bobcat/JCB dealerships. The LP had the following transactions with the Fund:

<i>In \$ thousands</i>	<b>Three month period ended</b>		<b>Nine month period ended</b>	
	<b>September 30, 2009</b>	<b>September 30, 2008</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Expenses:				
Real estate leases	\$ 645	\$ 504	\$ 1,906	\$1,302
Guarantee fees	21	21	62	62
Revenue:				
Management fees for administration	8	8	23	23
Interest on advances	12	41	43	49

The LP receives \$2.5 thousand per month to carry out all administrative and management tasks related to Proventure's operations. The amount charged is the amount agreed to between the related parties.

The LP pays a guarantee fee to Proventure equal to 3% of the guaranteed amounts that Proventure has provided to John Deere. This guarantee is a result of guarantees provided to John Deere prior to the establishment of Proventure and for which John Deere has not yet released Proventure from the contractual obligation. At September 30, 2009 and 2008, the Fund has outstanding guarantees with John Deere aggregating \$2.75 million.

During 2008, the LP provided a \$2.75 million revolving credit facility to the Fund expiring on November 30, 2013. The facility is due on demand and bears interest at the rate of prime plus 0.25%. The facility can be used for operations, capital acquisitions, and investments and is secured by a general security agreement. During the nine month period ended September 30, 2009, the Fund repaid \$1.0 million of the amount outstanding and as at September 30, 2009, the balance outstanding is \$1.74 million.

Certain officers and dealer managers of the LP have provided guarantees to John Deere aggregating \$6.4 million (September 30, 2008 - \$7.15 million). During the three and nine month period ended September 30, 2009, the LP paid these individuals \$48 thousand and \$144 thousand (September 30, 2008 -\$52 thousand and \$159 thousand) respectively for providing these guarantees. These transactions were recorded at the amount agreed to by the parties. These guarantees are required by the LP's most significant dealership arrangement with John Deere Limited and the LP believes that the 3% per annum charge provided to the guarantors is a reasonable expense to providing these guarantees.

The general partner of the LP is Cervus GP Ltd. ("GP"), a private company in which the CEO of the LP is President. Under the limited partnership agreement, the GP is entitled to reimbursement of all reasonable direct and indirect costs incurred on behalf of the LP and to 1% of the net earnings. For the nine month period ended September 30, 2009, this amounted to \$178 thousand (December 31, 2008 - \$222 thousand) and has been recorded as a distribution of earnings on the statement of accumulated earnings. In addition, distributions of \$154 thousand (December 31, 2008 - \$200 thousand) have been made to the general partner. Also, a portion of the CEO's salary is paid by the GP from the allocation of earnings made. On October 22, 2009, as part of the Plan of Arrangement, the GP is now a wholly owned subsidiary of New Cervus.

The LP has advanced \$365 thousand to a senior management employee to facilitate relocation to Calgary, Alberta. The advance is non-interest bearing and is due on December 31, 2009 with no terms of repayment and is secured by the real property associated with the housing loan.

During the first nine months of 2009, the LP transacted, in the normal course of business, \$189 thousand (2008 - \$260 thousand) of equipment, parts and service sales with companies in which the board of directors are directors of or control those companies.

### **Recent Accounting Pronouncements**

Effective January 1, 2009, the LP adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets", which replaced Section 3062 "Goodwill and Other Intangible Assets". Section 3064 gives guidance on the recognition of intangible assets as well as the recognition and measurement of internally developed intangible assets. In addition, Section 3450 "Research and Development Costs" was withdrawn from the Handbook. Adoption of this pronouncement did not have a material effect on the LP's financial statements.

Effective January 1, 2009, the Partnership adopted the accounting provisions of Emerging Issues Committee (EIC) Abstract EIC 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". Under EIC 173 an entity's own credit risk and the credit risk of its counterparties is taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. Adoption of this pronouncement did not have a material effect on the LP's financial statements.

### **Future Accounting Changes**

The CICA has issued new accounting standards, "Section 1582, Business Combinations", "Section 1601 Consolidated Financial Statements" and "Section 1602, Non-Controlling Interests".

Section 1582, Business Combinations establishes how an entity is to account for business combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after January 1, 2011, however earlier adoption is permitted.

Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interest establishes standards for the preparation of consolidated financial statements and for the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This Section applies to interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, however earlier adoption is permitted as of the beginning of a fiscal year.

The LP has not yet adopted these new accounting standards. These standards will be applied prospectively and will impact how the LP accounts for business combinations entered into after the date of adoption.

### ***Conversion to International Financial Reporting Standards in Fiscal 2011***

The CICA Accounting Standards Board requires all Canadian publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. The LP will adopt IFRS for the fiscal year 2011 starting January 1, 2011. The LP's transition from Canadian GAAP to IFRS will commence in the first quarter of 2011 at which time the LP will report both the current and comparative information using IFRS.

The LP has developed and established an IFRS transition project which has taken into consideration both the internal and external resources required to implement IFRS and has completed a preliminary assessment of the impact the change to IFRS will have on the LP's financial statements. A detailed assessment has been completed for presentation to the audit committee and board of directors for approval.

The IFRS transition project consists of three main phases:

#### **Phase One: Impact Assessment**

This phase consisted of a high-level impact assessment that identified the key areas of accounting differences between Canadian GAAP and IFRS that are likely to impact the LP as well as other areas that may not necessarily impact the LP at this time. The impact assessment was completed in the third quarter of 2009 and has been provided to the audit committee and board of directors for review.

#### **Phase Two: Detailed Assessment**

This phase will involve a more comprehensive assessment of the differences between IFRS and the LP's current accounting policies and account balances and will be reviewed by outside consultants. This will include a detailed assessment of the potential financial impact at the date of conversion as well as potential changes that may be required to current accounting policies, information systems and processes. This detailed assessment has been completed and potential changes to existing accounting policies, business process and information systems that were identified have been presented to the audit committee and board of directors for their review.

#### **Phase Three: Implementation**

This implementation phase involves an analysis of the alternatives allowed under IFRS, including the current mandatory and elective exemptions that exist. During this phase, we will present to the audit committee and board of directors, management's recommendations for these exemptions and request final approval of changes in accounting policies and IFRS transition adjustments.

The International Accounting Standards Board ("IASB") work plan anticipates the completion of several projects during 2010 and 2011 that could affect the differences between Canadian GAAP and IFRS and the impact on the LP's financial statements in future years. At this time, the LP cannot quantify the impact that the future adoption of IFRS will have on the LP's financial statements.

## Internal Controls over Financial Reporting and Disclosure Controls and Procedures

There has been no material change in internal controls over financial reporting and disclosure controls and procedures during the nine month period ended September 30, 2009.

## Non-GAAP Financial Measures

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP"). 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 Canadian GAAP 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:

### *Earnings before interest, taxes, depreciation and amortization ("EBITDA")*

We believe, in addition to net earnings and adjusted operating cash flow, 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.

The following is a reconciliation of EBITDA to net earnings for each of the three month and nine month periods ended September 30, 2009 and 2008:

\$ thousands, except per unit	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net earnings	\$ 8,744	\$ 8,888	\$ 17,749	\$ 19,573
Add:				
Interest	219	176	691	1,120
Depreciation and amortization	1,113	1,150	3,409	3,167
EBITDA	10,076	10,214	21,849	23,860
Per Unit - diluted	0.70	0.73	1.52	1.85

**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.

## Subsequent events

We have been advised that the joint venture partners of Greenway Sprayers are dissolving the joint venture and that the operations will be continued by the individual partners. As a result of the dissolution of the joint venture, the joint venturers have agreed to separate the net assets of the joint venture and it is anticipated that the LP will receive its proportionate share at least equal to the net book value of its equity interest. Future operations of the joint venture will be continued by the LP through its agricultural equipment segment.

In addition, subsequent to September 30, 2009, Cervus advanced an additional \$198,150 to Agriturf Limited.

On October 29, 2009, Cervus Equipment Corporation entered into a binding letter of agreement to purchase 100% of the issued and outstanding shares of A.R. Williams Materials Handling Ltd. for approximately \$23.7 million. The acquisition is expected to close on January 1, 2010 and the purchase price is estimated to be financed by \$7.11 million in cash, \$4.74 million in 7% preferred shares and \$11.85 million in the form of a four year interest free promissory note.