

Q1/2007

2007 First Quarter Report



CERVUS LP

STRENGTH IN NUMBERS



CERVUS LP

2007 FIRST QUARTER REPORT TO THE UNITHOLDERS (UNAUDITED)

For the period ended March 31, 2007



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion & Analysis ("MD&A") was prepared as of May 28, 2007 and is provided to assist readers in understanding Cervus LP's financial performance for the three month period ended March 31, 2007 and significant trends that may affect future performance of Cervus LP. This MD&A should be read in conjunction with the accompanying unaudited consolidated financial statements for the period ended March 31, 2007 and the notes contained therein. The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and Cervus LP's reporting currency is the Canadian dollar. Cervus LP is a reporting issuer in the provinces of Alberta and British Columbia, Canada. Cervus LP's units trade on the TSX Venture Exchange under the symbol "CVL.UN"

Additional information relating to Cervus LP is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at 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".

BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in conformity with Canadian GAAP. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Canadian retailing of agricultural and construction equipment is influenced by seasonality. Agriculture sales activity is normally highest between April and September during growing seasons in Canada whereas construction sales activity is not as volatile, however sees slower sales activity in the winter months. As a result, earnings or losses may not accrue uniformly from quarter to quarter.



SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ thousands, except per unit amounts	March 31, 2007	March 31, 2006	% Change
Revenues	60,239	44,687	34.8
Gross profit	9,129	7,393	23.5
Gross margin	15.2%	16.5%	
EBITDA ¹	1,457	949	53.5
EBITDA margin ¹	2.4%	2.1%	
Per Unit – diluted	0.20	0.16	25.0
Net earnings (loss)	156	(190)	182.1
Per unit - Basic	0.02	(0.03)	166.7
Per unit - Diluted	0.02	(0.03)	166.7
Cash flow from operations	2,966	(1,122)	364.3
Funds from operations ¹	1,085	493	120.1
Per unit – diluted	0.15	0.08	87.5
Distributions declared	1,981	1,424	39.1
Per unit	0.27	0.24	12.5
Weighted average units outstanding			
Basic	6,937	5,543	25.1
Diluted	7,335	6,079	20.1
Total assets	111,277	95,940	16.0
Long-term liabilities	9,580	6,735	42.2
Unitholders' equity	35,689	24,116	48.0

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



SELECTED HIGHLIGHTS FOR THE QUARTER

- Revenue for the first quarter of 2007 was \$60.2 million, an increase of 34.8% compared to 2006.
- We reported net earnings of \$156 thousand or \$0.02 per unit in the first quarter of 2007. This represents an increase of 182% over a loss of \$190 thousand or \$0.03 per unit for the first quarter of 2006.
- EBITDA (see “Non-GAAP Financial Measures”) was \$1.46 million for the first quarter of 2007, an increase of 53.5% over \$949 thousand for the first quarter of 2006
- The construction equipment segment continues to show strong performance and has contributed approximately \$1.9 million of net earnings to the LP for the first three months of 2007 compared to \$1.0 million in the first three months of 2006.
- The agriculture equipment segment reported a loss of \$1.7 million during the first three months of 2007, an increase of approximately \$500 thousand over a loss of \$1.2 million for the same period during 2006.

OVERALL PERFORMANCE

Executing our growth strategies and a continuing strong housing demand in Alberta and high levels of snow in central to northern Alberta, has allowed us to achieve a record first quarter gross revenue of \$60.2 million. This is an increase of \$15.5 million in the first three months of 2007 when compared to revenue of \$44.7 million during the same period of 2006. Likewise, we increased our EBITDA (see “Non-GAAP Financial Measures”) by 53.5% to \$1.46 million from \$949 thousand in 2006. However, our gross margin decreased to 15.2% during 2007 when compared to 16.5% for the same period of 2006.

On a per unit basis we were able to achieve accretive growth in the first quarter of 2007. EBITDA per unit (see “Non-GAAP Financial Measures”) was \$0.20 per unit compared to EBITDA per unit of \$0.16 in 2006 and funds from operations per unit (see “Non-GAAP Financial Measures”) increased to \$0.15 per unit from \$0.08 per unit in 2006. Net earnings also increased to \$0.02 per unit in the first quarter of 2007 from a loss of \$0.03 per unit in 2006.

There was mixed results in the first quarter which can be attributed to the following factors. We achieved strong revenue and cash flow growth from both the agricultural and construction equipment segments; however, this was offset by decreases in overall gross margins achieved from both segments. Overall gross margin for the agricultural and construction segments was 12.0% and 18.9% respectively for the first quarter of 2007 when compared to 14.5% and 20.1% for the same period in 2006. The decrease in the gross margin in the segments is due primarily to a reduction in overall margin in whole goods for both segments.



Our outlook for the remainder of 2007 and 2008 continues to be positive. The agricultural segment is experiencing a higher level of optimism from its customers, commodity prices for grains remain strong and there are strong fundamentals in the market for a strengthening agriculture sector. The construction segment continues to see a high demand for equipment due the strong housing market in Alberta. The slowdown in the oil services sector has not impacted the business negatively. In addition, there is less labour strain than what was experienced in the Alberta economy during 2006.

We expect our growth to continue in 2007 due to a strong Western Canada economy, especially in Alberta for our construction equipment segment and a strengthening agriculture base due to anticipated higher crop prices. The key to our success has been and will continue to be our employees. Through the dedication and hard work of our employees we have successfully grown the business this past quarter.

FINANCIAL REVIEW FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

REVENUE

\$ thousands	March 31, 2007	March 31, 2006	% change
Revenues by segment			
Agricultural equipment	32,784	28,419	15.4%
Construction equipment	27,455	16,268	68.8%
Total	60,239	44,687	34.8%

AGRICULTURAL EQUIPMENT

During the first quarter of 2007, revenue in our agricultural equipment segment increased by \$4.4 million to \$32.8 million. This is an increase of 15.4% over revenue of \$28.4 million for the same period of 2006. Contributing to the increase in revenue was equipment sales (\$3.7 million), parts sales (\$469 thousand) and service sales (\$210 thousand). The increase in equipment sales is primarily due to focusing on reducing overall aged (older) used equipment inventories, primarily tractors. Our parts and service revenue has increased primarily due to increased optimism in the agricultural sector and increased cash flows being seen due to higher grain prices.

CONSTRUCTION EQUIPMENT

During the first quarter of 2007, revenue in our construction equipment segment increased by \$11.2 million to \$27.5 million. This is an increase of 68.8% over revenues of \$16.3 million for the same period of 2006. Contributing to the increase in revenue was equipment sales (\$9.5 million), parts sales (\$1 million) and service sales (\$688 thousand). Rental revenue remained virtually unchanged during 2007 when compared to 2006 at \$1 million for the quarter. The increase of \$11.2 million in equipment sales was led by sales of a new line of equipment in our JCB division and general increases in all lines of equipment due to high demand in the housing market and increased snow coverage in Northern Alberta. The strong Alberta economy was also the primary reason for the increased sales in the parts and service departments as well.



GROSS PROFIT MARGINS

\$ thousands	March 31, 2007	March 31, 2006	Change
Gross profit by segment			
Agricultural equipment	12.0%	14.5%	(2.5%)
Construction equipment	18.9%	20.1%	(1.2%)
Total	15.2%	16.5%	(1.3%)

AGRICULTURAL EQUIPMENT

In the first three months of 2007, the agricultural equipment segment reported a 12.0% gross profit margin when compared to 14.4% for the same period during 2006, a decrease of 2.5%. The primary reason for the decrease in margins is due to the focus on increasing used inventory turns which resulted in lower margins.

CONSTRUCTION EQUIPMENT

The construction equipment segment reported an 18.9% gross profit margin for the first quarter of 2007 when compared to 20.1% for the first quarter of 2006, resulting in a decrease in overall gross profit margin of 1.2%. The primary reason for the decrease was due to a change in the mix of our new equipment sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

\$ thousands	March 31, 2007	March 31, 2006	% change
Selling, general and administrative expenses by segment			
Agricultural equipment	5,467	4,473	22.2%
Construction equipment	2,775	2,330	19.1%
Total	8,242	6,803	21.1%

AGRICULTURAL EQUIPMENT

The agricultural equipment segment reported \$5.4 million of selling general and administrative expenses in the first quarter of 2007 when compared to \$4.5 million in the first quarter of 2006, an increase of \$1 million or 22.2%. Selling general and administrative expenses as a percentage of revenue was 16.7% in the first three months of 2007 compared to 15.7% for the same period of 2006, an increase of 1%. The primary reason for the increased selling general and administrative expenses was due to increased salary and employee benefit costs as well as approximately \$500 thousand in occupancy cost increases.

CONSTRUCTION EQUIPMENT

The construction equipment segment incurred \$2.8 million of selling, general and administrative expenses for the first three months of 2007 versus \$2.3 million for the same period of 2006. As a percentage of sales, selling, general and administrative costs have decreased to 10.1% in the first quarter of 2007 compared to 14.3% for the first quarter of 2006. Selling, general and administrative costs increased primarily due to an increase in salary and employee benefit costs. From the analysis, management is pleased with the fact that increased revenues have not necessarily resulted in increased selling, general and administrative expenses.



INTEREST

Interest expense for the first quarter of 2007 was \$387 thousand compared to \$442 thousand for the first quarter of 2006. The primary reason for the decrease of \$55 thousand in interest costs was the LP's increase in its cash flows from operations, which have reduced the LP's overall borrowing costs.

DEPRECIATION AND AMORTIZATION

\$ thousands	March 31, 2007	March 31, 2006	\$ change
Depreciation and amortization by segment			
Agricultural equipment	197	135	62
Construction equipment	717	561	176
Total	914	696	218

AGRICULTURAL EQUIPMENT

The agricultural equipment segment depreciation and amortization increased by \$62 thousand to \$197 thousand for the first quarter of 2007 compared to \$135 thousand for the first quarter of 2006. The increase in depreciation and amortization is a combination of general increases due to property and equipment replacement of \$20 thousand and \$42 thousand related to amortization of intangible assets that did not exist in 2006.

CONSTRUCTION EQUIPMENT

The construction equipment segment had \$717 thousand of depreciation and amortization in the first quarter of 2007 versus \$561 thousand in the first quarter of 2006, an increase of \$156 thousand. The primary reason for the increase is due to an increase in the segments rental fleet, which has accounted for \$138 thousand of the increase.

EBITDA

\$ thousands	March 31, 2007	March 31, 2006	\$ Change
EBITDA by segment			
Agricultural equipment	(1,222)	(661)	(561)
Construction equipment	2,679	1610	1,069
Total	1,457	949	508
% of revenue	2.4%	2.1%	2.1%

For the three months ended March 31, 2007, our EBITDA (see "Non-GAAP Financial Measures") grew to \$1.5 million from \$949 thousand in 2006. This increase is directly attributable to higher revenues during the quarter. Our EBITDA margin also increased to 2.4% from 2.1% in 2006. This increase is mainly attributable to the increased revenues, however is offset by the decline in our overall gross profit margin in 2007 (see discussion under "Gross Profit Margins" above).



INCOME TAXES

Income taxes are the responsibility of the individual partners except for the LP's corporate subsidiaries. Therefore, no income taxes have been provided for in 2006 and 2005 as the taxable income is passed through to the limited partners. The LP calculates the taxable income which flows through to the partners based on their proportionate share of the units owned by each partner at December 31 of each taxation year. Any difference between taxable income allocations and the distributions received during the year is considered to be on account of capital.

On October 31, 2006, the Government of Canada announced proposed changes in income tax legislation that will affect future distributions from publicly traded income trusts and limited partnerships. The proposed tax changes would treat Cervus LP's taxable income in a similar manner as the taxable income of corporations. The proposal includes a four year transition delay for Cervus LP and will be effective in the 2011 taxation year. Given these proposed rules have not been substantively enacted into law, there has been no adjustment to future income taxes in regards to this announcement. We continue to monitor the effect of the proposed changes on the LP's operations.

NET EARNINGS

\$ thousands	March 31, 2007	March 31, 2006
Net earnings (loss)	156	(190)
Basic weighted average number of units outstanding	6,937	5,543
Dilutive effect of convertible preferred units	375	375
Dilutive effect of outstanding unit options	11	129
Dilutive effect of outstanding warrants	12	32
Diluted weighted average number of units outstanding	7,335	6,079
Earnings per unit – basic	0.02	(0.03)
Earnings per unit – diluted	0.02	(0.03)

AGRICULTURAL EQUIPMENT

The agricultural equipment sector had a 42% increase in loss to \$1.7 million for the three months ended March 31, 2007 compared to a loss of \$1.2 million for the same period in 2006. Contributing to the increase in the loss for the agricultural segment was approximately \$279 thousand of used equipment inventory write-downs during the first three months of 2007 compared to \$176 thousand in the same period of 2006.

CONSTRUCTION EQUIPMENT

The construction equipment sector experienced a 90% increase in earning to \$1.9 million for the period compared to \$1.0 million in 2006.



SELECTED QUARTERLY INFORMATION

\$ thousands, except per unit amounts	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
Revenues	60,239	67,335	79,634	77,478
EBITDA ²	1,457	2,293	4,450	5,258
Cash flow ²	1,085	2,366	4,314	4,479
Net earnings	156	970	4,002	3,813
Basic earnings per unit	0.02	0.16	0.67	0.65
Diluted earnings per unit	0.02	0.15	0.62	0.60
Actual Units outstanding	7,007	6,863	6,767	6,175
Basic weighted average units outstanding	6,937	6,245	5,944	5,778
Fully diluted weighted average units outstanding	7,335	6,661	6,367	6,310

\$ thousands, except per unit amounts	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005
Revenues	44,687	49,590	63,530	49,582
EBITDA ¹	949	1,490	2,937	2,541
Cash flow ²	493	1,161	2,624	2,237
Net earnings (loss)	(190)	561	2,592	2,284
Basic earnings (loss) per unit	(0.03)	0.14	0.61	0.55
Diluted earnings (loss) per unit	(0.03)	0.13	0.59	0.54
Actual Units outstanding	5,956	4,411	4,156	4,106
Basic weighted average units outstanding	5,543	4,204	4,156	4,106
Fully diluted weighted average units outstanding	6,079	4,614	4,223	4,195

- Notes:
1. EBITDA is earnings before depreciation and amortization, interest and income taxes. EBITDA is a non-GAAP measure. (see "Non-GAAP Financial Measures")
 2. Cash flows from operations before changes in non-cash working capital.



SEASONALITY OF OPERATIONS

The Canadian retailing of agricultural and construction equipment is influenced by seasonality. 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; however it does see slower sales activity in the winter months though due to heavy snow fall in Northern Alberta in the first quarter of 2007, this was not experienced. As a result, earnings or losses may not accrue uniformly from quarter to quarter.

FINANCIAL CONDITION AND LIQUIDITY

\$ thousands, except ratio amounts	March 31, 2007	December 31, 2006
Current assets	87,235	83,673
Total assets	111,277	107,516
Current liabilities	66,008	62,179
Long-term liabilities	9,580	9,177
Unitholders' equity	35,689	36,160
Working capital	21,227	21,494
Working capital ratio ¹	1.32	1.35

Notes: 1. Working capital is calculated as current assets minus current liabilities. Working capital ratio is calculated as current assets divided by current liabilities (see "Non-GAAP Financial Measures).

WORKING CAPITAL

Our working capital (see "Non-GAAP Financial Measures") primarily remained unchanged at March 31, 2007 decreasing to \$21.2 million from \$21.5 million at December 31, 2006, a decrease of \$300 thousand during the period. Though our working capital decreased during the three month period ended March 31, 2007, it was expected due to the seasonality of our operations and management is confident there is sufficient working capital to meet our upcoming operational and debt servicing requirements as they become due.

Accounts receivable increased \$827 thousand to \$9.0 million at March 31, 2007, primarily as a result of increased construction equipment segment revenues. Contracts in transit increased by \$2.1 million to \$4.7 million at March 31, 2007 from \$2.6 million at December 31, 2006, due to increased sales volume. Inventories increased slightly to \$73.3 million at March 31, 2007 from \$72.2 million at December 31, 2006, an increase of \$1.1 million. The primary cause for the increase in inventories was due to an increase in used equipment of \$2.1 million in the agriculture equipment segment and \$959 thousand in the construction equipment segment. This was offset by a reduction in new equipment inventories aggregating \$1.5 million (agriculture equipment segment of \$394 thousand and construction equipment segment of \$1.1 million). Accounts payable and accrued liabilities have increased by \$1.2 million to \$5.7 million at March 31, 2007, compared to \$4.5 million at December 31, 2006. Floor plan payables have also increased by \$4.3 million at March 31, 2007 to an aggregate amount outstanding of \$50.4 million compared to \$46.1 million at December 31, 2006. Floor plan payables represent approximately 77% of new and used equipment inventories at March 31, 2007 versus 72% at December 31, 2006.



Though management has been successful in decreasing its aged used equipment inventories, used equipment did increase in total due to the increase in revenues during the first quarter of 2007 and the resulting increase in trade-ins being received on new equipment sales.

CASH FLOW FROM OPERATIONS AND FUNDS FROM OPERATIONS

Cash flow generated from operations was \$3.0 million for the three months ended March 31, 2007 compared to cash used in operations of \$1.1 million in 2006. Excluding net changes in non-cash working capital balances, operations generated \$1.1 million of cash in the first quarter versus \$493 thousand during the same period of 2006. The balance of the increased cash flow came primarily from the difference in our inventories versus floor plan financing being utilized. We believe funds from operations is a useful Non-GAAP financial measure as it provides an indication of our ability to generate cash, exclusive of period to period changes in our non-cash operating working capital balances.

CASH FLOWS FROM FINANCING

Cash flow used in financing activities during the first quarter of 2007 was \$162 thousand versus \$4.5 million in the first quarter of 2006. The primary uses and sources of cash flows from financing activities during the three months ended March 31, 2007 were distributions to partners (\$1.9 million), issuance of limited partnership units through the LP's dividend reinvestment plan ("DRIP") (\$1.3 million) and from net cash provided for funding of our increased rental equipment fleet (\$526 thousand).

CASH FLOWS FROM INVESTING

During the first quarter of 2007, we used \$1.1 million of cash flows for investing activities verse \$405 thousand in the same period of 2006. The primary use of cash was for the additions made to property and equipment which aggregated \$1.2 million. This was comprised primarily of the purchase of rental equipment for the construction segment of \$775 thousand.

DEBT AND CONTRACTUAL OBLIGATIONS

BANK INDEBTEDNESS

At March 31, 2007 the LP has an operating bank line of credit in the amount of \$12 million (December 31, 2006 - \$12 million). The operating line of credit bears interest at rates ranging from prime plus 0.25% to prime plus 0.75% based on certain financial covenants and is secured by a general security agreement, a priority agreement; trade accounts receivable, unencumbered inventories, assignment of insurance and guarantees from the LP's subsidiaries and Cervus GP Ltd. The bank indebtedness is also subject to certain financial and negative covenants for which we are in compliance with at December 31, 2006 and to the date of this report.

TERM DEBT

Term debt consists of financing arrangements for our short term rental equipment financing, agricultural equipment segment rental fleet and to finance some of our automotive and truck purchases. Term debt also consists of a \$5 million term loan acquired when we purchased AR Williams. The term debt carries interest at rates ranging from 0% to 7.25%. Term debt increased approximately \$526 thousand million during 2007 and this is primarily related to an increase in the construction equipment segments short term rental equipment.



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 2008	Due 2009 through 2011	Due 2012 through 2013	Due thereafter
Long-term debt	11,735	3,129	8,606	-	-
Notes payable	1,025	200	600	225	-
Operating leases	8,746	2,400	4,241	1,126	979
Total contractual obligations	21,506	5,729	13,447	1,351	979

DISTRIBUTIONS

DISTRIBUTION POLICY

Cervus LP, in accordance with its Limited Partnership Agreement, is entitled, at the discretion of the Board of Directors, to make cash distributions to its Limited Partnership Unit Holders. It is the intention of the Board of Directors to distribute the net earnings of Cervus LP earned in the prior fiscal period, over the current fiscal period after accounting for such items as maintenance capital expenditures (see – “Non-GAAP Financial Measures) and principal repayments of debt agreements and other discretionary funding requirements. We have continued to distribute \$0.09 per unit for the periods January through March 2007.

The following table summarizes our distributions during the three month period ended March 31, 2007 (\$ thousands, except per unit amounts):

Record Date	Distribution per Unit	Distribution Payable	Distributions Reinvested	Net Distributions Paid
January 31, 2007	0.09	620	294	326
February 28, 2007	0.09	628	302	326
March 31, 2007	0.09	631	278	353
	<u>0.27</u>	1,879	874	1,005
Preferred Units		101		101
Total Distributions		<u>1,980</u>	<u>874</u>	<u>1,106</u>

Cash distributions are normally paid by Cervus LP on a monthly basis to Unitholders of record on the last business day of each month. Distributions are payable on or about the 15th day of the month following the record date.

DISTRIBUTION REINVESTMENT PLAN

During the period we declared total distributions to the Unitholders of \$0.27 per unit for an aggregate distribution of \$1.9 million. In addition, we paid \$101 thousand to the holders of the preferred units. Of the \$1.8 million issued to the Unitholders, \$874 thousand was reinvested in the LP's DRIP plan resulting in the issuance of approximately 89 thousand units.



TAXATION OF DISTRIBUTIONS

Because LP is a partnership, the income of the Partnership is allocated to the individual partners annually, who in turn, are responsible for the taxes on their portion of the partnership income. The cash distributions are paid monthly and are considered a return of capital for income tax purposes. The taxable income allocated and the cash distributions paid may differ in timing and amount.

CAUTIONARY NOTE REGARDING DISTRIBUTIONS

Although we intend to continue making monthly distributions to our Unitholders, cash distributions are not assured and may be reduced or suspended. Our ability to continue making cash distributions and the actual amount distributed 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 units may decline if we were unable to meet our cash distribution targets in the future, and that decline may be significant.

As terms under our credit facilities, we are restricted from declaring distributions or distributing cash if the LP is in breach of its debt covenants.

DISTRIBUTABLE CASH CALCULATED:

\$ thousands, except per unit amounts	March 31, 2007	March 31, 2006
Cash flow from operations	1,084	493
Add (deduct):		
Net change in non-cash operating working capital	1,882	(1,615)
Maintenance capital expenditures ¹	(516)	(244)
<hr/>		
Cash available for distribution and growth (a)	2,450	(1,366)
Per unit – diluted	0.33	0.00
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Gross distributions declared to all equity holders (b)	1,980	1,515
Payout ratio (b)/(a)	81%	n/a
Net distributions declared, net of DRIP (c)	1,106	834
Payout ratio, net of DRIP (c)/(a)	45%	n/a

Notes: 1. these terms are identified and defined under the section “Non-GAAP Financial Measures)

Our distribution policy is to maintain an annual payout equal to the prior year’s net earnings. Cash available for distribution and growth in excess of distributions we declare reflects our reserves for such things as future working capital requirements and future capital expenditures. In addition, cash retained through the participation of Unitholders in our DRIP is also used to fund future capital expenditures and acquisitions.

Cash available for distribution and growth reported for the periods ended March 31, 2007 and 2006 are net of maintenance capital expenditures. Maintenance capital expenditures are the capital expenditures incurred during the period to maintain our existing levels of service. This includes capital expenditures used to replace buildings and equipment and enhance the operational life of existing equipment. These capital expenditures can fluctuate significantly, year-to-year depending on our identified needs. If maintenance capital expenditures increase in future periods, our cash available for distribution and growth would be negatively impacted.

We estimate our unfunded maintenance capital expenditures to be approximately \$2 million for the year ended December 31, 2007 (see “Note Regarding Forward-Looking Statements). We based this



estimate on our preliminary replacement expectations for equipment, net of funding resources received. The actual timing of the replacements is subject to a number of variables that cannot necessarily be predicted and though we believe these estimates to be appropriate, our actual maintenance capital expenditures may differ materially from our original estimates.

OUTLOOK

The strength of the Canadian dollar in comparison to the US dollar continues to place downward pressure on the valuation of used equipment, particularly in the Agriculture sector. We believe we have reacted to the market appropriately through the write down of values to reflect the impact of the exchange rate, however there is no guarantee that a further adjustment may be required if the Canadian dollar continues to strengthen compared to the US dollar. We continue to focus on decreasing used equipment inventories to mitigate the inventory risk.

AGRICULTURE DIVISION:

There appears to be a higher level of optimism from our customers, caused in part by the strong grain prices and the generally strong fundamentals in the agriculture sector. This increased optimism has translated into strong demand for tractors this past quarter and we expect it to continue over the near future.

We are experiencing a wet spring in most of our territories resulting in late seeding conditions which could mean a later harvest which may in turn negatively impact demand for equipment and delay revenues from the parts and service departments.

CONSTRUCTION DIVISION:

We anticipate a continued high level of demand for our construction products and services driven mainly by a continued strong housing demand. The slowdown in the oil services sector has not impacted the business negatively, but rather, has reduced some of the strain on acquiring and retaining skilled labour.

As a result of the reduction in housing construction in the U.S. Bobcat has decreased some of its plant capacity which may negatively impact our ability to obtain new equipment. However, we have been able to source product as needed and anticipate that we will have sufficient product to meet customer demand in the near term.

Ingersoll Rand has announced that it intends to explore strategic alternatives for its Bobcat and construction related business. We have no way to determine the impact of this decision, but do not anticipate that it will have a negative impact on our business.

We have recently hired a General Manager for this division, a newly created position, to maximize the opportunities offered in this sector.

We believe that this segment will continue to provide strong financial results in the near future.



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 March 31, 2007, payments in arrears by such customers aggregated \$1.28 million (December 31, 2006 - \$878 thousand). In addition, the LP is responsible for assuming all lease obligations held by its customers with Deere Credit for the net residual value of the lease outstanding at the maturity of the contract. At December 31, 2006, the net residual value of such leases aggregated \$29.1 million (December 31, 2006 - \$27.7 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 1% to 3% of the total dollar amount of the lease finance contracts outstanding. The maximum liability that may arise related to these arrangements is limited to the deposits of \$1.16 million (December 31, 2006 - \$1.28 million). Deere Credit reviews the deposit account balances quarterly and if the balances exceed the minimum requirements, Deere Credit refunds the difference to the LP.

TRANSACTIONS WITH RELATED PARTIES

Our related party transactions are disclosed in the notes to the accompanying interim consolidated financial statements.

BUSINESS RISKS AND UNCERTAINTIES

Our business is subject to certain risks and uncertainties. Prior to making any investment decision regarding Cervus LP, investors should carefully consider, among other things, the risks described within this MD&A and the business risks and factors set forth in Cervus LP's 2006 Annual MD&A. These business risks and factors are incorporated by reference herein. These documents are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com



ADOPTION OF NEW ACCOUNTING POLICIES:

Effective January 1, 2007, the LP adopted the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) under CICA Handbook Section 1530 Comprehensive Income, Section 3251 Equity, Section 3855 Financial Instruments – Recognition and Measurement, and Section 3861 Financial Instruments – Disclosure and Presentation. These new Handbook Sections apply to fiscal years beginning on or after October 1, 2006.

COMPREHENSIVE INCOME AND EQUITY

Section 1530 establishes standards for the reporting and display of comprehensive income. The section defines other comprehensive income to include certain revenues, expenses, and gains and losses that are recognized in comprehensive income but excluded from net income. The adoption of Section 1530 did not have any impact on the LP’s financial statement presentation in the current period.

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to those of Section 1530 and recommend that an enterprise should present separately the following components of equity: retained earnings, accumulated other comprehensive income, the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital, and reserves. The adoption of Section 3251 did not have any impact on the LP’s financial statement presentation in the current period. The LP has no other comprehensive income components.

FINANCIAL INSTRUMENTS

Under Section 3855, all financial instruments are classified into one of these five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held for trading financial instruments are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of Section 3855, the LP has classified its cash and cash equivalents as held for trading. Accounts receivable and notes in transit are classified as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, floor plan payables, customer advance deposits, distribution payable, term debt and notes payable are classified as other liabilities, all of which are measured at amortized cost.

DISCLOSURE AND INTERNAL CONTROLS

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Cervus LP is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures. The Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the period covered by the interim filings that Cervus LP’s disclosure controls and procedures are effectively designed to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Partnership. It should be noted that while the Partnership’s Chief Executive Officer and Chief Financial Officer



believe that the disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting 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 objective of the control system is met.

As a result of testing performed during the quarter, including spot checks of certain inventories and related transactions, irregularities were discovered in the processing of parts inventory transactions at one of our agricultural equipment dealerships. As a result, changes have been made in the management of the store and adjustments have been recorded to inventory and receivables in the period. Although this appears to be an isolated incident of management override of internal controls, the controls surrounding parts inventory transactions, including authorization of credits on customer accounts and inventory adjustments at the store level, have been modified to further enhance the internal controls over financial reporting.

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:

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

The following is a reconciliation of EBITDA to net earnings for each of the three month periods ending March 31:

\$ thousands, except per unit amounts	March 31, 2007	March 31, 2006
Net earnings	156	(190)
Add:		
Interest	387	443
Amortization	915	696
EBITDA	1,458	949
EBITDA margin ¹	2.4%	2.1%
Per Unit - diluted	0.20	0.16

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



CASH FLOW FROM OPERATIONS BEFORE CHANGES IN NON-CASH OPERATING WORKING CAPITAL; cash flow from operations before changes in non-cash operating working capital is derived from the consolidated statements of cash flows and is calculated as cash provided from operating activities before changes in non-cash operating working capital. Per unit amounts refer to cash flow from operations before changes in non-cash operating working capital divided by the weighted average number of units outstanding during the period.

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

MAINTENANCE CAPITAL EXPENDITURES; maintenance capital expenditures are the capital expenditures incurred during the period to maintain our existing levels of service. This includes capital expenditures used to replace buildings and equipment and enhance the operational life of existing equipment.

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 LP 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 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.



INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF **CERVUS LP**

For the three months ended March 31, 2007

(These interim consolidated financial statements have not been reviewed by Cervus LP's auditors)



CERVUS LP

INTERIM UNAUDITED CONSOLIDATED BALANCE SHEETS

	March 31, 2007	December 31 2006
Assets		
Current assets:		
Trade accounts receivable	\$ 8,952,587	\$ 8,124,784
Contracts in transit	4,686,656	2,587,937
Advances to Proventure Income Fund (note 8)	106,009	109,680
Inventories	73,291,099	72,160,486
Prepaid expenses and deposits	198,242	689,821
	<u>87,234,593</u>	<u>83,672,708</u>
Investments	864,831	815,589
Deposits with John Deere	1,163,687	1,287,120
Other assets, net of accumulated amortization	8,246,000	8,452,750
Property and equipment	11,109,994	10,629,911
Goodwill and other intangibles	2,657,462	2,657,462
	<u>\$ 111,276,567</u>	<u>\$ 107,515,540</u>
Liabilities and Partners' Equity		
Current liabilities:		
Bank indebtedness (note 4)	\$ 3,300,878	\$ 4,955,294
Floor plan payables (note 4)	50,408,987	46,121,220
Accounts payable and accrued liabilities	5,730,298	4,509,728
Customer advance deposits	2,607,666	2,668,263
Distribution payable	630,585	617,704
Current portion of notes payable	200,000	100,000
Current portion of term debt	3,129,086	3,206,423
	<u>66,007,500</u>	<u>62,178,632</u>
Term debt (note 4)	8,606,078	8,002,541
Notes payable (note 4)	825,000	1,025,000
Future income taxes payable	149,000	149,000
	<u>75,587,578</u>	<u>71,355,173</u>
Partners' equity (note 5):		
Partners' capital	27,995,843	26,672,625
Unit purchase financing	(407,334)	(508,680)
Preferred partnership units	3,000,000	3,000,000
Contributed surplus (note 6)	530,965	602,653
Accumulated earnings	4,569,515	6,393,769
	<u>35,688,989</u>	<u>36,160,367</u>
Commitments and contingencies (note 7)		
	<u>\$ 111,276,567</u>	<u>\$ 107,515,540</u>

See accompanying notes to the interim consolidated financial statements.

Approved by the Board of the General Partner:

Peter Lacey, Director

Steven Collicutt, Director



CERVUS LP

INTERIM UNAUDITED CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME

	Three month period ended March 31, 2007	Three month period ended March 31, 2006
Revenue:		
Equipment sales	\$ 48,767,306	\$ 35,587,914
Parts	6,400,138	4,926,528
Service	4,000,813	3,102,220
Rentals	1,063,659	1,014,675
Other	7,521	56,291
	60,239,437	44,687,628
Cost of sales, including depreciation and amortization of \$483,161 (2006 - \$345,740)	51,110,022	37,294,210
Gross profit	9,129,415	7,393,418
Expenses:		
Selling, general and administrative	8,242,317	6,803,432
Interest on long-term debt	121,916	59,797
Interest	265,077	382,831
Depreciation and amortization	431,339	350,849
Earnings before other income	68,766	(203,491)
Other income:		
Gain on disposal of property and equipment	7,887	-
Equity earnings of significantly influenced companies	79,742	13,330
Net earnings and comprehensive income	\$ 156,395	\$ (190,161)
Net earnings (loss) per unit (note 5(f)):		
Basic	\$ 0.02	\$ (0.03)
Diluted	\$ 0.02	\$ -

See accompanying notes to the interim consolidated financial statements.



CERVUS LP

INTERIM UNAUDITED CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

For the three months ended March 31, 2007 and the year ended December 31, 2006

	General Partner	Limited Partners	Preferred Partnership Units	Limited Partnership Fixed Value Units	Total
Balance, December 31, 2005	\$ 1,580	\$ 4,843,383	\$ -	\$ -	\$ 4,844,963
Net earnings available to partners	81,867	8,104,819	390,000	20,100	8,596,786
Distributions declared	(31,280)	(6,606,600)	(390,000)	(20,100)	(7,047,980)
Balance, December 31, 2006	52,167	6,341,602	-	-	6,393,769
Net earnings available to partners	1,564	53,581	101,250	-	156,395
Distributions declared	-	(1,879,399)	(101,250)	-	(1,980,649)
Balance, March 31, 2007	\$ 53,731	\$ 4,515,784	\$ -	\$ -	\$ 4,569,515

See accompanying notes to the interim consolidated financial statements.



CERVUS LP

INTERIM UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	Three month period ended March 31, 2007	Three month period ended March 31, 2006
Cash flows from (used in):		
Operating activities:		
Net earnings (loss) for period	\$ 156,395	\$ (190,161)
Add items not affecting cash:		
Amortization of unit purchase financing	101,346	-
Gain on disposal of property and equipment	(7,887)	-
Depreciation and amortization	914,500	696,589
Equity earnings from significantly influenced companies	(79,742)	(13,330)
	1,084,612	493,098
Net change in non-cash working capital related to operations	1,882,184	(1,614,927)
	2,966,796	(1,121,829)
Financing activities:		
Issuance of limited partnership units	1,251,530	678,148
Advances from term debt, net of repayment	526,200	(361,218)
Repayment of advances and notes payable to		
Proventure Income Fund	3,671	(1,314,375)
Distributions to the partners	(1,866,518)	(1,331,207)
Distributions to preferred partnership units	(101,250)	(90,000)
Advances to related parties	-	(264,764)
Decrease (Increase) in finance reserve	123,433	(94,309)
Repayment of notes payable	(100,000)	(1,717,860)
	(162,934)	(4,495,585)
Investing activities:		
Proceeds from investments	30,500	-
Proceeds on disposal of property and equipment	45,882	-
Purchase of property and equipment	(1,225,828)	(404,733)
	(1,149,446)	(404,733)
Increase (decrease) in cash	1,654,416	(6,022,147)
Cash (bank indebtedness), beginning of period	(4,955,294)	1,135,179
Bank indebtedness, end of period	\$ (3,300,878)	\$ (4,886,968)
The following cash payments have been included in the determination of net earnings:		
Cash interest paid	\$ 386,993	\$ 442,628
Cash income taxes paid	-	1,145,389

See accompanying notes to the interim consolidated financial statements.



CERVUS LP

NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2007 and the
period ended December 31, 2006

1. DESCRIPTION OF BUSINESS:

Cervus LP (the "LP") was incorporated under the laws of Alberta as a limited partnership on March 14, 2003. The general partner is Cervus GP Ltd. The LP is a retailer of agricultural and construction equipment and products and services.

The financial statements of Cervus LP have been prepared by management in accordance with accounting principles generally accepted in Canada. The unaudited financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2006, except as disclosed in note 2. The disclosures provided below are incremental to those included in the annual audited financial statements. The financial statements should be read in conjunction with the financial statements and the notes thereto for the year ended December 31, 2006. These unaudited consolidated financial statements have not been reviewed by the Corporation's auditors.

2. NEW ACCOUNTING POLICIES:

Effective January 1, 2007, the LP adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 Comprehensive Income, Section 3251 Equity, Section 3855 Financial Instruments – Recognition and Measurement, and Section 3861 Financial Instruments – Disclosure and Presentation. These new Handbook Sections apply to fiscal years beginning on or after October 1, 2006.

COMPREHENSIVE INCOME AND EQUITY

Section 1530 establishes standards for the reporting and display of comprehensive income. The section defines other comprehensive income to include certain revenues, expenses, and gains and losses that are recognized in comprehensive income but excluded from net income. The adoption of Section 1530 did not have any impact on the LP's financial statement presentation in the current period.

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to those of Section 1530 and recommend that an enterprise should present separately the following components of equity: retained earnings, accumulated other comprehensive income, the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital, and reserves. The adoption of Section 3251 did not have any impact on the LP's financial statement presentation in the current period. The LP has no other comprehensive income components.



FINANCIAL INSTRUMENTS

Under Section 3855, all financial instruments are classified into one of these five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held for trading financial instruments are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of Section 3855, the LP has classified its cash and cash equivalents as held for trading. Accounts receivable and notes in transit are classified as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, floor plan payables, customer advance deposits, distribution payable, term debt and notes payable are classified as other liabilities, all of which are measured at amortized cost.

3. SEASONALITY:

The Canadian retailing of agricultural and construction equipment is influenced by seasonality. 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.

4. DEBT OBLIGATIONS:

a) BANK INDEBTEDNESS

At March 31, 2007 the LP has an operating bank line of credit to a maximum amount of \$12 million. The operating line of credit bears interest at rates ranging from prime plus 0.25% to prime plus 0.75% 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.



b) FLOOR PLAN PAYABLES

The LP utilizes floor plan financing arrangements with various suppliers for inventory purchases. The terms of these arrangements may include a one to ten-month interest-free period followed by a term during which interest is charged ranging from prime plus 0.5% to prime plus 1%. Settlement of the floor plan liability occurs at the earlier of sale of the inventory or in accordance with terms of the financing arrangement. Floor plan payables are secured by specific new and used equipment inventories.

c) TERM DEBT

The LP has various term debt facilities for the purchase of equipment and rental fleet inventories. These facilities bear interest at the rates ranging from prime plus 0.25% to prime plus 0.75% and also fixed rate facilities with interest up to 7.25% per annum. Principal repayments required on the term debt facilities are approximately \$3.1 million per year. The term debt is secured by short-term rental equipment, other equipment and by the security described above under bank indebtedness.

d) NOTES PAYABLE

The LP's notes payable bear interest at the rate of 6% per annum and are repayable semi-annually instalments of \$100,000 on January 31 and July 31 of each fiscal period.



5. PARTNERS' EQUITY:

(a) AUTHORIZED:

Unlimited number of partnership units

(b) ISSUED:

	Number of units	General partner	Limited partner	Total
Balance December 31, 2006	6,863,379	\$ 100	\$ 26,672,525	\$26,672,625
Issued on exercise of warrants	45,094	-	360,752	360,752
Issued under DRIP plan	98,027	-	890,778	890,778
Contributed surplus adjustment for exercise of unit options	-	-	71,688	71,688
Balance March 31, 2007	7,006,500	\$ 100	\$27,995,743	\$27,995,843

During the three months ended March 31, 2007, the LP declared total distributions of \$0.27 per unit and they were paid in distributions of \$0.09 per unit to Unitholders of record on each of January 31, 2007, February 28, 2007 and March 31, 2007. Total distributions payable was \$1,879,399 (March 2006 - \$1,424,625). Of this amount, there was a \$680,436 reinvested through the LP's Distribution Reinvestment Plan ("DRIP"). The DRIP is voluntary programs that permits eligible Unitholders too automatically, and without charge, reinvest monthly distributions in additional units.

(c) UNIT OPTION PLAN:

The LP has a unit option plan available to officers, directors and employees with grants under the plan approved from time to time by the board of directors of the general partner. The exercise price of each option equals the market price of the partnership units at the date of grant. The plan provides for vesting, at the discretion of the board, and the options expire after five years from the date of grant. There are 60,000 exercisable unit options outstanding at March 31, 2007; no compensation expense has been recorded in the three month period ended March 31, 2007



(d) **WARRANTS:**

The LP issued 200,000 warrants to participants of the August 3, 2006 private placement. These warrants were immediately exercisable and expire on August 3, 2008. The fair value of the warrants, as calculated using the Black-Scholes option pricing model was \$1.42 per warrant for an aggregate amount of \$284,256. The value was reflected as unit issue costs and contributed surplus. In addition, during 2005 the LP issued 97,500 warrants to brokers as part of the 2005 private placement. During the three month period ended March 31, 2007, 45,094 of the broker warrants were exercised for proceeds of \$360,752 and \$71,688 was adjusted to partners' capital related to those units.

(e) **EMPLOYEE SHARE PURCHASE LOANS RECEIVABLE**

Offset within Unitholders' capital are employee share purchase loans receivable of \$407,334 (December 31, 2006 - \$508,680). These loans were issued in 2006 to assist key employees in acquiring units of the LP. These loans bear interest at the rate of 4% per annum and are collateralized by the unit certificates issued. The market value of the units held as collateral for these loans was \$474,344 as at March 31, 2007. The loan agreements provide that the principal and interest components of the loans will be forgiven if the employees meet specified terms of service.

The loans are classified as a reduction from partner's equity. The forgiveness of interest and principal is accounted for as a compensation expense in the accompanying statement of earnings and \$101,346 of compensation expense was recorded for the three month period ended March 31, 2007 (2006 - \$nil).

(f) **PER UNIT AMOUNTS:**

The earnings per unit have been calculated based on the weighted average number of units outstanding for the year ended December 31, 2006 of 6,936,919 (2006 - 5,543,401). In computing diluted earnings per unit 398,159 (2006 - 630,000) units were added to the weighted average number of units for the dilutive effect of subscription receipts, broker warrants, private placement warrants, preferred units and unit options.

(g) **EMPLOYEE UNIT PURCHASE PLAN:**

The LP has an employee unit purchase plan available to all employees on a voluntary basis. Under the plan, employees are able to contribute 2% to 4% of their annual salaries, based on years of service. Cervus contributes at a minimum of 15% to 100% on a matching basis to a maximum of \$5,000 per year, per employee. The partnership units are purchased on the open market through a trustee; therefore, there is no dilutive effect to existing Unitholders. Included in general, sales and administrative expenses are \$43,913 (2006 - \$nil) of contributions made on behalf of the LP's employees.



6. CONTRIBUTED SURPLUS

During the period, 45,094 warrants were exercised for gross proceeds of \$360,752 and partnership units were issued. The fair value of the warrants included in contributed surplus of \$71,688 was recorded as a reduction in contributed surplus and an increase in Partners' Capital.

7. COMMITMENTS AND CONTINGENCIES:

- (a) John Deere Credit provides financing to certain of the LP's customers of which a portion of this financing is with recourse to the LP if the amounts are uncollectible. This amount is limited to the finance reserve account held by John Deere which aggregated \$1,163,687 at March 31, 2007 (\$1,287,120 at December 31, 2006).
- (b) The LP is committed to the following annual operating leases for equipment, land and buildings:

2008	\$	2,399,788
2009		1,805,521
2010		1,334,940
2011		1,101,343
2012		576,876
Thereafter		1,528,374
Total	\$	8,746,842



8. RELATED PARTY TRANSACTIONS:

The LP has recorded certain transactions with related parties. The transactions are recorded at exchange amount, which is the amount agreed to between the related parties. The transactions for the three month period ended March 31, 2007 and 2006 are as follows:

- (a) Proventure Income Fund, a mutual trust under common control and management

	Three month period ended March 31, 2007	Three month period ended March 31, 2006
Equipment and real estate rental	\$ 308,424	\$ 164,100
Interest on notes payable and advances	-	49,557
Interest on fixed value units	-	10,050
Guarantee fees	36,375	36,375
Advances outstanding	106,009	109,680

The CEO of the LP is the chairman and a trustee of Proventure Income Fund, a publicly traded fund. In addition, the CEO is the single largest equity holder of each of these entities. Under an agreement between the LP and Proventure, Proventure is entitled to reimbursement for costs incurred and allocation of insurance costs, allocation of data services, guarantee fees based on 3% of \$4,850,000 (March 31, 2006 - \$4,850,000), interest on any overdraft balances, interest on any outstanding indebtedness, building lease charges based on lease agreements, and other direct expenses reimbursable with no handling fees or markup.

- (b) Certain officers and dealer managers of the LP have provided guarantees to John Deere aggregating \$5,650,000 (March 31, 2006 - \$5,200,000). During the three month period ended March 31, 2007, the LP paid these individuals \$42,375 (March 31, 2006 -\$39,000) for providing these guarantees.



9. SEGMENTED INFORMATION:

The LP operates in two main industry segments with all of the operations being in Canada. These segments are agricultural and construction equipment. The segmented amounts are as follows:

March 31, 2007	Agricultural Equipment	Construction Equipment	Total
Revenue	\$ 32,783,813	\$ 27,455,624	\$ 60,239,437
Net earnings available to partners	(1,717,211)	1,873,606	156,395
Earnings of significantly influenced companies	79,742	-	79,742
Depreciation and amortization	196,758	717,742	914,500
Capital expenditures	165,913	1,059,915	1,225,828

March 31, 2006	Agricultural Equipment	Construction Equipment	Total
Revenue	\$ 28,419,082	\$ 16,268,546	\$ 44,687,628
Net earnings available to partners	(1,191,413)	1,002,466	(188,947)
Earnings of significantly influenced companies	13,330	-	13,330
Depreciation and amortization	135,805	560,784	696,589
Capital expenditures	131,554	273,179	404,733