



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the third quarter ended June 30, 2021

Dated: August 10, 2021

INTRODUCTION AND FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis ("MD&A") presents management's view of the financial position and performance of TerraVest Industries Inc. ("TerraVest" or the "Company") for the third quarter ended June 30, 2021 and should be read in conjunction with TerraVest's interim condensed consolidated financial statements for the third quarter ended June 30, 2021. The financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in thousands of Canadian dollars, except share and per share amounts or unless otherwise stated. This discussion is prepared as at August 10, 2021 and has been prepared with all available information up to and including the date of this report. This document should be read in full including the definitions of non-IFRS measures such as Adjusted earnings before interests, income taxes, depreciation and amortization ("EBITDA"), Cash Available for Distribution, Dividend Payout Ratio, Maintenance Capital Expenditures and Working Capital which are found in the following section of this MD&A.

This MD&A sets out management's assessment of TerraVest's future plans and operations and contains forward-looking statements as defined under applicable Canadian securities legislation. These forward-looking statements often contain words such as "anticipates", "does not anticipate", "believes", "estimates", "forecasts", "intends", "expects", "does not expect", "could", "may", "will", "should", "plans" or similar terms or variations of these words and contain estimates or assumptions about the outcome of future events. These forward-looking statements are provided in the interest of providing readers with information regarding TerraVest. Readers are cautioned that management's expectations, estimates and assumptions, although considered reasonable, may prove to be incorrect and readers should not place undue reliance on forward-looking statements which are subject to risks, uncertainties, and other factors that could result in the outcome of these events being materially different from those anticipated in this MD&A. These factors and assumptions include, but are not limited to: levels of business activity in TerraVest's segments, political conditions and events, competitive pressures, changes in government policy or regulations, commodity pricing, and general economic conditions. TerraVest's actual results may differ materially from those expressed in, or implied by these forward-looking statements. The forward-looking information contained in the MD&A is expressly qualified by the cautionary statement. TerraVest does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances, unanticipated events or circumstances, or should its estimates or assumptions change, after the date hereof, except as expressly required by law. Additional information relating to TerraVest and the risks to which its business is subject is contained in its Annual Information Form ("AIF"), which is available on SEDAR at www.sedar.com.

NON-IFRS FINANCIAL MEASURES

Adjusted EBITDA, Cash Available for Distribution, Dividend Payout Ratio, Maintenance Capital Expenditures and Working Capital are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. TerraVest's definitions may differ from those of other issuers and therefore may not be comparable to similarly titled measures used by other issuers.

Adjusted EBITDA: is defined as net income adjusted for income tax expense, financing costs, depreciation, amortization, gains or losses on disposal of property, plant and equipment and on disposal of assets held for sale, change in fair value of derivative financial instruments, change in fair value of investment in equity instruments, gains or losses on foreign exchange, non-recurring acquisition-related costs, impairment charges and other non-recurring and/or non-operations related items that do not reflect the current ongoing operations of TerraVest. Management believes this is a useful metric in evaluating the ongoing operating performance of TerraVest. Readers are cautioned that adjusted EBITDA should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of TerraVest's performance.

Cash Available for Distribution: is defined as cash flow from operating activities adjusted for changes in non-cash operating working capital, maintenance capital expenditures and repayment of lease liabilities. Management believes that cash available for distribution, as a liquidity measure, is a useful metric that provides an indication of the cash available from ongoing operations that can be distributed to shareholders as a dividend. Readers are cautioned that cash available for distribution should not be construed as an alternative to cash flow from operating activities determined in accordance with IFRS as an indicator of TerraVest's liquidity and cash flows.

Dividend Payout Ratio: is defined as dividends paid in cash during the period divided by cash available for distribution for the period. Management believes that dividend payout ratio is a useful metric as it provides an indication of TerraVest's ability to sustain its current dividend policy. There is no directly comparable IFRS measure for dividend payout ratio.

Maintenance Capital Expenditures: is defined as capital expenditures made to sustain the operations of TerraVest's operating businesses and to maintain the productive capacity of the businesses over an economic cycle, whether or not they yield significant cost or production efficiencies. Management believes that maintenance capital expenditures should be funded by cash flow from existing operating activities and, therefore, deducted in determining cash available for distribution. There is no directly comparable IFRS measure for maintenance capital expenditures.

Working Capital: is calculated by subtracting current liabilities from current assets. Management uses working capital as a measure for assessing overall liquidity. There is no directly comparable IFRS measure for working capital.

BUSINESS OVERVIEW

TerraVest is a diversified industrial company that manufactures and sells goods and services to various end-markets including: energy, agriculture, mining, and transportation, among others. TerraVest is focused on acquiring and operating market-leading businesses that will benefit from TerraVest's financial and operational support. These opportunities generally center on manufactured steel products that complement TerraVest's existing operations and provide integration benefits.

TerraVest is comprised of three operating segments: Fuel Containment, Processing Equipment and Service.

Fuel Containment Segment

Through wholly-owned subsidiaries, TerraVest's Fuel Containment segment is a leading provider of products and services to a variety of industries across Canada and the United States. The Fuel Containment segment manufactures products including: bulk LPG transport trailers, LPG delivery and service trucks, bulk LPG storage tanks, residential and commercial LPG tanks and dispensers, custom pressure vessels, commercial and residential refined fuel tanks, and furnaces and boilers. This segment sells its products direct to end user and through various distribution networks. The end users of the products are fuel distributors, transportation companies and industrial, commercial and residential consumers.

Processing Equipment Segment

Through subsidiaries, TerraVest's Processing Equipment segment is a leading fabricator of equipment for various end-markets including: upstream and midstream oil and gas processing, agriculture, transportation and mining. The Processing Equipment segment manufactures and sells a wide array of equipment such as: wellhead processing equipment and tanks, wellhead desanding units, central facilities processing equipment, NGL and LPG storage tanks, anhydrous ammonia storage tanks, bulk NGL and LPG transport trailers, bulk ammonia transport trailers and wagons, compressed gas transport trailers and a wide variety of customized processing equipment for various applications. This segment's products and services are primarily sold to oil and gas producers, midstream companies, engineering companies, propane distributors, fertilizer distributors and transportation companies.

Service Segment

TerraVest's Service segment provides well servicing to the oil and gas sector and is a market-leader in South-Western and Central Saskatchewan. The Service segment has been providing well servicing to major oil and gas producers in Saskatchewan for many years and is a well-recognized name. The Service segment currently operates 21 service rigs giving it the critical mass to service the needs of the largest oil and gas producers in the area.

THIRD QUARTER AND NINE MONTHS REVIEW AND OUTLOOK

Business Performance

Management believes that there are certain non-IFRS financial measures that can be used to assist shareholders in analyzing the performance of TerraVest. The table below highlights certain financial results and reconciles net income to adjusted EBITDA for the third quarter and nine months ended June 30, 2021 and the comparative periods in fiscal 2020.

	Third quarters ended		Nine months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Sales	67,830	61,019	226,647	236,022
Net Income	4,347	3,854	27,022	15,546
<i>Add (subtract):</i>				
Income tax expense	1,874	2,031	7,525	5,218
Financing costs	940	1,175	2,857	4,202
Depreciation and amortization	4,756	5,281	14,204	13,559
Change in fair value of derivative financial instruments	(247)	(1,438)	(1,951)	927
Change in fair value of investment in equity instruments	(18)	47	(3,991)	47
(Gain) loss on foreign exchange	671	929	3,484	(1,094)
Acquisition-related cost	-	-	-	171
(Gain) loss on disposal of property, plant and equipment	(384)	(25)	(588)	(300)
(Gain) loss on disposal of assets held for sale	-	-	-	(931)
(Gain) loss on contingent considerations	-	-	-	(61)
Adjusted EBITDA	11,939	11,854	48,562	37,284

Sales for the third quarter and nine months ended June 30, 2021 were \$67,830 and \$226,647 versus \$61,019 and \$236,022 for the prior comparable periods. This represents an increase of 11% and a decrease of 4% respectively. However, TerraVest acquired all of the assets of Argo Sales Inc. ("Argo") in December 2019, which only partially contributed to the prior comparable period of nine months. Excluding Argo, sales for the nine months ended June 30, 2021 were \$200,164 versus \$209,685 for the prior comparable period. This represents a decrease of 5% for TerraVest's base portfolio (excluding Argo).

Sales for the third quarter ended June 30, 2021 have increased versus the prior comparable period as TerraVest's end-markets are starting to show signs of recovery from the COVID-19 pandemic. Demand for home heating and commercial fiberglass products as well as for oil and gas processing equipment and service in Western Canada have increased for the third quarter of fiscal 2021 compared to prior comparable period. These increases were partially offset by weaker demand for TerraVest's LPG and NGL storage and distribution equipment. The net decrease in sales for the nine-month period is a result of weaker demand for most of TerraVest's products lines except home heating products versus the prior comparable period.

Net income for the third quarter and nine months ended June 30, 2021 were \$4,347 and \$27,022 versus \$3,854 and \$15,546 for the prior comparable periods. This represents increases of 13% and 74% respectively. The increases are a result of a more favorable product mix, government wage subsidies to help maintain employment during the COVID-19 pandemic and other government subsidies available for entities experiencing significant revenue decreases as well as cost control measures put in place. Increased sales for the third quarter and a favorable change in the fair value of investment in equity instruments also contributed to the increases. The increases in net income were partially offset by decreased sales activities for the nine months as explained above and are also a result of the variations highlighted in the table above.

Adjusted EBITDA for the third quarter and nine months ended June 30, 2021 were \$11,939 and \$48,562 versus \$11,854 and \$37,284 for the prior comparable periods. This represents increases of 1% and 30% respectively, which are a result of the reasons explained above.

During the first nine months, TerraVest recognized \$9,112 in net income in relation to the Canada Emergency Wage Subsidy ("CEWS") as part of the Federal Government's response to the COVID-19 pandemic. Had the CEWS program not been available, TerraVest would have made incremental significant personnel reductions to mitigate reduced business activity. TerraVest also recognized \$3,065 in net income during the first nine months in relation to other various government subsidies available in response to the COVID-19 pandemic.

The table below reconciles cash flow from operating activities to cash available for distribution for the third quarter and nine months ended June 30, 2021 and the comparative periods in fiscal 2020.

	Third quarters ended		Nine months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Cash Flow from Operating Activities	2,245	16,921	24,545	48,219
<i>Add (subtract):</i>				
Change in non-cash operating working capital items	8,035	(4,281)	9,753	(17,961)
Maintenance capital expenditures	(2,342)	(495)	(4,476)	(2,640)
Repayment of lease liabilities	(1,109)	(940)	(3,258)	(2,571)
Cash Available for Distribution	6,829	11,205	26,564	25,047
Dividends Paid	1,844	1,874	5,560	5,469
Dividend Payout Ratio	27%	17%	21%	22%

Cash flow from operating activities for the third quarter and nine months ended June 30, 2021 were \$2,245 and \$24,545 versus \$16,921 and \$48,219 for the prior comparable periods. This represents decreases of 87% and 49% respectively. The decreases in cash flow are a result of working capital fluctuations and increased income taxes paid, partially offset by increased net income.

Maintenance capital expenditures were \$2,342 for the third quarter ended June 30, 2021 versus \$495 for the prior comparable period representing an increase of 373%. This variation is due to the timing of certain larger capital projects that fell within the period. During the third quarter, TerraVest's total purchase of property, plant and equipment paid was \$6,436 of which \$4,094 is considered growth capital. The growth capital incurred during the third quarter consisted of additions to the Company's rental fleet and deposits on new robotic equipment to automate certain production lines. These growth projects are expected to result in increased capacity and greater efficiencies in several of TerraVest's businesses.

Cash available for distribution for the third quarter and nine months ended June 30, 2021 decreased by 39% and increased by 6% respectively versus the prior comparable periods. The decrease and increase are a result of reasons explained above and previously in this MD&A.

The dividend payout ratio for the third quarter and nine months ended June 30, 2021 were 27% and 21% versus 17% and 22% respectively for the prior comparable periods.

Outlook

The current global pandemic continues to create a challenging business environment for TerraVest on many fronts. Over the past year, the Company and its employees have done an excellent job managing through COVID-19 pandemic related restrictions, all while keeping tight control on operating costs and improving manufacturing efficiency. However, new challenges continue to present themselves, as a result of the COVID-19 pandemic, such as disrupted global supply chains resulting in rising raw material prices and, in many cases, supply shortages. In addition, many sectors are experiencing a much longer recovery profile which continues to weigh on energy activity level and ultimately certain of TerraVest's businesses. Navigating these challenges, while continuing to keep our employees, our customers and our vendors safe will be the primary focus for the Company for the remainder of the year. Additionally, TerraVest will remain vigilant in managing its cost structure and will make targeted investments in manufacturing efficiency improvements as well as continue to pursue its acquisition strategy.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides the financial results of TerraVest's operations for the third quarter and nine months ended June 30, 2021 and the comparative periods in fiscal 2020.

	Third quarters ended		Nine months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Sales	67,830	61,019	226,647	236,022
Cost of sales	51,776	45,915	167,668	183,136
Gross profit	16,054	15,104	58,979	52,886
Administration expenses	6,914	7,491	19,381	24,850
Selling expenses	1,662	1,040	4,945	4,482
Financing costs	940	1,175	2,857	4,202
Share of associates and joint venture net loss	295	-	295	-
Other (gains) losses	22	(487)	(3,046)	(1,412)
	9,833	9,219	24,432	32,122
Earnings before income taxes	6,221	5,885	34,547	20,764
Income tax expense	1,874	2,031	7,525	5,218
Net Income	4,347	3,854	27,022	15,546
Allocated to non-controlling interest	(73)	(28)	(201)	(120)
Net income attributable to common shareholders	4,420	3,882	27,223	15,666
Weighted average shares outstanding – Basic	17,870,820	18,685,491	18,279,415	18,420,527
Weighted average shares outstanding – Diluted	18,130,103	18,995,139	18,552,523	19,071,235
Net income per share – Basic	\$0.25	\$0.21	\$1.49	\$0.85
Net income per share – Diluted	\$0.24	\$0.20	\$1.47	\$0.83

Sales for the third quarter and nine months ended June 30, 2021 increased by 11% and decreased by 4% respectively versus the prior comparable periods. The reasons have been explained previously in this MD&A.

Gross profit for the third quarter and nine months ended June 30, 2021 increased by 6% and 12% respectively versus the prior comparable periods. This is primarily explained by a more favorable product mix, partially offset by decreased sales volume for some of TerraVest's base portfolio businesses creating pressure on gross profit as there is less volume to absorb fixed operating costs. The amount of government subsidies recognized during the third quarter ended June 30, 2021 is also less than the prior comparable period.

Administration expenses for the third quarter and nine months ended June 30, 2021 decreased by 8% and 22% respectively versus the prior comparable periods. The variation is mainly the result of government wage subsidies, cost control measures and non-recurring acquisition-related expenses incurred in fiscal 2020, offset by the addition of Argo to TerraVest's results.

Selling expenses for the third quarter and nine months ended June 30, 2021 increased by 60% and 10% respectively versus the prior comparable periods. The increase over the prior comparable quarter is primarily a result of increased commissions due to increased sales.

Financing costs for the third quarter and nine months ended June 30, 2021 decreased by 20% and 32% respectively versus the prior comparable periods. The decreases are primarily explained by lower interest expense because of the prime rate reductions in March 2020 and April 2020 and by reduced debt balances.

Other (gains) losses variance for the third quarter and nine months ended June 30, 2021 is a result of favorable changes in the fair value of derivative financial instruments (unfavorable for the third quarter) and investment in equity instruments as well as a gain on disposal of property, plant and equipment which were partially offset by a loss on foreign exchange.

Income tax expense decreased for the third quarter and increased for the nine months ended June 30, 2021 versus the prior comparable periods. The marginal decrease for the third quarter ended June 30, 2021 is mainly explained by the timing of income tax expense adjustments and non-taxable items while the increase for the nine months ended June 30, 2021 is the result of increased taxable earnings, partially offset by a reduction of the tax rates for certain subsidiaries of TerraVest.

As a result of the above, net income attributable to common shareholders for the third quarter and nine months ended June 30, 2021 increased by 14% and 74% respectively versus the prior comparable periods.

Segmented Results

a) Fuel Containment

	Third quarters ended		Nine months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Sales	38,680	31,112	131,508	115,835
Net Income	5,098	4,519	21,874	12,972
<i>Add (subtract):</i>				
Income tax expense	1,635	1,460	6,997	4,405
Financing costs	463	544	1,402	1,947
Depreciation and amortization	1,917	1,987	5,742	5,957
Change in fair value of derivative financial instruments	(247)	(1,438)	(1,951)	927
(Gain) loss on foreign exchange	524	492	2,661	(755)
(Gain) loss on disposal of property, plant and equipment	-	(8)	(49)	(12)
(Gain) loss on disposal of assets held for sale	-	-	-	180
(Gain) loss on contingent considerations	-	-	-	(61)
Adjusted EBITDA	9,390	7,556	36,676	25,560

Sales for the third quarter and nine months ended June 30, 2021 were \$38,680 and \$131,508 versus \$31,112 and \$115,835 for the prior comparable periods. This represents increases of 24% and 14% respectively. The increases in sales are a result of stronger demand for home heating product lines and commercial fiberglass products, partially offset by decreased sales for this segment's LPG distribution equipment products versus the prior comparable periods.

Net income for the third quarter and nine months ended June 30, 2021 were \$5,098 and \$21,874 versus \$4,519 and \$12,972 for the prior comparable periods. This represents increases of 13% and 69% respectively. The increases in net income are primarily the result of increased sales as explained above, partially offset by increases in income tax expense and loss on foreign exchange. The net income for the nine months ended June 30, 2021 also benefited from a favorable change in product mix and in the fair value of derivative financial instruments as well as cost reduction measures and government subsidies.

Adjusted EBITDA for the third quarter and nine months ended June 30, 2021 were \$9,390 and \$36,676 versus \$7,556 and \$25,560 for the prior comparable periods. This represents increases of 24% and 43% respectively, which are a result of the reasons highlighted above.

b) Processing Equipment

	Third quarters ended		Nine months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Sales	25,475	28,867	84,719	111,946
Net Income	638	660	4,268	3,920
<i>Add (subtract):</i>				
Income tax expense (recovery)	(308)	344	(83)	1,073
Financing costs	428	563	1,300	1,708
Depreciation and amortization	2,465	3,038	7,310	6,481
(Gain) loss on foreign exchange	(12)	(4)	-	6
(Gain) loss on disposal of property, plant and equipment	(383)	(14)	(541)	(287)
Adjusted EBITDA	2,828	4,587	12,254	12,901

Sales for the third quarter and nine months ended June 30, 2021 were \$25,475 and \$84,719 versus \$28,867 and \$111,946 for the prior comparable periods. This represents decreases of 12% and 24% respectively. However, excluding the addition of Argo, sales for the nine months were \$58,236 versus \$85,609 for the prior comparable period representing a decrease of 32%. The decrease in sales for the third quarter is mainly the result of weaker demand for NGL storage and distribution equipment in Western Canada and LPG trailers in the United States, partially offset by increased demand for oil and gas processing equipment compared to prior period. The decrease in sales for the nine months ended June 30, 2021 is a result of weaker demand for all product lines in this segment as both weak commodity pricing and the COVID-19 pandemic have had a major impact on this segment's customers capital expenditure programs year to date.

Net income for the third quarter and nine months ended June 30, 2021 were \$638 and \$4,268 versus \$660 and \$3,920 for the prior comparable periods. This represents a decrease of 3% and an increase of 9% respectively. The impact of the overall decrease in this segment's sales compared to the prior periods was mitigated by significant cost control measures and government subsidies. This segment also incurred higher depreciation and amortization expense during the nine months ended June 30, 2021 versus prior comparable period. The decreases in net income were partially offset by a gain on disposal of property, plant and equipment.

Adjusted EBITDA for the third quarter and nine months ended June 30, 2021 were \$2,828 and \$12,254 versus \$4,587 and \$12,901 for the prior comparable periods. This represents decreases of 38% and 5% respectively, which are a result of the reasons explained above.

c) Service

	Third quarters ended		Nine months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Sales	3,667	1,040	10,396	8,241
Net income (loss)	357	(217)	798	(694)
<i>Add (subtract):</i>				
Income tax expense (recovery)	(39)	21	(67)	(38)
Financing costs	50	70	161	272
Depreciation and amortization	373	255	1,151	1,120
(Gain) loss on disposal of property, plant and equipment	-	(2)	3	(1)
Adjusted EBITDA	741	127	2,046	659

Sales for the third quarter and nine months ended June 30, 2021 were \$3,667 and \$10,396 versus \$1,040 and \$8,241 for the prior comparable periods. This represents increases of 253% and 26% respectively. The increases in sales are primarily the result of higher commodity pricing driving increased activity by this segment's customers. Government funding targeted at oil and gas well abandonment work in Western Canada is also contributing to increased activity and rig utilization.

Net income for the third quarter and nine months ended June 30, 2021 were \$357 and \$798 versus net losses of \$217 and \$694 for the prior comparable periods. This represents increases of 265% and 215% respectively, and are a result of increased sales, cost control measures, government subsidies and a decrease in financing costs because of the prime rate reductions in March 2020 and April 2020.

Adjusted EBITDA for the third quarter and nine months ended June 30, 2021 were \$741 and \$2,046 versus \$127 and \$659 for the prior comparable periods. This represents increases of 483% and 210% respectively, and are a result of the reasons explained above.

Quarterly Results

	For the quarters ended							
	30-Jun-21	31-Mar-21	31-Dec-20	30-Sep-20	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	67,830	76,477	82,340	68,231	61,019	86,751	88,252	80,345
Adjusted EBITDA	11,939	17,535	19,088	17,448	11,854	10,853	14,577	13,294
Net income attributable to common shareholders	4,420	10,786	12,017	11,173	3,882	5,323	6,461	6,320
Net income per share								
– Basic	0.25	0.58	0.65	0.60	0.21	0.28	0.36	0.36
– Diluted	0.24	0.57	0.64	0.59	0.20	0.28	0.35	0.34

TerraVest's operating segments are seasonal in nature. The strongest quarters for TerraVest are its first and last quarters. The Processing Equipment and Service segments generally experience higher sales in the first and second quarters as majority of the drilling in Western Canada occurs during this period. The Fuel Containment segment generally experiences higher sales during the first and last quarters as demand for residential, commercial and industrial heating products increases heading into the winter months. The third quarter is typically the weakest across all segments. TerraVest takes advantage of this seasonality to build inventory levels during non-peak demand periods, thereby allowing TerraVest to more readily meet increased levels of demand during its regular peak demand periods.

CASH FLOW

The following table provides summary information with respect to consolidated cash flows from operating, investing and financing activities:

	Nine months ended	
	June 30, 2021	June 30, 2020
	\$	\$
Cash flow from operating activities	24,545	48,219
Cash flow used in investing activities	(10,849)	(20,024)
Cash flow used in financing activities	(31,533)	(20,443)
Net inflows (outflows) for the period	(17,837)	7,752
Cash and bank overdrafts, beginning of year	26,717	9,093
Impact of foreign exchange on cash and bank overdrafts	(583)	183
Cash and bank overdrafts, end of period	8,297	17,028

Cash Flow from Operating Activities

TerraVest generated \$24,545 of cash flow from operating activities during the nine months ended June 30, 2021 compared to \$48,219 for the prior comparable period. The decrease is mainly attributable to increased income taxes paid and changes in non-cash working capital levels versus the prior comparable period, partially offset by increased net income.

Cash Flow used in Investing Activities

Cash flow used in investing activities during the nine months ended June 30, 2021 was \$10,849 compared to \$20,024 for the prior comparable period. The decreased use of cash is primarily attributable to the proceeds from disposal of investment in equity instruments and the acquisition of Argo in the prior comparable period, partially offset by increased capital expenditures and an investment in an associate.

Cash Flow used in Financing Activities

Cash flow used in financing activities during the nine months ended June 30, 2021 was \$31,533 versus \$20,443 for the prior comparable period. The difference is attributable to the use of cash flow to repurchase TerraVest's common shares.

DIVIDENDS

During the third quarter, TerraVest has declared a dividend of \$0.10 per common share payable on July 12, 2021 to shareholders of record on June 30, 2021.

Subsequent to the end of the third quarter, TerraVest declared a cash dividend of \$0.10 per common share payable on October 12, 2021 to shareholders of record on September 30, 2021.

TerraVest expects to declare and pay a dividend on a quarterly basis. The dividend policy may be changed from time to time in the sole discretion of the Board of Directors. Accordingly, there can be no assurances as to the amount or timing of any dividend in the future. In assessing whether to pay a dividend and in determining the amount of the dividend, the Board of Directors will consider TerraVest's financial condition and its then current business needs and other factors the Board of Directors may consider appropriate in the circumstances.

LIQUIDITY AND CAPITAL RESOURCES

TerraVest's objective in managing its capital resources is to ensure that there are adequate capital resources to support the operations of its various business segments and permit opportunistic acquisitions in order to maximize the return to shareholders. Management continually assesses TerraVest's capital needs to meet its objectives.

TerraVest's principal sources of liquidity are cash on hand, secured credit facilities and cash flow generated by its operations throughout the year. As at June 30, 2021, TerraVest's cash position, net of bank overdrafts, was \$8,297 compared to \$26,717 as at September 30, 2020. As at June 30, 2021, TerraVest's consolidated working capital, excluding short-term revolving credit facilities, was \$100,568 compared to \$105,105 as at September 30, 2020. TerraVest expects to be able to fund all working capital requirements, contractual obligations and capital expenditures from a combination of cash on hand, operating cash flows and existing credit facilities.

Revolving Operating Loans

TerraVest and its subsidiaries have access to revolving operating loans. Two of the revolving operating loans are based on margin requirements. The revolving operating loans are subject to certain financial covenants which are based on the results of the individual subsidiaries in which the credit facilities are held. The availability of the revolving operating loans at any given time may have an impact on TerraVest's liquidity and available capital resources and its ability to fund its operating and future growth plans.

As at June 30, 2021, the maximum amount available was \$123,994, of which \$68,067 was drawn. TerraVest was in compliance with all of its financial and non-financial covenants.

For further information on the financial and non-financial covenants, please refer to Note 8 of TerraVest's interim condensed consolidated financial statements for the third quarter ended June 30, 2021 and Note 14 of TerraVest's audited consolidated financial statements for the year ended September 30, 2020.

Revolving Term Loan

Certain subsidiaries of TerraVest operating in the Processing Equipment and Service segments have access to a \$20,000 revolving term loan that can be used to refinance existing debt and to purchase property, plant and equipment. As at June 30, 2021, \$18,458 was drawn.

TerraVest was in compliance with all of its financial and non-financial covenants. For further information on the financial and non-financial covenants, please refer to Note 8 of TerraVest's interim condensed consolidated financial statements for the third quarter ended June 30, 2021 and Note 14 of TerraVest's audited consolidated financial statements for the year ended September 30, 2020.

Loan

A subsidiary of TerraVest operating in the Fuel Containment segment has access to an unsecured interest-bearing loan totaling \$50,000. The loan includes a \$10,000 tranche that can be used to finance working capital for growth opportunities and a \$40,000 tranche that can be used to finance business acquisitions which can be drawn by multiples of \$10,000. As at June 30, 2021, \$10,000 was drawn. TerraVest was in compliance with all of its financial and non-financial covenants.

Share Capital

TerraVest's common shares are listed on the Toronto Stock Exchange under the symbol "TVK". Changes in the common shares issued and outstanding were as follows:

	As at June 30, 2021	
	Number	Amount
		\$
Balance, beginning of year	18,681,250	149,284
Issued on exercise of stock options	120,031	2,304
Repurchased and cancelled	(1,233,803)	(9,876)
Balance, end of period	17,567,478	141,712

During the nine months ended June 30, 2021, TerraVest repurchased 1,233,803 common shares (87,170 during the nine months ended June 30, 2020) under its common shares normal course issuer bid ("NCIB") for total consideration of \$21,103 (\$1,080 during the nine months ended June 30, 2020). The difference between the amount paid for the common shares and their carrying value was recorded in share premium.

On March 17, 2021, TerraVest renewed its common shares NCIB under which it may repurchase 1,028,726 common shares. The common shares NCIB expires on March 16, 2022. On April 15, 2021, TerraVest has entered into an Automatic Share Purchase Plan ("ASPP") in order to facilitate, at any trading day, the repurchase of common shares under its common shares NCIB. The remaining number of common shares available for repurchase under the current common shares NCIB was 23 as at June 30, 2021.

Subsequent to the end of the third quarter, TerraVest did not repurchased common shares under its common shares NCIB.

Capital Structure

The capital structure of TerraVest consists of its revolving credit facilities, long-term debt and shareholders' equity attributable to common shareholders. The following table outlines TerraVest's capital structure:

	As at June 30, 2021	As at September 30, 2020
	\$	\$
Bank overdrafts	325	735
Drawn on current revolving credit facilities	-	864
Available on current revolving credit facilities, net of amount drawn	3,859	3,386
Drawn on long-term revolving operating loans	68,067	77,457
Available on long-term revolving operating loans, net of amount drawn	52,068	42,957
Long-term debt (current and non-current)	33,598	26,194
Available long-term debt	40,000	-
Shareholders' equity attributable to common shareholders	123,271	125,930
	321,188	277,523

Other than the financial covenants and restrictive non-financial covenants contained in the loan agreements, TerraVest is not subject to any externally imposed capital restrictions.

The Board of Directors does not establish quantitative return on capital criteria for management. TerraVest intends to maintain a flexible capital structure that is consistent with its stated objectives and adjust it in the light of changes in economic conditions and the risk characteristics of the underlying instruments. In order to maintain or adjust its capital structure, TerraVest may, from time to time, acquire shares for cancellation in connection with an SIB or an NCIB, issue new shares, raise capital through various debt instruments or refinance current debt through instruments with different characteristics.

SHARE-BASED PAYMENTS

TerraVest has a stock option plan for which options are granted to key management personnel to purchase common shares of TerraVest. Of the 1,500,000 common shares reserved for issuance, 367,500 were available for issuance under the stock option plan as at June 30, 2021. Total expense arising from the share-based payment transactions recognized during the nine months ended June 30, 2021 as compensation expense was \$57 (\$71 during the nine months ended June 30, 2020).

The stock options outstanding and the weighted average exercise prices as at June 30, 2021, were as follows:

Grant Date	Expiry Date	Exercise price	Opening balance	Settled or exercised	Closing balance	Vested and exercisable	Unvested
Feb. 9, 2017	Feb. 9, 2022	\$9.10	333,000	(333,000)	-	-	-
Mar. 9, 2017	Mar. 9, 2024	\$9.10	267,500	-	267,500	267,500	-
Jan. 20, 2020	Jan. 20, 2027	\$13.12	100,000	-	100,000	33,333	66,667
			700,500	(333,000)	367,500	300,833	66,667
Weighted average exercise price			\$9.67	\$9.10	\$10.19	\$9.55	

During the nine months ended June 30, 2021, no stock options were granted or forfeited and 333,000 stock options were exercised by way of cashless exercise. As a result, TerraVest issued 120,031 common shares at a weighted average share price of \$17.92 per common shares based on the average trading price of the common shares on the Toronto Stock Exchange for the five trading days immediately preceding the exercise date of the stock options. In addition, TerraVest will remit \$786,104, included in accounts payable and accrued liabilities, to the tax authority to pay the key management employee's estimated personal tax obligation related to the transaction. The aggregate value of the issued common shares and the withholding tax obligation assumed by TerraVest represented the intrinsic value of the 333,000 stock options at the exercise date and was recorded in share premium.

FINANCIAL INSTRUMENTS RISK

TerraVest is exposed to various risks in relation to financial instruments. The main type of risks are market risk, credit risk and liquidity risk. An analysis of these risks as at June 30, 2021, is provided below.

Market Risk

TerraVest is exposed to market risk, through its use of financial instruments, specifically to foreign currency risk, interest rate risk and certain commodity price risk.

Foreign Currency Risk

Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. TerraVest is subject to foreign currency risk for:

- sales and operating expenses denominated in foreign currencies made by Canadian entities; and
- financial instruments denominated in foreign currency in Canadian entities.

TerraVest does not have a policy to hedge its foreign currency risk and manages its exposure to foreign currency risk by periodically entering into forward exchange contracts. Based on the net U.S. dollar exposure as at June 30, 2021, a one cent increase in the Canadian/U.S. dollar exchange rate would have had a favorable impact of \$74 on net income (\$88 for the nine months ended June 30, 2020). A one cent decrease in the Canadian/U.S. dollar exchange rate would have had an impact of a similar magnitude but in opposite directions on net income.

Interest Rate Risk

TerraVest does not have a policy to hedge its interest rate risk and is exposed to interest rate risk arising from fluctuations in interest rates on revolving credit facilities and long-term debt at variable interest rates. TerraVest entered into an interest rate swap agreement to manage a portion of its exposure to interest rate risk.

For the nine months ended June 30, 2021, a 1% increase in the interest rate would have had an unfavorable impact of \$389 on net income (\$676 for the year ended September 30, 2020), calculated using the average outstanding balances during the period on revolving credit facilities and long-term debt at variable interest rates. A 1% decrease in the interest rate would have had an impact of a similar magnitude but in opposite directions on net income.

Commodity Price Risk

TerraVest is sensitive to changes in commodity prices for crude oil and natural gas. Fluctuations in commodity prices for crude oil and natural gas have an indirect impact on TerraVest's portfolio businesses operating in the oil and natural gas sectors. The indirect impact is the effect that the price variations have on activity levels for customers of those portfolio businesses and, therefore, the demand for goods and services. The indirect impact is not quantifiable.

Credit Risk

Credit risk is the risk that a counterparty will fail to perform its obligations to TerraVest. TerraVest's credit risk comes mainly from accounts receivable and is mitigated through credit policies that limit transactions according to counterparties' creditworthiness, which is assessed by considering counterparties' financial position, past experience and other factors. In addition, a large majority of TerraVest's clients are well established companies with a history of prompt payment. Accounts receivable amounts are presented on the consolidated statements of financial position net of the allowance for doubtful accounts. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due. The expected loss rates are based on the payment profile for sales based on historical credit losses. Trade receivables are written off when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with TerraVest on alternative payment arrangement, amongst other, may be considered indicators of no reasonable expectation of recovery. The credit risk on cash is considered negligible since cash is held in reputable financial institutions with high quality external credit ratings. TerraVest's maximum exposure to credit risk is \$52,763 as at June 30, 2021 (\$72,062 as at September 30, 2020).

As at June 30, 2021 and September 30, 2020, 91% of TerraVest's accounts receivable were less than 90 days past invoice date.

Liquidity Risk

TerraVest's objective is to maintain cash and cash availability to meet its liquidity requirements. TerraVest monitors its cash and trade receivable balances as well as cash flows generated from operations to meet its financial obligations. TerraVest also has access to various authorized revolving credit facilities to manage its liquidity need. For a more detailed discussion on liquidity risk, refer to the section entitled "Liquidity and Capital Resources" in this MD&A.

SIGNIFICANT ACCOUNTING POLICIES

TerraVest prepares its financial statements in accordance with IFRS. TerraVest's accounting policies under IFRS are disclosed in Note 2 of TerraVest's audited consolidated financial statements for the year ended September 30, 2020.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of TerraVest's financial position and results of operations are based on its interim condensed consolidated financial statements, which have been prepared in accordance with IAS 34 *Interim Financial Reporting*. For information regarding the use of estimates and judgments please refer to Note 3 of TerraVest's audited consolidated financial statements for the year ended September 30, 2020, and to Note 3 of TerraVest's interim condensed consolidated financial statements for the third quarter ended June 30, 2021.

CONTROLS AND PROCEDURES

As at June 30, 2021, TerraVest's Chief Executive Officer and Chief Financial Officer have certified that the design of the disclosure controls and procedures provides reasonable assurance that significant information relevant to TerraVest is reported to them during the preparation of disclosure documents, and that the design of the internal controls over financial reporting provides reasonable assurance regarding the reliability of the financial information and the preparation of the financial statements in accordance with IFRS. During the period covered by this report, TerraVest did not make any changes in internal controls over financial reporting that significantly affected or are reasonably likely to significantly affect TerraVest's internal controls over financial reporting.

RELATED PARTY TRANSACTIONS

For detailed information on related party identity, relationship and transactions, please refer to Note 27 of TerraVest's audited consolidated financial statements for the year ended September 30, 2020.

RISK FACTORS

For a detailed discussion of the risk factors related to the businesses and to the structure of TerraVest, please refer to the AIF of TerraVest under the heading "Risk Factors", which is incorporated herein by reference.

ADDITIONAL INFORMATION

Additional information relating to TerraVest, including the AIF of TerraVest, is available on SEDAR at www.sedar.com.