MANAGEMENT'S DISCUSSION AND ANALYSIS

For the first quarter ended December 31, 2021

Dated: February 9, 2022

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 first quarter ended December 31, 2021 and should be read in conjunction with TerraVest's interim condensed consolidated financial statements for the first quarter ended December 31, 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 February 9, 2022 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, gains or losses on remeasurement of equity interest 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 a wide range of services to the energy sector in Western Canada including fluid hauling, water management, environmental solutions, heating, rentals and well servicing. TerraVest's Service segment is well-recognized for its technological innovation and industry-leading ESG program. This segment services many of the largest energy producers in Canada.

FIRST QUARTER 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 first quarter ended December 31, 2021 and the comparative period in fiscal 2021.

	First quarters ended	
	Dec. 31, 2021	**Dec. 31, 2020**
	$	**$**
Sales	**131,364**	82,340
Net Income	**10,578**	11,952
Add (subtract):		
Income tax expense	**3,147**	3,350
Financing costs	**1,930**	976
Depreciation and amortization	**6,771**	4,717
Change in fair value of derivative financial instruments	**(266)**	(1,080)
Change in fair value of investment in equity instruments	**(17)**	(2,857)
(Gain) loss on foreign exchange	**240**	2,132
(Gain) loss on remeasurement of an equity interest	**(1,956)**	-
Acquisition-related cost	**38**	-
(Gain) loss on disposal of property, plant and equipment	**(169)**	(102)
Adjusted EBITDA	**20,296**	19,088

Sales for the first quarter ended December 31, 2021 were $131,364 versus $82,340 for the prior comparable quarter. This represents an increase of 60%. However, TerraVest acquired all of the issued and outstanding shares of ECR International, Inc. (“ECR”) in August 2021 and a controlling interest of 66.8% in Green Energy Services Inc. (“GES”) in November 2021, neither of which contributed to the prior comparable quarter. Excluding ECR and GES, sales for the first quarter ended December 31, 2021 were $96,477 versus $82,340 for the prior comparable period. This represents an increase of 17% for TerraVest’s base portfolio (excluding ECR and GES) which is a result of higher demand for LPG and NGL storage and distribution equipment as well as for oil and gas processing equipment and services in Western Canada. Even though the COVID-19 pandemic continues to put pressure on operations, the increase in commodity pricing is starting to have a favorable impact on demand and sales for TerraVest’s businesses operating in Western Canada.

Net income for the first quarter ended December 31, 2021 was $10,578 versus $11,952 for the prior comparable period. This represents a decrease of 11%, which is a result of a combination of factors. During the quarter, TerraVest received less government subsidies than the prior comparable period, while activity levels in certain businesses had yet to recover to pre-pandemic level. Additionally, raw material pricing and supply chain issues had an impact on output and profitability in certain of the Company’s businesses. Lastly, labour shortages, and COVID-related measures had an impact on production in certain operations during the period. Partially offsetting the factors mentioned was the addition of ECR, as well as other variances highlighted in the table above.

Adjusted EBITDA for the first quarter ended December 31, 2021 was $20,296 versus $19,088 for the prior comparable period. This represents an increase of 6%, which is primarily the result of the additions of ECR and GES and the reasons highlighted above.

During the first quarter, TerraVest recognized $780 in net income ($2,855 for the first quarter ended December 31, 2020) 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 $18 in net income ($nil for the first quarter ended December 31, 2020) during the first quarter 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 first quarter ended December 31, 2021 and the comparative period in fiscal 2021.

	First quarters ended	
	Dec. 31, 2021	**Dec. 31, 2020**
	$	**$**
Cash Flow from (used in) Operating Activities	**(337)**	19,037
Add (subtract):		
Change in non-cash operating working capital items	**15,689**	(7,411)
Maintenance capital expenditures	**(1,269)**	(1,112)
Repayment of lease liabilities	**(1,275)**	(1,068)
Cash Available for Distribution	**12,808**	9,446
Dividends Paid	**1,757**	1,868
Dividend Payout Ratio	**14%**	20%

Cash flow from (used in) operating activities for the first quarter ended December 31, 2021 was ($337) versus $19,037 for the prior comparable period. This represents a decrease of 102% compared to the prior comparable period. The decrease in cash flow from operating activities is largely attributable to increased working capital as activity levels are increasing in certain of TerraVest's businesses. The significant increase in steel and other raw materials pricing has also had a noticeable effect on working capital levels. The decrease was partially offset by increased net income affecting cash and a reduction in income taxes paid.

Maintenance capital expenditures were $1,269 for the first quarter ended December 31, 2021 versus $1,112 for the prior comparable period representing an increase of 14%, which is mainly explained by the timing of maintenance capital expenditures. TerraVest's total purchase of property, plant and equipment paid during the first quarter ended December 31, 2021 was $6,936 of which $5,667 is considered growth capital. The growth capital incurred during the first quarter was used to add to the Company's rental fleet, finalize the automation and improvement of a manufacturing line and to purchase additional land adjacent to one of its operations. 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 first quarter ended December 31, 2021 increased by 36% versus the prior comparable period. The increase is a result of reasons explained above and previously in this MD&A.

The dividend payout ratio for the first quarter ended December 31, 2021 was 14% versus 20% for the prior comparable period.

Outlook

The current global pandemic continues to create a challenging business environment for TerraVest on many fronts. Global supply chains remain disrupted and continue to result in rising raw material costs and shortages. Fluctuating COVID case numbers and the resulting workplace restrictions, as well as a general shortage of labour continue to impact operations in certain of TerraVest's businesses. Another significant challenge for the current year will be managing the lag between ending government subsidy programs and increasing activity, primarily in the Processing Equipment segment. Navigating these challenges, while continuing to keep our employees, our customers and our vendors safe will be the primary focus for TerraVest for the remainder of the year. The Company continues to make targeted investments to improve manufacturing efficiency, add complimentary product lines, and pursue its acquisition strategy.

Business Combination

Effective on November 1, 2021, TerraVest entered into share purchase agreements to acquire an additional 41.4% of the issued and outstanding shares of Green Energy Services Inc. ("GES"), thereby bringing TerraVest's ownership interest in GES to 66.8%. GES is a privately-owned Alberta based company operating under the name Fraction Energy Services and is an industry leader in water management and environmental solutions. GES offers a diverse range of fluid management solutions including water transfer, containment, heating, fluid trucking, and oilfield rentals. The business combination has been accounted for using the acquisition method with the results of operations included in earnings from the date of acquisition. The non-controlling interest was measured at its proportionate share in GES' identifiable net assets at acquisition date.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides the financial results of TerraVest's operations for the first quarter ended December 31, 2021 and the comparative period in fiscal 2021.

	First quarters ended	
	Dec. 31, 2021	**Dec. 31, 2020**
	$	**$**
Sales	**131,364**	82,340
Cost of sales	**102,843**	60,248
Gross profit	**28,521**	22,092
Administration expenses	**10,891**	6,113
Selling expenses	**4,015**	1,608
Financing costs	**1,930**	976
Share of an associate's net loss	**128**	-
Other (gains) losses	**(2,168)**	(1,907)
	14,796	6,790
Earnings before income taxes	**13,725**	15,302
Income tax expense	**3,147**	3,350
Net Income	**10,578**	11,952
Allocated to non-controlling interests	**(96)**	(65)
Net income attributable to common shareholders	**10,674**	12,017
Weighted average shares outstanding – Basic	**17,775,804**	18,493,271
Weighted average shares outstanding – Diluted	**18,003,397**	18,746,722
Net income per share – Basic	**$0.60**	$0.65
Net income per share – Diluted	**$0.59**	$0.64

Sales for the first quarter ended December 31, 2021 increased by 60% versus the prior comparable period. The reasons have been explained previously in this MD&A.

Gross profit for the first quarter ended December 31, 2021 increased by 29% versus the prior comparable period. This is primarily explained by the contribution of ECR and GES and by increased sales volume for most of TerraVest's base portfolio businesses, partially offset by a less favorable product mix and reduced government wage subsidies.

Administration expenses for the first quarter ended December 31, 2021 increased by 78% versus the prior comparable period. The variation is mainly the result of the addition of ECR and GES as well as reduced government wage subsidies.

Selling expenses for the first quarter ended December 31, 2021 increased by 150% versus the prior comparable period. This is a result of the addition of ECR and GES, the hiring of additional sales personnel as well as reduced government wage subsidies.

Financing costs for the first quarter ended December 31, 2021 increased by 98% versus the prior comparable period. The increase is primarily explained by additional interest expenses as a result of increased debt balances following the acquisition of ECR and GES.

Other (gains) losses variance for the first quarter ended December 31, 2021 is a result of a lower loss on foreign exchange and a gain on remeasurement of an equity interest, partially offset by unfavorable changes in fair value of derivative financial instruments and investment in equity instruments.

Income tax expense decreased for the first quarter ended December 31, 2021 versus the prior comparable period, which is the result of decreased taxable earnings and the timing of income tax expense adjustments.

As a result of the above, net income attributable to common shareholders for the first quarter ended December 31, 2021 decreased by 11% versus the prior comparable period.

Segmented Results

a) Fuel Containment

	First quarters ended	
	Dec. 31, 2021	**Dec. 31, 2020**
	$	**$**
Sales	**82,360**	52,119
Net Income	**9,827**	9,320
Add (subtract):		
Income tax expense	**3,585**	3,140
Financing costs	**1,347**	489
Depreciation and amortization	**2,283**	1,915
Change in fair value of derivative financial instruments	**(266)**	(1,080)
(Gain) loss on foreign exchange	**223**	1,596
Acquisition-related cost	**18**	-
(Gain) loss on disposal of property, plant and equipment	**(24)**	(63)
Adjusted EBITDA	**16,993**	15,317

Sales for the first quarter ended December 31, 2021 were $82,360 versus $52,119 for the prior comparable period. This represents an increase of 58%. Excluding ECR, sales for the first quarter ended December 31, 2021 were $57,278 versus $52,119 for the comparable period. This represents an increase of 10%. The increase in sales is the result of stronger demand for this segment's LPG storage and distribution equipment products versus the prior comparable period while sales for home heating product lines were similar to the prior comparable quarter.

Net income for the first quarter ended December 31, 2021 was $9,827 versus $9,320 for the prior comparable period. This represents an increase of 5%. The increase in net income is primarily a result of increased sales as explained above, a reduced loss on foreign exchange and the addition of ECR, partially offset by an increase in financing costs due to the acquisition of ECR, an unfavorable change in the fair value of derivative financial instruments and reduced government subsidies compared to the prior comparable quarter.

Adjusted EBITDA for the first quarter ended December 31, 2021 was $16,993 versus $15,317 for the prior comparable period. This represents an increase of 11%, which is a result of the reasons highlighted above.

b) Processing Equipment

	First quarters ended	
	Dec. 31, 2021	**Dec. 31, 2020**
	$	**$**
Sales	**35,082**	26,922
Net Income (loss)	**(164)**	770
Add (subtract):		
Income tax expense (recovery)	**(19)**	133
Financing costs	**466**	432
Depreciation and amortization	**2,537**	2,423
(Gain) loss on foreign exchange	**(49)**	10
(Gain) loss on disposal of property, plant and equipment	**(98)**	(39)
Adjusted EBITDA	**2,673**	3,729

Sales for the first quarter ended December 31, 2021 were $35,082 versus $26,922 for the prior comparable period. This represents an increase of 30% which is a result of higher demand for energy processing equipment and compressed gas storage and distribution equipment in Western Canada as the increase in commodity pricing is starting to have a positive impact on this segment's sales. The increase in sales was partially offset by a decrease in sales for this segment LPG distribution equipment mainly explained by weak demand in one of its US subsidiaries, primarily a result of the COVID-19 pandemic.

Net income (loss) for the first quarter ended December 31, 2021 was ($164) versus $770 for the prior comparable period. This represents a decrease of 121%. The decrease is explained by the reduction in government subsidies compared to the prior comparable period and increased financing costs to finance this segment additional working capital, partially offset by increased sales and a reduction in income tax expense.

Adjusted EBITDA for the first quarter ended December 31, 2021 was $2,673 versus $3,729 for the prior comparable period. This represents a decrease of 28%. The decrease is a result of the reasons explained above.

c) Service

	First quarters ended	
	Dec. 31, 2021	**Dec. 31, 2020**
	$	**$**
Sales	**13,881**	3,291
Net Income (loss)	**(30)**	300
Add (subtract):		
Income tax expense (recovery)	**(113)**	21
Financing costs	**117**	57
Depreciation and amortization	**1,951**	379
(Gain) loss on foreign exchange	**(3)**	-
(Gain) loss on disposal of property, plant and equipment	**(47)**	-
Adjusted EBITDA	**1,875**	757

Sales for the first quarter ended December 31, 2021 were $13,881 versus $3,291 for the prior comparable period. This represents an increase of 322%. Excluding GES, sales for the first quarter ended December 31, 2021 were $4,076 versus $3,291 for the prior comparable period. This represents an increase of 24% which is primarily the result of higher commodity pricing driving increased activity by this segment's customers.

Net income (loss) for the first quarter ended December 31, 2021 was ($30) versus $300 for the prior comparable period. This represents a decrease of 110% and is a result of the addition of GES, reduced government subsidies and an increase in financing costs due to financing costs incurred by GES, offset by an increase in sales.

Adjusted EBITDA for the first quarter ended December 31, 2021 was $1,875 versus $757 for the prior comparable period. This represents an increase of 148% and is primarily a result of the reasons explained above.

Quarterly Results

	For the quarters ended							
	31-Dec-21	**30-Sep-21**	**30-Jun-21**	**31-Mar-21**	**31-Dec-20**	**30-Sep-20**	**30-Jun-20**	**31-Mar-20**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Sales	**131,364**	80,816	67,830	76,477	82,340	68,231	61,019	86,751
Adjusted EBITDA	**20,296**	17,174	11,939	17,535	19,088	17,448	11,854	10,853
Net income attributable to common shareholders	**10,674**	9,395	4,420	10,786	12,017	11,173	3,882	5,323
Net income per share								
– Basic	**0.60**	0.53	0.25	0.58	0.65	0.60	0.21	0.28
– Diluted	**0.59**	0.53	0.24	0.57	0.64	0.59	0.20	0.28

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:

	First quarters ended	
	Dec. 31, 2021	**Dec. 31, 2020**
	$	**$**
Cash flow from (used in) operating activities	**(337)**	19,037
Cash flow used in investing activities	**(11,090)**	(4,916)
Cash flow from (used in) financing activities	**19,483**	(11,684)
Net inflows for the period	**8,056**	2,437
Cash and bank overdrafts, beginning of year	**7,481**	26,717
Impact of foreign exchange on cash and bank overdrafts	**44**	(361)
Cash and bank overdrafts, end of period	**15,581**	28,793

Cash Flow from (used in) Operating Activities

TerraVest used $337 of cash flow in operating activities during the first quarter ended December 31, 2021 compared to $19,037 generated for the prior comparable period. The decrease is mainly attributable to increased changes in non-cash working capital levels versus the prior comparable period and additional interest paid, partially offset by less income taxes paid.

Cash Flow used in Investing Activities

Cash flow used in investing activities during the first quarter ended December 31, 2021 was $11,090 compared to $4,916 for the prior comparable period. The increased use of cash is primarily a result of cash paid to acquire GES and increased capital expenditures.

Cash Flow from (used in) Financing Activities

Cash flow from (used in) financing activities during the first quarter ended December 31, 2021 was $19,483 versus ($11,684) for the prior comparable period. The difference is attributable to the borrowing of cash to finance increased investing and operating activities instead of reducing debt balances and repurchasing TerraVest's common shares as done in the first quarter of fiscal 2021.

DIVIDENDS

During the first quarter, TerraVest declared a dividend of $0.10 per common share payable on January 10, 2022 to shareholders of record on December 31, 2021.

Subsequent to the end of the first quarter, TerraVest declared a dividend of $0.10 per common share payable on April 11, 2022 to shareholders of record on March 31, 2022.

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 assurance 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 December 31, 2021, TerraVest's cash position, net of bank overdrafts, was $15,581 compared to $7,481 as at September 30, 2021. As at December 31, 2021, TerraVest's consolidated working capital, excluding short-term revolving credit facilities, was $161,183 compared to $137,385 as at September 30, 2021. 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. Three 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 December 31, 2021, the maximum amount available was $170,681 of which $109,540 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 9 of TerraVest's interim condensed consolidated financial statements for the first quarter ended December 31, 2021 and Note 15 of TerraVest's audited consolidated financial statements for the year ended September 30, 2021.

Revolving Term Loans

Certain subsidiaries of TerraVest operating in the Processing Equipment and Service segments have access to a $29,500 revolving term loans that can be used to refinance existing debt and to purchase property, plant & equipment. As at December 31, 2021, $22,946 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 9 of TerraVest's interim condensed consolidated financial statements for the first quarter ended December 31, 2021 and Note 15 of TerraVest's audited consolidated financial statements for the year ended September 30, 2021.

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 December 31, 2021		As at December 31, 2020	
	Number	**Amount**	**Number**	**Amount**
		$		**$**
Balance, beginning of year	**17,567,455**	**141,712**	18,681,250	149,284
Issued on business combination, net of transaction costs	**361,663**	**9,118**	-	-
Repurchased and cancelled	**-**	**-**	(203,400)	(1,626)
Balance, end of period	**17,929,118**	**150,830**	18,477,850	147,658

During the first quarter ended December 31, 2021, TerraVest issued 361,663 common shares on business combination. The transaction was recognized at the acquisition-date fair value price of $25.27 per common share based on the Toronto Stock Exchange closing trading price. Transaction costs of $21 were incurred to issue the shares and were accounted as a deduction from the carrying value of the shares issued.

The common shares NCIB expires on March 16, 2022. The remaining number of common shares available for repurchase under the current common shares NCIB was nil as at December 31, 2021.

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 December 31, 2021	As at September 30, 2021
	$	**$**
Bank overdrafts	**160**	878
Drawn on current revolving credit facilities	**2,900**	251
Available on current revolving credit facilities, net of amount drawn	**8,878**	3,209
Drawn on long-term revolving operating loans	**106,640**	87,754
Available on long-term revolving operating loans, net of amount drawn	**52,263**	34,983
Long-term debt (current and non-current)	**86,342**	70,941
Shareholders' equity attributable to common shareholders	**149,906**	132,055
	407,089	330,071

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 December 31, 2021.

The stock options outstanding and the weighted average exercise prices as at December 31, 2021, were as follows:

Grant Date	Expiry Date	Exercise price	Opening balance	Settled or exercised	Closing balance	Vested and exercisable	Unvested
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
			367,500	-	367,500	300,833	66,667
Weighted average exercise price			$10.19	-	$10.19	$9.55	

During the first quarter ended December 31, 2021, no stock options were granted, exercised or forfeited.

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 December 31, 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 December 31, 2021, a one cent increase in the Canadian/U.S. dollar exchange rate would have had a favorable impact of $23 on net income ($198 for the first quarter ended December 31, 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 first quarter ended December 31, 2021, a 1% increase in the interest rate would have had an unfavorable impact of $175 on net income ($590 for the year ended September 30, 2021), 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 $101,898 as at December 31, 2021 ($71,285 as at September 30, 2021).

As at December 31, 2021, 96% (91% as at September 30, 2021) of TerraVest's accounts receivable were less than 90 days past invoice date. TerraVest recognizes an allowance for doubtful accounts when it believes that the expected recoverable amount is lower than the actual amount of the trade receivables.

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, 2021.

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, 2021 and to Note 3 of TerraVest's interim condensed consolidated financial statements for the first quarter ended December 31, 2021.

CONTROLS AND PROCEDURES

As at December 31, 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.

Exception

TerraVest acquired ECR in August 2021 and a controlling interest in GES in November 2021. Management has not yet completed its assessment of the design or operating effectiveness of ECR and GES's disclosure controls and procedures and internal controls over financial reporting.

The following table provides significant financial information of ECR and GES as at and for the first quarter ended December 31, 2021:

	ECR	GES
	$	$
Total assets	**76,923**	**63,647**
Total liabilities	**20,834**	**27,695**
Sales	**25,082**	**9,805**
Net income	**2,348**	**(127)**

RELATED PARTY TRANSACTIONS

For detailed information on related party identity, relationship and transactions, please refer to Note 28 of TerraVest's audited consolidated financial statements for the year ended September 30, 2021.

In addition to related party transactions carried out as part of the ordinary course of business, under market terms and conditions, the following transaction was entered into during the first quarter ended December 31, 2021:

- On November 1, 2021, as part of the acquisition of a controlling interest in GES, TerraVest purchased GES shares owned by a member of TerraVest's Board of Directors for a total cash consideration of $250. The transaction was carried out at the same terms and conditions as with the other shareholders of GES. For additional information on the acquisition of GES, please refer to Note 5 of TerraVest's interim condensed consolidated financial statements for the first quarter ended December 31, 2021.

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.