TERRAVEST
INDUSTRIES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the third quarter ended June 30, 2020

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	Note	As at June 30, 2020 (Unaudited)	As at September 30, 2019 (Audited)
		$	$
ASSETS			
Current			
Cash		**17,296**	9,442
Accounts receivable		**38,285**	50,337
Income taxes receivable		**767**	2,745
Inventories		**92,073**	83,624
Assets held for sale		**-**	1,559
Other current assets	8	**4,188**	3,765
		152,609	151,472
Non-Current			
Property, plant and equipment		**109,286**	74,468
Intangible assets		**21,502**	21,036
Deferred income tax assets		**8,525**	8,452
Investment in equity instruments		**4,365**	-
Investment in an associate		**1,226**	1,226
Other non-current assets		**182**	330
Goodwill		**14,512**	16,610
		312,207	273,594
LIABILITIES			
Current			
Bank overdrafts		**268**	349
Revolving credit facility	9	**2,793**	-
Accounts payable and accrued liabilities		**24,972**	28,569
Deferred revenues		**14,710**	7,904
Dividends payable	12	**1,868**	1,764
Income taxes payable		**1,834**	2,426
Contingent considerations		**1,635**	3,534
Convertible debentures	11	**-**	9,943
Current portion of long-term debt		**4,667**	2,368
Current portion of lease liabilities		**4,109**	-
		56,856	56,857
Non-Current			
Long-term debt	10	**98,201**	107,444
Lease liabilities		**31,364**	-
Deferred income tax liabilities		**8,137**	8,367
		194,558	172,668
SHAREHOLDERS' EQUITY			
Share capital	12	**149,284**	139,290
Share premium		**35,191**	36,513
Share-based payments reserve		**388**	432
Accumulated other comprehensive income		**1,143**	163
Equity component of convertible debentures	11	**-**	1,451
Accumulated deficit		**(68,660)**	(77,346)
		117,346	100,503
Non-controlling interest		**303**	423
		117,649	100,926
		312,207	273,594

See accompanying notes to the interim condensed consolidated financial statements

On behalf of the Board:

/s/ Charles Pellerin, Director

/s/ Blair Cook, Director

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Income

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

	Note	Third quarters ended June 30, 2020	Third quarters ended June 30, 2019	Nine months ended June 30, 2020	Nine months ended June 30, 2019
		$	$	$	$
SALES	18				
Products		**59,979**	67,099	**227,781**	213,024
Services		**1,040**	3,652	**8,241**	12,917
		61,019	70,751	**236,022**	225,941
Cost of sales		**45,915**	54,607	**183,136**	173,927
Gross profit		**15,104**	16,144	**52,886**	52,014
EXPENSES					
Administration		**7,491**	7,040	**24,850**	20,929
Selling		**1,040**	1,378	**4,482**	4,226
Financing costs	14	**1,175**	1,329	**4,202**	4,421
Other (gains) losses	15	**(487)**	(201)	**(1,412)**	(86)
		9,219	9,546	**32,122**	29,490
EARNINGS BEFORE INCOME TAXES		**5,885**	6,598	**20,764**	22,524
INCOME TAX EXPENSE					
Current		**1,199**	1,642	**4,673**	5,776
Deferred		**832**	353	**545**	501
		2,031	1,995	**5,218**	6,277
NET INCOME		**3,854**	4,603	**15,546**	16,247
Net income (loss) attributable to:					
Common shareholders		**3,882**	4,610	**15,666**	16,175
Non-controlling interest		**(28)**	(7)	**(120)**	72
		3,854	4,603	**15,546**	16,247
Weighted average number of common shares:					
Basic	13	**18,685,491**	17,295,368	**18,420,527**	17,188,907
Diluted	13	**18,995,139**	19,127,339	**19,071,235**	19,132,007
Net income per share:					
Basic	13	**$0.21**	$0.27	**$0.85**	$0.94
Diluted	13	**$0.20**	$0.25	**$0.83**	$0.89

See accompanying notes to the interim condensed consolidated financial statements

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Comprehensive Income

(Unaudited – in thousands of Canadian dollars)

	Third quarters ended		Nine months ended	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
	$	**$**	**$**	**$**
NET INCOME	**3,854**	4,603	**15,546**	16,247
Other comprehensive income (loss), net of income tax:				
Item that may be reclassified subsequently to profit or loss:				
Exchange difference on translating foreign operations	**(1,508)**	(693)	**980**	291
COMPREHENSIVE INCOME	**2,346**	3,910	**16,526**	16,538
Attributable to:				
Common shareholders	**2,374**	3,917	**16,646**	16,466
Non-controlling interest	**(28)**	(7)	**(120)**	72
	2,346	3,910	**16,526**	16,538

See accompanying notes to the interim condensed consolidated financial statements

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Unaudited – in thousands of Canadian dollars)

	Note	Nine months ended June 30, 2020	Nine months ended June 30, 2019
		$	$
Share capital			
Common shares:	12		
Balance, beginning of year		**139,290**	137,406
Issued on conversion of convertible debentures		**10,690**	2,521
Issued on exercise of stock options		**-**	488
Repurchased and cancelled during the period		**(696)**	(4,888)
Balance, end of period		**149,284**	135,527
Share premium			
Balance, beginning of year		**36,513**	41,640
Carrying value of common shares and convertible debentures repurchased lower than consideration paid		**(259)**	(2,463)
Reduction on exercise of stock options		**-**	(459)
Excess consideration paid on settlement of stock options		**(1,063)**	-
Balance, end of period		**35,191**	38,718
Share-based payments reserve			
Balance, beginning of year		**432**	501
Share-based payments expense		**71**	69
Reduction on exercise of stock options		**-**	(29)
Reduction on settlement of stock options		**(115)**	-
Balance, end of period		**388**	541
Accumulated other comprehensive income (loss)			
Balance, beginning of year		**163**	(518)
Other comprehensive income		**980**	291
Balance, end of period		**1,143**	(227)
Equity component of convertible debentures	11		
Balance, beginning of year		**1,451**	2,203
Conversion of convertible debentures		**(1,311)**	(283)
Convertible debentures repurchased, net of income tax		**(140)**	(308)
Balance, end of period		**-**	1,612
Accumulated deficit			
Balance, beginning of year		**(77,346)**	(92,911)
Impact of change in accounting policy	5	**(1,407)**	-
Adjusted balance, beginning of year		**(78,753)**	(92,911)
Net income attributable to common shareholders		**15,666**	16,175
Dividends declared during the period		**(5,573)**	(5,166)
Balance, end of period		**(68,660)**	(81,902)
Total shareholders' equity attributable to common shareholders		**117,346**	94,269
Non-controlling interest			
Balance, beginning of year		**423**	364
Net income (loss) attributable to non-controlling interest		**(120)**	72
Net change of non-controlling interest		**-**	(1)
Balance, end of period		**303**	435
Total shareholders' equity		**117,649**	94,704

See accompanying notes to the interim condensed consolidated financial statements

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited – in thousands of Canadian dollars)

	Note	Nine months ended June 30, 2020	June 30, 2019
		$	$
OPERATING ACTIVITIES			
Net income		**15,546**	16,247
Adjustments for:			
Current income tax expense		**4,673**	5,776
Interest expense		**3,876**	3,545
Convertible debentures retirement costs		**9**	147
Items not affecting cash	16	**13,730**	10,239
Interest paid		**(4,050)**	(3,851)
Income taxes paid		**(3,294)**	(7,051)
Settlement of derivative financial instruments		**(232)**	(12)
Change in non-cash operating working capital items	16	**17,961**	(6,311)
		48,219	18,729
INVESTING ACTIVITIES			
Consideration paid on business combinations, net of cash acquired	6	**(10,491)**	-
Payment of contingent consideration		**(1,988)**	-
Investment in equity instruments		**(4,412)**	-
Purchase of property, plant and equipment		**(7,311)**	(12,740)
Proceeds from disposal of property, plant and equipment		**1,113**	693
Proceeds from disposal of assets held for sale		**3,065**	5
Purchase of intangible assets		**-**	(590)
Net change of non-controlling interest		**-**	(1)
		(20,024)	(12,633)
FINANCING ACTIVITIES			
Net change in current revolving credit facilities		**(1,915)**	(25,237)
Net change in long-term operating loans, net of transaction costs		**(10,984)**	19,291
Issuance of long-term debt		**5,410**	21,873
Repayment of long-term debt		**(1,563)**	(4,841)
Repayment of lease liabilities		**(2,571)**	-
Common shares repurchased and cancelled	12	**(1,080)**	(6,964)
Convertible debentures repurchased		**(1,093)**	(3,375)
Settlement of stock options	12	**(1,178)**	-
Dividends paid		**(5,469)**	(5,197)
		(20,443)	(4,450)
Net inflows for the period		**7,752**	1,646
Cash and bank overdrafts, beginning of year		**9,093**	984
Impact of foreign exchange on cash and bank overdrafts		**183**	20
CASH AND BANK OVERDRAFTS, END OF PERIOD		**17,028**	2,650

See accompanying notes to the interim condensed consolidated financial statements

1. DESCRIPTION OF THE BUSINESS

TerraVest Industries Inc. ("TerraVest" or the "Company") is incorporated under the laws of Alberta and is listed on the Toronto Stock Exchange (equity symbol: TVK). TerraVest's head office is located at 4901 Bruce Road in Vegreville, Alberta, Canada.

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.

2. STATEMENT OF COMPLIANCE

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34") using the same accounting policies TerraVest disclosed in its audited consolidated financial statements for the year ended September 30, 2019, except for changes arising from the adoption of IFRS 16 "Leases" ("IFRS 16"), as described in Note 5.

These interim condensed consolidated financial statements do not include all the information required under International Financial Reporting Standards ("IFRS") for complete set of financial statements. Therefore, these interim condensed consolidated financial statements should be read in conjunction with TerraVest's audited consolidated financial statements for the year ended September 30, 2019.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 12, 2020.

3. ESTIMATES

The preparation of financial statements requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, contingent assets and liabilities, income and expenses. Actual results could differ from these judgments, estimates and assumptions.

The judgments, estimates and assumptions applied in the interim condensed consolidated financial statements, including the key areas of estimation uncertainty, were the same as those applied in TerraVest's audited consolidated financial statements for the year ended September 30, 2019, with the exception of:

- the estimate of income tax expense which is determined in the interim condensed consolidated financial statements using the estimated average annual effective income tax rate applied to the estimated taxable earnings of the interim period; and
- the measurement of right-of-use assets and lease liabilities, upon the adoption of IFRS 16:

  Future lease payments used to calculate the value of the right-of-use asset and lease liability include payments for lease extension and termination or purchase options that are reasonably certain to be exercised. Determining the economic benefits of exercising these options requires the use of assumptions and estimates such as the future expected use of the leased asset and future market conditions. Whether or not future lease payments relating to the extension, termination or purchase options are taken into account can have a significant impact on the value of the right-of-use asset and the lease liability.

4. SEASONALITY

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 revenues 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.

5. ADOPTION OF NEW ACCOUNTING STANDARD

5.1 Leases

Adoption

On October 1, 2019, TerraVest adopted IFRS 16 using the modified retrospective method, with recognition of transitional adjustments in retained earnings on the date of initial application, subject to permitted practical expedients, without restatement of comparative figures. IFRS 16 was effective for annual periods beginning on or after January 1, 2019.

Under IFRS 16, a lessee is required to recognize: 1) an asset and a liability for every lease with a term of more than twelve months, unless the underlying asset is of nominal value and 2) depreciation of lease assets separately from interest on lease liabilities in the consolidated statement of income.

As part of the adoption of IFRS 16, TerraVest applied the following practical expedients:

- did not reassess whether a contract is, or contains, a lease at the date of initial application. TerraVest applied IFRS 16 to contracts that were previously identified as leases in accordance with IAS 17 "Leases" ("IAS 17");
- relied on its assessment of whether leases were onerous as at September 30, 2019 in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" instead of performing an impairment review under IAS 36 "Impairment of Assets";
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- leases with a term of 12 months or less at the date of initial application were accounted for as short-term leases and thereby recognizing rent payments in profit or loss on a straight-line basis over the lease term; and
- applied the recognition exemption for leases of nominal value.

Impact on date of initial application

For leases classified as operating leases under IAS 17, TerraVest recognized a lease liability measured at the present value of the remaining lease payments, discounted using TerraVest subsidiary's incremental borrowing rate as at October 1, 2019. Right-of-use asset was measured at its carrying amount as if IFRS 16 had been applied since the commencement date of each lease, discounted using TerraVest subsidiary's incremental borrowing rate as at October 1, 2019, adjusted by the amount of any prepaids or accrued lease payments. In the consolidated statement of income, rent expense is replaced by depreciation expense of the right-of-use asset and by interest on the lease liability calculated using the effective interest rate method. TerraVest had no leases classified as finance leases.

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

As at October 1, 2019, TerraVest recognized right-of-use assets in PP&E and corresponding lease liabilities, the difference is represented in accumulated deficit as follows:

	As at October 1, 2019
	$
Property, plant and equipment	**27,085**
Deferred income tax assets	**257**
Current portion of lease liabilities [i)]	**2,486**
Lease liabilities [i)]	**26,469**
Deferred income tax liabilities	**(206)**
Accumulated deficit	**(1,407)**

[i)] The weighted average incremental borrowing rate applied to the lease liabilities is 4.11%.

The reconciliation between the operating lease commitments disclosed in accordance with IAS 17 as at September 30, 2019 and the lease liabilities recognized as at October 1, 2019 in accordance with IFRS 16 is as follows:

	As at October 1, 2019
	$
Future minimum operating lease payments as at September 30, 2019	**36,482**
Other operating lease commitments as at September 30, 2019	**89**
Commitments under operating leases as at September 30, 2019	**36,571**
Future minimum operating lease payments as at September 30, 2019	**36,482**
Recognition exemption for leases with a term of 12 months or less	**(283)**
Recognition exemption for leases of nominal value	**(190)**
	36,009
Impact of discounting at the incremental borrowing rate	**(7,054)**
Lease liabilities as at October 1, 2019	**28,955**

New accounting policy

The accounting policy on leases applied since October 1, 2019 and replacing the "leases" accounting policy disclosed in TerraVest's audited consolidated financial statements for the year ended September 30, 2019 is as follows:

Leases – TerraVest as a lessee

At the inception of a contract, TerraVest assesses whether the contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Leases are recognized in the statement of financial position through the recognition of a right-of-use asset and a lease liability, except for leases with a term of 12 months or less and leases for which the underlying asset is of nominal value, which are recognized in profit or loss on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of future lease payments using the implicit rate of the lease, if it can be readily determined, or using TerraVest subsidiary's incremental borrowing rate. Future lease payments include fixed payments, variable payments that depend on an index or rate, and payments for extension and termination or purchase options that are reasonably certain to be exercised. When lease payments include amounts relating to non-rental components, they are included in the calculation of the lease liability. The lease liability is then measured at amortized cost using the effective interest rate method.

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

The right-of-use asset is measured at cost, which corresponds to the initial measurement of the lease liability. Cost also includes any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease and any lease payments made in advance of the lease commencement date, net of any incentives received. The right-of-use asset is included in PP&E in the consolidated statement of financial position. It is then measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated over the lesser of the lease term or the estimated useful life on a straight-line basis.

Variable lease payments not included in the lease liability are recognized in the profit or loss of the period in which the expense occurred.

If a lease is modified or if the lease term is revised, the lease liability is remeasured and a corresponding adjustment is made to the right-of-use asset. If the lease modification represents a decrease in the scope of a lease, the difference between the adjustment to the lease liability and the right-of-use asset, if any, is accounted for as a gain or loss upon lease modification. If the lease modification represents a separate lease component, it is accounted for as a separate lease.

6. BUSINESS COMBINATIONS

2020 Business Combination

6.1 Acquisition of Argo Sales Inc.

On December 13, 2019, a subsidiary of TerraVest entered into an acquisition agreement to acquire all of the assets of Argo Sales Inc. (“Argo”), a privately-owned Alberta based company primarily focused on manufacturing wellhead processing and production equipment for the Canadian oil and gas market.

The business combination has been accounted for using the purchase method with the results of operations included in earnings from the date of acquisition. Acquisition-related cost of $171 were incurred and recognized as administration expense during the nine months ended June 30, 2020. The following tables provide disclosures based on information available to date.

Fair value of the consideration transferred at the acquisition date

	As at December 13, 2019
	Preliminary
	$
Cash paid	**11,083**
Assumption of Argo’s revolving credit facility	**4,708**
Fair value of the consideration transferred	**15,791**

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

Assets acquired and liabilities assumed at the acquisition date

The preliminary fair value allocation of the identifiable assets acquired and liabilities assumed as at December 13, 2019 acquisition date is as follows:

	Preliminary allocation
	$
ASSETS	
Cash	**422**
Accounts receivable	**20,779**
Inventories	**4,706**
Prepaid expenses	**357**
Property, plant and equipment	**8,966**
	35,230
LIABILITIES	
Accounts payable and accrued liabilities	**10,210**
Deferred revenues	**4,849**
Lease liabilities	**6,384**
	21,443
Net identifiable assets acquired	**13,787**

Determination of fair value

The fair value of assets acquired and liabilities assumed at the acquisition date was determined based on TerraVest's assumptions and estimates. The estimated purchased price allocation may be subject to change until recognition of the business combination has been finalized.

Accounts receivable

Receivables were recognized at their fair value, which is not substantially different from their gross contractual value and expected receipts.

Property, plant and equipment and lease liabilities

PP&E are recognized at their estimated fair value. TerraVest is currently evaluating their fair value based on their original cost, acquisition date and net carrying value at the transaction closing date.

TerraVest also recognized right-of-use assets for acquired assets under leases. The right-of-use assets were measured at the same amount as the lease liabilities. The lease liabilities were measured at the present value of Argo's future lease payments using its incremental borrowing rate as at December 13, 2019.

Intangible assets

TerraVest is currently evaluating the fair value of the identifiable intangible assets acquired. The intangible assets are valued using a discounted cash flow methodology with consideration given to historical and projected revenues, customer attrition rates and any other relevant assumptions.

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

Goodwill arising from the business combination

	Preliminary goodwill
	$
Consideration transferred	**15,791**
Less:	
Fair value of net identifiable assets acquired	**13,787**
Goodwill	**2,004**

The goodwill of $2,004 represents a preliminary estimate that is subject to change as identifiable intangible assets associated with the transaction have yet to be valued.

The acquisition was done in order to strengthen TerraVest's presence in the Western Canadian's oil and gas market. The preliminary goodwill associated with this acquisition is mainly attributable to strong brand recognition and an assembled workforce and is deductible for income tax purposes.

Argo contribution to TerraVest results

TerraVest's consolidated net income during the nine months ended June 30, 2020 includes sales of $26,623 and a net income of $213 generated from Argo's result since the acquisition date of December 13, 2019.

Due to lack of IFRS-specific data prior to the acquisition of Argo, pro-forma revenue and profit or loss of the combined entity during the nine months ended June 30, 2020 cannot be determined reliably.

2019 Business Combination

6.2 Acquisition of Iowa Steel Fabrication, LLC

On August 30, 2019, a subsidiary of TerraVest entered into an acquisition agreement to acquire substantially all of the assets of Iowa Steel Fabrication, LLC ("ISF"), doing business as Countryside Tank and Majona Steel Corporation. ISF is an Iowa based company primarily focused on manufacturing transportation equipment for the propane and anhydrous ammonia markets as well as structural steel projects.

The business combination has been accounted for using the purchase method with the results of operations included in earnings from the date of acquisition. Acquisition-related cost of $98 were incurred and recognized as administration expense for the year ended September 30, 2019.

Fair value of the consideration transferred at the acquisition date

	As at August 30, 2019	
	Preliminary	**Final**
	$	**$**
Cash paid	10,237	**10,067**
Consideration receivable from vendors	(218)	**-**
Contingent consideration payable to vendors [i)]	1,595	**1,595**
Fair value of the consideration transferred	11,614	**11,662**

[i)] The asset purchase agreement contains an "earn-out payment" clause to the vendors of a maximum amount of US$1,200 related to future profitability of the acquired business. The acquisition-date fair value of the contingent consideration payable recognized was measured based on management's estimate of budgeted earnings before interests, income taxes, depreciation and amortization ("EBITDA") for the 12-month period following the business combination.

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

Assets acquired and liabilities assumed at the acquisition date

During the third quarter ended June 30, 2020, TerraVest finalized the purchase price allocation of ISF acquisition. The final fair value allocation of the identifiable assets acquired and liabilities assumed as of the August 30, 2019 acquisition date is as follows:

	Preliminary allocation	Final allocation
	$	$
ASSETS		
Accounts receivable	1,384	**1,384**
Inventories	4,107	**4,097**
Prepaid expenses	47	**57**
Property, plant and equipment	3,637	**3,637**
Intangible assets	-	**4,284**
	9,175	**13,459**
LIABILITIES		
Accounts payable and accrued liabilities	2,344	**2,296**
Deferred revenues	782	**782**
	3,126	**3,078**
Net identifiable assets acquired	6,049	**10,381**

Determination of fair value

The fair value of assets acquired and liabilities assumed at the acquisition date was determined based on TerraVest's assumptions and estimates.

Accounts receivable

Receivables were recognized at their fair value, which is not substantially different from their gross contractual value and expected receipts.

Property, plant and equipment

PP&E are recognized at their estimated fair value. TerraVest appointed a third party to assist in the valuation of the acquired building. For the other PP&E acquired, TerraVest estimated their fair value based on their original cost, acquisition date and net carrying value at the transaction closing date.

Intangible assets

TerraVest estimated the fair value of intangible assets acquired using different valuation techniques, all primarily based upon discounted cash flow according to currently available information, such as historical and projected revenues, customer attrition rates and certain other relevant assumptions.

	Estimated useful lives	Final fair value
		$
Customer relationships	7 years	**2,845**
Non-compete agreements	5 years	**798**
Sales order backlog	7 months	**641**
		4,284

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

Goodwill arising from the business combination

	Preliminary goodwill	Final goodwill
	$	$
Consideration transferred	**11,614**	**11,662**
Less:		
Fair value of net identifiable assets acquired	**6,049**	**10,381**
Goodwill	**5,565**	**1,281**

The acquisition was done in order to expand TerraVest's market share, penetrate new markets and increase its presence in the United States and its economies of scale. The goodwill associated with this acquisition is deductible for income tax purposes and is mainly attributable to the value of an assembled workforce in the United States and a footprint in the Midwest of the United States.

7. FINANCIAL INSTRUMENTS

The fair value of the investment in equity instruments has been determined based on the quoted price in active markets and is classified in Level 1 of the fair value hierarchy. The fair values of revolving credit facilities, long-term debt, lease liabilities and convertible debentures have been determined based on discounted cash flows using interest rates for similar instruments. Their fair values are not significantly different to their carrying values. These items are classified in Level 2 of the fair value hierarchy.

Foreign exchange contracts

As at June 30, 2020, TerraVest had forward foreign exchange contracts totaling $30,625 ($30,928 as at September 30, 2019) to sell, at various rates and expiring on various dates up to and including May 30, 2023. The fair value of forward foreign exchange contracts was a liability of $1,201 as at June 30, 2020 ($663 as at September 30, 2019) included in accounts payable and accrued liabilities.

Interest rate swap

On June 3, 2020, TerraVest entered into an interest rate swap agreement expiring on June 9, 2025 for the notional amount of $25,000. Under the interest rate swap agreement, TerraVest receives interest on the notional amount at the 1-month CDOR rate in exchange for payments at a fixed rate of 0.87%, plus 140 to 265 basis points based on a prescribed ratio. The fair value of the interest rate swap was a liability of $157 as at June 30, 2020 included in accounts payable and accrued liabilities.

8. OTHER CURRENT ASSETS

	As at June 30, 2020 (Unaudited)	As at September 30, 2019 (Audited)
	$	$
Prepaid expenses	**2,994**	2,627
Other current assets	**1,194**	1,138
	4,188	3,765

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

9. SHORT-TERM REVOLVING CREDIT FACILITY

9.1 Short-term revolving credit facility

Upon the acquisition of Argo, a subsidiary of TerraVest operating in the Processing Equipment segment assumed Argo's existing credit facility consisting of a revolving operating loan of $9,000 with a Canadian financial institution. Borrowing capacity is based on the margining of certain accounts receivable and inventories less certain accounts payable. The revolving operating loan can be used for general corporate purposes and bears interest at Canadian prime rate plus 150 basis points. As at June 30, 2020, the interest rate was 3.95%. The revolving operating loan is due on demand.

The revolving operating loan contains an obligation to comply with the following quarterly financial covenants:

Financial covenants	Required measurements	As at June 30, 2020
Total debt to equity ratio	≤ 2.50:1	**1.57**
Current ratio	≥ 1.15:1	**1.48**

The revolving operating loan is secured by:

- a first ranking security on all present and future personal property of a subsidiary operating in the Processing Equipment segment; and
- an assignment of insurance policies.

10. LONG-TERM DEBT

10.1 Revolving operating credit facility

On December 12, 2019, certain subsidiaries of TerraVest operating in the Fuel Containment segment renegotiated their credit facility with a Canadian financial institution. The new credit facility includes a revolving operating loan of $100,000 ($70,000 as at September 30, 2019) and a derivative risk facility, revised in June 2020, in the amount of $7,000 ($4,000 as at September 30, 2019) granted to enter into forward exchange contracts. The credit facility is committed for a term of 36 months ending on December 1, 2022.

The revolving operating credit facility can be used to finance current operations, purchase property, plant and equipment and finance business acquisitions. It bears interest at Canadian or U.S. prime rate, depending on the currency of the borrowing, plus 0 to 75 basis points for open end borrowings, and/or bears interest at the financial institution offered rate, plus 140 to 265 basis points, upon the use of term borrowings. As at June 30, 2020, the interest rate on Canadian open end borrowings was 2.45%. Interest rates margin varies based on a prescribed ratio.

The credit facility contains an obligation to comply with the following quarterly financial covenants:

Financial covenants	Required measurements
Interest-bearing debt to EBITDA ratio	≤ 3.50:1
Interest coverage ratio	≥ 3.50:1

The credit facility is secured by:

- a first ranking hypothec in the amount of $110,000 over movable and immovable properties and movable assets, tangible and intangible, present and future of certain subsidiaries;
- a first ranking collateral charge on the universality of certain subsidiaries real property;
- a security agreement on machinery and equipment, inventory and account receivables of a specific subsidiary; and
- an assignment of insurance policies.

The transaction costs of $60, incurred during the nine months ended June 30, 2020 to renegotiate the credit facility, were recorded as prepaid expenses and are amortized on a straight-line basis over the 36-month term.

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

10.2 Government loans

During the third quarter ended June 30, 2020, certain subsidiaries of TerraVest received interest bearing loans from a United States Federal agency totaling $3,290 (US$2,341) and non-interest bearing loans repayable on December 31, 2022 from the Government of Canada totaling $120. These loans were granted to ensure TerraVest's subsidiaires would have access to capital through the current challenges in order to maintain employment during the COVID-19 pandemic. The United States Federal agency loans bear interest at 1%, are repayable in 18 equal and consecutive instalments starting in November 2020 with remaining principal payable at maturity in April 2022 and can be forgiven if employee retention criteria are met and funds are used for eligible expenses.

10.3 Covenants

The quarterly financial covenants to comply with were as follows:

Financial covenants	Required measurements	As at June 30, 2020
Interest-bearing debt to EBITDA ratio	≤ 3.50:1	**1.62**
Interest coverage ratio	≥ 3.50:1	**13.45**
Funded debt to EBITDA ratio	≤ 3.00:1	**2.06**
Fixed charge coverage ratio	≥ 1.15:1	**1.44**

As at June 30, 2020, TerraVest was in compliance with all of its financial and non-financial covenants.

11. CONVERTIBLE DEBENTURES

Changes in the liability and equity components of TerraVest's convertible debentures were as follows:

	As at June 30, 2020	
	Liability	Equity
	$	$
Balance, beginning of year	**9,943**	**1,451**
Conversion of convertible debentures	**(9,001)**	**(1,311)**
Convertible debentures repurchased, net of income tax	**(1,064)**	**(140)**
Accretion of liability	**122**	**-**
Balance, end of period	**-**	**-**

On January 13, 2020, TerraVest redeemed all of its outstanding convertible debentures with a principal amount of $1,093 for total consideration of $1,096, including accrued and unpaid interest. The difference between the amount paid for the convertible debentures and the carrying value of the liability and equity components was recorded in share premium.

12. SHARE CAPITAL AND SHARE-BASED PAYMENTS

12.1 Common shares

Changes in the common shares issued and outstanding were as follows:

	As at June 30, 2020	
	Number	Amount
		$
Balance, beginning of year	**17,642,489**	**139,290**
Issued on conversion of convertible debentures	**1,125,931**	**10,690**
Repurchased and cancelled	**(87,170)**	**(696)**
Balance, end of period	**18,681,250**	**149,284**

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

During the nine months ended June 30, 2020, TerraVest repurchased 87,170 common shares (7,100 during the nine months ended June 30, 2019) under its common shares normal course issuer bid ("NCIB") for total consideration of $1,080 ($74 during the nine months ended June 30, 2019). The difference between the amount paid for the common shares and their carrying value was recorded in share premium.

On March 16, 2020, TerraVest renewed its common share NCIB under which it may repurchase 937,316 common shares. The common shares NCIB expires on March 15, 2021. The remaining number of common shares available for repurchase under the current common shares NCIB was 872,246 as at June 30, 2020.

12.2 Share-based payments arrangement

The stock options outstanding and the weighted average exercise prices as at June 30, 2020 were as follows:

Grant Date	Expiry Date	Exercise price	Opening balance	Granted	Settled or exercised	Closing balance	Vested and exercisable	Unvested
Feb. 9, 2017	Feb. 9, 2022	$9.10	333,000	-	-	333,000	333,000	-
March 9, 2017	March 9, 2024	$9.10	435,000	-	(167,500)	267,500	267,500	-
Jan. 20, 2020	Jan. 20, 2027	$13.12	-	100,000	-	100,000	-	100,000
			768,000	100,000	(167,500)	700,500	600,500	100,000
Weighted average exercise price			$9.10	$13.12	$9.10	$9.67	$9.10	

During the third quarter ended June 30, 2020, 167,500 stock options were settled for total cash consideration of $1,178.

During the nine months ended June 30, 2020, no stock options were exercised or forfeited and TerraVest granted 100,000 stock options to key management personnel. The option grant price is equal to the volume weighted average trading price of the common shares of TerraVest on the Toronto Stock Exchange for the twenty trading days immediately preceding the date of grant. The stock options granted expire seven years from the grant date, may only be exercised for common shares of TerraVest and vest as follows:

- 1/3 on the first anniversary date of the grant date;
- 1/3 on the second anniversary of the grant date; and
- 1/3 on the third anniversary of the grant date.

The grant-date fair value of stock options granted during the period was $1.86 per option. The fair value of each option granted was determined using the Black-Scholes option pricing model which incorporates the following assumptions:

Options granted	**100,000**
Risk-free interest rate	**1.58%**
Expected dividend yield	**3.05%**
Expected volatility [i)]	**17.71%**
Option life	**7 years**
Forfeiture rate	**Nil**
Liquidity discount	**20%**
Grant date share price	**$14.96**
Exercise price per share	**$13.12**

[i)] The underlying expected volatility was determined by reference to historical data of TerraVest's shares price on the Toronto Stock Exchange.

12.3 Dividends

During the nine months ended June 30, 2020, TerraVest has declared dividends totaling $0.30 per common share ($0.30 per common share during the nine months ended June 30, 2019). As at June 30, 2020, $1,868 was included in dividends payable.

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

Subsequent to the end of the third quarter, TerraVest declared a cash dividend of $0.10 per common share payable on October 9, 2020 to shareholders of record on September 30, 2020.

13. EARNINGS PER SHARE

The following table provides a breakdown of the numerator and denominator used in the calculation of earnings per share and diluted earnings per share:

	Third quarters ended		Nine months ended	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
Numerator				
Net income attributed to common shareholders	**$3,882**	$4,610	**$15,666**	$16,175
Financing costs on convertible debentures, net of income tax	**-**	263	**203**	858
Diluted net income attributed to common shareholders	**$3,882**	$4,873	**$15,869**	$17,033
Denominator				
Common shares, beginning of period	**18,737,420**	17,288,507	**17,642,489**	17,630,707
Weighted average shares issued	**-**	6,861	**813,986**	132,748
Weighted average shares repurchased	**(51,929)**	-	**(35,948)**	(574,548)
Weighted average shares, end of period - basic	**18,685,491**	17,295,368	**18,420,527**	17,188,907
Dilutive effect of convertible debentures	**-**	1,435,320	**362,717**	1,596,564
Dilutive effect of stock options	**309,648**	396,651	**287,991**	346,536
Weighted average shares, end of period - diluted	**18,995,139**	19,127,339	**19,071,235**	19,132,007
Net income per share - basic	**$0.21**	$0.27	**$0.85**	$0.94
Net income per share - diluted	**$0.20**	$0.25	**$0.83**	$0.89

14. FINANCING COSTS

	Third quarters ended		Nine months ended	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
	$	**$**	**$**	**$**
Interest on revolving credit facilities and long-term debt	**716**	889	**2,645**	2,857
Interest on lease liabilities	**378**	-	**1,077**	-
Interest on convertible debentures	**-**	209	**154**	688
Accretion of convertible debentures	**-**	151	**122**	487
Amortization of financing costs	**81**	42	**195**	128
Convertible debentures retirement costs	**-**	-	**9**	147
Accretion of contingent considerations	**-**	38	**-**	114
	1,175	1,329	**4,202**	4,421

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

15. OTHER (GAINS) LOSSES

	Third quarters ended		Nine months ended	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
	$	**$**	**$**	**$**
(Gain) loss on foreign exchange	**929**	162	**(1,094)**	(306)
Change in fair value of derivative financial instruments	**(1,438)**	(483)	**927**	306
Change in fair value of investment in equity instruments	**47**	-	**47**	-
(Gain) loss on disposal of property, plant and equipment	**(25)**	120	**(300)**	(86)
(Gain) loss on disposal of assets held for sale	**-**	-	**(931)**	-
(Gain) loss on contingent considerations	**-**	-	**(61)**	-
	(487)	(201)	**(1,412)**	(86)

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended	
	June 30, 2020	**June 30, 2019**
	$	**$**
Adjustments for items not affecting cash		
Depreciation of property, plant and equipment	**9,393**	5,840
Amortization of intangible assets	**4,068**	2,950
Amortization of deferred development costs	**98**	49
Amortization of financing costs	**195**	128
Share-based compensation expense	**71**	69
Net change of inventory valuation allowance	**36**	(66)
(Gain) loss on disposal of property, plant and equipment	**(300)**	(86)
(Gain) loss on disposal of assets held for sale	**(931)**	-
(Gain) loss on contingent considerations	**(61)**	-
Deferred income tax expense	**545**	501
Accretion of convertible debentures	**122**	487
Accretion of contingent considerations	**-**	114
Change in fair value of derivative financial instruments	**927**	306
Change in fair value of investment in equity instruments	**47**	-
Other	**(480)**	(53)
	13,730	10,239
Change in non-cash operating working capital items		
Accounts receivable	**32,704**	10,670
Inventories	**(3,254)**	(15,158)
Other current assets	**(29)**	444
Accounts payable and accrued liabilities	**(13,436)**	(1,084)
Deferred revenues	**1,976**	(1,183)
	17,961	(6,311)

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

16.1 Non-cash transaction

Leases, for which an amount of $9,247 was recognized in PP&E and lease liabilities during the nine months ended June 30, 2020 ($nil during the nine months ended June 30, 2019), had no cash impact on investing and financing activities. Purchase of PP&E of $nil was unpaid and recorded as accounts payable and accrued liabilities as at June 30, 2020 ($2,590 as at June 30, 2019).

17. RELATED PARTY TRANSACTIONS

On March 25, 2020, TerraVest sold an immovable property for a total consideration of $3,000 to 11925890 Canada inc., an entity jointly controlled by the Chairman of TerraVest's Board of Directors and by George Armoyan, a member of TerraVest's Board of Directors. The transaction resulted in a gain on disposal of assets held for sale of $1,111 and was carried out under market terms and conditions.

18. SEGMENTED INFORMATION

18.1 Reportable segments

TerraVest determines its reportable segments based on the structure of its operations, which as at June 30, 2020 is divided into three operating business units: Fuel Containment, Processing Equipment and Service. Corporate is not a segment and is disclosed for reconciliation purposes.

The following tables also provide required information on revenue as part of its segmented information disclosure.

					Third quarter ended June 30, 2020
	Fuel Containment	**Processing Equipment**	**Service**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**
Sales	**31,112**	**28,867**	**1,040**	**-**	**61,019**
Depreciation and amortization	**1,987**	**3,038**	**255**	**1**	**5,281**
Financing costs (income)	**544**	**563**	**70**	**(2)**	**1,175**
Income tax expense	**1,460**	**344**	**21**	**206**	**2,031**
Net income (loss)	**4,519**	**660**	**(217)**	**(1,108)**	**3,854**
Purchase of property, plant and equipment, net of proceeds	**(145)**	**3,018**	**8**	**-**	**2,881**

					Nine months ended June 30, 2020
	Fuel Containment	**Processing Equipment**	**Service**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**
Sales	**115,835**	**111,946**	**8,241**	**-**	**236,022**
Depreciation and amortization	**5,957**	**6,481**	**1,120**	**1**	**13,559**
Financing costs	**1,947**	**1,708**	**272**	**275**	**4,202**
Income tax expense (recovery)	**4,405**	**1,073**	**(38)**	**(222)**	**5,218**
Net income (loss)	**12,972**	**3,920**	**(694)**	**(652)**	**15,546**
Goodwill and intangible assets	**19,020**	**16,994**	**-**	**-**	**36,014**
Segment assets	**155,035**	**130,885**	**18,106**	**8,181**	**312,207**
Segment liabilities	**101,503**	**75,976**	**14,661**	**2,418**	**194,558**
Purchase of property, plant and equipment, net of proceeds	**2,565**	**3,468**	**165**	**-**	**6,198**

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

					Third quarter ended June 30, 2019
	Fuel Containment	**Processing Equipment**	**Service**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**
Sales	35,357	31,742	3,652	-	70,751
Depreciation and amortization	1,524	958	391	-	2,873
Financing costs	655	210	104	360	1,329
Income tax expense (recovery)	1,264	645	80	6	1,995
Net income (loss)	2,998	2,947	(429)	(913)	4,603
Purchase of property, plant and equipment, net of proceeds	2,061	887	(20)	3	2,931

					Nine months ended June 30, 2019
	Fuel Containment	**Processing Equipment**	**Service**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**
Sales	113,377	99,647	12,917	-	225,941
Depreciation and amortization	4,676	2,787	1,376	-	8,839
Financing costs	2,013	721	239	1,448	4,421
Income tax expense (recovery)	4,161	1,979	178	(41)	6,277
Net income (loss)	10,921	9,349	(666)	(3,357)	16,247
Goodwill and intangible assets	21,402	11,594	-	-	32,996
Segment assets	149,038	84,693	18,623	4,478	256,832
Segment liabilities	98,063	38,437	15,223	10,405	162,128
Purchase of property, plant and equipment, net of proceeds	8,040	3,724	280	3	12,047

18.2 Geographical information

TerraVest generates revenue from two segmental regions. The concentration of TerraVest's revenue is derived from Canadian and U.S. sales.

	Third quarters ended		**Nine months ended**	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
	$	**$**	**$**	**$**
SALES				
Canada	**35,707**	50,447	**143,206**	151,221
United States	**25,312**	20,304	**92,816**	74,720
	61,019	70,751	**236,022**	225,941

(Unaudited – in thousands of Canadian dollars, except share and per share amount)

Certain non-current assets and goodwill by geographic segment:

	As at June 30, 2020 – Unaudited		
	Canada	**United States**	**Total**
	$	**$**	**$**
Property, plant and equipment	**92,774**	**16,512**	**109,286**
Intangible assets	**13,472**	**8,030**	**21,502**
Goodwill	**8,649**	**5,863**	**14,512**
	114,895	**30,405**	**145,300**

	As at September 30, 2019 – Audited		
	Canada	**United States**	**Total**
	$	**$**	**$**
Property, plant and equipment	60,481	13,987	74,468
Intangible assets	15,599	5,437	21,036
Goodwill	6,645	9,965	16,610
	82,725	29,389	112,114

19. IMPACT OF COVID-19

In March 2020, the World Health Organization declared a global pandemic due to the novel COVID-19 which continues to spread in Canada and around the world. The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

Management is closely monitoring the situation and has put various response plan in place to keep employee, customers and vendors safe and to continue operations. As at June 30, 2020, TerraVest is aware of changes in its operations as a result of the COVID-19 pandemic, including travel restrictions, reduced activities of some of its manufacturing facilities, temporary lay-offs of employees and temporary reduction of executive' salaries and board of directors remuneration.

During the third quarter ended June 30, 2020, certain Canadian subsidiaries of TerraVest's received government subsidies totaling $5,564 mainly to help maintain employment during a period where revenues have been temporarily reduced and to better position the businesses to resume normal operations following the crisis.

Management continues to monitor and assess the ongoing development and respond accordingly. The impacts, if any, will be accounted for when they are known and may be assessed.