

*Interim Condensed Consolidated Financial Statements of*

**TERRAVEST CAPITAL INC.**

**For the three month period ended December 31, 2016**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

In accordance National Instrument 51-102, Part 4, subsection 4.3(3) (a), released by the Canadian Securities Administrators, the company discloses that its auditors have not reviewed these unaudited interim condensed consolidated financial statements as at and for the three months ended December 31, 2016.

## TERRAVEST CAPITAL INC.

Interim Condensed Consolidated Statements of Financial Position

As at December 31, 2016 and September 30, 2016

(Unaudited – in thousands of Canadian dollars)

	Note	December 31, 2016 \$	September 30, 2016 \$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		5,131	9,643
Accounts receivable		32,562	28,966
Inventories		38,553	35,971
Prepaid expenses		1,076	1,213
Other current assets	17	8,273	10
		<b>85,595</b>	<b>75,803</b>
<b>NON-CURRENT</b>			
Property, plant and equipment		49,982	49,177
Deferred income tax assets		11,907	12,193
Intangible assets		23,270	23,972
Goodwill		6,466	6,407
Investment in associate		1,090	1,090
Other non-current assets		284	326
		<b>178,594</b>	<b>168,968</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Bank indebtedness		905	1,622
Capital loan	6	3,682	4,057
Accounts payable and accrued liabilities		18,065	16,630
Deferred revenue		6,888	2,062
Dividends payable	9	1,832	1,832
Income taxes payable		339	388
Current portion of long-term debt	7	4,650	4,744
		<b>36,361</b>	<b>31,335</b>
<b>NON-CURRENT</b>			
Operating loans	5	24,508	21,723
Long-term debt	7	84	101
Convertible debentures	8	19,128	19,272
Deferred income tax liabilities		9,746	10,016
		<b>89,827</b>	<b>82,447</b>
Commitments	14		
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	10	142,569	142,585
Share premium		45,379	45,379
Share-based payments reserve		305	290
Accumulated other comprehensive loss		(334)	(721)
Equity component of convertible debentures	8	3,008	3,057
Accumulated deficit		(102,894)	(104,838)
		<b>88,033</b>	<b>85,752</b>
Non-controlling interest		734	769
		<b>88,767</b>	<b>86,521</b>
		<b>178,594</b>	<b>168,968</b>

*See accompanying notes to the interim condensed consolidated financial statements*

On behalf of the Board:

/s/ Charles Pellerin, Director

/s/ Blair Cook, Director

## TERRAVEST CAPITAL INC.

Interim Condensed Consolidated Statements of Income

For the three months ended December 31, 2016 and December 31, 2015

(Unaudited – in thousands of Canadian dollars)

	Note	2016 \$	2015 \$
Product sales		<b>42,742</b>	49,155
Delivery of services		<b>5,536</b>	6,607
		<b>48,278</b>	55,762
Cost of sales	12	<b>36,190</b>	42,226
Gross profit		<b>12,088</b>	13,536
EXPENSES			
Administration	12	<b>4,647</b>	4,704
Selling	12	<b>1,436</b>	1,140
Financing costs	12	<b>887</b>	897
		<b>6,970</b>	6,741
OPERATING INCOME BEFORE INCOME TAXES		<b>5,118</b>	6,795
INCOME TAXES			
Current income taxes		<b>1,344</b>	1,372
Deferred income tax expense		<b>33</b>	489
		<b>1,377</b>	1,861
NET INCOME		<b>3,741</b>	4,934
Net income attributable to:			
Common shares		<b>3,776</b>	4,838
Non-controlling interest		<b>(35)</b>	96
		<b>3,741</b>	4,934
Weighted average number of common shares:			
Basic	11	<b>18,318,160</b>	18,279,175
Diluted	11	<b>21,148,404</b>	21,153,978
NET INCOME PER SHARE:			
Basic	11	<b>0.21</b>	0.26
Diluted	11	<b>0.19</b>	0.24

See accompanying notes to the interim condensed consolidated financial statements

## TERRAVEST CAPITAL INC.

Interim Condensed Consolidated Statements of Comprehensive Income  
For the three months ended December 31, 2016 and December 31, 2015  
(Unaudited – in thousands of Canadian dollars)

	2016	2015
	\$	\$
<b>NET INCOME</b>	<b>3,741</b>	4,934
<b>Other comprehensive income, net of tax</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Unrealized gain on translation of net investment in foreign operations	387	197
<b>COMPREHENSIVE INCOME</b>	<b>4,128</b>	5,131
Attributable to:		
Common shareholders	4,163	5,035
Non-controlling interest	(35)	96
	<b>4,128</b>	5,131

*See accompanying notes to the interim condensed consolidated financial statements*

## TERRAVEST CAPITAL INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

For the three months ended December 31, 2016 and December 31, 2015

(unaudited – thousands of Canadian dollars)

	Note	2016 \$	2015 \$
<b>Share capital</b>			
<b>Common shares:</b>			
Balance, beginning of period		142,585	143,417
Repurchased during the period	10(a)	(16)	(262)
Balance, end of period		142,569	143,155
<b>Share premium</b>			
Balance, beginning of period		45,379	44,319
Carrying value of common shares repurchased in excess of consideration paid	10(a)	-	62
Balance, end of period		45,379	44,381
<b>Share-based payments reserve</b>			
Balance, beginning of period		290	175
Share-based payments expense	10(b)	15	34
Balance, end of period		305	209
<b>Accumulated other comprehensive (loss) income</b>			
Balance, beginning of period		(721)	(35)
Other comprehensive income		387	196
Balance, end of period		(334)	161
<b>Equity component of convertible debentures</b>			
Balance, beginning of period		3,057	3,114
Convertible debentures repurchased, net of tax		(49)	(47)
Balance, end of period		3,008	3,067
<b>Accumulated deficit</b>			
Balance, beginning of period		(104,838)	(101,161)
Net income attributable to common shareholders		3,776	4,838
Dividends declared during the period	9	(1,832)	(1,827)
Balance, end of period		(102,894)	(98,150)
<b>Total shareholders' equity attributable to common shares</b>		<b>88,033</b>	<b>92,823</b>
<b>Non-controlling interest</b>			
Balance, beginning of period		769	503
Net (loss) income attributable to non-controlling interest		(35)	96
Distributions paid to non-controlling interest		-	(266)
Balance, end of period		734	333
<b>Total Shareholders' Equity</b>		<b>88,767</b>	<b>93,156</b>

See accompanying notes to the interim condensed consolidated financial statements

## TERRAVEST CAPITAL INC.

Interim Condensed Consolidated Statements of Cash Flow

For the three months ended December 31, 2016 and December 31, 2015

(Unaudited – in thousands of Canadian dollars)

	Note	2016 \$	2015 \$
<b>CASH PROVIDED BY (USED IN):</b>			
OPERATING ACTIVITIES			
Net income for the period		3,741	4,934
Provision for current income taxes		1,344	1,372
Financing costs		887	897
Items not affecting cash	13	2,583	3,082
Financing costs paid		(710)	(1,522)
Income taxes paid		(1,484)	(2,647)
Changes in non-cash operating working capital	13	(7,998)	1,101
<b>CASH (OUTFLOWS) INFLOWS FROM OPERATING ACTIVITIES</b>		<b>(1,637)</b>	<b>7,217</b>
INVESTING ACTIVITIES			
Business combination		-	(1,590)
Cash acquired in a business combination		-	69
Purchase of property, plant and equipment		(2,355)	(802)
Proceeds from disposal of property, plant and equipment		136	59
<b>CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>		<b>(2,219)</b>	<b>(2,264)</b>
FINANCING ACTIVITIES			
Repayment of bank indebtedness		(717)	-
Net increase (decrease) in operating loan		2,785	(7,671)
Capital loan repayments		(375)	(375)
Issuance of long-term debt		19	34
Repayment of long-term debt		(130)	(129)
Common shares repurchased		(16)	(199)
Convertible debentures repurchased		(433)	(601)
Dividends paid		(1,832)	(1,831)
Distributions to non-controlling interest		-	(266)
<b>CASH OUTFLOWS FROM FINANCING ACTIVITIES</b>		<b>(699)</b>	<b>(11,038)</b>
<b>NET OUTFLOWS FOR THE PERIOD</b>		<b>(4,555)</b>	<b>(6,085)</b>
Impact of foreign exchange on revaluation		43	(553)
Cash position, beginning of period		9,643	14,059
<b>CASH POSITION, END OF PERIOD</b>		<b>5,131</b>	<b>7,421</b>

*See accompanying notes to the interim condensed consolidated financial statements*

# TERRAVEST CAPITAL INC.

## Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

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### 1. REPORTING ENTITY

TerraVest Capital Inc. (“TerraVest” or the “Company”) is a corporation whose principal business activity is to invest in a diversified group of income producing businesses. As at December 31, 2016, TerraVest has three business segments:

- Fuel Containment: a manufacturer of items such as propane dispensers, pressure vessels, commercial and residential liquid containment units and bulk propane trucks. The products are sold into many industries across North America including, but not limited to, propane storage and distribution, mining, agriculture and oil and gas. The segment also sells furnaces and other ventilation based products through its distribution channels;
- Fabrication: a fabricator of wellhead processing equipment for the oil and natural gas industry in western Canada; and
- Service: well servicing to the oil and natural gas industry in south-western and central Saskatchewan.

TerraVest is domiciled in Alberta, Canada and its head office is located at 4901 Bruce Road, Vegreville, Alberta T9C 1C3.

### 2. BASIS OF PREPARATION

#### ***Statement of compliance***

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”) using the accounting policies TerraVest disclosed in its consolidated financial statements for the year ended September 30, 2016.

These interim condensed consolidated financial statements are prepared on a going concern basis, under the historical cost convention except for certain financial assets which are presented at fair value in Canadian dollars, TerraVest’s functional and presentation currency. All financial information is presented in Canadian dollars except as otherwise noted.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on February 8, 2017.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### **a) *Basis of consolidation***

These interim condensed consolidated financial statements incorporate the financial statements of TerraVest and entities controlled by it (its “subsidiaries”). Control is achieved when TerraVest is exposed, or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The financial statements of subsidiaries are included in the interim condensed consolidated financial statements from the date that control commences until the date control ceases.

All inter-company transactions, balances, income and expenses and unrealized gains and losses are eliminated in full on consolidation.

## TERRAVEST CAPITAL INC.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

The significant subsidiaries of TerraVest as at December 31, 2016, are as follows:

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage owned</u>	<u>Percentage owned by non-controlling interests</u>
TerraVest Industries Limited Partnership	Alberta	100%	-
NWP Industries Limited Partnership	Alberta	100%	-
Gestion Jerico Inc.	Quebec	100%	-
Diamond Energy Services Limited Partnership	Alberta	100%	-
Envirovault Limited Partnership	Alberta	100%	-
Segretech Inc.	Alberta	54.9%	45.1%

#### ***b) Future Accounting Policies***

##### Financial instruments

In 2014, the IASB released IFRS 9 – Financial instruments (“IFRS 9”), representing the completion of its project to replace IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in TerraVest’s credit risk are presented in other comprehensive income (“OCI”), instead of net profit, unless this would create an accounting mismatch. IFRS 9 also provides new guidance on the application of hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. TerraVest is assessing the potential impact of this standard on its interim condensed consolidated financial statements.

##### Revenues from Contracts with Customers

IFRS 15, “Revenues from Contracts with Customers” replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for periods beginning on or after January 1, 2018. TerraVest is currently evaluating the impact of the new standard on its interim condensed consolidated financial statements.

##### Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer (‘lessee’) and the supplier (‘lessor’). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: 1) assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value and 2) depreciation of lease assets separately from interest on lease liabilities on the statements of income. The standard is effective for annual periods beginning on or after January 1, 2019. TerraVest is currently evaluating the impact of the new standard on its interim condensed consolidated financial statements.



# TERRAVEST CAPITAL INC.

## Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

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### 4. INCOME TAXES

Deferred income taxes reflect the net tax effects of losses carried forward and of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

### 5. OPERATING LOANS

#### *(a) Current*

TerraVest has an operating loan (“TerraVest Loan”) with a major Canadian Chartered Bank. The TerraVest Loan provides for a maximum available borrowing capacity of \$10,000 and is based on the margining of certain accounts receivable and inventory of RJV. The TerraVest Loan is due on demand and bears interest at Canadian bank prime plus 0.75%. Security for the TerraVest Loan is provided by RJV Gas Field Services (RJV), and includes mortgages over real property, general security agreements over book debts and all present and after acquired property, assignment of insurance policies, unlimited guarantees of the borrowers, a subordination agreement in which TerraVest subordinates all present and future indebtedness, liabilities and obligations owed to TerraVest by RJV and a hypothecation and pledge agreement by TerraVest for all of the partnership units of RJV.

TerraVest’s subsidiary, Diamond, has an operating loan (“Diamond Loan”) with a major Canadian Chartered Bank providing for a maximum \$3,000 revolving loan based on margining of certain accounts receivable of Diamond. The Diamond Loan is due on demand and is charged interest at a rate of Canadian bank prime plus 0.80%. Security for the Diamond Loan is provided by Diamond and consists of a general security agreement constituting a first ranking security interest over all of Diamond’s assets and assignments of its insurance policies.

TerraVest’s subsidiary, NWP, has an operating loan (the “NWP Loan”) with a major Canadian chartered bank providing for a maximum of \$5,000. The availability of the operating loan is tied to accounts receivable and inventory levels. The NWP Loan is due on demand and bears interest at bank prime plus 0.65%. Security for the NWP Loan consists of a general security agreement on all personal property of the borrower including cash balances, accounts receivable, inventories, property, plant and equipment and a guarantee and postponement of claim from NWP’s general partner. There are no financial covenants and there are no material non-financial covenants associated with the loan.

#### *(b) Non-Current*

TerraVest’s subsidiary, Jerico, has an operating facility (the “Jerico Loan”) with a Canadian financial institution providing for a maximum borrowing of \$40,000. The term of the Jerico Loan was for a period of two years and was extended one year, now expiring on March 27, 2018 and accordingly has been presented as a non-current liability on the consolidated statements of financial position. Availability on the Jerico Loan is restricted to limits tied to accounts receivable, inventories and property, plant and equipment. The Jerico Loan is currently charged interest at Canadian bank prime for Canadian dollar advances and the US base rate for US dollar advances. The interest rates may vary depending upon the funded debt to EBITDA ratio as defined in the credit agreement. Security for the Jerico Loan consists of corporate guarantees; first ranking security agreements over immovable properties; a first ranking security agreement over all moveable properties and moveable assets, tangible and intangible, present and future; and an assignment of insurance policies.

## TERRAVEST CAPITAL INC.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

As at December 31, 2016, the maximum borrowing amount available under the operating loans based on margin requirements and the amounts drawn were as follows:

	Maximum Amount \$	Amount Drawn \$
<i>Current</i>		
TerraVest Loan	10,000	-
Diamond Loan	2,558	-
NWP Loan	5,000	-
	17,558	-
<i>Non-current</i>		
Jerico Loan	40,000	24,508
	57,558	24,508

Each of the TerraVest Loan, Diamond Loan and Jerico Loan contain certain financial covenant ratios, which are calculated based on the results of the individual subsidiary entities subject to such covenants.

The required financial covenant ratios for each of these facilities, together with the actual ratio calculations as at December 31, 2016, are summarized in the table below:

Financial Covenant	Required Measurement	Ratio	Measurement frequency
<b>TerraVest Loan</b>			
Current ratio	at least 1.25:1	3.97	Quarterly
Debt to tangible net worth	at most 2.0:1	0.65	Quarterly
Debt service charge coverage	at least 1.25:1	(1.40)	Quarterly
<b>Diamond Loan</b>			
Current ratio	at least 1.20:1	4.52	Quarterly
Debt to tangible net worth	at most 2.5:1	0.28	Quarterly
Funded debt to EBITDA	at most 2.50:1	0.81	Quarterly
<b>Jerico Loan</b>			
Fixed charge coverage ratio	at least 1.25:1	25.14	Quarterly
Funded debt to EBITDA	at most 4.00:1	0.80	Quarterly
Funded debt to capitalization	at most 0.60:1	0.40	Quarterly

Each of the TerraVest Loan, Diamond Loan and Jerico Loan contain restrictive non-financial covenants which restrict the ability of the entities to make distributions to their shareholders or partners if they are not in compliance with the financial covenants or if such distribution would result in non-compliance.

As at December 31, 2016, the Diamond and Jerico Loans were in compliance with all the financial and non-financial covenants. The TerraVest Loan was in compliance with two of the three covenants. The creditor has issued a certificate extending the loan conditions due to this covenant violation. As a result, there are no restrictions on the entities to make distributions to their shareholders or partners. The debt service charge coverage covenant has been amended to at least 1.25:1 from 1.10:1 going forward with the first testing period beginning March 31, 2017.

## TERRAVEST CAPITAL INC.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

#### 6. CAPITAL LOAN

Terravest's subsidiary, Diamond, has a 364 day committed revolving capital loan facility ("Capital Loan") with a major Canadian Chartered Bank providing for a maximum \$6,500 based on margining the net book value of Diamond's property, plant and equipment. The purpose of the Capital Loan is to assist Diamond with the purchase of future property, plant and equipment.

Repayment terms under the Capital loan call for interest only. If the bank determines that it does not wish to extend the Capital Loan at maturity then it automatically converts to a two year term loan and will no longer revolve. The term loan would require interest payable monthly and 1/10 of the outstanding principal amount paid quarterly with a lump sum payment at maturity.

Interest charged on the Capital Loan is Canadian bank prime plus 0.9% with an additional 0.20% standby fee for the unutilized portion of the Capital Loan.

Security for the Capital Loan is the same as for the Diamond Loan as described in Note 5. The net book value of the security is \$20,584. The financial covenants for the Capital loan are the same as those disclosed in Note 5 for the Diamond Loan. Diamond is in compliance with all covenants. As at December 31, 2016, the maximum available borrowing capacity under the Capital Loan was \$6,500 of which \$3,682 is drawn.

#### 7. LONG-TERM DEBT

	December 31, 2016	September 30, 2016
	\$	\$
TerraVest Term Loan, payable in equal monthly principal instalments of \$36 plus interest at 3.95%, being the financial institution's base rate less 0.75%, due June 2027.	4,550	4,658
Other	184	187
Total	4,734	4,845
Less: current portion of long-term debt	(4,650)	(4,744)
Long-term portion	84	101

Security for the TerraVest Term Loan is provided by RJV, and includes mortgages over real property, general security agreements over all present and after acquired property and assignment of insurance policies.

#### Covenants

Quarterly financial covenants for the TerraVest Term loan are based on financial metrics of RJV and are:

Financial Covenant	Required Measurement	Ratio	Measurement frequency
Working Capital ratio	at least 1.25:1	3.97	Quarterly
Debt to tangible net worth	at most 2.00:1	0.65	Quarterly
Debt service charge coverage ratio	at least 1.25:1	(1.40)	Quarterly

As at December 31, 2016, the Company was in compliance with two of the three quarterly covenants. Subsequent to quarter-end, the creditor issued a waiver regarding this violation. Due to the timing of the receipt of the waiver, the long-term portion of the debt is required to be classified as current although the scheduled payments continue to be paid on a long-term basis.

## TERRAVEST CAPITAL INC.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

#### 8. CONVERTIBLE DEBENTURES

The following table summarizes the movement in the liability and equity components of TerraVest's convertible debentures ("Debentures"):

	Liability \$	Equity \$
Balance, beginning of period	19,272	3,057
Convertible debentures repurchased, net of tax	(367)	(49)
Accretion of liability	223	-
Balance, end of period	19,128	3,008

On May 30, 2016, TerraVest renewed its normal course issuer bid under which it can acquire for cancellation up to \$1,912 of the outstanding Debentures. In the circumstance whereby Debentures are repurchased and extinguished by TerraVest, the liability for the repurchased Debentures is extinguished and the equity component is reduced. The normal course issuer bid expires on May 29, 2017. During the three months ended December 31, 2016, TerraVest had repurchased Debentures with a principal amount of \$441, bringing the total repurchased since the inception of the normal course issuer bid to \$441.

These Debentures bear interest at 7% per annum which is payable semi-annually in arrears, on June 30 and December 31 each year commencing December 31, 2015. These Debentures are convertible, at the option of the holder, into common shares of TerraVest at a conversion price of \$8.25 per share at any time prior to their maturity.

The Debentures are compound financial instruments which consist of the liability component and the equity conversion feature. At initial recognition, the principal amount of the Debentures was allocated between liability and equity elements and classified separately on the consolidated statements of financial position. The allocation was performed by first estimating the present value of the future cash flows of the liability component, which is the liability in the absence of the conversion feature using a market rate of interest of 12%. TerraVest then used the residual method to determine the value of the equity component represented by the conversion feature. The long-term liability will increase to the \$22,950 face value of the Debentures over the remaining term using an effective interest rate of 12.94% with the accretion being included in financing costs on the consolidated statements of income.

On or after June 30, 2018 but prior to June 30, 2019, these Debentures are redeemable, in whole or in part, at a price equal to the principal amount therefore, plus accrued and unpaid interest, at TerraVest's sole option on not more than 60 days and not less than 30 days prior notice, provided that the Current Market Price on the date on which notice of redemption is given is not less than 125% of the Conversion Price. After June 30, 2019, but prior to the maturity date of June 30, 2020, the Debentures will be redeemable, in whole or in part, at a price equal to the principal amount, plus accrued and unpaid interest, at TerraVest's sole option on not more than 60 days and not less than 30 days prior notice. The term "Current Market Price" is defined in the Trust Indenture as the volume weighted average trading price per share for the twenty consecutive trading days on the Toronto Stock Exchange ending on the fifth trading day preceding the date of redemption or maturity.

## TERRAVEST CAPITAL INC.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

#### 9. DIVIDENDS

Dividends paid and payable in the three-month fiscal period ended December 31, 2016 and the year-ended September 30, 2016 are as follows:

	Record date	Date paid/payable	Amount \$
Dividend	December 30, 2016	January 11, 2017	1,832
Dividend	September 30, 2016	October 11, 2016	1,832

#### 10. SHARE CAPITAL AND SHARE-BASED PAYMENTS

##### a) Share Capital

Changes in the Shares issued and outstanding during the period were as follows:

	December 31, 2016		December 31, 2015	
	Number	Amount \$	Number	Amount \$
Balance, beginning of period	18,318,720	142,585	18,301,795	143,417
Repurchased and cancelled during the period	(2,000)	(16)	(33,200)	(262)
Balance, end of period	18,316,720	142,569	18,268,595	143,155

TerraVest renewed its normal course issuer bid ("NCIB") during the period. In the three months ended December 31, 2016, TerraVest acquired 2,000 (2015 - 33,200) common shares under its NCIB for total proceeds of \$16 (2015 - \$199). The difference between carrying value of the acquired shares and the proceeds paid for the shares was nominal so there was no adjustment to share premium (2015 - \$62). Under the NCIB, TerraVest may repurchase a total of 915,911 common shares. The NCIB expires on December 18, 2017.

##### b) Share-based payments

TerraVest has reserved 1,500,000 common shares under a stock option plan for key personnel, of which 831,000 stock options have been issued. Total expense arising from the share-based payment transactions recognized during the three month period ended December 31, 2016 as part of the compensation expense was \$15 (2015 - \$34).

The stock options outstanding and the weighted average exercise prices as at December 31, 2016, are as follows:

Grant Date	Expiry Date	Weighted average exercise price	Opening balance	Granted	Exercised	Forfeited	Closing balance	Vested and exercisable	Unvested
June 18, 2014	June 18, 2019	\$6.10	498,000	-	-	-	498,000	332,000	166,000
June 18, 2015	June 18, 2020	\$6.30	333,000	-	-	-	333,000	111,000	222,000
		\$6.18	831,000	-	-	-	831,000	443,000	388,000

# TERRAVEST CAPITAL INC.

## Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

### 11. 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:

	2016	2015
	\$	\$
<b>Numerator</b>		
Net income attributed to common shares	3,776	4,838
Interest expense on convertible debentures, net of tax	296	303
Diluted net income attributed to common shares	4,072	5,141
<b>Denominator</b>		
Common shares, beginning of period	18,318,720	18,301,795
Weighted average shares repurchased	(560)	(22,620)
Weighted average shares, end of period - basic	18,318,160	18,279,175
Dilutive effect of convertible debentures	2,781,818	2,855,151
Dilutive effects of options	48,426	19,652
Weighted average shares, end of period - diluted	21,148,404	21,153,978
Net income per share - basic	0.21	0.26
Net income per share - diluted	0.19	0.24

### 12. OPERATING INCOME BEFORE INCOME TAXES

Operating income before income taxes for the three months ended December 31, 2016 and December 31, 2015 is stated after taking account of the following items:

	2016	2015
	\$	\$
Cost of sales		
Direct costs, net of personnel expense	24,970	30,395
Amortization of property, plant and equipment	1,056	1,328
Amortization of deferred development costs	42	55
Gain on disposal of property, plant and equipment	(76)	(25)
Personnel expenses	10,198	10,473
	36,190	42,226
General administration expenses		
Administration expenses, net of personnel expense	1,278	1,704
Amortization of property, plant and equipment	540	301
Amortization of finite life intangible assets	881	900
Foreign exchange gains	(310)	(647)
Personnel expenses	2,258	2,446
	4,647	4,704
Selling expenses		
Selling expenses, net of personnel expenses	982	609
Personnel expenses	454	531
	1,436	1,140

## TERRAVEST CAPITAL INC.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

	2016	2015
	\$	\$
Financing costs		
Interest on operating loans	195	193
Interest on capital loans	33	40
Interest on long-term debt	40	40
Refinancing costs	1	1
Interest on convertible debentures	395	425
Accretion of debenture payable	223	198
	<b>887</b>	<b>897</b>

### 13. SUPPLEMENTAL CASH FLOW INFORMATION

	2016	2015
	\$	\$
<b>Adjustments for items not affecting cash</b>		
Amortization of property, plant and equipment	1,596	1,629
Amortization of intangible assets	881	900
Amortization of deferred development costs	42	55
Stock-based compensation expense	15	34
Gain on disposal of property, plant and equipment	(76)	(25)
Provision for deferred income taxes	33	489
Other	92	-
	<b>2,583</b>	<b>3,082</b>
<b>Change in non-cash operating working capital</b>		
Accounts receivable	(3,596)	(3,566)
Inventories	(2,582)	3,151
Prepaid expenses	137	187
Other current assets	(8,263)	73
Accounts payable and accrued liabilities	1,480	(298)
Deferred revenue	4,826	1,554
	<b>(7,998)</b>	<b>1,101</b>

### 14. COMMITMENTS, CONTINGENCIES AND GUARANTEES

#### *Operating leases*

TerraVest is committed to numerous operating lease agreements for real property and equipment. The minimum lease payments for the non-cancellable operating lease agreements payable within the next year and to maturity are as follows:

	Current	2-5 years	Over 5 years	Total
	\$	\$	\$	\$
Real property	1,290	2,837	1,307	5,434
Plant, equipment, vehicles and other	394	335	-	729
	<b>1,684</b>	<b>3,172</b>	<b>1,307</b>	<b>6,163</b>

At December 31, 2016, TerraVest had foreign exchange contracts to sell U.S. \$19,600 at various rates maturing up to November 28, 2019. The fair value of the liability at December 31, 2016 was \$294 (September 30, 2016 - \$44) and is included in accounts payable and accrued liabilities.

## TERRAVEST CAPITAL INC.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

#### 15. SEGMENTED INFORMATION

TerraVest determines its reportable segments based on the structure of its operations, which as at December 31, 2016 is divided into three operating business units. Two of the segments operate in the oil and gas service sector: Fabrication, which manufactures oil and gas separation and measurement equipment; and Service, which operates services rigs and equipment in the oil and natural gas industry. The third business unit is Fuel Containment. Corporate is not a segment and is disclosed for reconciliation purposes.

<b>Three months ended December 31, 2016</b>						
	Fuel Containment	Fabrication	Service	Corporate	Consolidation eliminations	Total
	\$	\$	\$	\$	\$	\$
Sales	30,027	14,684	5,536	-	(1,969)	48,278
Amortization	1,444	446	629	-	-	2,519
Financing costs	158	35	33	661	-	887
Net income (loss)	3,422	1,022	307	(256)	(754)	3,741
Goodwill and intangible assets	20,656	9,080	-	-	-	29,736
Segment assets	102,947	45,122	25,408	5,117	-	178,594
Segment liabilities	39,219	19,220	8,367	22,995	26	89,827
Purchase of property, plant and equipment, net of proceeds	1,211	703	305	-	-	2,219
<b>Three months ended December 31, 2015</b>						
	Fuel Containment	Fabrication	Service	Corporate	Consolidation eliminations	Total
	\$	\$	\$	\$	\$	\$
Sales	33,794	15,361	6,607	-	-	55,762
Amortization	1,431	374	779	-	-	2,584
Financing costs	188	45	40	624	-	897
Net income (loss)	4,271	1,165	804	(1,109)	(197)	4,934
Goodwill and intangible assets	22,974	8,482	2,473	-	-	33,929
Segment assets	97,628	51,696	30,900	4,183	1,519	185,926
Segment liabilities	42,669	15,251	9,868	23,689	1,293	92,770
Purchase of property, plant and equipment, net of proceeds	515	70	158	-	-	743

#### *Geographical information*

TerraVest generates revenue from two segmental regions. The concentration of TerraVest's revenue is derived from Canadian sales, with a smaller amount of U.S. sales.

	<b>2016</b>	2015
	\$	\$
<b>SALES</b>		
Canada	<b>31,645</b>	36,987
United States	<b>16,633</b>	18,775
	<b>48,278</b>	55,762



## **TERRAVEST CAPITAL INC.**

### **Notes to the Interim Condensed Consolidated Financial Statements**

For the three months ended December 31, 2016 and December 31, 2015

(In thousands of Canadian dollars, except Share and Per Share Amounts)

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#### **16. SEASONALITY**

TerraVest experiences seasonality in the delivery of its product and services. The majority of the development work in the oilfield service industry is performed in the colder winter months and the demand for tanks and vessels from the Fuel Containment segment is also the highest between May and December. Certain of TerraVest's subsidiaries use various marketing initiatives including incentives for certain purchases made during non-peak periods, in an attempt to mitigate this seasonality. TerraVest also 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 period.

#### **17. SUBSEQUENT EVENT**

On January 1, 2017, TerraVest completed the acquisitions of Vilco Ltd., Superior Tanks Ltd. and VOC Realty Inc. (collectively "Vilco Group"), each of which was a privately owned Canadian based company primarily focused on manufacturing fiberglass tanks and steel tanks for domestic and commercial use across North America. The acquisition purchase price was \$8,250 and is subject to a working capital adjustment. The acquisition was funded by available cash that was on deposit in other current assets as at December 31, 2016.