MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year ended September 30, 2017

Dated: December 28, 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") presents management's view of the financial position and performance of TerraVest Capital Inc. ("TerraVest" or the "Company") for the year ended September 30, 2017, and should be read in conjunction with TerraVest's audited consolidated financial statements for year ended September 30, 2017. All amounts are stated in thousands of Canadian dollars, except per share data unless otherwise stated, and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion is prepared as at December 22, 2017 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-GAAP measures such as EBITDA, Adjusted EBITDA, Free Cash Flow, Cash Available for Distribution, Maintenance Capital Expenditures, Dividend Payout Ratio, Working Capital and Backlog which are found on pages 12 and 13 of this MD&A and the cautionary Forward-Looking Statements found on pages 15 and 16 of this Management's Discussion and Analysis.

OVERVIEW & STRATEGY

TerraVest is a publicly traded holding company focused on acquiring platform businesses with strong cash flow generation, long track records of operating success, strong balance sheets and committed management teams. We are focused on creating value for shareholders through our existing lines of business as well as acquiring additional businesses with stable cash flows and potential for growth through our support.

We are primarily focused on evaluating opportunities within our circle of competence that complement our existing businesses and provide integration benefits. For TerraVest these opportunities reside in the fabrication of oil and gas processing equipment and the manufacturing of tanks and fuel containment vessels where expertise in metal fabrication and welding are required. We also see opportunities to augment our existing oilfield services business.

TerraVest is comprised of three business segments: Fuel Containment, which manufactures tanks and pressure vessels for fuel and liquid containment, Fabrication, which manufactures oil and gas production and processing equipment, and the Service segment, which provides services to oil and gas producers in Western Canada.

Fuel Containment Segment

TerraVest's Fuel Containment segment is a leading North American manufacturer of items such as bulk propane trucks, propane dispensers, pressure vessels and commercial and residential liquid containment units. Fuel Containment's products are sold into many industries across Canada and the Northeastern United States. This segment sells bulk propane trucks, propane storage tanks, residential fuel tanks, furnaces and boilers through its distribution network. The end users of the products are fuel distributers and public retail consumers.

Fabrication Segment

TerraVest fabricates oil and gas wellhead production and processing equipment for the oil and natural gas industry in Western Canada. The Fabrication segment manufacturers a wide array of equipment for well sites and central processing facilities including: separators, metering and measurement units, line heaters, desanding units, specialized tanks and other ancillary processing equipment. This segment's products are primarily sold to oil and gas producers and midstream companies in the energy industry.

Service Segment

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

HIGHLIGHTS – Q4 and fiscal year ended September 30, 2017

- Revenues of $52,699 and $192,535 for the quarter and fiscal year ended September 30, 2017, which represents increases of 22**%** and 8**%** respectively versus prior comparable periods;
- Adjusted EBITDA of $6,548 and $25,236 for the quarter and fiscal year ended September 30, 2017, which represents decrease of 21**%** and increase of 2**%** respectively versus prior comparable periods;
- Free cash flow of $8,832 and $4,243 for the quarter and fiscal year ended September 30, 2017, which compares to $156 and $27,601 for the comparable periods in fiscal 2016;
- Earnings per share and diluted earnings per share of $0.50 and $0.49, for the fiscal year ended September 30, 2017 compared to earnings per share and diluted earnings per share of $0.41 and $0.41, for fiscal 2016.

As a whole the Company's fiscal 2017 results were below management expectation but slightly improved over the prior year.

The Company's Fabrication segment experienced improved results compared to the prior year, which resulted from increased sales, and reduced expenses partially offset by weak pricing. The oil and gas industry in Western Canada has been persistently weak since 2015 and competition for work has remained high. The Fabrication segment has made significant progress on cost reduction efforts, which has allowed it to gain market share despite the aggressive bidding practices in the industry at present.

The Fuel Containment segment did not meet management's expectations for fiscal 2017. This was primarily a result of weak demand in the segment's US propane business and weaker than expected results at the time of acquisition and higher than anticipated integration costs from the recently acquired Vilco Group. Fuel Containment's home heating oil tank businesses and Canadian propane businesses were relatively in line with expectations.

The Service segment's performance was in line with management's expectations for fiscal 2017. However, results for this segment continue to be well below historical trends as the persistently weak oil and gas market in Western Canada continues to affect pricing for this segments services.

BUSINESS ACQUISITIONS

On January 1, 2017, TerraVest, through one of its wholly owned subsidiaries, acquired Vilco Group shares for a cash consideration of $8,250. The Vilco Group is a manufacturer of steel and fiberglass home heating oil tanks and is complementary with existing businesses in TerraVest's Fuel Containment segment.

Since the date of acquisition, on January 1, 2017, Vilco group contributed $8,569 of revenue and $(400) of EBITDA. For further information of the acquisition of Vilco Group please refer to Note 4 of the Consolidated Financial Statements for year ended September 30, 2017.

On September 18, 2017, TerraVest, through one of its wholly owned subsidiaries, acquired the assets of Fischer Tanks LLC. The fair value of the consideration transferred is $9,382 USD. The acquisition of Fischer Tanks enhances the Company's propane product and service offering and further strengthens its presence in the Mid-West United States, which represents the highest consuming region of propane in North America.

Since the date of acquisition, on September 18, 2017, Fischer Tanks LLC contributed $357 of revenue and $8 of EBITDA. For further information on the acquisition of Fischer Tanks LLC please refer to Note 4 of the Consolidated Financial Statements for the year ended September 30, 2017.

OUTLOOK

Management's outlook for the upcoming fiscal year is positive. For the Fabrication segment management is anticipating an improvement for fiscal 2018 driven by higher than usual backlogs and further incremental cost reductions. The Company is also expecting a positive contribution from the desanding business, which was acquired in 2016.

TerraVest is expecting improved results from the Fuel Containment segment in fiscal 2018. Demand for propane storage and distribution equipment in the US has picked up in recent months as delayed capital investments seem to have caught up to many propane retailers. This segment should also see a positive contribution from the recently acquired Fischer Tanks, as well as a new domestic propane tank manufacturing line that was installed during fiscal 2017. Additionally, managements expects that many of the integration challenges associated with the Vilco acquisition are behind them and will no longer be drag on this segments profitability.

The outlook for the Service segment is not materially different from the previous year. While this segment did experience increased utilization during fiscal 2017, pricing continues to be a major challenge and barring any improvement in commodity pricing management does not expect an immediate improvement in profitability.

TERRAVEST CONSOLIDATED RESULTS OF OPERATIONS

The following section provides the financial results of TerraVest's operations for the three and year ended September 30, 2017 and the comparative periods in fiscal 2016.

	Three months ended September 30		Year ended September 30	
	2017	**2016**	**2017**	**2016**
	$	**$**	$	$
Sales	**52,699**	43,320	**192,535**	178,513
Cost of sales	**41,420**	31,264	**148,682**	138,867
Gross profit	**11,279**	12,056	**43,853**	39,646
General and administration expenses	**5,940**	5,208	**23,597**	20,111
Selling expenses	**911**	1,181	**4,748**	4,684
Financing costs	**992**	905	**3,866**	3,488
Impairment charges	**-**	2,473	**-**	2,473
Loss (gain) on disposal of property, plant and equipment	**62**	94	**(63)**	(1,803)
Net income before tax	**3,374**	2,195	**11,705**	10,693
Income taxes	**(104)**	665	**2,677**	3,001
Net Income	**3,478**	1,530	**9,028**	7,692
Allocated to non-controlling interest	**(49)**	(22)	**(163)**	239
Net income available to common shareholders	**3,527**	1,552	**9,191**	7,453
Weighted average shares outstanding - Basic	**18,372,169**	18,318,820	**18,359,785**	18,264,639
Weighted average shares outstanding – Diluted	**21,290,435**	18,338,906	**21,257,502**	18,272,110
Earnings per share – Basic	**0.19**	0.08	**0.50**	0.41
Earnings per share – Diluted	**0.18**	0.08	**0.49**	0.41

Revenue for the three and 12 month periods ending September 30, 2017 were $52,699 and $192,535 respectively, which represents increases of 22**%** and 8**%** over the prior comparable periods. The increases are due to increased levels of activity in the Fabrication segment as well as the addition of the Vilco Group.

Gross profit for the three and 12 month periods ending September 30, 2017 were $11,279 and $43,853 respectively, which represents decrease of 6**%** quarter over quarter, but an increase of 11% year over year. The decrease in the quarter was driven by weaker results in the Fuel Containment segment.

General and administration expenses for the three and 12 month periods ending September 30, 2017 were $5,940 and $23,597 respectively, which represents increases of 14**%** and 17**%** over the prior comparable periods. Included in administration expenses for the current year is a foreign exchange gain of $789 and amortization of $5,281 compared to a foreign exchange gain of $581 and amortization of $4,474 in the prior year. General and administration expenses for the year, after adjusting for foreign exchange gains and amortization, were approximately 18**%** higher than in the prior year, which is a result of the addition of the Vilco Group as well as additional staff to support certain growth initiatives within the Fuel Containment segment.

Selling expenses for the three and 12 month periods ending September 30, 2017 remained relatively flat compared to prior periods.

Financing expenses for the three and 12 month periods ending September 30, 2017 were $992 and $3,866 respectively, which represents increases of 15**%** and 12**%** over the prior comparable periods. The increases are due to increased levels of debt as a result of the acquisition of the Vilco Group and capital sending related to certain growth initiatives.

Income tax expenses for the full year ending September 30, 2017 was $2,677, which represents a decrease of 11**%** over the prior year. Several of TerraVest's operating subsidiaries are taxable entities. TerraVest does carry tax losses which are available to shelter certain future income tax obligations for some, but not all of TerraVest's Subsidiaries. The portion of the income tax recovery related to deferred taxes for the year ended September 30, 2017 was $412 compared to $1,225 for the year ended September 30, 2016.

Management believes that there are certain non-GAAP financial measures that can be used to assist shareholders in determining the performance of the Company. The table below highlights certain financial results and reconciles net income to EBITDA, EBITDA to Adjusted EBITDA and Adjusted EBITDA to Cash Available for Distribution for the fourth quarter and year ended September 30, 2017 and the comparative periods in fiscal 2016.

	Three months ended September 30		**Year ended September 30**	
	2017	2016	**2017**	2016
	$	$	$	$
Revenue	**52,699**	43,320	**192,535**	178,513
Net income	**3,478**	1,530	**9,028**	7,692
Add (subtract):				
Income taxes	**(104)**	665	**2,677**	3,001
Financing costs	**992**	905	**3,866**	3,488
Amortization and depreciation	**2,120**	2,606	**9,728**	9,951
EBITDA	**6,486**	5,706	**25,299**	24,132
Impairment of goodwill	**-**	2,473	**-**	2,473
Loss (gain) on disposal of property, plant and equipment	**62**	94	**(63)**	(1,803)
Adjusted EBITDA	**6,548**	8,273	**25,236**	24,802
Maintenance Capital Expenditures	**(1,707)**	(1,353)	**(5,402)**	(3,969)
Cash income taxes paid	**(744)**	(1,275)	**(3,811)**	(5,483)
Financing costs paid	**(933)**	(277)	**(3,866)**	(3,044)
Distribution to non-controlling interest	**-**	-	**-**	(625)
Cash Available for Distribution	**3,164**	5,368	**12,157**	11,681
Dividends Paid in the Period	**1,838**	1,832	**7,337**	7,313
Dividend Payout Ratio	**58%**	34%	**60%**	63%

	Three months ended September 30		Year ended September 30	
	2017	2016	**2017**	2016
	$	$	$	$
Free Cash Flow				
Cash flow from operations before changes in non-cash Working Capital	**4,529**	8,464	**18,554**	18,174
Changes in non-cash Working Capital	**5,699**	(7,477)	**(5,498)**	10,716
Cash flow from operations	**10,228**	987	**13,056**	28,890
Add (subtract):				
Purchase of property, plant and equipment	**(1,796)**	(960)	**(9,592)**	(4,978)
Proceeds on disposal of property, plant and equipment	**400**	129	**779**	3,689
Free Cash Flow	**8,832**	156	**4,243**	27,601

TerraVest generated Adjusted EBITDA of $6,548 and $25,236, respectively, in the three months and year ended September 30, 2017 compared to $8,273 and $24,802 in the same periods of fiscal 2016. The full year Adjusted EBITDA remained relatively flat as a result of an increase in adjusted EBITDA for the Fabrication segment which was mostly offset by a reduction in Adjusted EBITDA in the Fuel Containment and Service segments.

Cash Available for Distribution in decreased quarter over quarter as a result of weaker operating results in Fuel Containment, but increased slightly year over year as a result of reduced taxes paid during the year.

Free Cash Flow increased quarter over quarter and decreased year over year. The fluctuations are primarily related to changes in working capital and higher levels of capital expenditures related to certain growth initiatives during the year. Included in the purchase of property, plant and equipment for fiscal 2017 as growth initiatives are the purchase of a new domestic propane tank manufacturing line as well as several pieces of automated equipment acquired for the purpose of improving efficiency and increasing capacity.

SEGMENTED RESULTS

a) Fuel Containment

	Three months ended September 30		Year ended September 30	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenue	**29,495**	27,990	**109,399**	107,758
EBITDA	**4,499**	6,619	**17,071**	20,638
Loss (gain) on disposal of property, plant and equipment	**70**	8	**31**	(16)
Adjusted EBITDA	**4,569**	6,627	**17,102**	20,622
Amortization and depreciation	**(1,044)**	(1,413)	**(5,480)**	(5,249)
(Loss) gain on disposal of property, plant and equipment	**(70)**	(8)	**(31)**	16
Financing costs	**(280)**	(158)	**(930)**	(660)
Income taxes expense	**(435)**	(1,165)	**(2,989)**	(4,251)
Net Income	**2,740**	3,883	**7,672**	10,478
Cash flow before changes in non-cash working capital	**2,392**	5,247	**12,203**	15,748
Changes in non-cash working capital	**611**	(2,781)	**(1,396)**	2,742
Cash flow from operating activities	**3,003**	2,466	**10,807**	18,490
Purchase of property, plant and equipment	**(1,135)**	(453)	**(6,247)**	(3,404)
Proceeds of disposal of property, plant and equipment	**304**	19	**487**	305
Free Cash Flow	**2,172**	2,032	**5,047**	15,391

The Fuel Containment segment's revenue for the quarter and year ended September 30, 2017 was $29,495 and $109,399, respectively, compared to $27,990 and $107,758, respectively in the comparable periods of fiscal 2016. The increase in revenues is related to the addition of Vilco and partially offset by lower revenue in this segment's US propane business.

Adjusted EBITDA for this segment was $4,569 and $17,102, for the quarter and year ended September 30, 2017 compared to $6,627 and $20,622, for the comparable periods in fiscal 2016. The decrease in Adjusted EBITDA is a result of poor operating results and higher than expected integration costs in Vilco and weak results in the US propane business, driven by a lack of demand for product.

Free Cash Flow was $2,172 for the quarter and $5,047 for the year ended September 30, 2017 compared to $2,032 in the quarter and $15,391 for the year ended September 30, 2016. The decrease year over year is the result of weaker operating results, higher levels of working capital and higher capital expenditures related to certain growth initiatives.

b) Fabrication

	Three months ended September 30		**Year ended September 30**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenue	**18,144**	9,676	**62,001**	49,481
EBITDA	**1,661**	1,236	**6,931**	2,473
Loss (gain) on disposal of property, plant and equipment	**(30)**	56	**(81)**	(80)
Adjusted EBITDA	**1,631**	1,292	**6,850**	2,393
Amortization and depreciation	**(457)**	(511)	**(1,817)**	(1,812)
(Loss) gain on disposal of property, plant and equipment	**30**	(56)	**81**	80
Financing costs	**(8)**	(31)	**(159)**	(132)
Deferred income tax recovery (expense)	**-**	92	**-**	92
Net Income	**1,196**	786	**4,955**	621
Cash flow before changes in non-cash working capital	**1,573**	1,260	**6,619**	2,260
Changes in non-cash working capital	**4,811**	(2,806)	**(3,895)**	8,497
Cash flow from operating activities	**6,384**	(1,546)	**2,724**	10,757
Purchase of property, plant and equipment	**(417)**	(188)	**(2,540)**	(496)
Proceeds of disposal of property, plant and equipment	**96**	103	**215**	329
Free Cash Flow	**6,063**	(1,631)	**399**	10,590

Revenue for the Fabrication segment was $18,144 for the quarter and $62,001 for the year ended September 30, 2017, compared to $9,676 and $49,481 for the same periods in fiscal 2016. The increase is a result of increased levels of business activity in Western Canada compared to the prior periods.

Adjusted EBITDA for the Fabrication segment was $1,631 and $6,850 for the three months and year ended September 30, 2017 as compared to $1,292 and $2,393 for the three months and year ended September 30, 2016. The increase is a result of much higher plant utilization partially offset by pricing pressure.

Free Cash Flow for the Fabrication segment was $6,063 and $399 for the three months and year ended September 30, 2017. This compares to $(1,631) and $10,590 for the three months and year ended September 30, 2016. The decrease year over year is primarily driven by higher working capital requirements as business activity has increased, as well as increased capital expenditure as the company has invested in its desanding equipment fleet.

c) Service

	Three months ended September 30		Year ended September 30	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenue	**5,101**	5,654	**21,135**	21,274
EBITDA	**787**	(1,336)	**2,995**	3,132
Loss (gain) on disposal of property, plant and equipment	**22**	30	**(13)**	(1,707)
Impairment charges	**-**	2,473	**-**	2,473
Adjusted EBITDA	**809**	1,167	**2,982**	3,898
Amortization and depreciation	**(619)**	(779)	**(2,431)**	(2,890)
Impairment of goodwill	**-**	(2,473)	**-**	(2,473)
Impairment of property, plant and equipment	**-**	-	**-**	-
(Loss) gain on disposal of property, plant and equipment	**(22)**	(30)	**13**	1,707
Financing costs	**(26)**	(41)	**(117)**	(155)
Income taxes recovery (expense)	**(13)**	45	**(97)**	102
Net (loss) Income	**129**	(2,111)	**350**	189
Cash flow before changes in non-cash working capital	**780**	1,126	**2,859**	3,743
Changes in non-cash working capital	**(190)**	(633)	**(24)**	163
Cash flow from operating activities	**590**	493	**2,835**	3,906
Purchase of property, plant and equipment	**(244)**	(320)	**(805)**	(1,079)
Proceeds of disposal of property, plant and equipment	**-**	8	**77**	3,056
Free Cash Flow	**346**	181	**2,107**	5,883

Revenue for the Service segment was $5,101 for the quarter and $21,135 for the year ended September 30, 2017, compared to $5,654 and $21,274 for the same periods in fiscal 2016. Business activity remained relatively weak through fiscal 2017.

Adjusted EBITDA for the Service segment was $809 and $2,982 for the three months and year ended September 30, 2017 as compared to $1,167 and $3,898 for the three months and year ended September 30, 2016. The decrease is a result of continued pricing pressure and slightly lower utilization throughout the year.

Free Cash Flow for the Service segment was $346 and $2,107 for the three months and year ended September 30, 2017. This compares to $181 and $5,883 for the three months and year ended September 30, 2016. The year over year decrease in Free Cash Flow is the result of weaker operating results and a non-recurring disposal of equipment in the prior year.

TERRAVEST CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

	For the quarters ended							
	30-Sep-17	30-Jun-17	31-Mar-17	31-Dec-16	30-Sep-16	30-Jun-16	31-Mar-16	31-Dec-15
	$	$	$	$	$	$	$	$
Revenue	**52,699**	44,993	46,565	48,278	43,320	36,016	43,415	55,762
Adjusted EBITDA	**6,548**	5,329	4,911	8,448	8,273	1,456	4,821	10,251
Net income attributable to common shares	**3,527**	1,190	698	3,776	1,552	(204)	1,267	4,838
Free cash flow	**8,832**	(5,207)	4,474	(3,856)	156	6,938	14,033	6,474
Net income per share								
− Basic	**0.19**	0.07	0.04	0.21	0.08	(0.01)	0.07	0.26
− Diluted	**0.18**	0.07	0.04	0.19	0.08	(0.01)	0.07	0.24

TerraVest's business divisions are seasonal in nature. The strongest quarters for the Company as a whole are the three month periods ending September 30 and December 31. The Fabrication and Service segments generally experience higher revenues for the three month periods ending December 31 and March 31 as the majority of drilling in Western Canada occurs during the winter months. The Fuel Containment segment generally experiences higher revenues during the three month periods ending September 30 and December 31 as demand for residential, commercial and industrial heating products increases heading into the winter months. The three month period ending June 30 is typically the weakest across all of its segments.

DISTRIBUTIONS AND DIVIDENDS

The following table outlines the dividends declared by TerraVest in the current period:

Record Date	Payment Date	Dividend per share	Type of Dividend
September 29, 2017	October 10, 2017	$0.10	Eligible
June 30, 2017	July 11, 2017	$0.10	Eligible
March 31, 2017	April 12, 2017	$0.10	Eligible
December 31, 2016	January 11, 2017	$0.10	Eligible

Subsequent to the end of the fourth quarter, TerraVest declared a dividend of $0.10 per share payable on January 9, 2018 to shareholders of record December 29, 2017.

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

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2017, TerraVest's cash position including bank overdraft was $8,973, as compared to $9,643 at September 30, 2016. The decrease in TerraVest's cash position in the year is largely the result of acquisitions and capital expenditures during the year.

The following table provides summary information with respect to consolidated cash flows from operations, investing and financing activities for the year ended September 30, 2017 compared to the year ended September 30, 2016:

	2017	2016
	$	$
Cash provided by operating activities	**13,056**	28,890
Cash used in investing activities	**(27,610)**	(4,691)
Cash provided by (used in) financing activities	**13,439**	(28,172)
Net cash outflows for the period	**(1,115)**	(3,973)
Impact of foreign exchange on revaluation of foreign assets	**445**	(443)
Cash, beginning of period	**9,643**	14,059
Cash, end of period	**8,973**	9,643

Cash provided by operating activities

Cash provided by operating activities for the year ended September 30, 2017 was **$**13,056 compared to cash of $28,890 provided for the same period in fiscal 2016.

At September 30, 2017, consolidated working capital was $18,272, compared to $44,468 as at September 30, 2016. As at September 30, 2017, TerraVest had available operating loans totaling $56,588 of which $47,235 had been drawn. Subsequent to year end, the Jerico Loan was amended to increase the revolving operating credit to a maximum of $70,000. TerraVest currently has the capacity to fund working capital requirements through existing credit facilities.

Cash used in investing activities

For the year ended September 30, 2017, TerraVest used net cash of $27,610 for investing activities, compared to $4,691 in the year ended September 30, 2016.

Cash provided by (used in) financing activities

Net cash provided by financing activities was $13,439 for the year ended September 30, 2017, compared to $28,172 cash used in the year ended September 30, 2016.

TerraVest and its subsidiaries have access to short-term credit facilities which include operating loans that are margined based on accounts receivable and inventories and a capital loan which is margined on the net book value of the property, plant and equipment of the Service segment. These short-term credit facilities are subject to certain financial covenants which are based on the results of the individual subsidiaries in which the credit facilities are held. These short-term credit facilities are also subject to certain restrictive non-financial covenants which may limit the ability of an individual subsidiary to draw on its credit facility. The availability of these short-term credit facilities 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 September 30, 2017, the TerraVest, Diamond and Jerico Loans were in compliance with all the financial and non-financial covenants. For further information on the financial and non-financial covenants please refer to notes 10**,** 11 and 13 in the consolidated financial statements for the year ended September 30, 2017.

The following table provides a summary of the available short-term credit facilities at September 30, 2017:

	Maximum availability based on margin	**Amount drawn**	**Amount available to draw**
	$	**$**	**$**
Operating loans	56,588	47,235	9,353
Capital loans	5,000	2,557	2,443
	61,588	49,792	11,796

Commitments
As at September 30, 2017, TerraVest's contractual obligations are as follows:

	Payments	**Next twelve months**	**Two-five years**	**To maturity**
	$	$	$	$
Bank overdraft	1,596	1,596	-	-
Operating loans	47,235	47,235	-	-
Accounts payable and accrued liabilities	24,725	24,725	-	-
Capital loan	2,557	2,557	-	-
Long-term debt	5,231	533	2,103	2,595
Interest on capital loan and long-term debt	1,046	285	535	226
Contingent consideration	1,402	-	1,402	
Principal amount of convertible debentures	21,776	-	21,776	-
Interest on convertible debentures	4,213	1,532	2,681	-
Foreign exchange forward contracts	32,911	16,204	16,707	
Commitments	14,860	2,453	4,630	7,777
	157,552	97,120	49,834	10,598

TerraVest also has obligations under forward foreign exchange contracts expiring on various dates up to and including August 31, 2020 to sell $32,911. The forward contracts are marked to market at September 30, 2017 resulting in an asset of $970 which is included in other current assets at September 30, 2017.

TerraVest expects to be able to fund all working capital requirements, contractual obligations and capital expenditures from a combination of operating cash flows and existing credit facilities.

CAPITAL MANAGEMENT

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 in order to maximize the return to shareholders.

Management continually assesses TerraVest's capital needs to meet TerraVest's objectives with its business segments. The capital structure of TerraVest consists of its credit facilities, convertible debentures, shareholders' equity, and non-controlling interest.

The following table outlines TerraVest's capital structure at September 30, 2017 and September 30, 2016:

	Sept. 30, 2017	Sept. 30,2016
	$	$
Bank overdraft	**1,596**	-
Bank indebtedness	**-**	1,622
Drawn on operating loans	**47,235**	21,723
Available on operating loans, net of amount drawn	**9,353**	31,658
Drawn on capital loan	**2,557**	4,057
Available on capital loan, net of amount drawn	**2,443**	2,443
Long-term debt (current and non-current)	**5,231**	4,845
Contingent consideration	**1,118**	-
Convertible debentures	**18,883**	19,272
Shareholders' equity	**85,605**	85,752
Non-controlling interest	**480**	769
	174,501	172,141

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. For further information on TerraVest's financial covenants refer to Notes 10, 11 and 13 in the consolidated financial statements for the year ended September 30, 2017.

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 make adjustments to it in light of economic conditions. In order to maintain or adjust its capital structure, TerraVest may, from time to time, acquire shares for cancellation in connection with a substantial issuer bid or a normal course issuer bid, issue new shares, raise capital through various debt instruments or refinance current debt through instruments with different characteristics.

COMMON SHARES

TerraVest's common shares are listed on the Toronto Stock Exchange under the symbol TVK.

The following summarizes the changes in the shares of TerraVest during the year ended September 30, 2017:

	Year ended September 30, 2017		Year ended September 30, 2016	
	Amount	**$**	**Amount**	**$**
Issued and outstanding, beginning of period	**18,318,720**	**142,585**	**18,301,795**	143,417
Shares issued on conversion of convertible debentures	**128,114**	**1,057**	**-**	-
Shares issued for acquisition of minority interest			**581,925**	3,626
Shares acquired under normal course issuer bid	**(72,500)**	**(564)**	**(565,000)**	(4,458)
Issued and outstanding, end of period	**18,374,334**	**143,078**	**18,318,720**	142,585

On December 19, 2016, TerraVest renewed its normal course issuer bid ("NCIB") under which, it may repurchase a total of 915,911 common shares. The NCIB expires on December 18, 2017. Subsequent to the end of the year, TerraVest has acquired an additional 109,200 shares. At December 22, 2017, there are 18,265,134 common shares issued and outstanding.

SHARE BASED PAYMENTS

TerraVest has reserved 1,500,000 common shares under a stock option plan for key personnel, of which 1,266,000 have been issued to date. The options may only be exercised for common shares of the company. Total expense arising from the share-based payment transactions recognized during the period as part of the compensation expense was $208 (2016 - $115).

The stock options outstanding and the weighted average exercise prices as at September 30, 2017, are as follows:

Grant Date	Expiry Date	Weighted average exercise price	Opening balance	Granted	Settled or Exercised	Forfeited	Closing balance	Vested and exercisable	Unvested
June 18, 2014	June 18, 2019	$6.10	498,000	-	(333,000)	-	165,000	165,000	-
June 18, 2015	June 18, 2020	$6.30	333,000	-	-	-	333,000	222,000	111,000
Feb. 9, 2017	Feb. 22, 2022	$9.10	-	333,000	-	-	333,000	-	333,000
March 9, 2017	March 9, 2024	$9.10	-	435,000	-	-	435,000	-	435,000
			831,000	768,000	(333,000)	-	1,266,000	387,000	879,000
Weighted average exercise price			$6.18	$9.10	$6.10	-	$7.97	$6.21	

During the year, TerraVest settled 333,000 stock options for total consideration of $999. The exercise price of the vested stock option was $6.10 per share.

TOTAL ASSETS

Total assets at September 30, 2017 were $207,464 compared to $168,968 at September 30, 2016. The increase in total assets is largely the result of acquisitions and capital expenditures during the year.

RISK FACTORS

For a detailed discussion of the risk factors related to the businesses and to the structure of TerraVest please refer to the Annual Information Form of TerraVest dated December 22, 2017 under the heading “Risk Factors” which is incorporated herein by reference.

RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the three months and year ended September 30, 2017. All related party transactions were in the normal course of operations and occurred at fair value and there were no significant changes since fiscal year ended September 30, 2016. For full details of the Company’s related party transactions, please refer to note 22 of our consolidated financial statements for the year ended September 30, 2017

ACCOUNTING POLICIES

TerraVest prepares its financial statements in accordance with IFRS. TerraVest’s accounting policies under IFRS are disclosed in Note 3 to the audited consolidated financial statements for the year ended September 30, 2017, incorporated herein by reference.

NON-GAAP FINANCIAL MEASURES

EBITDA, Adjusted EBITDA, Free Cash Flow, Cash Available for Distribution, Maintenance Capital Expenditures, Dividend Payout Ratio, Working Capital, Backlog and Operating Expenses are not defined measures under IFRS and are therefore defined below. TerraVest’s definitions may differ from those of other issuers and therefore may not be comparable to measures used by them.

EBITDA: is defined as income from operations before financial expenses, income taxes, depreciation and amortization. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt changes and other sources and uses of cash which are disclosed in the unaudited interim condensed consolidated statement of cash flows. Management uses EBITDA as part of its assessment of TerraVest’s operating performance. There is no directly comparable IFRS measure for EBITDA.

Adjusted EBITDA: is defined as EBITDA adjusted for gains or losses on disposal of property, plant and equipment, impairment charges and other non-cash items.

Free Cash Flow: is defined as cash flow from operating activities from continuing operations less net capital expenditures from continuing operations. Free Cash Flow is a useful measure in that it provides Management and investors an indication of TerraVest's capacity to generate discretionary cash flows from operations. Free Cash Flow should not be an exclusive measure of cash flow since it does not necessarily reflect the cash flow in the period available for Management to use at its discretion, which may be affected by other sources and non-discretionary uses of cash such as scheduled debt repayments. There is no directly comparable IFRS measure for Free Cash Flow.

Cash Available for Distribution: is defined as EBITDA less Maintenance Capital Expenditures, cash income taxes and financing costs. Management believes that Cash Available for Distribution as a liquidity measure is a useful supplemental measure as it provides an indication of the amount of cash available to pay as dividends to shareholders. There is no directly comparable IFRS measure for Cash Available for Distribution.

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 business 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 distributions. There is no directly comparable IFRS measure for Maintenance Capital Expenditures.

Dividend Payout Ratio: is defined as dividends paid in cash during the period divided by Cash Available for Distribution for the period. There is no directly comparable IFRS measure for Dividend Payout Ratio.

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.

Backlog: is defined as committed purchases orders received for future delivery of product to customers. There is no directly comparable IFRS measure for Backlog.

Operating expenses: is defined as cost of goods sold plus administration and selling expenses.

NEW ACCOUNTING PRONOUNCEMENTS

For a detailed discussion of new accounting pronouncements please refer to Note 3 of the unaudited interim condensed consolidated financial statements for the three and year ended September 30, 2017.

CRITICAL ACCOUNTING ESTIMATES

For a detailed discussion of the use of estimates and judgments please refer to Note 2 of the consolidated financial statements for the year ended September 30, 2017 incorporated herein by reference.

FINANCIAL INSTRUMENTS

TerraVest, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: foreign currency risk, credit risk, liquidity risk, commodity price risk and interest rate risk. An analysis of these risks as at September 30, 2017, is provided below.

Foreign currency risk

TerraVest is subject to foreign exchange risk for Revenue and purchases denominated in foreign currencies. 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 considers itself partially hedged given the level of its purchases denominated in foreign currencies relative to its Revenue and therefore does not have a policy to hedge its foreign currency risk. Based on the net US dollar exposure during the three months ended September 30, 2017, a one cent increase/decrease in the Canadian/U.S. dollar exchange rate would have an impact of $234 on net income (2016 - $174) for the period.

While the Company does not have a policy to hedge its foreign currency risk it manages its exposure to foreign exchange risk by periodically entering into forward foreign exchange contracts. Please refer to the Liquidity Section of this MD&A for a further discussion on the outstanding forward foreign exchange contracts.

Credit risk

TerraVest is exposed to credit risk. Credit risk arises from the potential that a counterparty will fail to perform its obligations. TerraVest's credit risk is mitigated as the majority of its customers are large well established companies with a history of prompt payment. As at September 30, 2017, 91% (September 30, 2016 – 94%) of TerraVest's accounts receivable were less than 90 days past invoice date and 9**%** (September 30, 2016 – 6%) were greater than 90 days past invoice date. TerraVest maintains allowances that it considers adequate for potential bad debts on its accounts receivable and any such losses to date have been provided for. All other accounts receivable not previously allowed for are considered collectible and of good quality. TerraVest's maximum exposure to credit risk is $39,984 (September 30, 2016 – $28,966).

Liquidity risk

TerraVest's objective is to have sufficient liquidity to meet its liabilities when due. TerraVest monitors its cash balances and cash flows generated from operations to meet its requirements. For a more detailed discussion of liquidity, refer to the section entitled "Liquidity and Capital Resources" in this MD&A.

Commodity price risk

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

Interest rate risk

TerraVest is exposed to interest rate risk arising from fluctuations in interest rates on amounts payable under TerraVest's debt structure. Based on the outstanding average balances on the Operating Loan, Capital Loan and Long-Term Debt with fluctuating interest rates and Canadian bank prime rates during the year ended September 30, 2017, a fluctuation of 100 basis points in the interest rates paid would result in an impact on operating income before income tax for the year ended September 30, 2017, of approximately $423 (September 30, 2016 - $393).

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

TerraVest's disclosure controls and procedures are designed to ensure that all important information about TerraVest, including operating and financial activities, is communicated fully, accurately and in a timely manner and that they provide TerraVest with the assurance the financial reporting is accurate.

Internal Control Over Financial Reporting

Internal control over financial reporting means a process designed by or under the supervision of the Chief Executive Officer ("CEO") and the Executive Chairman, in his capacity as Interim Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls are not expected to prevent and detect all misstatements due to fraud and error.

As at September 30, 2017, TerraVest's CEO and CFO, have certified that the disclosure controls and procedures are effective and that during the period covered by this report, TerraVest did not make any changes in internal controls over financial reporting that materially affected or are reasonably likely to materially affect TerraVest's internal controls over financial reporting.

Exceptions

TerraVest acquired the Vilco Group and Fischer LLC during 2017. Management has not yet completed its assessment of the design or operating effectiveness of Vilco's and Fischer's disclosure controls and procedures and internal controls over financial reporting.

The following table provides significant financial information for the Vilco and Fischer for the year ended September 30, 2017.

	Vilco $	Fischer $	Total $
Total assets	5,749	7,522	13,271
Total liabilities	1,113	3,701	4,814
Revenue	8,569	357	8,926
Net loss	864	45	1,473

FORWARD-LOOKING STATEMENTS

The public communications of TerraVest often include written or oral forward-looking statements. Statements of this type are included in this MD&A, and may be included in other filings with Canadian securities regulators, or in other communications. All statements other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding our objectives under "Overview", our dividend policy under "Distributions and Dividends", the availability of credit and other financing sources under "Liquidity and Capital Resources", outlook for operations, financial position, results and cash flow under "Outlook" and other plans, objectives and expectations of or involving TerraVest (including under "Commitments" and "Contingencies"). Readers can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", and similar words or the negative thereof. Although management of the Company ("Management") believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Forward-looking statements are used to describe Management expectations and plans and to assist shareholders in understanding the financial position of the Company, as a whole, and its business segments. Readers are cautioned that this information may not be appropriate for other purposes.

By their nature, forward-looking statements require the Company to make assumptions and, accordingly, forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that the forward-looking statements will not prove to be accurate. TerraVest cautions readers of this MD&A not to place undue reliance on our forward-looking statements because a number of factors may cause actual future circumstances, results, conditions, actions or events to differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements and the assumptions underlying the forward-looking statements.

Assumptions and analysis about the performance of the Company, as a whole, and its business segments, the markets in which the business segments compete and the prospects and values of the business segments are considered in setting the business plan for the Company, in evaluating and forecasting availability of credit, outlook for operations, financial position, results and cash flow, ability to pay dividends, other plans and objectives and in making related forward-looking statements. In respect of the business segments, key assumptions are that, other than as specifically identified herein, demand for products and services of the business segments in respect of the Canadian and other markets in which the businesses are active will be stable, and that the input costs to the business segments do not vary significantly from the levels experienced historically. Should any of these factors or assumptions vary, actual results may differ materially from the forward-looking statements.

The information set forth under "Risk Factors" in the annual information form of the Company dated December 22, 2017, incorporated by reference herein, and under "Financial Instruments" in this MD&A, identifies risk factors that could affect the operating results and performance of the Company and its business segments and the values of the business segments and the Company as a whole. We caution that the lists of factors discussed under "Risk Factors" in the annual information form of the Company dated December 22, 2017, and under "Financial Instruments" in this MD&A are not exhaustive and that, when relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the factors discussed, as well as other uncertainties and potential events, and the inherent risks and uncertainties of forward-looking statements. The forward-looking statements herein are made based on the assumption that the Company will not be affected by such risks, but that, if the Company is affected by such risks, the forward-looking statements may become inaccurate.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A. Except as required by applicable securities laws, the Company does not undertake to update any forward-looking statement, whether written or oral that it may make or that may be made, from time to time, on its behalf.

ADDITIONAL INFORMATION

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