TERRAVEST INDUSTRIES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the third quarter ended June 30, 2018

TERRAVEST INDUSTRIES INC. **(formerly TerraVest Capital Inc.)**

Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	Note	As at June 30, 2018 (Unaudited)	As at Sept. 30, 2017 (Audited)
		$	$
ASSETS			
Current			
Cash		**6,157**	10,569
Accounts receivable		**36,218**	39,984
Income taxes receivable		**1,442**	675
Inventories		**73,550**	46,619
Prepaid expenses		**2,869**	2,026
Assets held for sale		**1,981**	2,239
Other current assets		**1,155**	2,119
		123,372	104,231
Non-Current			
Property, plant and equipment		**62,526**	56,493
Deferred income tax assets		**11,560**	12,138
Intangible assets		**22,100**	24,249
Goodwill		**13,907**	9,003
Investment in associate		**1,090**	1,090
Other non-current assets		**611**	260
		235,166	207,464
LIABILITIES			
Current			
Bank overdraft		**306**	1,596
Operating loans	7	**19,805**	47,235
Capital loan	7	**4,745**	2,557
Accounts payable and accrued liabilities		**29,070**	24,725
Deferred revenues		**9,517**	7,151
Dividends payable	8	**1,742**	1,842
Income taxes payable		**1,076**	320
Current portion of long-term debt		**97**	533
		66,358	85,959
Non-Current			
Operating loans	7	**54,270**	-
Long-term debt	7	**5,675**	4,698
Contingent consideration		**1,292**	1,118
Convertible debentures	9	**15,621**	18,883
Deferred income tax liabilities		**10,707**	10,181
		153,923	120,839
SHAREHOLDERS' EQUITY			
Share capital	10	**135,727**	143,078
Share premium		**41,704**	44,426
Share-based payments reserve		**514**	348
Accumulated other comprehensive income (loss)		**24**	(1,605)
Equity component of convertible debentures	9	**2,324**	2,893
Accumulated deficit		**(99,416)**	(102,995)
		80,877	86,145
Non-controlling interest		**366**	480
		81,243	86,625
		235,166	207,464

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. (formerly TerraVest Capital Inc.)
Interim Condensed Consolidated Statements of Income

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

		Third quarters ended		Nine months ended	
	Note	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
		$	$	$	$
SALES					
Products		**61,267**	40,796	**175,484**	123,802
Services		**4,192**	4,197	**15,146**	16,034
		65,459	44,993	**190,630**	139,836
Cost of sales		**52,007**	34,577	**148,469**	107,262
Gross profit		**13,452**	10,416	**42,161**	32,574
EXPENSES					
Administration		**6,884**	6,418	**20,028**	17,657
Selling		**1,986**	1,198	**5,091**	3,837
Financing costs	11	**1,440**	1,025	**3,930**	2,874
Other (gains) losses	12	**285**	(125)	**436**	(125)
		10,595	8,516	**29,485**	24,243
EARNINGS BEFORE INCOME TAXES		**2,857**	1,900	**12,676**	8,331
INCOME TAX EXPENSE					
Current		**1,082**	796	**3,361**	2,635
Deferred		**(92)**	(50)	**429**	146
		990	746	**3,790**	2,781
NET INCOME		**1,867**	1,154	**8,886**	5,550
Net income attributable to:					
Common shareholders		**1,900**	1,190	**9,000**	5,664
Non-controlling interest		**(33)**	(36)	**(114)**	(114)
		1,867	1,154	**8,886**	5,550
Weighted average number of common shares:					
Basic	13	**17,770,371**	18,312,655	**18,129,426**	18,337,752
Diluted	13	**20,239,076**	18,312,655	**20,841,898**	18,337,752
Net income per share:					
Basic	13	**$0.11**	$0.07	**$0.50**	$0.31
Diluted	13	**$0.11**	$0.07	**$0.47**	$0.31

See accompanying notes to the interim condensed consolidated financial statements

TERRAVEST INDUSTRIES INC. (formerly TerraVest Capital Inc.)

Interim Condensed Consolidated Statements of Comprehensive Income

(Unaudited – in thousands of Canadian dollars)

	Third quarters ended		Nine months ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
	$	**$**	**$**	**$**
NET INCOME	**1,867**	1,154	**8,886**	5,550
Other comprehensive income (loss), net of tax:				
Item that may be reclassified subsequently to profit or loss:				
Exchange difference on translating foreign operations	**652**	(645)	**1,629**	(420)
COMPREHENSIVE INCOME	**2,519**	509	**10,515**	5,130
Attributable to:				
Common shareholders	**2,552**	545	**10,629**	5,244
Non-controlling interest	**(33)**	(36)	**(114)**	(114)
	2,519	509	**10,515**	5,130

See accompanying notes to the interim condensed consolidated financial statements

TERRAVEST INDUSTRIES INC. **(formerly TerraVest Capital Inc.)**

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Unaudited – in thousands of Canadian dollars)

		Nine months ended	
	Note	**June 30, 2018**	**June 30, 2017**
		$	**$**
Share capital			
Common shares:	10		
Balance, beginning of year		**143,078**	142,585
Issued on conversion of convertible debentures		**2,153**	734
Repurchased and cancelled during the period		**(9,504)**	(565)
Balance, end of period		**135,727**	142,754
Share premium			
Balance, beginning of year		**44,426**	45,379
Carrying value of common shares repurchased lower than consideration paid		**(2,722)**	(104)
Excess consideration paid on stock option settlement		**-**	(849)
Balance, end of period		**41,704**	44,426
Share-based payments reserve			
Balance, beginning of year		**348**	290
Share-based payments expense		**166**	135
Reduction of share-based payments expense on stock option settlement		**-**	(150)
Balance, end of period		**514**	275
Accumulated other comprehensive income (loss)			
Balance, beginning of year		**(1,605)**	(721)
Other comprehensive income (loss)		**1,629**	(420)
Balance, end of period		**24**	(1,141)
Equity component of convertible debentures	9		
Balance, beginning of year		**2,893**	3,057
Conversion of convertible debentures		**(157)**	(77)
Convertible debentures repurchased, net of tax		**(412)**	(51)
Balance, end of period		**2,324**	2,929

TERRAVEST INDUSTRIES INC. **(formerly TerraVest Capital Inc.)**

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity – Continued

(Unaudited – in thousands of Canadian dollars)

	Note	Nine months ended June 30, 2018	Nine months ended June 30, 2017
		$	$
Accumulated deficit			
Balance, beginning of year		**(102,995)**	(104,838)
Net income attributable to common shareholders		**9,000**	5,664
Dividends declared during the period	8	**(5,421)**	(5,506)
Excess consideration paid for non-controlling interest		**-**	2
Balance, end of period		**(99,416)**	(104,678)
Total Shareholders' Equity attributable to common shareholders		**80,877**	84,565
Non-controlling interest			
Balance, beginning of year		**480**	769
Net loss attributable to non-controlling interest		**(114)**	(114)
Net change of non-controlling interest		**-**	(126)
Balance, end of period		**366**	529
Total Shareholders' Equity		**81,243**	85,094

See accompanying notes to the interim condensed consolidated financial statements

TERRAVEST INDUSTRIES INC. (formerly TerraVest Capital Inc.)

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited – in thousands of Canadian dollars)

	Note	Nine months ended June 30, 2018	June 30, 2017
		$	$
OPERATING ACTIVITIES			
Net income		**8,886**	5,550
Adjustments for:			
Current income tax expense		**3,361**	2,635
Interest expense		**2,898**	2,874
Debenture retirement costs		**243**	70
Items not affecting cash	14	**10,856**	8,598
		26,244	19,727
Interest paid		**(3,161)**	(2,933)
Income taxes paid		**(5,433)**	(3,067)
Settlement of derivative instruments		**4**	(58)
Changes in non-cash operating working capital	14	**(2,477)**	(10,841)
		15,177	2,828
INVESTING ACTIVITIES			
Consideration paid on business combinations, net of cash acquired	5	**(16,339)**	(8,250)
Purchase of property, plant and equipment	14	**(9,389)**	(7,796)
Proceeds from disposal of property, plant and equipment		**796**	379
Proceeds from disposal of assets held for sale		**725**	-
Net change of non-controlling interest		**-**	(117)
		(24,207)	(15,784)
FINANCING ACTIVITIES			
Repayment of bank indebtedness		**-**	(1,622)
Net increase in operating loans, net of transaction costs		**23,903**	20,933
Net change in capital loan		**2,188**	(1,125)
Issuance of long-term debt, net of transaction costs		**719**	1,019
Repayment of long-term debt		**(544)**	(396)
Common shares repurchased and cancelled	10	**(12,226)**	(668)
Convertible debentures repurchased	9	**(2,797)**	(479)
Stock option settlement		**-**	(999)
Dividends paid	8	**(5,521)**	(5,499)
		5,722	11,164
Net outflows for the period		**(3,308)**	(1,792)
Cash and bank overdraft, beginning of year		**8,973**	9,643
Impact of foreign exchange on cash and bank overdraft		**186**	88
CASH AND BANK OVERDRAFT, END OF PERIOD		**5,851**	7,939

See accompanying notes to the interim condensed consolidated financial statements

1. DESCRIPTION OF THE BUSINESS

TerraVest Industries Inc., formerly known as TerraVest Capital 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.

At its annual and special meeting of shareholders held on February 12, 2018, shareholders approved and authorized an amendment to TerraVest's articles to change the name of TerraVest Capital Inc. to TerraVest Industries Inc. TerraVest began trading under the new name effective at the start of trading on or about February 28, 2018.

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 the Company'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, formerly known as Fabrication, 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 consolidated annual financial statements for the year ended September 30, 2017.

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 the Company's annual consolidated financial statement for the year ended September 30, 2017.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 14, 2018.

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 judgements, 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 annual consolidated financial statement for the year ended September 30, 2017. The only exception is 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.

4. SEASONALITY

TerraVest's operating segments are seasonal in nature. The strongest quarters for the Company 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.

(In thousands of Canadian dollars, except share and per share amounts)

5. BUSINESS COMBINATIONS

5.1 2018 business combination

Acquisition of MaXfield Group Inc.

On January 24, 2018, TerraVest entered into an acquisition agreement, with effect as of January 1, 2018, to acquire all of the issued and outstanding shares of MaXfield Group Inc. ("MaXfield").

MaXfield is primarily focused on manufacturing high-quality processing, storage and transportation equipment for the propane, anhydrous ammonia and oil and gas markets.

The business combination has been accounted for using the purchase method with the results of operations included in earnings from the date of acquisition.

Fair value of the consideration transferred at the acquisition date

	As at January 1, 2018 Preliminary
	$
Cash paid to vendors	15,622
Cash paid to third parties on behalf of vendors	720
Fair value of the consideration transferred	**16,342**

Assets acquired and liabilities assumed at the acquisition date

The preliminary fair value allocation of the identifiable assets acquired and liabilities assumed as at January 1, 2018 effective acquisition date is as follows:

	Preliminary allocation
	$
ASSETS	
Cash	3
Accounts receivable	7,201
Inventories	11,147
Prepaid expenses	146
Property, plant and equipment	4,395
Deferred income tax assets	68
	22,960
LIABILITIES	
Operating loans	2,882
Accounts payable and accrued liabilities	3,716
Deferred revenues	1,294
Income taxes payable	2,090
Deferred income tax liabilities	963
Finance lease obligation	348
	11,293
Net identifiable assets acquired	**11,667**

(In thousands of Canadian dollars, except share and per share amounts)

Determination of fair value

The fair value of assets acquired and liabilities assumed at the acquisition date was determined based on the Company'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

Property, plant and equipment were recognized at their estimated fair value using criteria such as their original cost, the year of acquisition, the current use, management knowledge of the industry and the net carrying value at the acquisition date.

Intangible assets

The Company is currently evaluating the fair value of the identifiable intangible assets acquired. To estimate the fair value of intangible assets acquired, different valuation techniques are used such as the lost profits approach in valuing the non-compete agreements and a multi-period excess earnings method to derive the value of client relationships. The lost profits approach and the multi-period excess earnings method are all primarily based upon expected discounted cash flows according to currently available information, such as historical and projected revenues, customer attrition rates and certain other relevant assumptions.

Goodwill arising from the business combination

	Preliminary goodwill
	$
Consideration transferred	16,342
Less:	
Fair value of net identifiable asset acquired	11,667
Goodwill	**4,675**

MaXfield contribution to TerraVest results

TerraVest's consolidated profit for the nine months ended June 30, 2018 includes sales of $20,703 and a net loss of $475 generated from MaXfield results since the effective acquisition date of January 1, 2018.

If MaXfield had been acquired on October 1, 2017, TerraVest's consolidated sales and net income would have stood at $203,847 and $8,539, respectively, for the nine-month period ended June 30, 2018. TerraVest considers the pro forma figures to be an approximate measurement of the financial performance of the combined entities over a nine-month period.

To determine TerraVest's pro forma consolidated sales and net income if MaXfield had been acquired on October 1, 2017, TerraVest:

- calculated depreciation of property, plant and equipment acquired based on the fair value arising from initial recognition of the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements;
- calculated the borrowing costs on TerraVest's additional indebtedness after the business combination; and
- adjusted MaXfield pre-acquisition net income to reflect MaXfield net income as if the acquisition had been completed on October 1, 2017.

(In thousands of Canadian dollars, except share and per share amounts)

5.2 2017 business combination

Acquisition of the Vilco group

On January 1, 2017, a subsidiary of TerraVest acquired 100% of the shares of Vilco Limited, Superior Tanks Limited and VOC Realty Inc. (The Vilco group).

Fair value of the consideration transferred as at the acquisition date

	As at January 1, 2017
	Final
	$
Cash paid	8,250
Consideration receivable from vendors [i]	(1,128)
Fair value of the consideration transferred	**7,122**

[i] The consideration receivable from the vendors was recorded upon the calculation of the working capital adjustment as per share purchase agreement.

Assets acquired and liabilities assumed as at the acquisition date

During the second quarter ended March 31, 2018, TerraVest finalized the purchase price allocation of the Vilco acquisition. No adjustments were made to the preliminary allocation presented in TerraVest annual consolidated financial statements, filed on SEDAR.

The final allocation of the identifiable assets acquired and the liabilities assumed as of the January 1, 2017 acquisition date is as follows:

	Final allocation
	$
ASSETS	
Accounts receivable	**825**
Income taxes receivable	**119**
Inventories	**3,435**
Prepaid expenses	**200**
Property, plant and equipment	**1,535**
Intangible assets	**2,840**
	8,954
LIABILITIES	
Accounts payable and accrued liabilities	**2,125**
Deferred income tax liabilities	**614**
	2,739
Net identifiable assets acquired	**6,215**

Determination of fair value

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

(In thousands of Canadian dollars, except share and per share amounts)

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

Property, plant and equipment were recognized at their estimated fair value. The Company has appointed a third party to assist in the valuation of the acquired buildings. For the other property, plant and equipment acquired, the Company determined that their fair value was not significantly different than their net carrying value at the transaction closing date.

Intangible assets

The Company estimated the fair value of intangible assets acquired using different valuation techniques such as the lost profits approach in valuing the non-compete agreements and a multi-period excess earnings method to derive the value of client relationships. The lost profits approach and the multi-period excess earnings method are all primarily based upon expected discounted cash flows 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
	years	$
ASSETS		
Client relationships	7	1,840
Non-compete agreements	5	570
Technologies and technical drawings	5	430
		2,840

Goodwill arising from the business combination

	Final goodwill
	$
Consideration transferred	7,122
Less:	
Fair value of net identifiable asset acquired	6,215
Goodwill	**907**

6. FINANCIAL INSTRUMENTS

The fair value of operating loans, capital loan, long-term debt and convertible debentures have been determined based on discounted cash flows based on interest rates for similar instruments. The fair value is equivalent to the carrying values. These items are classified in Level 2 of the fair value hierarchy.

Foreign exchange contracts

As at June 30, 2018, TerraVest had forward foreign exchange contracts totaling $34,051 ($32,911 as at September 30, 2017) outstanding to sell, at various rates and expiring on various dates up to and including June 29, 2021. The fair value of the liability was $418 as at June 30, 2018 and is included in accounts payable and accrued liabilities (asset of $970 included in other current assets as at September 30, 2017).

(In thousands of Canadian dollars, except share and per share amounts)

7. OPERATING LOANS, CAPITAL LOAN & LONG-TERM DEBT

Borrowing amount available

As at June 30, 2018, the maximum borrowing amount available based on margin requirements and the amount drawn were as follows:

	Maximum amount	Amount Drawn
	$	$
Current operating loans	20,669	19,805
Capital loan	5,000	4,745
Non-current operating loans	70,000	54,270
	95,669	78,820

Current operating loans and Capital loan

On May 15, 2018, a subsidiary of TerraVest renewed its existing credit facility with a Canadian chartered bank. The credit facility includes a revolving operating credit and a committed revolving capital loan credit (“Capital loan”). The revolving operating credit of $3,000 ($3,000 as at September 30, 2017) can be used to finance current operations, is due on demand and bears interest at the bank’s prime rate plus 80 basis points.

The Capital loan of $5,000 ($5,000 as at September 30, 2017) is committed for a 364-day period, can be used to purchase property, plant and equipment and bears interest at the bank’s prime rate plus 90 basis points. A standby fee of 0.20% is applied to the unused portion of the authorized amount of the Capital loan. 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, it then automatically converts to a two year term loan and will no longer revolve. The Capital loan expire on June 30, 2019 and can be extended for an additional period of 364 days upon demand.

The credit facility contains an obligation to comply with certain prescribed financial covenants and is secured by:

- general security agreement constituting of a first ranking security on all assets of the subsidiary; and
- assignment of insurance policies.

MaXfield, TerraVest’s subsidiary acquired in January 2018, has a credit facility with a Canadian financial institution. The credit facility consists of a revolving operating credit of a maximum amount of $10,000. The credit facility is not committed and can be cancelled at any time by the financial institution.

The revolving operating credit can be used to finance current operations. It bears interest at Canadian or U.S. prime rate, depending on the currency of the borrowing, plus 75 basis points.

The credit facility contains an obligation to comply with certain prescribed financial covenants and is secured by:

- general security agreement on property, assets and undertakings of certain subsidiaries; and
- assignment of insurance policies.

Non-current operating loans

On November 8, 2017, TerraVest's subsidiaries renewed their existing credit facility with a Canadian financial institution. The credit facility includes a revolving operating credit of $70,000 ($43,500 as at September 30, 2017) and a derivative risk facility in the amount of $4,000 granted to enter into forward exchange contracts. The credit facility was renewed for a term of 36 months ending on December 1, 2020.

The revolving operating credit can be used to finance current operations, purchase property, plant and equipment and finance potential 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. A standby fee is applied to the unused portion of the revolving operating credit if the monthly balance is less than $35,000. Interest rates margin and standby fee rate vary based on a prescribed ratio. As at June 30, 2018 and September 30, 2017, the standby fee was nil.

The credit facility contains an obligation to comply with certain prescribed financial covenants and is secured by:

- first ranking hypothec in the amount of $75,000 over movable and immovable properties and movable assets, tangible and intangible, present and future of certain subsidiaries;
- first ranking collateral charge on the universality of certain subsidiaries real property;
- security agreement on machinery and equipment, inventory and account receivables of a specific subsidiary; and
- assignment of insurance policies.

The transaction costs incurred to renew the credit facility in the amount of $55 were recorded as prepaid expenses and are amortized on a straight-line basis over the 36-month term.

Long-term debt

During the third quarter ended June 30, 2018, a subsidiary of TerraVest received the following payments on financings granted on June 14, 2017, related to the acquisition of equipment:

- $270; loan bearing interest at prime rate plus 0.21%, repayable in 72 equal and consecutive monthly principal instalments of $4 until April 2024; and
- $270; non-interest-bearing loan, repayable in 72 equal and consecutive monthly instalments of $4, starting in May 2020 until April 2026.

The financings contain an obligation to comply with certain prescribed financial covenants and are secured by:

- hypothec in the amount of $648 over the universality of movable assets, tangible and intangible, present and future, of a specific subsidiary of TerraVest;
- security agreement of $540 from a specific subsidiary of TerraVest; and
- assignment of insurance policies.

Covenants

As at June 30, 2018, TerraVest was in compliance with all the financial and non-financial covenants.

(In thousands of Canadian dollars, except share and per share amounts)

8. DIVIDENDS

Dividends paid and payable for the nine months ended June 30, 2018 are as follows:

Record date	Date paid / payable	Amount
		$
September 30, 2017	October 10, 2017	1,842
December 29, 2017	January 9, 2018	1,832
March 30, 2018	April 9, 2018	1,847
June 29, 2018	July 10, 2018	1,742

9. CONVERTIBLE DEBENTURES

Changes in the liability and equity components of TerraVest's convertible debentures during the nine months ended June 30, 2018 were as follows:

	Liability	Equity
	$	$
Balance, beginning of year	18,883	2,893
Conversion of convertible debentures	(1,904)	(157)
Convertible debentures repurchased, net of tax	(2,025)	(412)
Accretion of liability	667	-
Balance, end of period	15,621	2,324

On May 1, 2018, TerraVest repurchased convertible debentures with a principal amount of $2,000 under a substantial issuer bid ("SIB") for total consideration of $2,470, including $46 of accrued and unpaid interest outstanding on the convertible debentures repurchased. Transaction costs of $41 were incurred to perform the SIB and were accounted for as debenture retirement costs in financing costs.

In addition, during the nine months ended June 30, 2018, TerraVest repurchased convertible debentures with a principal amount of $286 ($454 during the nine months ended June 30, 2017), under its normal course issuer bid ("NCIB"), for a total consideration of $332 ($479 during the nine months ended June 30, 2017). The NCIB for the convertible debentures expired on July 3, 2018.

(In thousands of Canadian dollars, except share and per share amounts)

10. SHARE CAPITAL

Changes in the common shares issued and outstanding during the nine months ended June 30, 2018 were as follows:

	Number	Amount
		$
Balance, beginning of year	18,374,334	143,078
Issued on conversion of convertible debentures	260,965	2,153
Repurchased and cancelled during the period	(1,219,600)	(9,504)
Balance, end of period	17,415,699	135,727

On January 31, 2018, TerraVest renewed its common shares NCIB under which it may repurchase a total of 913,256 common shares. The common shares NCIB expires on February 1, 2019.

On May 1, 2018, TerraVest closed a SIB under which it repurchased 1,100,000 common shares for a cash consideration of $11,000. Transaction costs of $84 were incurred to perform the SIB and were accounted for as additional consideration to repurchase the shares.

In addition, during the first nine months of fiscal 2018, TerraVest acquired 119,600 common shares (72,500 during the first nine months of fiscal 2017) under its common shares NCIB for total consideration of $1,142 ($669 in 2017). The difference between the amount paid for the common shares and their carrying value was recorded in share premium.

The remaining number of common shares available for repurchase under the current common shares NCIB is 902,856.

11. FINANCING COSTS

	Third quarters ended		Nine months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$
Interest on operating loans	**643**	275	**1,558**	702
Interest on capital loan	**44**	27	**112**	91
Interest on long-term debt	**24**	72	**131**	151
Accretion of contingent consideration	**38**	-	**111**	-
Interest on convertible debentures	**318**	406	**1,097**	1,197
Accretion of convertible debentures	**211**	220	**667**	659
Debenture retirement costs	**157**	25	**243**	70
Amortization of financing costs	**5**	-	**11**	4
	1,440	1,025	**3,930**	2,874

12. OTHER (GAINS) LOSSES

	Third quarters ended		Nine months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	$	$	$	$
Loss (gain) on disposal of property, plant and equipment	**268**	(125)	**464**	(125)
Loss (gain) on disposal of assets held for sale	**17**	-	**(28)**	-
	285	(125)	**436**	(125)

(In thousands of Canadian dollars, except share and per share amounts)

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, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Numerator				
Net income attributed to common shareholders	**$1,900**	$1,190	**$9,000**	$5,664
Interest expense on convertible debentures, net of tax	**232**	-	**783**	-
Diluted net income attributed to common shareholders	**$2,132**	$1,190	**$9,783**	$5,664
Denominator				
Common shares, beginning of period	**18,465,109**	18,294,183	**18,374,334**	18,318,720
Weighted average shares issued	**43,151**	26,170	**86,674**	27,137
Weighted average shares repurchased	**(737,889)**	(7,698)	**(331,582)**	(8,105)
Weighted average shares, end of period - basic	**17,770,371**	18,312,655	**18,129,426**	18,337,752
Dilutive effect of convertible debentures	**2,206,220**	-	**2,484,266**	-
Dilutive effect of options	**262,485**	-	**228,206**	-
Weighted average shares, end of period - diluted	**20,239,076**	18,312,655	**20,841,898**	18,337,752
Net income per share – basic	**$0.11**	$0.07	**$0.50**	$0.31
Net income per share – diluted	**$0.11**	$0.07	**$0.47**	$0.31

Convertible debentures were not included in the calculation of diluted earnings per share for the third quarter ended June 30, 2017 and for the nine months ended June 30, 2017 because they were antidilutive for these periods.

(In thousands of Canadian dollars, except share and per share amounts)

14. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended	
	June 30, 2018	**June 30, 2017**
	$	**$**
Adjustments for items not affecting cash		
Depreciation of property, plant and equipment	**5,282**	4,855
Amortization of intangible assets	**2,525**	2,687
Amortization of deferred development costs	**49**	66
Share-based compensation expense	**166**	135
Loss (gain) on disposal of property, plant and equipment	**464**	(125)
Gain on disposal of assets held for sale	**(28)**	-
Deferred income tax expense	**429**	146
Accretion of convertible debentures liability	**667**	659
Accretion of contingent consideration	**111**	-
Change in fair value of derivatives instruments	**1,384**	(298)
Unrealized foreign exchange gain resulting from change in estimate	**-**	473
Other	**(193)**	-
	10,856	8,598
Change in non-cash operating working capital		
Accounts receivable	**11,527**	(3,951)
Inventories	**(15,260)**	(9,035)
Prepaid expenses	**3**	(327)
Other current assets	**95**	154
Accounts payable and accrued liabilities	**180**	443
Deferred revenues	**978**	1,875
	(2,477)	(10,841)

Additional cash flow information

Deposits on the purchase of property, plant and equipment of $638 were recorded as prepaid expenses as at June 30, 2018 (nil as at June 30, 2017).

15. CONTINGENCIES

In the ordinary course of business, the Company is exposed to various proceedings and claims. The Company assesses the validity of these proceedings and claims. Provisions are made whenever a penalty seems probable and a reliable estimate can be made of the amount. Management believes that any settlement arising from these claims will not have a significant effect on the Company's current consolidated financial position or on net income. Therefore, no provision has been recognized in these interim condensed consolidated financial statements.

(In thousands of Canadian dollars, except share and per share amounts)

16. SEGMENTED INFORMATION

TerraVest determines its reportable segments based on the structure of its operations, which as at June 30, 2018 are divided into three operating business units: Fuel Containment, Processing Equipment and Service. Corporate is not a segment and is disclosed for reconciliation purposes.

						Third quarter ended June 30, 2018
	Fuel Containment	**Processing Equipment**	**Service**	**Corporate**	**Consolidation eliminations**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Sales	**33,399**	**27,868**	**4,192**	**-**	**-**	**65,459**
Depreciation and amortization	**1,530**	**737**	**436**	**-**	**-**	**2,703**
Financing costs	**511**	**145**	**44**	**740**	**-**	**1,440**
Income tax expense (recovery)	**1,431**	**3**	**1**	**(445)**	**-**	**990**
Net income (loss)	**2,903**	**207**	**(414)**	**(829)**	**-**	**1,867**
Purchase of property, plant and equipment, net of proceeds	**1,875**	**1,832**	**208**	**-**	**-**	**3,915**

						Nine months ended June 30, 2018
	Fuel Containment	**Processing Equipment**	**Service**	**Corporate**	**Consolidation eliminations**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Sales	**100,842**	**74,642**	**15,146**	**-**	**-**	**190,630**
Depreciation and amortization	**4,463**	**1,857**	**1,536**	**-**	**-**	**7,856**
Financing costs	**1,370**	**303**	**112**	**2,145**	**-**	**3,930**
Income tax expense (recovery)	**3,960**	**35**	**228**	**(433)**	**-**	**3,790**
Net income (loss)	**9,427**	**2,983**	**(134)**	**(3,390)**	**-**	**8,886**
Goodwill and intangible assets	**23,461**	**12,546**	**-**	**-**	**-**	**36,007**
Segment assets	**132,372**	**76,080**	**21,232**	**5,482**	**-**	**235,166**
Segment liabilities	**78,535**	**39,994**	**10,922**	**24,472**	**-**	**153,923**
Purchase of property, plant and equipment, net of proceeds	**3,920**	**3,886**	**787**	**-**	**-**	**8,593**

(In thousands of Canadian dollars, except share and per share amounts)

						Third quarter ended June 30, 2017
	Fuel Containment	**Processing Equipment**	**Service**	**Corporate**	**Consolidation eliminations**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Sales	27,233	15,068	4,197	41	(1,546)	44,993
Depreciation and amortization	1,462	469	499	-	-	2,430
Financing costs	261	66	27	671	-	1,025
Net income (loss)	1,291	992	(351)	(171)	(607)	1,154
Purchase of property, plant and equipment, net of proceeds	1,344	256	21	-	-	1,621

						Nine months ended June 30, 2017
	Fuel Containment	**Processing Equipment**	**Service**	**Corporate**	**Consolidation eliminations**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Sales	79,904	49,312	16,034	41	(5,455)	139,836
Depreciation and amortization	4,436	1,360	1,812	-	-	7,608
Financing costs	650	151	91	1,982	-	2,874
Net income (loss)	4,933	3,759	221	(970)	(2,393)	5,550
Goodwill and intangible assets	20,550	8,640	-	-	-	29,190
Segment assets	109,523	50,552	24,644	4,998	-	189,717
Segment liabilities	50,357	17,944	7,675	28,669	(22)	104,623
Purchase of property, plant and equipment, net of proceeds	4,929	2,004	484	-	-	7,417

Geographical information

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

	Third quarters ended		**Nine months ended**	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
	$	**$**	**$**	**$**
SALES				
Canada	**47,213**	33,167	**130,294**	98,555
United States	**18,246**	11,826	**60,336**	41,281
	65,459	44,993	**190,630**	139,836

(In thousands of Canadian dollars, except share and per share amounts)

Certain non-current assets and goodwill by geographic segment

			As at June 30, 2018
	Canada	**United States**	**Total**
	$	**$**	**$**
Property, plant and equipment	**52,145**	**10,381**	**62,526**
Intangible assets	**15,258**	**6,842**	**22,100**
Goodwill	**9,510**	**4,397**	**13,907**
	76,913	**21,620**	**98,533**

			As at September 30, 2017
	Canada	**United States**	**Total**
	$	**$**	**$**
Property, plant and equipment	46,318	10,175	56,493
Intangible assets	16,946	7,303	24,249
Goodwill	4,836	4,167	9,003
	68,100	21,645	89,745

17. 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, i.e. 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.