INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the second quarter ended March 31, 2023

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	Note	As at March 31, 2023 (Unaudited)	As at September 30, 2022 (Audited)
		$	$
ASSETS			
Current			
Cash		**11,829**	9,394
Accounts receivable		**97,246**	108,678
Income taxes receivable		**4,656**	3,007
Inventories		**201,712**	191,244
Other current assets	7	**15,983**	9,829
		331,426	322,152
Non-Current			
Property, plant and equipment		**173,712**	160,671
Right-of-use assets		**29,494**	29,395
Intangible assets		**32,606**	36,533
Net defined benefit asset		**5,619**	5,753
Deferred income tax assets		**20,006**	22,220
Investments	8	**13,273**	13,418
Other non-current assets		**150**	150
Goodwill		**26,331**	24,231
		632,617	614,523
LIABILITIES			
Current			
Bank overdrafts		**238**	360
Revolving credit facilities		**22,837**	3,332
Accounts payable and accrued liabilities		**73,835**	83,248
Deferred revenues		**39,664**	29,768
Dividends payable	10	**2,229**	1,789
Income taxes payable		**3,512**	2,319
Current portion of long-term debt		**27,340**	11,106
Current portion of lease liabilities		**5,324**	4,953
		174,979	136,875
Non-Current			
Long-term debt	9	**189,835**	228,459
Lease liabilities		**27,588**	27,652
Net defined benefit liability		**4,067**	4,049
Deferred income tax liabilities		**21,029**	21,571
		417,498	418,606
SHAREHOLDERS' EQUITY			
Share capital	10	**150,007**	150,467
Share premium		**19,556**	20,408
Share-based payments reserve		**1,637**	955
Accumulated other comprehensive income		**1,694**	2,280
Retained earnings		**25,807**	9,463
		198,701	183,573
Non-controlling interests		**16,418**	12,344
		215,119	195,917
		632,617	614,523

See accompanying notes to the interim condensed consolidated financial statements

On behalf of the Board:

/s/ Charles Pellerin, Director /s/ Blair Cook, Director

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Income

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

	Note	Second quarters ended		Six months ended	
		March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
		$	$	$	$
SALES	15				
Products		**129,915**	111,271	**271,749**	228,762
Services		**46,943**	26,493	**82,307**	40,366
		176,858	137,764	**354,056**	269,128
Cost of sales		**132,516**	107,628	**267,702**	210,471
Gross profit		**44,342**	30,136	**86,354**	58,657
EXPENSES					
Administration		**19,562**	12,613	**35,388**	23,504
Selling		**5,176**	4,129	**10,467**	8,144
Financing costs	12	**3,762**	1,994	**7,478**	3,924
Share of an associate and a joint venture net (income) loss		**(26)**	29	**2**	157
Other (gains) losses	13	**(83)**	(591)	**(531)**	(2,759)
		28,391	18,174	**52,804**	32,970
EARNINGS BEFORE INCOME TAXES		**15,951**	11,962	**33,550**	25,687
INCOME TAX EXPENSE					
Current		**3,865**	1,670	**7,544**	4,576
Deferred		**642**	1,158	**1,476**	1,399
		4,507	2,828	**9,020**	5,975
NET INCOME		**11,444**	9,134	**24,530**	19,712
Net income attributable to:					
Common shareholders		**8,891**	8,433	**20,802**	19,107
Non-controlling interests		**2,553**	701	**3,728**	605
		11,444	9,134	**24,530**	19,712
Weighted average number of common shares:					
Basic	11	**17,831,318**	17,929,118	**17,845,095**	17,851,619
Diluted	11	**18,088,215**	18,141,795	**18,077,862**	18,073,583
Net income per share:					
Basic	11	**$0.50**	$0.47	**$1.17**	$1.07
Diluted	11	**$0.49**	$0.46	**$1.15**	$1.06

See accompanying notes to the interim condensed consolidated financial statements

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Comprehensive Income

(Unaudited – in thousands of Canadian dollars)

	Second quarters ended		Six months ended	
	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
	$	$	$	$
NET INCOME	**11,444**	9,134	**24,530**	19,712
Other comprehensive income (loss) net of income tax:				
Item that may be reclassified subsequently to profit or loss:				
Exchange difference on translating foreign operations	**9**	(601)	**(586)**	(762)
COMPREHENSIVE INCOME	**11,453**	8,533	**23,944**	18,950
Attributable to:				
Common shareholders	**8,900**	7,832	**20,216**	18,345
Non-controlling interests	**2,553**	701	**3,728**	605
	11,453	8,533	**23,944**	18,950

See accompanying notes to the interim condensed consolidated financial statements

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Unaudited – in thousands of Canadian dollars)

	Note	Six months ended March 31, 2023	Six months ended March 31, 2022
		$	$
Share capital			
Common shares:	10		
Balance, beginning of year		**150,467**	141,712
Issued on business combination, net of transaction costs		**-**	9,118
Repurchased and cancelled during the period		**(460)**	-
Balance, end of period		**150,007**	150,830
Share premium			
Balance, beginning of year		**20,408**	21,027
Carrying value of common shares repurchased lower than consideration paid		**(852)**	-
Balance, end of period		**19,556**	21,027
Share-based payments reserve			
Balance, beginning of year		**955**	334
Share-based payments expense		**682**	128
Balance, end of period		**1,637**	462
Accumulated other comprehensive income (loss)			
Balance, beginning of year		**2,280**	(1,188)
Other comprehensive loss		**(586)**	(762)
Balance, end of period		**1,694**	(1,950)
Retained earnings (accumulated deficit)			
Balance, beginning of year		**9,463**	(29,830)
Net income attributable to common shareholders		**20,802**	19,107
Dividends declared during the period		**(4,458)**	(3,586)
Balance, end of period		**25,807**	(14,309)
Total shareholders' equity attributable to common shareholders		**198,701**	156,060
Non-controlling interests			
Balance, beginning of year		**12,344**	4
Recognition of non-controlling interest		**-**	10,351
Change in non-controlling interest		**-**	139
Subsidiary's share-based payments reserve		**346**	-
Net income attributable to non-controlling interests		**3,728**	605
Balance, end of period		**16,418**	11,099
Total shareholders' equity		**215,119**	167,159

See accompanying notes to the interim condensed consolidated financial statements

TERRAVEST INDUSTRIES INC.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited – in thousands of Canadian dollars)

	Note	Six months ended March 31, 2023	Six months ended March 31, 2022
		$	$
OPERATING ACTIVITIES			
Net income		**24,530**	19,712
Adjustments for:			
Current income tax expense		**7,544**	4,576
Interest expense		**7,345**	3,733
Items not affecting cash	14	**21,220**	14,093
Interest paid		**(7,071)**	(3,646)
Income taxes paid		**(7,532)**	(5,947)
Contributions to defined benefit plans		**(67)**	(277)
Settlement of derivative financial instruments		**39**	82
Change in non-cash operating working capital items	14	**(4,961)**	(20,438)
		41,047	11,888
INVESTING ACTIVITIES			
Consideration paid on business combinations, net of cash acquired	5	**(18,106)**	(35,208)
Purchase of other property, plant and equipment		**(8,647)**	(7,695)
Proceeds from disposal of other property, plant and equipment		**1,701**	1,680
Purchase of property, plant and equipment for rental		**(5,539)**	(7,134)
Proceeds from disposal of property, plant and equipment for rental		**4,312**	2,495
Purchase of intangible assets		**(217)**	(51)
Investments	14	**(735)**	(2,986)
Net change in non-controlling interest		**-**	139
		(27,231)	(48,760)
FINANCING ACTIVITIES			
Net change in current revolving credit facilities		**(2,132)**	3,921
Net change in long-term revolving operating loans, net of transaction costs		**(5,123)**	51,472
Issuance of long-term debt, net of transaction costs		**9,073**	2,962
Repayment of long-term debt		**(4,861)**	(10,719)
Repayment of lease liabilities		**(2,819)**	(2,623)
Transaction costs paid on common shares issued		**-**	(21)
Common shares repurchased and cancelled	10	**(1,312)**	-
Dividends paid		**(4,018)**	(3,550)
		(11,192)	41,442
Net inflows for the period		**2,624**	4,570
Cash and bank overdrafts, beginning of year		**9,034**	7,481
Impact of foreign exchange on cash and bank overdrafts		**(67)**	(949)
CASH AND BANK OVERDRAFTS, END OF PERIOD		**11,591**	11,102

See accompanying notes to the interim condensed consolidated financial statements

1. DESCRIPTION OF THE BUSINESS

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

TerraVest is a diversified industrial company that manufactures and sells goods and services to various end markets including: energy, agriculture, mining, and transportation, among others. TerraVest is focused on acquiring and operating market-leading businesses that will benefit from TerraVest's financial and operational support. These opportunities generally center on manufactured steel products that complement TerraVest's existing operations and provide integration benefits.

TerraVest is comprised of four operating segments as follow: Home Heating and Cooling Products ("HVAC Equipment"), Compressed Gas Storage and Distribution Equipment ("Compressed Gas Equipment"), Energy Processing Equipment ("Processing Equipment") and Service:

- HVAC Equipment: is a provider of products and services to a variety of industries across Canada and the United States. The HVAC Equipment segment manufactures and distributes products including commercial and residential refined fuel tanks, furnaces, boilers, air conditioning equipment and controls. This segment sells its products through various distribution networks. The end users of the products are fuel distributors, commercial and residential consumers.
- Compressed Gas Equipment: is a provider of products and services to a variety of industries across Canada and the United States. The Compressed Gas Equipment segment manufactures engineered products for the storage, distribution and dispensing of compressed gases including liquid propane gas ("LPG"), natural gas liquids ("NGL's"), liquified natural gas ("LNG"), anhydrous ammonia ("NH3"), carbon dioxide ("CO2") and various other gases. The products include bulk storage vessels, transport trailers, delivery units, dispensers, commercial and residential storage tanks and other custom vessels. This segment also services the various products it manufactures. This segment's products and services are primarily sold to gas distributors, fertilizer distributors, farmers, midstream energy companies and transportation companies and are used by industrial, commercial and residential consumers.
- Processing Equipment: is a fabricator of equipment for various end-markets including upstream and midstream oil and gas production, renewable natural gas ("biogas") production, water treatment and mining. The Processing Equipment segment manufactures and sells a wide array of equipment such as wellhead processing equipment and tanks, desanding equipment, biogas production equipment, water treatment equipment and various other custom process equipment. This segment's products and services are primarily sold to oil and gas producers, midstream companies, utilities, municipalities and engineering companies.
- Service: provides a wide range of services to the energy sector in Western Canada including fluid hauling, water management, environmental solutions, heating, rentals and well servicing. TerraVest's Service segment is well-recognized for its technological innovation and industry-leading ESG program. This segment services many of the largest energy producers in Canada.

2. STATEMENT OF COMPLIANCE

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34") using the same accounting policies TerraVest disclosed in its audited consolidated financial statements for the year ended September 30, 2022.

These interim condensed consolidated financial statements do not include all the information required under International Financial Reporting Standards ("IFRS") for complete set of financial statements. Therefore, these interim condensed consolidated financial statements should be read in conjunction with TerraVest's audited consolidated financial statements for the year ended September 30, 2022.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 9, 2023.

3. ESTIMATES

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

The judgments, estimates and assumptions applied in the interim condensed consolidated financial statements, including the key areas of estimation uncertainty, were the same as those applied in TerraVest's audited consolidated financial statements for the year ended September 30, 2022, with the exception of:

- the estimate of income tax expense which is determined in the interim condensed consolidated financial statements using the estimated average annual effective income tax rate applied to the estimated taxable earnings of the interim period.

4. SEASONALITY

TerraVest's operating segments are seasonal in nature. The strongest quarters for TerraVest are its first and last quarters. The Processing Equipment and Service segments generally experience higher sales in the first and second quarters as majority of the drilling in Western Canada occurs during this period. The HVAC Equipment and Compressed Gas Equipment segments generally experience higher revenues during the first and last quarters as demand for residential, commercial and industrial heating products increases heading into the winter months. The third quarter is typically the weakest across all segments. TerraVest takes advantage of this seasonality to build inventory levels during non-peak demand periods, thereby allowing TerraVest to more readily meet increased levels of demand during its regular peak demand periods.

5. BUSINESS COMBINATIONS

2023 Business Combinations

5.1 Acquisition of Secure Energy (Drilling Services) Inc.

On March 1, 2023, a subsidiary of TerraVest entered into an acquisition agreement to acquire assets of Secure Energy (Drilling Services) Inc. ("SES"), a subsidiary of Secure Energy Inc. SES provides integrated fluids solutions such as on-site water sourcing, filtration, pumping, storage and heating services.

The business combination has been accounted for using the acquisition method with the results of operations included in earnings from the date of acquisition. Acquisition-related costs of $57 were incurred and recognized as administration expenses during the second quarter ended March 31, 2023.

Fair value of the consideration transferred at the acquisition date

	Preliminary
	$
Fair value of the cash consideration	**16,000**

Assets acquired and liabilities assumed at the acquisition date

The preliminary fair value allocation of the identifiable assets acquired and liabilities assumed as at March 1, 2023 acquisition date is as follows:

	Preliminary Allocation
	$
ASSETS	
Inventories	**250**
Property, plant and equipment	**14,000**
Right-of-use assets	**405**
	14,655
LIABILITIES	
Lease liabilities	**405**
Net identifiable assets acquired	**14,250**

Determination of fair value

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

Inventories

Inventories were recognized at their estimated fair value, which is the lower of cost and net realizable value at the transaction closing date. Cost includes all costs of purchase and other costs incurred to bring the inventories to their present location and condition.

Property, plant and equipment

Property, plant and equipment ("PP&E") were recognized at their estimated fair value. TerraVest is currently evaluating their fair value using their original cost, acquisition date and net carrying value at the transaction closing date.

Right-of-use assets and lease liabilities

For assets under leases, the right-of-use assets were measured at the same amount as the lease liabilities. The lease liabilities were measured at the present value of SES's future lease payments using the implicit rate of the lease, if it can be readily determined, or its incremental borrowing rate as at March 1, 2023.

Intangible assets

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

Goodwill arising from the business combination

	Preliminary
	$
Consideration transferred	**16,000**
Less:	
Fair value of net identifiable assets acquired	**14,250**
Goodwill	**1,750**

The acquisition was done in order to grow water pumping, heating and rental activities that complements TerraVest's existing operations in the Service segment. The preliminary goodwill associated with this acquisition is mainly attributable to the existing workforce and is deductible for income tax purpose.

SES contribution to TerraVest results

TerraVest's consolidated net income includes SES contribution to sales and net income since the acquisition date of March 1, 2023. SES activities and results have been fully integrated in one of TerraVest's existing subsidiary's financial results and activities which are very similar in nature. It is therefore impracticable to determine the specific contribution of SES in TerraVest' results since the acquisition date.

Due to lack of IFRS-specific data prior to the acquisition of SES, pro-forma revenue and profit or loss of the combined entity during the second quarter ended March 31, 2023 cannot be determined reliably.

5.2 Acquisition of JCAC Fortin Inc. and T.S.X. Transport Inc.

On October 2, 2022, a subsidiary of TerraVest entered into a share purchase agreement to acquire all the issued and outstanding shares of JCAC Fortin Inc., the holding company of T.S.X. Transport Inc. (together referred as "TSX"). TSX is a privately-owned Quebec transport company that provides drop deck transportation services between Quebec and Eastern United States.

The business combination has been accounted for using the acquisition method with the results of operations included in earnings from the date of acquisition. Acquisition-related costs of $42 were incurred and recognized as administration expenses during the six months ended March 31, 2023.

Fair value of the consideration transferred at the acquisition date

	Preliminary
	$
Fair value of the cash consideration	**3,549**

Assets acquired and liabilities assumed at the acquisition date

The preliminary fair value allocation of the identifiable assets acquired and liabilities assumed as at October 2, 2022 acquisition date is as follows:

	Preliminary Allocation
	$
ASSETS	
Cash	**1,443**
Accounts receivable	**565**
Income taxes receivable	**143**
Prepaid expenses	**93**
Property, plant and equipment	**1,871**
Right-of-use assets	**1,237**
	5,352
LIABILITIES	
Accounts payable and accrued liabilities	**438**
Deferred revenues	**42**
Income taxes payable	**4**
Long-term debt	**744**
Lease liabilities	**1,237**
Deferred income tax liabilities	**390**
	2,855
Net identifiable assets acquired	**2,497**

Determination of fair value

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

Accounts receivable

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

Property, plant and equipment

Property, plant and equipment ("PP&E") were recognized at their estimated fair value. TerraVest is currently evaluating their fair value using their original cost, acquisition date and net carrying value at the transaction closing date.

Right-of-use assets and lease liabilities

For assets under leases, the right-of-use assets were measured at the same amount as the lease liabilities. The lease liabilities were measured at the present value of TSX's future lease payments using the implicit rate of the lease, if it can be readily determined, or its incremental borrowing rate as at October 2, 2022.

Intangible assets

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

Goodwill arising from the business combination

	Preliminary
	$
Consideration transferred	**3,549**
Less:	
Fair value of net identifiable assets acquired	**2,497**
Goodwill	**1,052**

The acquisition was done in order to internalize TerraVest's logistics and transportation activities for some of its product lines and subsidiaries. The preliminary goodwill associated with this acquisition is mainly attributable to the existing workforce.

TSX contribution to TerraVest results

TerraVest's consolidated net income during the six months ended March 31, 2023 includes sales of $1,308 and a net income of $33 generated from TSX's results since the acquisition date of October 2, 2022.

Due to lack of IFRS-specific data prior to the acquisition of TSX, pro-forma revenue and profit or loss of the combined entity during the six months ended March 31, 2023 cannot be determined reliably.

2022 Business Combination

5.3 Acquisition of Mississippi Tank and Manufacturing Company

On March 11, 2022, a subsidiary of TerraVest entered into a share purchase agreement to acquire all the issued and outstanding shares of Mississippi Tank and Manufacturing Company ("MTC"), a privately-owned manufacturing company that produces and distributes a broad range of storage and distribution equipment for the propane and compressed gas markets in North America, including transport trailers, bobtail delivery trucks, and various bulk storage tanks.

The business combination has been accounted for using the acquisition method with the results of operations included in earnings from the date of acquisition. Acquisition-related costs of $236 were incurred and recognized as administration expenses during the year ended September 30, 2022.

Fair value of the consideration transferred at the acquisition date

	Final
	$
Fair value of the cash consideration	**28,001**

Assets acquired and liabilities assumed at the acquisition date

The final fair value allocation of the identifiable assets acquired and liabilities assumed as at March 11, 2022 acquisition date is as follows:

	Preliminary Allocation	Final Allocation
	$	$
ASSETS		
Cash	86	**86**
Accounts receivable	3,442	**3,442**
Income taxes receivable	-	**69**
Inventories	13,951	**13,951**
Prepaid expenses	477	**477**
Property, plant and equipment	10,862	**10,862**
Intangible assets	6,727	**6,727**
	35,545	**35,614**
LIABILITIES		
Accounts payable and accrued liabilities	2,811	**2,811**
Deferred revenues	3,806	**3,806**
Income taxes payable	253	**-**
Long-term debt	7,040	**7,040**
Deferred income tax liabilities	585	**411**
	14,495	**14,068**
Net identifiable assets acquired	21,050	**21,546**

Determination of fair value

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

Accounts receivable

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

Inventories

Inventories were recognized at their estimated fair value, which is the lower of cost and net realizable value at the transaction closing date. Cost includes all costs of purchase and other costs incurred to bring the inventories to their present location and condition.

Property, plant and equipment

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

Deferred income tax liabilities

Deferred income tax liabilities were estimated at the income tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized.

Intangible assets

TerraVest estimated the fair value of intangible assets acquired using different valuation techniques, all primarily based upon 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
		$
Customer relationships	7 years	**2,594**
Sales order backlog	17 months	**656**
Non-compete agreements	5 years	**836**
Trademarks	Indefinite	**2,641**
Intangible assets		**6,727**

Goodwill arising from the business combination

	Preliminary	Final
	$	$
Consideration transferred	28,001	**28,001**
Less:		
Fair value of net identifiable assets acquired	21,050	**21,546**
Goodwill	6,951	**6,455**

The acquisition was done in order to strengthen TerraVest's position as a leading manufacturer of propane storage and distribution equipment in North America. The goodwill associated with this acquisition is mainly attributable to brand recognition and the existing workforce.

MTC contribution to TerraVest results

TerraVest's consolidated net income during the year ended September 30, 2022 includes sales of $27,875 and a net income of $1,108 generated from MTC's results since the acquisition date of March 11, 2022.

Due to lack of IFRS-specific data prior to the acquisition of MTC, pro-forma revenue and profit or loss of the combined entity during the year ended September 30, 2022 cannot be determined reliably.

6. FINANCIAL INSTRUMENTS

The fair value of the investment in equity instruments has been determined based on the quoted price in active markets and is classified in Level 1 of the fair value hierarchy. The fair values of long-term debt have been determined based on discounted cash flows using interest rates for similar instruments. The fair values of the other financial instruments measured at amortized cost are not significantly different to their carrying values. These items are classified in Level 2 of the fair value hierarchy. The fair value of the investment in a limited partnership, which is not traded in an active market, is determined using valuation techniques such as comparable recent arms' length analysis and is classified in Level 3 of the fair value hierarchy.

TerraVest's derivative financial instruments are forward exchange contracts and an interest rate swap agreement which are not traded in active markets. Forward exchange contracts have been fair valued using observable forward exchange rates and interest rates corresponding to the maturity of the contracts. The interest rate swap agreement has been fair valued using observable interest rates corresponding to the maturity of the agreement. The effects of non-observable inputs are not significant for forward exchange contracts and the interest rate swap agreement. These items are classified in Level 2 of the fair value hierarchy.

6.1 Forward exchange contracts

As at March 31, 2023 TerraVest had forward exchange contracts from Canadian dollars to US dollars totaling $37,574 ($36,934 as at September 30, 2022) and from US dollars to EURO totaling US$1,248 (US$2,496 as at September 30, 2022) outstanding to sell, at various rates and expiring on various dates up to and including March 30, 2026. The fair value of forward exchange contracts was a liability of $997 as at March 31, 2023 included in accounts payable and accrued liabilities ($2,547 as at September 30, 2022).

6.2 Interest rate swap

As at March 31, 2023, TerraVest had an interest rate swap agreement expiring on June 9, 2025 for the notional amount of $25,000**.** Under the interest rate swap agreement, TerraVest receives interest on the notional amount at the 1-month CDOR rate in exchange for payments at a fixed rate of 0.87%, plus 140 to 265 basis points based on a prescribed ratio. The fair value of the interest rate swap agreement was an asset of $1,728 as at March 31, 2023 included in other current assets ($2,038 as at September 30, 2022).

7. OTHER CURRENT ASSETS

	As at March 31, 2023 (Unaudited)	**As at September 30, 2022 (Audited)**
	$	**$**
Prepaid expenses	**14,101**	7,637
Derivative financial instruments	**1,728**	2,038
Other	**154**	154
	15,983	9,829

8. INVESTMENTS

	As at March 31, 2023 (Unaudited)	As at September 30, 2022 (Audited)
	$	$
Investment in a limited partnership	**6,448**	6,935
Investment in equity instruments	**5,375**	5,031
Investment in associate	**1,138**	1,138
Investment in joint venture	**312**	314
	13,273	13,418

9. SHORT-TERM REVOLVING CREDIT FACILITIES AND LONG-TERM DEBT

9.1 Loan

On December 12, 2022, a subsidiary of TerraVest operating in the Processing Equipment segment obtained a loan of $2,600 with a Canadian financial institution to finance the acquisition of property, plant and equipment. The loan currently bears interest at the Canadian prime rate and is payable in monthly blended instalments of $17. As at March 31, 2023, the interest rate was 6.70%.

The transaction costs of $27, incurred during the six months ended March 31, 2023 to obtain the loan, were recorded as prepaid expenses and are amortized on a straight-line basis over the initial term.

The term loan is secured by a first ranking fixed charge in the amount of $2,600 on specific real property of the subsidiary.

9.2 Revolving term loan

On March 24, 2023, a subsidiary of TerraVest operating in the Service segment drew $6,500 on its existing revolving term facility to finance the acquisition of property, plant and equipment. The loan bears interest at the Canadian prime rate plus 1%, is payable in monthly capital instalments of $108 plus interest and is maturing in March 2028. As at March 31, 2023, the interest rate was 7.70%.

9.3 Covenants

The quarterly financial covenants to comply with the revolving operating loans and long-term debt were as follows:

Financial covenants	Required measurements	As at March 31, 2023
Total debt to equity ratio [i)]	≤ 2.50:1	**2.35**
Current ratio [i)]	≥ 1.15:1	**1.41**
Interest-bearing debt to EBITDA ratio	≤ 4.00:1	**2.81**
Interest coverage ratios	≥ 3.50:1	**6.90 and 7.21**
Funded debt to EBITDA ratios	≤ 2.50:1, ≤ 3.00:1 and ≤ 3.50:1	**0.73, 1.40 and 2.81**
Fixed charge coverage ratio	≥ 1.15:1 and ≥ 1.25:1	**1.54 and 4.47**

[i)] This ratio is calculated on the individual financial results of one subsidiary of TerraVest.

As at March 31, 2023, TerraVest was in compliance with all of its financial and non-financial covenants.

10. SHARE CAPITAL

10.1 Common shares

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

	As at March 31, 2023	
	Number	**Amount**
		$
Balance, beginning of period	**17,886,018**	**150,467**
Repurchased and cancelled	**(54,700)**	**(460)**
Balance, end of period	**17,831,318**	**150,007**

During the six months ended March 31, 2023, TerraVest repurchased 54,700 common shares (nil during the six months ended March 31, 2022) under its common shares normal course issuer bid ("NCIB") for total consideration of $1,312. The difference between the amount paid for the common shares and their carrying value was recorded in share premium.

On March 17, 2023, TerraVest renewed its common shares NCIB under which it may repurchase 949,963 common shares and entered into an Automatic Share Purchase Plan ("ASPP") in order to facilitate, on any trading day, the repurchase of common shares under its common shares NCIB. The common shares NCIB expires on March 16, 2024. The remaining number of common shares available for repurchase under the current common shares NCIB was 949,963 as at March 31, 2023.

10.2 Share-based payments arrangement

TerraVest has a stock option plan for which options are granted to key management personnel to purchase common shares of TerraVest. Of the 1,792,911 common shares reserved for issuance, 442,411 were available for grant under the stock option plan as at March 31, 2023.

Total expense arising from the share-based payment transactions recognized during the six months ended March 31, 2023 as compensation expense was $1,028 ($128 for the six months ended March 31, 2022).

The stock options outstanding and the weighted average exercise prices as at March 31, 2023 were as follows:

Grant Date	Expiry Date	Exercise price	Opening balance	Settled or exercised	Closing balance	Vested and exercisable	Unvested
Mar. 9, 2017	Mar. 9, 2024	$9.10	267,500	-	267,500	267,500	-
Jan. 20, 2020	Jan. 20, 2027	$13.12	100,000	-	100,000	100,000	-
Feb. 18, 2022	Feb. 18, 2032	$24.49	583,000	-	583,000	194,333	388,667
Feb. 18, 2022	Feb. 18, 2032	$26.99	100,000	-	100,000	-	100,000
Feb. 18, 2022	Feb. 18, 2032	$29.49	100,000	-	100,000	-	100,000
Feb. 18, 2022	Feb. 18, 2032	$31.99	100,000	-	100,000	-	100,000
Feb. 18, 2022	Feb. 18, 2032	$34.49	100,000	-	100,000	-	100,000
			1,350,500	-	1,350,500	561,833	788,667
	Weighted average exercise price		$22.45	-	$22.45	$15.14	

During the six months ended March 31, 2023, no stock options were granted or forfeited.

10.3 Dividends

During the six months ended March 31, 2023, TerraVest has declared cash dividends totaling $0.25 per common share ($0.20 per common share during the six months ended March 31, 2022). As at March 31, 2023, $2,229 was included in dividends payable.

Subsequent to the end of the quarter, TerraVest declared a cash dividend of $0.125 per common share payable on July 10, 2023 to shareholders of record on June 30, 2023.

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:

	Second quarters ended		**Six months ended**	
	March 31, 2023	**March 31, 2022**	**March 31, 2023**	**March 31, 2022**
Numerator				
Net income and diluted net income attributed to common shareholders	**$8,891**	$8,433	**$20,802**	$19,107
Denominator				
Common shares, beginning of period	**17,831,318**	17,929,118	**17,886,018**	17,567,455
Weighted average shares issued	**-**	-	**-**	284,164
Weighted average shares repurchased	**-**	-	**(40,923)**	-
Weighted average shares, end of period - basic	**17,831,318**	17,929,118	**17,845,095**	17,851,619
Dilutive effect of options	**256,897**	212,677	**232,767**	221,964
Weighted average shares, end of period - diluted	**18,088,215**	18,141,795	**18,077,862**	18,073,583
Net income per share - basic	**$0.50**	$0.47	**$1.17**	$1.07
Net income per share - diluted	**$0.49**	$0.46	**$1.15**	$1.06

12. FINANCING COSTS

	Second quarters ended		Six months ended	
	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
	$	$	$	$
Interest on revolving credit facilities and long-term debt	**3,359**	1,566	**6,645**	3,057
Interest on lease liabilities	**365**	338	**700**	676
Amortization of financing costs	**38**	90	**133**	191
	3,762	1,994	**7,478**	3,924

13. OTHER (GAINS) LOSSES

	Second quarters ended		Six months ended	
	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
	$	$	$	$
(Gain) loss on foreign exchange	**208**	879	**961**	1,119
Change in fair value of derivative financial instruments	**32**	(1,027)	**(1,280)**	(1,293)
Change in fair value of investment in equity instruments	**99**	(14)	**304**	(31)
Change in fair value of investment in a limited partnership	**390**	-	**390**	-
(Gain) loss on disposal of other property, plant and equipment	**(774)**	(439)	**(320)**	(529)
(Gain) loss on disposal of property, plant and equipment for rental	**(38)**	3	**(605)**	(76)
(Gain) loss on disposal of intangible assets	**-**	7	**-**	7
(Gain) loss on lease modification	**-**	-	**19**	-
(Gain) loss on remeasurement of an equity interest	**-**	-	**-**	(1,956)
	(83)	(591)	**(531)**	(2,759)

14. SUPPLEMENTAL CASH FLOW INFORMATION

	Six months ended	
	March 31, 2023	**March 31, 2022**
	$	**$**
Adjustments for items not affecting cash		
Depreciation of other property, plant and equipment	**10,926**	8,353
Depreciation of property, plant and equipment for rental	**1,108**	893
Depreciation of right-of-use assets	**3,010**	2,770
Amortization of intangible assets	**3,681**	2,340
Amortization of financing costs	**133**	191
Post-employment benefits costs	**198**	319
Share-based compensation expense	**1,028**	128
Inventory write-downs	**62**	79
Change in fair value of derivative financial instruments	**(1,280)**	(1,293)
Change in fair value of investment in equity instruments	**304**	(31)
Change in fair value of investment in a limited partnership	**390**	-
(Gain) loss on disposal of other property, plant and equipment	**(320)**	(529)
(Gain) loss on disposal of property, plant and equipment for rental	**(605)**	(76)
(Gain) loss on disposal of intangible assets	**-**	7
(Gain) loss on lease modification	**19**	-
(Gain) loss on remeasurement of an equity interest	**-**	(1,956)
Share of an associate and a joint venture net loss	**2**	157
Deferred income tax expense	**1,476**	1,399
Unrealized foreign exchange (gain) loss [i)]	**1,088**	1,342
	21,220	14,093
Change in non-cash operating working capital items		
Accounts receivable	**11,960**	(14,857)
Inventories	**(11,345)**	(10,992)
Other current assets	**(7,061)**	(1,860)
Accounts payable and accrued liabilities	**(8,481)**	(1,308)
Deferred revenues	**9,966**	8,579
	(4,961)	(20,438)
Investments		
Investment in equity instruments	**(735)**	(2,856)
Investment in joint venture	**-**	(130)
	(735)	(2,986)

[i)] Includes $741 of unrealized foreign exchange gain on long-term debt for the six months ended March 31, 2023 ($1,657 for the six months ended March 31, 2022).

14.1 Additional cash flow information

Deposits on purchase of other PP&E of $196 were recorded in other current assets as at March 31, 2023 ($2,300 as at March 31, 2022).

Purchase of other PP&E of $1,355 was unpaid and recorded as accounts payable and accrued liabilities as at March 31, 2023 ($795 as at March 31, 2022).

Leases, for which an amount of $1,508 was recognized in right-of-use assets and lease liabilities during the six months ended March 31, 2023 ($662 during the six months ended March 31, 2022), had no cash impact on investing and financing activities.

15. SEGMENTED INFORMATION

15.1 Reportable segments

On October 1, 2022, TerraVest changed its reportable segments and now reports four operating segments by market: HVAC Equipment, Compressed Gas Equipment, Processing Equipment and Service. Previously, TerraVest reported three operating segments based on the structure of its operations: Fuel Containment, Processing Equipment and Service. Corporate is not a segment, is disclosed for reconciliation purposes and includes primarily the long-term debt and interest expense, the derivatives financial instruments, the income taxes assets, liabilities and expenses, intersegment eliminations and other corporate related items or expenses. The comparative information has been changed accordingly to reflect the new reportable segments.

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

						Second quarter ended March 31, 2023
	HVAC Equipment	**Compressed Gas Equipment**	**Processing Equipment**	**Service**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Sales	**46,377**	**52,001**	**32,021**	**46,961**	**(502)**	**176,858**
Depreciation and amortization	**2,216**	**3,111**	**1,239**	**2,863**	**5**	**9,434**
Financing costs	**114**	**93**	**105**	**53**	**3,397**	**3,762**
Income tax expense	**-**	**-**	**-**	**-**	**4,507**	**4,507**
Net income (loss)	**5,224**	**4,977**	**3,511**	**11,256**	**(13,524)**	**11,444**
Purchase of property, plant and equipment, net of proceeds	**1,490**	**2,531**	**364**	**1,273**	**-**	**5,658**

						Six months ended March 31, 2023
	HVAC Equipment	**Compressed Gas Equipment**	**Processing Equipment**	**Service**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Sales	**101,339**	**109,062**	**61,733**	**82,328**	**(406)**	**354,056**
Depreciation and amortization	**4,340**	**6,153**	**2,684**	**5,543**	**5**	**18,725**
Financing costs	**231**	**149**	**216**	**104**	**6,778**	**7,478**
Income tax expense	**-**	**-**	**-**	**-**	**9,020**	**9,020**
Net income (loss)	**14,335**	**12,032**	**3,600**	**16,934**	**(22,371)**	**24,530**
Goodwill	**4,394**	**14,655**	**1,941**	**5,341**	**-**	**26,331**
Intangible assets	**17,935**	**10,844**	**3,209**	**365**	**253**	**32,606**
Segment assets	**167,293**	**208,362**	**99,434**	**117,596**	**39,932**	**632,617**
Segment liabilities	**36,762**	**43,549**	**47,492**	**22,269**	**267,426**	**417,498**
Purchase of property, plant and equipment, net of proceeds	**3,195**	**2,210**	**581**	**2,187**	**-**	**8,173**

						Second quarter ended March 31, 2022
	HVAC Equipment	**Compressed Gas Equipment**	**Processing Equipment**	**Service**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Sales	46,307	39,421	25,795	26,581	(340)	137,764
Depreciation and amortization	1,305	2,328	1,344	2,607	1	7,585
Financing costs	106	61	130	41	1,656	1,994
Income tax expense	-	-	-	-	2,828	2,828
Net income (loss)	6,891	3,941	214	3,247	(5,159)	9,134
Purchase of property, plant and equipment, net of proceeds	939	5,021	(172)	540	-	6,328

						Six months ended March 31, 2022
	HVAC Equipment	Compressed Gas Equipment	Processing Equipment	Service	Corporate	Total
	$	$	$	$	$	$
Sales	99,091	79,090	50,784	40,462	(299)	269,128
Depreciation and amortization	2,637	4,483	2,677	4,558	1	14,356
Financing costs	214	126	266	70	3,248	3,924
Income tax expense	-	-	-	-	5,975	5,975
Net income (loss)	17,973	8,091	(313)	3,192	(9,231)	19,712
Goodwill	20,361	19,913	1,941	4,757	-	46,972
Intangible assets	3,277	6,837	4,377	-	-	14,491
Segment assets	150,244	194,208	79,711	88,931	22,069	535,163
Segment liabilities	39,004	32,675	39,456	14,437	242,432	368,004
Purchase of property, plant and equipment, net of proceeds	1,819	7,238	528	1,069	-	10,654

15.2 Geographical information

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

	Second quarters ended		Six months ended	
	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
	$	$	$	$
SALES				
Canada	**104,320**	76,375	**196,555**	145,038
United States	**72,538**	61,389	**157,501**	124,090
	176,858	137,764	**354,056**	269,128

Certain non-current assets and goodwill by geographic segment:

	As at March 31, 2023 – Unaudited		
	Canada	**United States**	**Total**
	$	**$**	**$**
Property, plant and equipment	**134,401**	**39,311**	**173,712**
Right-of-use assets	**27,912**	**1,582**	**29,494**
Intangible assets	**7,227**	**25,379**	**32,606**
Goodwill	**13,308**	**13,023**	**26,331**
	182,848	**79,295**	**262,143**

	As at September 30, 2022 – Audited		
	Canada	**United States**	**Total**
	$	**$**	**$**
Property, plant and equipment	121,431	39,240	160,671
Right-of-use assets	27,698	1,697	29,395
Intangible assets	8,691	27,842	36,533
Goodwill	10,506	13,725	24,231
	168,326	82,504	250,830