

Condensed Consolidated Interim Financial Statements of

Vertex Resource Group Ltd.

For the three and nine month periods ended September 30, 2018
(Unaudited)

Vertex Resource Group Ltd.

September 30, 2018

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Vertex Resource Group Ltd.

Condensed consolidated interim statements of financial position

(in thousands of Canadian dollars, except per share amounts)
(unaudited)

As at	Notes	September 30, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		900	296
Accounts receivable		34,769	34,900
Unbilled revenue		5,320	3,246
Inventories		3,869	2,079
Prepaid expenses and deposits		3,146	1,261
		48,004	41,782
Property and equipment	4	90,820	59,523
Intangible assets	3	2,117	2,264
Goodwill		34,081	34,081
Deferred income taxes		6,506	6,506
		181,528	144,156
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		14,035	11,927
Deferred revenue		2,079	636
Income taxes payable		-	66
Current portion of loans and borrowings	5	9,837	5,788
Current portion of provisions	6	3,309	2,899
		29,260	21,316
Loans and borrowings	5	75,478	56,372
Provisions	6	2,996	1,682
Deferred income taxes		8,583	5,013
		116,317	84,383
Shareholders' Equity			
Common shares	7	83,231	79,794
Deficit		(19,052)	(20,913)
Contributed surplus		1,032	892
		65,211	59,773
		181,528	144,156

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Vertex Resource Group Ltd.

Condensed consolidated interim statements of net income and comprehensive income

(in thousands of Canadian dollars, except per share amounts)
(unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
Revenue		41,425	34,989	103,803	82,647
Direct costs		30,490	25,696	75,340	58,872
Gross profit		10,935	9,293	28,463	23,775
General and administrative expenses		4,859	4,245	13,792	12,176
Share-based compensation	8	49	-	140	-
Amortization		5,492	3,378	11,989	10,128
Finance costs	5,9	1,163	1,933	7,840	3,851
Bargain purchase gain	3	(6,760)	-	(6,825)	(636)
Income (loss) before income taxes		6,132	(263)	1,527	(1,744)
Income tax expense (recovery)		(374)	(65)	(334)	(499)
Net income (loss) and comprehensive income (loss) for the period		6,506	(198)	1,861	(1,245)
Net income (loss) and comprehensive income (loss) for the period per share					
Basic and diluted	10	0.07	(0.00)	0.02	(0.02)
Weighted average number of shares outstanding for the purpose of calculating earnings per share					
Basic and diluted	10	90,942,245	82,713,426	89,361,104	73,585,657

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Vertex Resource Group Ltd.

Condensed consolidated interim statements of changes in shareholders' equity

(in thousands of Canadian dollars)

(unaudited)

		Nine months ended	
	Notes	September 30,	2017
		2018	
Common Shares			
Balance, beginning of the period		79,794	57,912
Shares issued in business acquisitions	3	1,664	11,064
Shares issued in settlement of seller's note	7	1,773	6,727
Shares issued in settlement of advances from shareholders		-	2,151
Balance, end of the period		83,231	77,854
Contributed Surplus			
Balance, beginning of the period		892	887
Share-based compensation	8	140	-
Balance, end of the period		1,032	887
Deficit			
Balance, beginning of the period		(20,913)	(17,965)
Net income (loss) and comprehensive income (loss)		1,861	(1,245)
Balance, end of the period		(19,052)	(19,210)
Total shareholders' equity		65,211	59,531

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Vertex Resource Group Ltd.

Condensed consolidated interim statements of cash flows

(in thousands of Canadian dollars, except per share amounts)
(unaudited)

		Nine months ended	
		September 30,	
	Notes	2018	2017
Operating activities			
Net income (loss)		1,861	(1,245)
Items not affecting cash			
Amortization - property and equipment		11,267	8,875
Amortization - intangible assets		722	1,253
Share-based compensation		140	-
Interest accretion on provisions		122	640
Deferred financing charges	5	2,376	128
Gain on disposal of property and equipment		(218)	(235)
Gain on acquisitions		(6,825)	(636)
Deferred income taxes		(334)	(483)
		9,111	8,297
Change in non-cash operating working capital items	12	(4,570)	(12,133)
Cash provided by (used in) operating activities		4,541	(3,836)
Investing activities			
Acquisition of subsidiaries, net of cash acquired	3	(4,533)	2,072
Purchase of property and equipment		(4,717)	(2,327)
Proceeds from disposal of property and equipment		2,786	1,340
Cash (used in) provided by investing activities		(6,464)	1,085
Financing activities			
Proceeds from operating loan		9,008	3,831
Proceeds from term loan	5	50,000	-
Repayment of term loan	5	(1,563)	-
Proceeds from equipment loans		3,862	-
Repayment of equipment loans		(10,833)	(36,937)
Financing charges - deferred	5	(386)	(2,569)
Repayment of obligation under capital lease		(1,468)	(335)
Repayment of subordinated debt	5	(5,500)	-
Repayment of provisions		(1,593)	(955)
Proceeds from senior debt		-	40,000
Repayment of senior debt	5	(39,000)	-
Cash provided by financing activities		2,527	3,035
Increase in cash and cash equivalents		604	284
Cash and cash equivalents, beginning of period		296	44
Cash and cash equivalents, end of period		900	328

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Vertex Resource Group Ltd.

Notes to the condensed consolidated interim financial statements

September 30, 2018

(in thousands of Canadian dollars, except per share amounts)

(unaudited)

1. Description of business

Vertex is a publicly listed company on the TSX Venture Exchange (“TSXV”) trading under the symbol VTX. The Company provides environmental services to a diverse clientele across Western Canada and in select locations in the United States.

In Canada, the level of activity is influenced by seasonal weather patterns as well as trends in the industries in which its customers operate. The Company is typically the busiest during the third and fourth quarters with lower activity levels in the first and second quarters. In particular, during the second quarter, commonly referred to as the “spring break-up”, the frost leaves the ground making certain roads incapable of supporting the weight of heavy equipment resulting in restrictions in the level of industrial and energy service activity across western Canada.

2. Basis of preparation

a) *Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, as issued by the International Accounting Standards Board.

These condensed consolidated interim financial statements were approved by the Board of Directors (the “Directors”) on November 23, 2018. These condensed consolidated interim financial statements have been prepared using the same accounting policies as the Company’s 2017 annual audited consolidated financial statements. They do not include all of the information required for a complete set of IFRS financial statements and as such should be read in conjunction with the Company’s 2017 annual audited consolidated financial statements. However, select explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last financial statements.

b) *Basis of measurement*

The Company’s condensed consolidated interim financial statements have been prepared on a going concern basis, under the historical cost model, except for certain financial instruments measured at fair value.

c) *Functional and presentation currency*

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand except where otherwise stated.

d) *Principles of Consolidation*

These condensed consolidated interim financial statements include the results of the Company and its subsidiaries and its limited partnerships. Subsidiaries and limited partnerships are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries and limited partnerships are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date control ceases. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

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The Company's principal subsidiaries and limited partnerships at September 30, 2018 are Vertex Resource Services Ltd., Vertex Professional Services Ltd., Vertex Oilfield Services Ltd., Three Star Trucking Ltd., Acden Vertex LP, and Dominion Leasing Inc. The Company has applied uniform accounting policies throughout all consolidated entities and reporting dates of the subsidiaries and limited partnerships are all consistent with the Company.

e) Use of estimates and judgments

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2017.

f) Comparative figures

Certain comparative figures have been reclassified to conform to current year presentation.

g) Summary of significant accounting policies

These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2017, with the exception of the adoption of IFRS 15, IFRS 9, and IFRS 2 described below. The disclosure contained in these condensed consolidated interim financial statements does not include all of the requirements in IAS 1 – Presentation in Financial Statements. Accordingly, these interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2017.

(i) IFRS 15 – Revenue from Contracts with Customers

The Company adopted IFRS 15 – Revenue from Contracts with Customers retrospectively on January 1, 2018. IFRS 15 supercedes IAS 11 – Construction Contracts and IAS 18 – Revenue, and related interpretations. The Company has detailed below the impact of the transition to IFRS 15 on its accounting policy for revenue recognition.

The Company applied IFRS 15 retrospectively to all contracts that were not complete on January 1, 2018, the date of the initial application, in order to determine if a restatement was required for prior periods presented. The Company performed a comprehensive review of existing contracts, control processes and revenue recognition methodology. In evaluating the impact of IFRS 15 on previously reported comparative figures, the Company determined that there was no change required as the existing revenue recognition practices met the requirements of IFRS 15. There were no changes to the classification and timing of revenue recognition, the measurement of contract costs and the recognition of contract assets (unbilled revenue) and contract liabilities (deferred revenue). The Company continues to recognize revenue at a contract level as performance obligations are satisfied over time, using project stage of completion based on costs incurred, labour hours expended and resources consumed. Revenue is recognized by applying the five-step model under IFRS 15.

Recognition requirements surrounding contract modifications (variations and claims) have been implemented, where the Company is required to provide stronger evidence of customer acceptance. For any change in transaction price as a result of a variation or claim, the Company will only recognize revenue to the extent that it is highly probable that revenue will not reverse in the future.

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(ii) *IFRS 9 – Financial Instruments*

In 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 to replace IAS 39 – Financial Instruments: Recognition and Measurement. The Company adopted IFRS 9 retrospectively on January 1, 2018. The adoption of this standard did not have a material impact on the condensed consolidated interim financial statements. IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. 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. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timely basis. The Company's policies and procedures surrounding the identification of credit risk and the recognition of credit losses comply with the requirements of this standard.

(iii) *IFRS 2 – Share-based Payment*

In June 2016, the IASB published *Classification and Measurement of Share-based Payment Transactions*, providing clarification on the classification and measurement of certain types of share-based payment transactions. The Company adopted the amendments to IFRS 2 retrospectively on January 1, 2018. The amendments to IFRS 2 clarify that the accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments should follow the same approach as for equity-settled share-based payments. The adoption of these amendments did not have any material impact to the condensed consolidated interim financial statements.

(iv) *IFRS 16 – Leases*

IFRS 16 - Leases ("IFRS 16"), was issued by the IASB on January 13, 2016, and will replace IAS 17 - Leases. IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been applied. The Company is evaluating the impact of this standard on its consolidated financial statements.

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Notes to the condensed consolidated interim financial statements

September 30, 2018

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3. Business acquisitions

During the nine month period ended September 30, 2018, the Company completed three acquisitions. Details of the preliminary purchase price and allocation to the assets and liabilities acquired are as follows:

September 30, 2018	
Cash and cash equivalents	457
Other current assets	8,340
Intangibles	575
Property and equipment	38,866
	48,238
Current liabilities	(15,115)
Debt	(7,363)
Deferred tax liability	(3,902)
Net assets	21,858
Fair value of consideration:	
Cash	4,990
Sellers' notes	5,279
Shares	1,664
Capital lease	3,100
	15,033
Bargain purchase gain	6,825

Environmental Services

On May 31, 2018, the Company reached an agreement to purchase 100% of the outstanding shares of an environmental services company providing vacuum, hydro vac, fluid hauling, hot oiler and pressure truck services for a purchase price of \$3.3 million paid with an unsecured, non-interest bearing seller's note with a face value of \$2.5 million (fair value of \$2.4 million as noted below) and \$0.8 million in cash. Based on the initial allocation of fair values the company identified a gain on acquisition of \$0.2 million. The bargain purchase gain was the result of net assets acquired exceeding consideration paid.

On June 27, 2018, the Company reached an agreement to purchase 100% of the outstanding shares of a private company providing hydrovac services to the Edmonton, Alberta region for \$4.3 million. The total consideration of \$4.3 million was paid with an unsecured, non-interest bearing seller's note with a face value of \$1.2 million (fair value of \$1.1 million as noted below) and cash from the Company entering into a \$3.1 million capital lease.

On July 12, 2018, the Company reached an agreement to purchase 100% of the outstanding shares of an environmental services company providing fluid hauling, pressure truck, hot oiler and combo-vac services. For total consideration of \$7.8 million, the Company paid cash of \$4.2 million, agreed to an unsecured, non-interest bearing seller's note with a face value of \$1.9 million (fair value of \$1.8 million as noted below) and issued 2,600,000 Class A common shares at a fair value of \$0.64 per share for \$1.7 million which has been recorded as an increase to share capital. The intangibles acquired relates to non-compete agreements, backlog and customer relationships. Based on the preliminary allocation of fair values the Company identified a bargain purchase gain on acquisition of \$6.6 million as net assets acquired exceeded consideration paid.

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In order to determine the fair value of the consideration, the sellers' notes totaling \$5.6 million for all acquisitions, being financed over periods ranging from twelve to twenty-five months, must be fair valued. The Company measured the fair value of the sellers' notes as the present value of all future cash outflows discounted using an estimated market rate of interest of 5.7%. A rate of 5.7% was selected as this is the rate the Company would have been charged if it had borrowed the funds from its lender and paid cash for the transactions. The Company has determined the fair value of the sellers' notes at the transactions dates to be \$5.3 million. Subsequent to initial recognition, the sellers' notes will be accounted for at amortized costs using the effective interest method.

These companies form part of the fluid management CGU and their results are presented in the environmental services segment.

Revenue and net income from the date of acquisitions to September 30, 2018 were \$16.3 million and \$0.4 million, respectively. The Company estimates it would have reported consolidated revenue of approximately \$130.4 million and a net income of approximately \$2.5 million for the nine month period ended September 30, 2018 if the acquisitions had been completed on January 1, 2018.

The Company confirms the preliminary purchase price allocations are incomplete as the Company does not yet have complete and final information on the acquisitions. Specifically, the Company has not confirmed and verified all information from the acquired companies with respect to property and equipment, accrued liabilities, intangibles and fair value considerations to determine a final purchase price.

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Notes to the condensed consolidated interim financial statements

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(in thousands of Canadian dollars, except per share amounts)

(unaudited)

4. Property and equipment

	Land buildings and improvements	Machinery and equipment	Office furniture and equipment	Rolling stock	Total
Cost					
As at December 31, 2017	8,642	60,753	6,566	32,777	108,739
Additions	132	2,784	153	3,197	6,266
Additions from business acquisition (Note 3)	3,230	2,400	21	33,215	38,866
Disposals	(2,343)	(1,231)	(2,273)	(4,374)	(10,221)
As at September 30, 2018	9,661	64,706	4,467	64,815	143,650
Accumulated amortization					
As at December 31, 2017	6,617	28,981	4,103	9,515	49,216
Amortization	832	4,369	561	5,505	11,267
Disposals	(1,925)	(919)	(2,273)	(2,536)	(7,653)
As at September 30, 2018	5,524	32,431	2,391	12,484	52,830
Carrying value					
As at December 31, 2017	2,025	31,772	2,463	23,262	59,523
As at September 30, 2018	4,137	32,275	2,076	52,331	90,820
Carrying value of assets under finance leases and equipment loans					
As at December 31, 2017	-	-	-	2,097	2,097
As at September 30, 2018	-	-	-	10,163	10,163

Rolling stock acquired under capital leases during the nine month period ended September 30, 2018 totaled \$4.7 million (nine month period ended September 30, 2017 - \$0.2 million) and have been treated as non-cash transactions for purposes of the consolidated statement of cash flows.

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(in thousands of Canadian dollars, except per share amounts)

(unaudited)

5. Loans and borrowings

	September 30, 2018			December 31, 2017		
	Current	Non-current	Total	Current	Non-current	Total
Secured						
Revolving loan (a)	-	27,310	27,310	-	-	-
Term loan (b)	6,562	41,520	48,082	-	-	-
Equipment loans	1,766	2,899	4,665	61	-	61
Finance leases	1,508	3,750	5,258	727	882	1,609
Operating loan (a)	-	-	-	-	18,302	18,302
Senior debt (b)	-	-	-	5,000	31,688	36,688
Subordinated debt (a, b)	-	-	-	-	5,500	5,500
Total borrowings	9,837	75,478	85,315	5,788	56,372	62,160

Secured Credit Facilities

On May 11, 2018, the Company refinanced its operating loan, senior debt and subordinated debt with \$70.0 million in secured credit facilities involving a syndicate of financial institutions led by HSBC Bank Canada ("HSBC"). This agreement includes an additional \$20.0 million accordion facility. The syndicate facilities are for a three year committed term maturing May 10, 2021.

On July 12, 2018, the Company amended its Credit Facility by adding \$10.0 million on its term loan and \$5.0 million on its revolving loan. The Company increased its available revolving loan limit to \$30.0 million and increased its term loan to \$50.0 million. The proceeds from the loans were used to retire existing debt of the environmental services company acquired on July 12, 2018 and fund the \$4.2 million cash payment on closing. As part of the amendment, the accordion facility remained at \$20.0 million.

a) *Revolving loan*

The operating loan and a portion of the subordinated debt were replaced with a revolving loan authorized to a maximum of \$30.0 million. The revolving loan can be drawn by a mix of account overdraft with interest at rates ranging from HSBC's CAD prime rate or USD base rate plus 0.75%-2.00%, CAD Bankers' Acceptance rate, Letters of Credit, USD LIBOR loans plus stamping fees of 1.75%-3.00%. The Company pays a standby fee on any unutilized portion of the revolving facility on the last day of each fiscal quarter at rates ranging from 0.35%-0.60%. The interest rate ranges are based on the funded debt to EBITDA ratio for the preceding quarter.

b) *Term loan*

The senior debt and a portion of the subordinated debt were replaced with a term loan of \$40.0 million. The term loan will be a single draw at the closing date and can be a mix of account overdraft with interest at rates ranging from HSBC's CAD prime rate or USD base rate plus 0.75%-2.00%, CAD Bankers' Acceptance rate, Letters of Credit, USD LIBOR loans plus stamping fees of 1.75%-3.00%. The interest rate ranges are based on the funded debt to EBITDA ratio for the preceding quarter. The term loan is repayable in four quarterly principal payments of \$1,250, followed by eight quarterly principal payments of \$1,500 with a final payment of \$23.0 million due on maturity of April 30, 2021. In addition to the scheduled principal payments the term loan includes an additional principal payment based on an annual excess cash flow calculation starting December 31, 2018. The excess cash flow calculation is applicable if the funded debt to EBITDA ratio at December 31, 2018 exceeds 2.75:1.00.

The syndicate facilities include a secured operating facility authorized to a maximum of \$5.0 million to be used for general corporate purposes. The operating loan may be borrowed, repaid and re-borrowed on a revolving basis from the Closing Date until the Maturity Date. To the extent funds are drawn on the

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operating facility they will bear interest at rates ranging from HSBC's CAD prime rate or USD base rate plus 0.75%-2.00% and Letters of Credit plus stamping fees of 1.75%-3.00%.

c) Transaction costs

The Company incurred \$0.4 million of transaction costs which were capitalized and are being amortized on a straight line basis over the three year term of the credit facility. Transaction costs previously deferred and break fees related to the senior debt that was retired with the refinancing totaling \$3.6 million have been included in financing costs during the period ended September 30, 2018.

	September 30, 2018	December 31, 2017
Term loan - face value	48,437	-
Transaction costs	(355)	-
Senior debt - face value	-	39,000
Transaction costs	-	(2,312)
Carrying amount	48,082	36,688

d) Borrowing covenants – Senior Credit Facility

All loans are being provided in Canadian dollars and are subject to the following financial covenants:

- The ratio of consolidated senior indebtedness to trailing EBITDA, calculated on a trailing twelve month basis, must not exceed:
 - 3.75 to 1.00 for all quarters ending in fiscal 2018;
 - 3.25 to 1.00 for all quarters ending in fiscal 2019;
 - 3.00 to 1.00 thereafter.
- The ratio of net cash flow to fixed charges, the Fixed Charge Coverage ratio, must be more than 1.20 to 1.00 calculated on a rolling four-quarter basis.

The relevant definitions of key ratio terms set forth in senior secured credit facility is as follows:

- Consolidated senior indebtedness is defined as the outstanding balance of the revolving loan, plus the outstanding principal balance of the senior term loan, plus principal portions of any equipment loans and capital lease obligations.
- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill/intangible impairment, stock-based compensation, and other gains and losses not considered reflective of underlying operations. Trailing twelve month EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA.
- Net cash flow is defined as EBITDA reduced by net capital expenditures and cash taxes.
- Fixed charges is calculated as interest expense plus scheduled principal payments of indebtedness during the twelve month trailing period.

At September 30, 2018 the Company was in compliance with the terms and covenants of its lending agreements which are calculated as follows:

	Target	September 30, 2018	December 31, 2017
<i>Credit facilities</i>			
Funded debt to EBITDA	< 3.75 : 1	3.32	3.18
Fixed charge coverage ratio	> 1.20 : 1	1.50	2.47

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6. Provisions

	Onerous lease	Contingent deferred payment	Sellers' notes	Total
As at December 31, 2017	1,633	1,175	1,773	4,581
Settlement in exchange for class A common shares	-	-	(1,773)	(1,773)
Additions (Note 3)	-	-	5,280	5,280
Interest accretion during the period	50	-	72	122
Settlement of onerous lease	(312)	-	-	(312)
Payments	(755)	-	(838)	(1,593)
As at September 30, 2018	616	1,175	4,514	6,305

Provisions are presented on the consolidated interim statements of financial position as follows:

	September 30, 2018	December 31, 2017
Current portion of provisions	3,309	2,899
Non-current portion of provisions	2,996	1,682
	6,305	4,581

Sellers' notes

- a) On January 10, 2018, a seller's note with an aggregate face value of \$1.8 million was settled for 1,924,320 Class A common shares and has been treated as a non-cash transaction for the purposes of the condensed consolidated interim statements of cash flows.

In order to determine the fair value of the consideration paid in the acquisitions, the sellers' notes totaling \$5.6 million for all acquisitions, being financed over periods ranging from twelve to twenty-five months, must be fair valued. The Company measured the fair value of the sellers' notes as the present value of all future cash outflows discounted using an estimated market rate of interest of 5.7%.

- b) The seller's note from the environmental services acquisition on May 31, 2018 with a fair value of \$2.4 million (Note 3) using a market rate of interest of 5.7%, is unsecured, and repayable in monthly instalments of \$0.1 million for twenty-five months.
- c) The seller's note from the hydrovac services acquisition of \$1.1 million (Note 3) using a market rate of interest of 5.7%, is unsecured, and repayable in monthly instalments of \$0.1 million for twelve months.
- d) The seller's note from the environmental services acquisition on July 12, 2018 of \$1.8 million (Note 3) using a market rate of interest of 5.7%, is unsecured, and repayable in monthly instalments of \$0.1 million for twenty-four months.

Interest expense for the nine month period ended September 30, 2018, was \$0.1 million (nine month period ended September 30, 2017 - \$0.5 million), and is included in finance costs (Note 9) in the condensed consolidated interim statements of net income and comprehensive income.

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7. Share capital

Common shares

Authorized, unlimited number

Class A common voting shares

Class B common non-voting shares

	Notes	Class A	Amount
		#	\$
As at December 31, 2017		88,888,804	79,794
Shares issued in settlement of seller's note	6	1,924,320	1,773
Shares issued in business combinations	3	2,600,000	1,664
As at September 30, 2018		93,413,124	83,231

8. Share-based compensation

Stock Option Plan

The Company grants stock options to directors, officers, employees and consultants of the Company affiliates under its Stock Option Plan. Options under the Stock Option Plan are normally granted at the weighted average trading price of the Common Shares of the Company for the five consecutive trading days immediately preceding the day of grant of the stock option. Stock options vest in the manner determined by the Board at the time of the grant. The term of an option is five years from the date of grant.

A summary of the status of the Company's stock options is as follows:

	September 30, 2018		December 31, 2017	
	Outstanding options	Weighted average exercise price (\$)	Outstanding options	Weighted average exercise price (\$)
Balance - Beginning of period	4,428,155	1.00	108,500	1.00
Granted	-	1.00	4,350,000	1.00
Exercised	-	1.00	(30,345)	1.00
Forfeited	(225,000)	1.00	-	1.00
Balance - end of period	4,203,155	1.00	4,428,155	1.00
Exercisable - end of period	78,155	1.00	78,155	1.00

The Company expensed \$0.1 million in share-based compensation for the nine months ended September 30, 2018 (nine month period ended September 30, 2017 – nil).

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(in thousands of Canadian dollars, except per share amounts)

(unaudited)

9. Finance costs

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Interest on long-term debt	923	1,248	3,505	2,546
Financing and bank charges	72	604	4,080	615
Interest on sellers' notes	72	30	72	535
Interest on onerous lease	10	31	50	105
Interest on finance leases	86	20	133	50
	1,163	1,933	7,840	3,851

10. Net income per share

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Numerator:				
Net income (loss) and comprehensive income (loss) for the period	6,506	(198)	1,861	(1,245)
Denominator:				
Weighted average shares outstanding - basic & diluted	90,942,245	82,713,426	89,361,104	73,585,657
Income (loss) per share				
Basic & diluted	0.07	(0.00)	0.02	(0.02)

In calculating the income (loss) per share for the three and nine month periods ended September 30, 2018, the Company excluded 2,197,206 warrants and 4,203,155 options (three and nine month periods ended September 30, 2017 – 2,197,206 warrants and nil options), as their impact was anti-dilutive.

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11. Related party transactions

All related party transactions are provided in the normal course of business materially under the same commercial terms and conditions as transactions with unrelated companies and are recorded at the exchange amount. Related party transactions include transactions with other private companies that are owned or controlled by a director.

	Nature of relationship	Three months ended		Nine months ended	
		September 30, 2018	2017	September 30, 2018	2017
<i>Transactions:</i>					
General and administrative expenses - rent	(i)	225	225	675	675
Property and equipment additions	(i)	-	-	856	489
Repayments of advances from shareholders	(i)	-	-	-	2,151
Proceeds from sale of property and equipment	(i)	-	-	-	75

(i) Related by common director, officer

12. Supplemental cash flow information

	Nine months ended	
	September 30, 2018	2017
<i>Changes in non-cash working capital:</i>		
Accounts receivable	6,736	(9,325)
Unbilled revenue	(2,074)	(1,407)
Inventories	(653)	(603)
Prepaid expenses and deposits	(1,288)	(175)
Accounts payable and accrued liabilities	(8,668)	(648)
Deferred revenue	1,443	302
Income taxes payable	(66)	(277)
	(4,570)	(12,133)
<i>Net cash paid during the period for:</i>		
Interest	3,942	1,595
Income taxes	67	261

Vertex Resource Group Ltd.

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13. Segmented information

The Company operates as an environmental and industrial services provider which form its two reporting segments. The accounting policies and practices for each of the segments are the same as those described in Note 2. Segment capital expenditures are the total costs incurred during the year to acquire property and equipment and intangible assets.

- a) *Environmental* - the Company provides a variety of services related to assisting their clients meet internal environmental standards, regulatory environmental standards and related environmental compliance needs. These services span multiple industries including infrastructure, mining, oil and gas, telecommunications and utility.
- b) *Industrial* - the Company offers services related to infrastructure or facility maintenance, as well as the construction of those same assets. These services span a range of industries including agriculture, forestry, governments, midstream companies, public infrastructure, oil and gas production companies, potash and utilities.

For the three month period ended September 30, 2018								
	Environmental		Industrial		Corporate		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	38,408	19,464	2,990	15,491	27	34	41,425	34,989
Net Income (loss) before tax	1,863	1,455	353	1,408	3,916	(3,126)	6,132	(263)
Amortization	4,925	2,791	567	587	-	-	5,492	3,378
Capital expenditures	1,600	461	36	142	-	-	1,636	603

For the nine month period ended September 30, 2018								
	Environmental		Industrial		Corporate		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	82,457	52,528	21,305	30,044	41	75	103,803	82,647
Net Income (loss) before tax	4,682	3,387	2,339	1,691	(5,494)	(6,822)	1,527	(1,744)
Amortization	10,614	8,343	1,375	1,785	-	-	11,989	10,128
Capital expenditures	5,802	2,314	464	194	-	-	6,266	2,508

	Environmental	Industrial	Corporate	Total
As as September 30, 2018				
Total assets	157,794	19,879	3,855	181,528
Goodwill and Intangible assets	36,198	-	-	36,198
Total liabilities	26,501	5,522	84,294	116,317
As as December 31, 2017				
Total assets	105,779	32,094	6,283	144,156
Goodwill and Intangible assets	36,345	-	-	36,345
Total liabilities	21,521	12,494	50,368	84,383