

Consolidated financial statements of

**Vertex Resource Group Ltd.**

December 31, 2018

# Vertex Resource Group Ltd.

December 31, 2018

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## Independent Auditor's Report

To the Shareholders of Vertex Resource Group Ltd.:

### Opinion

We have audited the consolidated financial statements of Vertex Resource Group Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of net loss and comprehensive loss, consolidated statement of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and the related notes, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flow for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Cailiosa (Lisa) O'Keeffe.



Chartered Professional Accountants  
Edmonton, Alberta  
March 22, 2019

# Vertex Resource Group Ltd.

## Consolidated statements of financial position

### Years ended December 31

(in thousands of Canadian dollars)

As at	Notes	2018	2017
<b>Assets</b>			
Current assets			
Cash and cash equivalents		2,347	296
Accounts receivable	7	40,303	34,900
Contract assets	8	2,325	3,246
Inventories	9	3,204	2,079
Prepaid expenses and deposits		2,906	1,261
		<b>51,085</b>	41,782
Property and equipment	10	91,591	59,523
Intangible assets	11	1,854	2,264
Goodwill	12	34,081	34,081
Deferred income taxes	16	6,210	6,506
		<b>184,821</b>	144,156
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	13	17,188	11,927
Contract liabilities	8	1,135	636
Income taxes payable		44	66
Current portion of loans and borrowings	14	10,600	5,788
Current portion of provisions	15	3,058	2,899
		<b>32,025</b>	21,316
Loans and borrowings	14	77,005	56,372
Provisions	15	2,360	1,682
Deferred income taxes	16	7,736	5,013
		<b>119,126</b>	84,383
<b>Shareholders' Equity</b>			
Common shares	17	83,231	79,794
Deficit		(18,622)	(20,913)
Contributed surplus		1,086	892
		<b>65,695</b>	59,773
		<b>184,821</b>	144,156

Approved by the Board

(Signed) "Terry Freeman" Director  
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(Signed) "Brian F. Butlin" Director  
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The accompanying notes are an integral part of these consolidated financial statements.

# Vertex Resource Group Ltd.

Consolidated statements of net income (loss) and comprehensive income (loss)

Years ended December 31

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

	Notes	2018	2017
<b>Revenue</b>	20	<b>150,385</b>	118,419
Direct costs	21	<b>109,892</b>	86,116
<b>Gross profit</b>		<b>40,493</b>	32,303
General and administrative expenses	21	<b>19,884</b>	16,771
Share-based compensation	18,21	<b>194</b>	5
Amortization	10,11,21	<b>17,882</b>	13,641
Finance costs	22	<b>9,181</b>	6,493
Gain on bargain purchase	6	<b>(7,862)</b>	(922)
<b>Income (loss) before income taxes</b>		<b>1,214</b>	(3,685)
Income tax recovery	16	<b>(1,077)</b>	(737)
<b>Net income (loss) and comprehensive income (loss) for the year</b>		<b>2,291</b>	(2,948)
<b>Net income (loss) and comprehensive income (loss) for the year per share</b>			
Basic and diluted	23	<b>0.03</b>	(0.04)
<b>Weighted average number of shares outstanding for the purpose of calculating earnings per share</b>			
Basic and diluted	23	<b>89,837,995</b>	76,501,608

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

# Vertex Resource Group Ltd.

## Consolidated statements of changes in shareholders' equity

Years ended December 31

(in thousands of Canadian dollars)

	Notes	2018	2017
<b>Common Shares</b>	17		
Balance, beginning of the year		<b>79,794</b>	57,912
Shares issued in business acquisitions	6	<b>1,664</b>	12,239
Shares issued in settlement of seller's note	15	<b>1,773</b>	6,727
Shares issued in settlement of advances from shareholders		-	2,151
Shares issued in reverse takeover		-	735
Shares issued in exercise of stock options		-	30
Balance, end of the year		<b>83,231</b>	79,794
<b>Contributed Surplus</b>			
Balance, beginning of the year		<b>892</b>	887
Share-based compensation	18	<b>194</b>	5
Balance, end of the year		<b>1,086</b>	892
<b>Deficit</b>			
Balance, beginning of the year		<b>(20,913)</b>	(17,965)
Net income (loss) and comprehensive income (loss)		<b>2,291</b>	(2,948)
Balance, end of the year		<b>(18,622)</b>	(20,913)
<b>Total shareholders' equity</b>		<b>65,695</b>	59,773

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

# Vertex Resource Group Ltd.

## Consolidated statements of cash flows

Years ended December 31

(in thousands of Canadian dollars)

	Notes	2018	2017
<b>Operating activities</b>			
Net income (loss)		2,291	(2,948)
Items not affecting cash			
Amortization - property and equipment	10	16,897	12,072
Amortization - intangible assets	11	985	1,569
Share-based compensation	18	194	5
Interest accretion on provisions	15	191	700
Deferred financing charges	14	2,419	257
Gain on disposal of property and equipment		(788)	(294)
Gain on bargain purchase	6	(7,862)	(922)
Capital restructuring costs	6	-	636
Deferred income taxes	16	(1,146)	(816)
		13,181	10,259
Change in non-cash operating working capital items	25	(3,736)	(11,283)
Cash provided by (used in) operating activities		9,445	(1,024)
<b>Investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	6	(4,533)	(454)
Purchase of property and equipment, net of finance leases	10	(7,991)	(4,771)
Proceeds from disposal of property and equipment	10	3,997	2,370
Cash used in investing activities		(8,527)	(2,855)
<b>Financing activities</b>			
Proceeds from revolving and operating loan	14	10,698	6,327
Proceeds from term loan	14	50,000	-
Repayment of term loan	14	(3,125)	-
Proceeds from equipment loans	14	4,230	-
Repayment of equipment loans and long-term debt	14	(11,257)	(37,961)
Financing charges - deferred	14	(431)	(2,569)
Repayment of obligation under capital lease	14	(1,933)	(506)
Repayment of provisions	15	(2,549)	(1,190)
(Repayment of) proceeds from senior debt and subordinated debt	14	(44,500)	40,000
Issuance of common shares		-	30
Cash provided by financing activities		1,133	4,131
Increase in cash and cash equivalents		2,051	252
Cash and cash equivalents, beginning of year		296	44
Cash and cash equivalents, end of year		2,347	296

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

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

December 31, 2018

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

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### 1. Description of business

Vertex Resource Group Ltd. (the "Company") is a publicly listed company on the TSX Venture Exchange ("TSXV") trading under the symbol "VTX". Vertex Resource Group Ltd. was a private company incorporated under the Alberta Business Corporation Act up to October 15, 2017. On October 16, 2017, the Company completed a qualifying transaction as outlined in Note 6(e). On October 18, 2017, the Company became a public listed company on the TSX Venture Exchange. 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 and conversion to International Financial Reporting Standards

#### a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and the accounting policies set out below have been applied consistently to all periods presented. These consolidated financial statements were approved by the Board of Directors (the "Directors") on March 22, 2019.

#### b) *Basis of measurement*

The Company's consolidated 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 consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

In preparing the financial statements of each subsidiary, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Company's operations in the U.S. are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

#### d) *Principles of Consolidation*

These consolidated 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.

The Company's principal subsidiaries and limited partnerships at December 31, 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

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

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throughout all consolidated entities and reporting dates of the subsidiaries are all consistent with the Company.

e) *Use of estimates and judgments*

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that may affect the reported amounts of assets, liabilities, income, expenses and disclosure of contingent assets and liabilities reported each period. Actual results could differ from those estimates. Significant estimates and judgments are outlined in Note 5.

f) *Comparative figures*

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

### 3. Significant accounting policies

a) *Changes in Accounting Policies*

(i) IFRS 15 – Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15 – Revenue from Contracts with Customers using the modified retrospective approach with the cumulative effect of adopting this standard as an adjustment to the opening balance of retained earnings, if required. 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 requirement of IFRS 15.

The Company used the following practical expedients permitted under standard:

- (i) Completed contract – The Company applied IFRS 15 retrospectively only to contracts that were not completed contracts as at January 1, 2018
- (ii) Portfolio approach – The Company applied this standard to a portfolio of contracts with similar characteristics.

Revenue is recognized when a customer obtains control over the goods or services at which point performance obligations are satisfied and when the collection is reasonable assured. 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.

The Company's services are provided based upon orders and contracts with customers that include fixed or determinable prices and are based upon daily, hourly or contracted rates. Contract terms do not include the provision of post-service obligations. The Company recognizes the amount of revenue to which it expects to be entitled for the transfer of promised services or goods to customers. Revenue is measured based on the consideration specified in a contract with a customer on either an "over time" or "point in time" basis.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales tax, returns and discounts and after eliminating intercompany sales.

- a) Sales of goods: Revenue from the sales of goods is mainly comprised of manufactured products and is recognized when the customer retains control of the product transfers to the customer and the Company has fulfilled its performance obligations with respect to delivery of the product.
- b) Rendering of services: The Company's services revenue includes equipment rentals, fluid hauling and consulting services. Revenue is recognized over time as the Company satisfies its performance obligations. These contracts are short-term with expected duration of less than one year. The Company has elected to use the practical expedient under IFRS 15, paragraph B16, as the Company invoices its customers on a per hour, per day, or per month basis, depending on the contract, that directly corresponds with the value received by the customer.

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c) Industrial contracting: Industrial contracting revenue includes revenue from contracts entered into to provide maintenance and construction services to various industries, including energy, mining, agriculture, forestry and petrochemical. Revenue from such contracts is recognized using the over time method.

Under IFRS 15, the amount of anticipated revenue used when determining the amount of revenue to be recognized is based on contracts with legally enforceable rights and obligations. When the outcome of a construction contract can be measured reliably, the stage of completion is measured based on the proportion of contract cost incurred for work performed to date in relation to the total estimated cost for the contract. Variations in contract work are included to the extent that the amount can be measured reliably and its receipt is considered highly probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract cost will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profit exceed progress billings, the surplus is shown as Contract assets in the consolidated statement of financial position. For contracts where progress billings exceed contract costs incurred to date plus recognized profits, the surplus is shown as Contract liabilities in the consolidated statement of financial position.

### (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 consolidated financial statements.

The main changes introduced by IFRS 9 related to the classification and measurement of financial assets and liabilities, the introduction of a new impairment model based on expected credit losses (rather than incurred losses per IAS 39). Additionally, IFRS 9 also includes a greater emphasis on the Company's credit risk and how the Company's credit losses are determined. See Note 26.

#### Classification and measurement of financial assets and financial liabilities

The following table presents the carrying amount of financial assets and liabilities held by the Company at December 31, 2018 by measurement category under IAS 39 and under IFRS 9:

Financial Asset / Liability	Carrying Value	IAS 39		IFRS 9	
		Classification	Measurement	Classification	Measurement
Cash and cash equivalents	\$2,347	Held for trading	Fair value	Amortized Cost	Amortized Cost
Accounts receivable	\$40,303	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	\$17,188	Other financial Liabilities	Amortized cost	Amortized cost	Amortized cost
Loans and borrowings (current and long-term)	\$87,605	Other financial Liabilities	Amortized cost	Amortized cost	Amortized cost
Contingent consideration	\$1,175	Other financial Liabilities	Face Value	FVTPL	FVTPL
Sellers' Notes	\$3,737	Other financial Liabilities	Amortized cost	Amortized cost	Amortized cost

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

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(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 consolidated financial statements.

b) *Cash and cash equivalents*

Cash and cash equivalents consist of cash on deposit, cash equivalents and bankers' acceptances. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

c) *Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interest issued by the Company in exchange for control of the acquiree. Acquisition-related costs and gain on bargain purchase are recognized in profit or loss as incurred. A gain on bargain purchase arises when the sum of the fair value of identifiable net assets exceeds the fair value of consideration.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Changes in the fair value of liability classified contingent consideration are recognized in net loss.

d) *Inventories*

Inventory is stated at the lower of cost and net realizable value. Costs of inventories are determined on a first-in-first-out basis for raw materials and weighted average cost for finished goods. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

e) *Property and equipment*

Property and equipment are recorded at cost, less accumulated amortization and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Costs include the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are expensed in profit or loss as incurred.

Amortization is provided on the straight-line method over the estimated useful life of the assets as described below.

Buildings and improvements	20 years
Machinery and equipment	3-15 years
Office furniture and equipment	3-5 years
Rolling stock	5-10 years

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Leasehold improvements are amortized using a straight-line method over the lesser of the estimated useful life and the term of the lease.

The estimated useful lives and methods of amortization are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Assets held under finance leases are amortized over their expected useful lives on the same basis as owned assets; however, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Property and equipment under construction is amortized at the time the asset is deemed available for productive use, based on the estimated useful life.

f) *Intangible assets*

Intangible assets with finite useful lives that are acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at acquisition date, which is regarded as their cost. Subsequent to initial recognition, intangible assets are recorded at cost, less accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the periods during which they are expected to generate benefits. Amortization is recorded using the following estimated useful lives:

Customer relationships	3-5 years
Intellectual property	3-5 years
Non-compete agreements	3-5 years

The estimated useful lives and methods of amortization are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

g) *Goodwill*

Goodwill is measured as the excess of the fair value of the purchase price of a business acquisition over the estimated fair value of the net identifiable assets of the acquired business, at the date of acquisition. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

December 31, 2018

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

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### h) *Impairment of non-financial assets*

The carrying amounts of the Company's non-financial assets, primarily consisting of property and equipment and intangible assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Internal factors, such as budgets and forecasts, as well as external factors such as expected future prices, costs and other market factors, are monitored to determine if indications of impairment exist.

An impairment loss is the amount equal to the excess of the carrying amount over the recoverable amount. The recoverable amount of an asset or cash-generating unit ("CGU") is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is based on estimated market values based on actual market transactions, if available, or a fair value estimation model. The value in use is the present value of estimated future cash flows that reflect current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, and referred to as the CGU. For the purpose of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset, or its CGU, exceeds its recoverable amount, and is recorded in the period when it is determined that the carrying amount of the asset, or its CGU, may not be recoverable. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, at the end of each reporting period, the Company makes an assessment as to whether there is any indication that previously incurred impairment losses have reversed. If such an indication exists, the Company estimates the asset's, or its CGU's, recoverable amount, and compares it to the carrying amount, net of accumulated depreciation that would have been determined had no impairment loss been recognized. Any reversal is limited to this latter amount.

### i) *Income taxes*

#### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition,

# Vertex Resource Group Ltd.

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deferred tax liabilities are not recognized if the temporary difference arise from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arise from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

*j) Share-based payment arrangements*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of the reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

*k) Financial instruments*

Effective January 1, 2018, the Company adopted the amendments in IFRS 9, Financial Instruments, including the classification and measurement of financial assets and the expected loss impairment model. The amendments to IFRS 9 are effective for annual periods on or after January 1, 2018 and are applied retrospectively. The Company's IFRS 9 adoption is described in Note 3(a)(ii).

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as "amortized cost", "fair value through profit or loss" or "fair value through other comprehensive income".

The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

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Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following financial assets and liabilities recognized at amortized cost:

- Cash and cash equivalents are initially recognized at fair value and are subsequently measured at amortized cost with changes therein recognized in net income.
- The Company's trade and other receivables are classified under the amortized cost category and are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, adjusted for any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.
- Accounts payables and accrued liabilities, other current liabilities including promissory notes obtained through acquisition, are classified under the amortized cost category. Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Financial liabilities, are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to the loans an borrowing are deferred and amortized using the straight line method over the term of the loan.

The Company has the following financial liabilities recognized at Fair Value through profit and loss:

- Contingent share consideration on Sonic acquisition in 2017 is initially recognized at fair value and subsequently measured at fair value with changes recognized in profit and loss.

*l) Financial asset impairment*

*New impairment model*

The IAS 39 incurred credit loss model was replaced by the IFRS 9 expected credit loss model. Expected credit losses are the present value of all cash shortfalls over the expected life of the financial instrument. The new impairment model generally requires entities to recognize expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Although IFRS 9 does not require the loss allowance to be recognized at initial recognition of the new financial asset but rather at the next reporting date, the effect is the same as to recognizing a day one loss. This is different from IAS 39, under which no impairment was recognized unless and until a loss event occurs after the initial recognition of a financial asset.

Under IFRS 9, impairment is measured as either: i) 12-month expected credit losses; or ii) lifetime expected credit losses.

The Company applies the simplified approach to recognize lifetime expected credit losses for its trade receivables and contract assets that are in scope of IFRS 15 and that do not have a significant financing component.

*m) Share Capital*

Common shares are classified as equity. Transaction costs that are incremental and directly attributable to the issue of common shares are recognized as a deduction from equity net of any tax effects.

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

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*n) Fair Value Measurement*

The Company determines the fair value of items classified as fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1	Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2	Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
Level 3	Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Currently no items are classified as fair value through profit or loss.

*o) Leases*

The Company leases certain property and equipment. Leases of property and equipment where the Company has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are incurred in loans and finance leases. The interest element of the finance cost is charged to the consolidated statement of income and comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*p) Segment reporting*

An operating segment is a component of the Company that engages in business activities from which it may earn revenues or incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Operating segments are identified on the basis that internal reports about components of the Company are regularly reviewed by the Executive Management Team acting as the key decision maker in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

*q) Earnings per share*

The Company presents basic and diluted earnings per share (EPS) for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to the common shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for the Company's own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to the common shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential common shares, including share options granted to employees and Directors and

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

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shares related to convertible debentures, assuming that all of the debenture holders converted as allowed.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding. Contingently issuable shares are included in the computation of basic EPS from the date when all necessary conditions have been satisfied and, thus, although issuing the shares is still a future transaction, it is no longer contingent.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options is based on quoted market prices for the period during which the options were outstanding.

r) *Provisions and Contingencies*

Provisions and contingencies are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The timing or amount of the outflow may still be uncertain. Provisions and contingencies are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. Each obligation is discounted to present value using the expected future cash flow at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

s) *Finance costs*

Finance costs encompass interest expense on financial liabilities and accretion expense on debt and are recognized as an expense in the period in which they are incurred.

#### 4. Future accounting standard pronouncements

The following new standard has been issued, but is not effective for the year ended December 31, 2018:

*IFRS 16 – Leases*

Effective January 1, 2019, the Company will adopt IFRS 16 – Leases using the modified retrospective method. Under the modified retrospective method, comparative financial information is not restated and continues to be reported under the accounting standards in effect for those periods. IFRS 16 introduces a single lease accounting model for lessees which will result in the recognition of a right of use ("ROU") asset, as well as a corresponding lease liability ("ROU liability") reflecting the present future value of lease payments. Depreciation expense on the ROU asset and interest expense on the ROU liability will replace operating lease expenses that were recognized under IAS 17.

The associated right of use ROU assets will be measured as if IFRS 16 had been applied from lease commencement measuring the ROU assets at the present value of lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019. The ROU assets will be amortized on a straight-line basis over the term of the lease. The corresponding net book value of the ROU assets at December 31, 2018 will be the amount recognized as at January 1, 2019. ROU lease liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019. The difference between the ROU assets and the ROU lease liabilities will result in an adjustment to the opening balance of retained earnings.

The Company intends to use the following practical expedients permitted under the new standard:

- (i) Leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases;
- (ii) Leases of low dollar value will continue to be expensed as incurred;
- (iii) Grandfathering IFRIC 4 assessment to conclude no leases are contained in service agreement;
- (iv) Apply a single discount rate to a portfolio of leases with similar characteristics;
- (v) Use the Company's previous assessment of impairment under IAS 37 for onerous contracts instead of re-assessing the ROU asset for impairment on January 1, 2019.

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## Notes to the consolidated financial statements

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As at January 1, 2019, the Company expects that the adoption of *IFRS 16 – Leases* will result in the recognition of ROU assets of approximately \$25.0 million and ROU lease liabilities of approximately \$27.2 million. The difference of \$2.2 million between the January 1, 2019 value of the right-of-use assets and the right-of-use liabilities will be recorded as an adjustment against opening deficit in the consolidated statement of changes in shareholders' equity. The Company continues to assess the impact of adopting IFRS 16 on deferred tax balances.

### 5. Critical accounting judgments and key sources of estimation uncertainty

#### Critical judgments in applying the Company's accounting policies

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of revenues and expenses during the reporting period, as well as the disclosures of contingent assets and liabilities. Accordingly, actual results could differ from these estimates and judgments. Estimates and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

#### a) *Measure of progress*

The identification of performance obligations and the use of the appropriate revenue recognition method for each performance obligation are the main steps involved in the revenue recognition process, both of which require the exercise of judgement and the use of assumptions.

#### b) *Property and equipment*

As part of the capitalization process, management must estimate the expected period of benefit over which capitalized costs should be depreciated. The considerations for estimated useful lives include the timing of technological obsolescence and competitive pressures, as well as historical experience and internal business plans for the projected use of related assets. Given that the expected period of benefit is an estimate, future results could be affected if management's current assessment of its property and equipment's useful lives differs from actual performance.

#### c) *Cash-generating unit*

For the purpose of assessing impairment of non-financial assets, the Company must determine its CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has determined that the appropriate CGUs for the Company are the Industrial, Consulting, Fluid Management, and Rentals divisions.

#### d) *Provisions and Contingencies*

The determination of provisions and contingencies is a complex process that involves judgement about the outcome of future events, estimates of timing and amount of future expenditures, and discount rates. The amount recognized as a provision or contingency is management's best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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## Notes to the consolidated financial statements

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### Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the statement of financial position date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

a) *Impairment of financial assets*

All of the Company's financial assets are reviewed for indicators of impairment. At the end of each reporting period, management reviews the individual balances in accounts receivable and assesses their recoverability based on the aging of outstanding balances, historical bad debt experience, and indicators of changes in customer credit worthiness, and changes in customer payment terms, to identify and determine the extent of impairment, if any. The Company has established and applied a provision matrix to the trade accounts receivable balances in order to calculate an allowance for expected credit losses on the adoption of IFRS 9. Actual collectability of customer balances can vary from the Company's estimation.

b) *Property and equipment and goodwill impairment*

The Company tests property and equipment (if indicators are present) and goodwill annually for impairment. An impairment loss is recognized for the amount by which the carrying amount of the CGU or group of CGUs, to which the property and equipment and goodwill is allocated, exceeds its recoverable amount. The recoverable amount of the CGU, or group of CGUs, is the higher of its fair value less cost of disposal and its value in use. Management estimates expected future cash flows from each CGU, or group of CGUs, in determining the value in use. Management makes assumptions about future operating results and performs sensitivity testing of key assumptions in the process of measuring expected future cash flows which are based on future events and circumstances disclosed in Note 12 to these consolidated financial statements.

c) *Business combinations*

The Company applies the acquisition method of accounting to business combinations which involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair values. The Company uses valuation techniques in determining fair values of the various elements of a business combination, including intangible assets, based on future expected cash flows and a discount rate. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risks and weighted average cost of capital. If future events or results differ significantly from these estimates and assumptions, the Company may be required to record impairment charges in the future.

d) *Deferred tax assets*

Management estimates the probability of future taxable income in which deferred tax assets can be utilized based on Company forecasts. The Company also takes into consideration non-taxable income and expenses and the various tax rules in effect or expected to be in effect at a future date. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, that deferred tax asset is recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific circumstances.

## 6. **Business acquisitions**

During the year ended December 31, 2018, the Company completed three acquisitions compared to six acquisitions and one capital restructuring in the year ended December 31, 2017. Details of the purchase prices and allocation to the assets and liabilities acquired, net of debt financing, are as follows:

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## Notes to the consolidated financial statements

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	<b>2018 Total</b>
Cash and cash equivalents	457
Other current assets	8,340
Intangibles	575
Property and equipment	40,166
	<b>49,538</b>
Current liabilities	<b>(9,881)</b>
Debt	<b>(12,597)</b>
Deferred tax liability	<b>(4,165)</b>
Net assets	<b>22,895</b>
<b>Fair value of consideration:</b>	
Cash	4,990
Sellers' notes	5,279
Shares	1,664
Capital lease	3,100
	<b>15,033</b>
Gain on bargain purchase	<b>7,862</b>

	Engineering	Chemical	Environmental	Vier	2017 Total
Cash and cash equivalents	1,094	975	(72)	93	2,090
Accounts receivable and other	3,391	329	632	6	4,358
Property and equipment	198	-	8,262	-	8,460
Deferred tax asset	-	-	159	-	159
Intangibles	2,750	-	-	-	2,750
Goodwill	3,010	3,473	-	-	6,483
	<b>10,443</b>	<b>4,777</b>	<b>8,981</b>	<b>99</b>	<b>24,300</b>
Current liabilities	(4,205)	(217)	(1,427)	-	(5,849)
Obligation under capital leases	-	-	(190)	-	(190)
Deferred tax liability	(743)	-	(538)	-	(1,281)
Net assets	5,495	4,560	6,826	99	16,980
<b>Fair value of consideration:</b>					
Class A common shares	5,100	4,560	2,579	735	12,974
Cash	395	-	2,150	-	2,545
Contingent deferred payment	-	-	1,175	-	1,175
	<b>5,495</b>	<b>4,560</b>	<b>5,904</b>	<b>735</b>	<b>16,694</b>
Gain on bargain purchase	-	-	922	-	922
Capital restructuring costs	-	-	-	(636)	(636)

Capital restructuring costs are included in the consolidated statements of net income (loss) and comprehensive net income (loss) under finance costs.

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

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a) *Environmental Services - 2018*

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 final allocation of fair values of the net assets the Company identified a gain on bargain purchase of \$0.2 million that was the result of net assets acquired exceeding consideration paid.

On June 27, 2018, the Company reached an agreement to purchase 100% of the operating assets 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 derived from proceeds of a \$3.1 million finance lease the Company entering into at the time this transaction closed.

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 final allocation of fair values of net assets the Company identified a gain on bargain purchase of \$7.6 million as net assets acquired exceeded consideration paid.

In order to determine the fair value of the consideration, the sellers' notes totaling \$5.6 million for all three acquisitions, being financed over periods ranging from twelve to twenty-five months, were fair valued. The Company measured the fair value of the sellers' notes as the present value of future cash outflows discounted using an estimated market rate of interest of 5.7%. 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 are 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 derived from the date of acquisitions to December 31, 2018 were \$33.1 million and \$0.9 million, respectively. The Company estimates it would have reported consolidated revenue of approximately \$176.7 million and a net income of approximately \$1.4 million for the year ended December 31, 2018 if the acquisitions had been completed on January 1, 2018. Proforma EBITDA for the purpose of Note 14(e) bank covenants would have been \$25.5 million when the Company includes the trailing twelve month EBITDA of the acquired companies.

b) *Engineering and Land Consulting Services - 2017*

On May 31, 2017, the Company reached an agreement to purchase 100% of the outstanding shares of an engineering firm that provides abandonment, completion and drilling engineering services for \$2.7 million. For the total consideration of \$2.7 million, the Company issued 771,429 Class A Common shares (prior to the share exchange 6(e)). All shares are in escrow and will be released 50% on May 31, 2019 and 50% on May 31, 2020. Goodwill on acquisition was attributable primarily to the skills and competence of the acquired workforce and growth opportunity of the combined operations. Goodwill is not deductible for tax purposes.

On June 30, 2017, the Company reached an agreement to purchase 100% of the outstanding shares of a second engineering firm that provides estimating and project management services for \$2.4 million. For the total consideration of \$2.4 million, the Company issued 631,580 Class A Common shares (prior to the share exchange 6(e)). Goodwill on acquisition was attributable primarily to the skills and competence of the acquired workforce and growth opportunity for the combined operations. Goodwill is not deductible for tax purposes.

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## Notes to the consolidated financial statements

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On December 31, 2017, the Company reached an agreement to purchase 100% of the operating assets of a land consulting company, for cash consideration of \$0.4 million.

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

c) *Chemical Services - 2017*

On June 30, 2017, the Company reached an agreement to purchase 100% of the outstanding shares of a company that provides engineered chemical solutions for \$4.6 million. For the total consideration of \$4.6 million, the Company issued 1,200,000 Class A Common shares (prior to the share exchange 6(d)). Goodwill on acquisition was attributable primarily growth opportunity of the combined operations. Goodwill is not deductible for tax purposes. Of the \$4.6 million consideration, \$3.1 million is contingent on the chemical service company achieving annual and cumulative EBITDA targets totalling \$4.2 million over the next three years. Accordingly, 805,263 (3,060,003 after share exchange) of the shares issued for the acquisition were issued in escrow and will be released over the next three years based on performance. This company forms part of the fluid management CGU and its results are presented in the environmental services segment.

d) *Environmental Services - 2017*

On May 31, 2017, the Company reached an agreement to purchase 100% of the outstanding shares of an environmental services company who specializes in vacuum, pressure and stable foam operations for \$1.4 million. For the total consideration of \$1.4 million, the Company issued 401,115 Class A Common shares (prior to the share exchange 6(e)). Based on the final allocation of fair values the Company identified a gain on bargain purchase \$0.5 million as net assets acquired exceeded consideration paid.

On December 23, 2017, the Company reached an agreement to purchase 100% of the operating assets of an environmental services company that provides pressure trucks, fluid hauling, chemical and KCL products for \$4.5 million. For the total consideration of \$4.5 million, the Company paid cash of \$2.1 million and issued 2,350,000 Class A Common shares at fair value of \$0.50 per share. The agreement contains a contingent share consideration amount that could result in the issuance of additional shares if the trading price of the Company does not reach or exceed \$1.00 per share prior to December 31, 2019. Of the 2,350,000 shares issued, \$1.2 million has been recorded as an increase in share capital and \$1.2 million has been recorded as a long-term provision to reflect contingent shares that may be issued in the future. Share that could be issued in the future range from nil to 2,350,000. Based on the final allocation of fair values the Company identified a gain on bargain purchase of \$0.5 million as net assets acquired exceeded consideration paid.

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

e) *Vier Capital Corp. - 2017*

On October 16, 2017, the Company completed a qualifying transaction ("the Transaction") with VIER Capital Corp. ("VIER"), a Capital Pool Corporation as defined in Policy 2.4 on the TSX Venture Exchange ("the Exchange") and on October 18, 2017, following the issuance by the Exchange of its final bulletin in respect of the qualifying transaction, the Company began trading on the Exchange under the symbol "VTX". The Transaction and acquisition of VIER did not meet the definition of a business and has been accounted for as a capital restructuring.

In connection with the Transaction, the 7,350,000 issued and outstanding shares of VIER were consolidated (the "Consolidation") on a 10 to 1 basis for total consideration of \$0.7 million.

Pursuant to the Qualifying Transaction: (i) Vier acquired all of the issued and outstanding class A common shares of Vertex Resource Group Ltd. ("Old Vertex") from the shareholders of Old Vertex in exchange for an aggregate of 85,773,459 Common Shares; and (ii) Vier, Old Vertex and a wholly-owned subsidiary of Old Vertex amalgamated to form the Company. In addition, an aggregate of 2,197,206 warrants to acquire Common Shares ("Warrants") were issued in exchange for share

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purchase warrants to acquire class A common shares in the capital of Old Vertex (Note 18). Shares of Old Vertex were exchanged on a 1 to 3.8 basis.

Immediately following completion of the Transaction and the issuance of an aggregate of 30,345 Common Shares upon the concurrent exercise of Vier options to acquire Common Shares, the Company now had 86,538,804 Common Shares issued and outstanding, on a non-diluted basis. The aggregate 56,695,250 Common Shares and 2,197,206 Warrants held by the directors and officers of the Company, as well as certain Common Shares held by certain other shareholders of the Company are subject to escrow restrictions as described in Note 17.

Based on the final allocation of fair values the Company recorded a listing expense of \$0.6 million which has been included in financing and bank charges (Note 22).

### 7. Accounts receivables

	2018	2017
Trade accounts receivable	40,403	33,677
Other receivables	358	1,285
Less: allowance for expected credit losses	(458)	(62)
	40,303	34,900

### 8. Contract assets and contract liabilities

The net amount due from (to) customers for contract in progress at the consolidated statement of financial position date is as follows:

	2018	2017
Contract cost incurred plus recognized profit less recognized losses to date	5,674	30,031
Less: progress billings	(4,484)	(27,421)
<b>Total net contract position</b>	<b>1,190</b>	<b>2,610</b>
Contract assets	2,325	3,246
Contract liabilities	(1,135)	(636)
	1,190	2,610

The Company issues invoices in accordance with the billing schedule or contract terms as agreed. The invoices trigger recognition of an accounts receivable equal to the progress billings noted above.

### 9. Inventories

	2018	2017
Trucking inventory - parts	1,154	-
Safety - raw materials	977	715
Chemical - raw materials	592	572
Manufacturing inventory - raw materials	481	792
	3,204	2,079

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### 10. Property and equipment

	Land, Buildings, and improvements	Machinery and equipment	Office furniture and equipment	Rolling stock	Total
<b>Cost</b>					
As at December 31, 2016	8,601	58,963	5,937	27,822	101,323
Additions	35	2,411	331	2,893	5,670
Additions from business acquisition (Note 6)	6	1,537	298	6,619	8,460
Disposals	-	(2,158)	-	(4,556)	(6,714)
As at December 31, 2017	8,642	60,753	6,566	32,778	108,739
Additions	505	3,919	693	6,732	11,849
Additions from business acquisition (Note 6)	4,530	2,400	21	33,215	40,166
Disposals	(2,372)	(2,502)	(2,275)	(9,319)	(16,468)
<b>As at December 31, 2018</b>	<b>11,305</b>	<b>64,570</b>	<b>5,005</b>	<b>63,406</b>	<b>144,286</b>
<b>Accumulated amortization</b>					
As at December 31, 2016	5,253	24,891	3,415	8,223	41,782
Amortization	1,364	5,929	688	4,091	12,072
Disposals	-	(1,839)	-	(2,799)	(4,638)
As at December 31, 2017	6,617	28,981	4,103	9,515	49,216
Amortization	1,307	6,360	802	8,428	16,897
Disposals	(1,955)	(2,101)	(2,273)	(7,089)	(13,418)
<b>As at December 31, 2018</b>	<b>5,969</b>	<b>33,240</b>	<b>2,632</b>	<b>10,854</b>	<b>52,695</b>
<b>Carrying value</b>					
As at December 31, 2017	2,025	31,772	2,463	23,263	59,523
<b>As at December 31, 2018</b>	<b>5,336</b>	<b>31,330</b>	<b>2,373</b>	<b>52,552</b>	<b>91,591</b>
<b>Carrying value of assets under finance leases</b>					
As at December 31, 2017	-	-	-	2,097	2,097
<b>As at December 31, 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,428</b>	<b>9,428</b>

Rolling stock acquired under finance leases during the year ended December 31, 2018 totaled \$3.9 million (2017 - \$0.9 million) and have been presented as non-cash transactions for purposes of the consolidated statement of cash flows.

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

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### 11. Intangible assets

	Customer relationships	Intellectual Property	Non-competitive agreements	Total
<b>Cost</b>				
As at December 31, 2016	9,488	-	385	9,873
Additions (Note 6)	1,375	800	575	2,750
As at December 31, 2017	10,863	800	960	12,623
Additions (Note 6)	315	-	260	575
<b>As at December 31, 2018</b>	<b>11,178</b>	<b>800</b>	<b>1,220</b>	<b>13,198</b>
<b>Accumulated amortization</b>				
As at December 31, 2016	8,405	-	385	8,790
Amortization	1,337	133	99	1,569
As at December 31, 2017	9,742	133	484	10,359
Amortization	490	267	228	985
<b>As at December 31, 2018</b>	<b>10,232</b>	<b>400</b>	<b>712</b>	<b>11,344</b>
<b>Carrying value</b>				
As at December 31, 2017	1,121	667	476	2,264
<b>As at December 31, 2018</b>	<b>946</b>	<b>400</b>	<b>508</b>	<b>1,854</b>

The intangible assets were acquired as part of a business combination (Note 6). They are recognized at their fair value at the date of acquisition and are subsequently amortized on a straight-line basis over their estimated useful lives.

### 12. Goodwill

Goodwill is monitored by management at the level of the consulting, fluid management and rentals cash-generating units. A cash-generating unit level summary of the goodwill allocation is presented below:

	Consulting	Fluid Management	Rentals	Total
As at December 31, 2016	17,750	3,893	5,955	27,598
Additions - Engineering - 2017 (Note 6)	3,010	-	-	3,010
Additions - Chemical - 2017 (Note 6)	-	3,473	-	3,473
<b>As at December 31, 2017 and 2018</b>	<b>20,760</b>	<b>7,366</b>	<b>5,955</b>	<b>34,081</b>

The Company performed the annual impairment tests of goodwill at December 31, 2018. The recoverable amount of the consulting, fluid management and rentals CGUs was based on their value in use, determined by discounting future cash flows to be generated from the continuing use of the cash-generating unit. The value in use calculation uses revenue and EBITDA cash flow projections from financial budgets approved by the Company, forecasts over a five year period based on management's best estimates, a terminal growth rate beyond five years of 2.0% (2017 – 1.0%), and uses a pre-tax discount rate of 15.0% (2017 – 16.0%). No impairment was recorded for 2018 or 2017.

Assumptions that are valid at the time of preparing cash flow projections may change significantly when new information becomes available. The Company performed a sensitivity analysis by increasing the pre-tax discount rate by 1% and by lowering the terminal growth rate by 1% and noted no impairment in the consulting, fluid management or rentals CGU.

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### 13. Accounts payable and accrued liabilities

	2018	2017
Trade accounts payable	11,896	4,967
Employee related accounts payable	1,293	1,398
Accrued liabilities	3,999	5,562
	<b>17,188</b>	<b>11,927</b>

### 14. Loans and borrowing

	December 31, 2018			December 31, 2017		
	Current	Non-current	Total	Current	Non-current	Total
Secured						
Revolving loan (a)	-	29,000	29,000	-	-	-
Term loan (b)	6,875	39,676	46,551	-	-	-
Equipment loans (e)	1,800	2,777	4,577	61	-	61
Finance leases (f)	1,925	5,552	7,477	727	882	1,609
Demand operating loan (a)	-	-	-	-	18,302	18,302
Senior debt (b)	-	-	-	5,000	31,688	36,688
Subordinated debt (a, b)	-	-	-	-	5,500	5,500
<b>Total borrowings</b>	<b>10,600</b>	<b>77,005</b>	<b>87,605</b>	<b>5,788</b>	<b>56,372</b>	<b>62,160</b>

#### Secured Credit Facilities

On May 11, 2018, the Company refinanced its demand operating loan, senior debt and subordinated debt with a secured credit facility involving a syndicate of financial institutions lead by HSBC Bank Canada ("HSBC"). On July 12, 2018, the Company amended its Credit Facility by adding \$10.0 million to its term loan and \$5.0 million to its revolving loan. The proceeds of the increase was used to retire assumed debt of the environmental services company acquired on July 12, 2018. The total secured credit facilities after the May 11, 2018 refinancing and the July 12, 2018 amendment were \$85.0 million and were comprised of three committed facilities: a \$30.0 million syndicated facility ("revolving loan"), a \$50.0 million term loan facility ("term loan"), and a \$5.0 million operating facility ("operating loan"). This agreement includes an additional \$20.0 million Accordion Facility. The syndicate credit facilities are for a three year committed term maturing May 10, 2021 and are secured by a General Security Agreement over all assets of the Company.

#### a) Revolving loan

The demand 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 and 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, a portion of the subordinated debt and acquired debt (Note 6) were replaced with a term loan of \$50.0 million. The term loan 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 and

# Vertex Resource Group Ltd.

## Notes to the consolidated financial statements

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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 \$1,563, followed by eight quarterly principal payments of \$1,875 with a final payment of \$28.8 million due on maturity of May 10, 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 and at year end the excess cash flow calculation did not result in a significant payment.

### c) Operating loan

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 operating facility they will bear interest at rates ranging from HSBC's CAD prime rate or USD base rate plus 0.75%-2.00%. There was no amount drawn on this facility at December 31, 2018.

### d) 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 repaid on May 11, 2018 with the refinancing totaling \$3.6 million (\$2.4 million non-cash) have been included in financing costs during the year ended December 31, 2018.

	December 31, 2018	December 31, 2017
Term loan - face value	46,875	-
Transaction costs	(324)	-
Senior debt - face value	-	39,000
Transaction costs	-	(2,312)
<b>Carrying amount</b>	<b>46,551</b>	<b>36,688</b>

### e) 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.
- On March 22, 2019, the step down of the ratio of consolidated senior indebtedness to trailing EBITDA for fiscal 2019, was deferred by the lenders. The ratio will remain at 3.75 to 1.00 for all quarters ending in fiscal 2019.

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

# Vertex Resource Group Ltd.

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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 December 31, 2018 the Company was in compliance with the terms and covenants of its lending agreements which are as follows:

	Target	2018	2017
<i>Credit facilities</i>			
Funded debt to EBITDA	< 3.75 : 1	<b>3.37</b>	3.18
Fixed charge coverage ratio	> 1.20 : 1	<b>1.98</b>	2.47

### f) Equipment loans

The equipment loans bear interest at rates ranging from 3.6% to 6.8% and have maturity dates ranging from June 21, 2019 to December 25, 2023. Equipment loans are secured by rolling stock with a net book value of \$6.9 million (2017 - \$0.1 million) (Note 10).

Principal payments for equipment loans (e) and the term loan (b) within the next five years are as follows:

	Equipment loans	Term loan	Total
2019	1,800	6,875	8,675
2020	1,588	7,500	9,088
2021	1,019	32,500	33,519
2022	74	-	74
2023	96	-	96
	<b>4,577</b>	<b>46,875</b>	<b>51,452</b>

### g) Finance lease liabilities

	2018	2017
Not later than one year	<b>2,161</b>	819
Later than one year and not later than five years	<b>6,023</b>	943
Later than five years	<b>22</b>	-
Total minimum lease payments	<b>8,206</b>	1,762
Less: amounts representing interest at rates ranging from 2.7% to 5.9%	<b>729</b>	153
Present value of minimum lease payments	<b>7,477</b>	1,609
Less: current portion	<b>1,925</b>	727
	<b>5,552</b>	882

Finance lease obligations are secured by rolling stock with a net book value of \$9.4 million (2017 - \$2.1 million) (Note 10).

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## Notes to the consolidated financial statements

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### 15. Provisions

	Onerous lease (a)	Contingent share consideration (b)	Sellers' notes (c)	Total
As at December 31, 2016	2,690	-	7,933	10,623
Additions (Note 6d)	-	1,175	-	1,175
Interest accretion during the period	133	-	567	700
Settlement in exchange for class A common shares	-	-	(6,727)	(6,727)
Payments	(1,190)	-	-	(1,190)
As at December 31, 2017	1,633	1,175	1,773	4,581
Settlement in exchange for class A common shares (Note 17)	-	-	(1,773)	(1,773)
Additions (Note 6a)	-	-	5,280	5,280
Interest accretion during the period	59	-	132	191
Settlement of onerous lease	(312)	-	-	(312)
Payments	(874)	-	(1,675)	(2,549)
<b>As at December 31, 2018</b>	<b>506</b>	<b>1,175</b>	<b>3,737</b>	<b>5,418</b>

Other liabilities are presented on the consolidated balance sheet as follows:

	2018	2017
Current portion of provisions	3,058	2,899
Non-current portion of provisions	2,360	1,682
	<b>5,418</b>	<b>4,581</b>

#### a) Onerous lease

During the year ended December 31, 2016, the Company restructured its operations and in the course of restructuring ceased to operate at two geographic locations. The Company negotiated to terminate the operating leases but was unable to come to an agreement. The contractual cash payments over the next two years as at December 31, 2018, totaling \$0.5 million, are as follows:

	Total
2019	466
2020	40
	<b>506</b>

#### b) Contingent share consideration

The arrangement to acquire one of the environmental services companies (Note 6d) contains a contingent deferred payment amount that could result in the issuance of additional shares if the trading price of the Company does not reach or exceed \$1.00 per share prior to December 31, 2019. Of the \$2.4 million share consideration, \$1.2 million has been recorded as an increase in share capital and \$1.2 million has been recorded as a long term provision to reflect the difference between the deemed price of \$1.00 per share that was agreed upon and an estimate of the fair value of the Company's shares at December 31, 2018. The contingent share consideration is remeasured each period and will be adjusted through the consolidated statement of net income (loss) and comprehensive income (loss).

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## Notes to the consolidated financial statements

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### c) Sellers' notes

On January 10, 2018, a seller's note with an aggregate face value of \$1.8 million (2017 - \$6.7 million) was settled for 1,924,320 (2017 - 1,922,070 - prior to share exchange (Note 17a)) Class A common shares of the Company and has been presented as a non-cash transaction for the purposes of the consolidated statement of cash flows.

In order to determine the fair value of the consideration paid in the acquisitions in Note 6a, the sellers' notes totaling \$5.6 million for all acquisitions, being financed over periods ranging from twelve to twenty-five months, were 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%.

- ii) The seller's note from the environmental services acquisition on May 31, 2018 with a fair value of \$2.4 million (Note 6a) using a market rate of interest of 5.7%, is unsecured, and repayable in monthly instalments of \$0.1 million for twenty-five months.
- iii) The seller's note from the hydrovac services acquisition of \$1.1 million (Note 6a) using a market rate of interest of 5.7%, is unsecured, and repayable in monthly instalments of \$0.1 million for twelve months.
- iv) The seller's note from the environmental services acquisition on July 12, 2018 of \$1.8 million (Note 6a) using a market rate of interest of 5.7%, is unsecured, and repayable in monthly instalments of \$0.1 million for twenty-four months.

## 16. Income taxes

A reconciliation of the statutory tax rates and income taxes payable at these rates to the effective income tax rates and provision for income taxes is as follows:

	2018	2017
Income (loss) before income taxes	1,214	(3,685)
Combined federal and provincial income taxes statutory rate	27.0%	27.0%
Expected income tax expense	328	(994)
Effect on income taxes of:		
Non-deductible/taxable items	(1,896)	216
Change in valuation allowance in respect of deferred tax assets	429	37
Prior year adjustments	62	4
	(1,405)	257
Income tax recovery	(1,077)	(737)

Income taxes were comprised of the following:

	2018	2017
Current income tax	69	79
Deferred income recovery	(1,146)	(816)
Income tax recovery	(1,077)	(737)

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The movement in the components of deferred income taxes is as follows:

	2017	Acquired in business combination	Recognized in profit or loss	2018
<b>Deferred tax assets (liabilities) in relation to:</b>				
Losses carryforward	7,960	1,200	(2,943)	<b>6,217</b>
Deferred financing charges	-	-	422	<b>422</b>
Investment tax credits	181	-	(33)	<b>148</b>
Investments	43	-	(43)	-
Property, plant and equipment	(6,080)	(5,210)	3,481	<b>(7,809)</b>
Intangibles assets	(611)	(155)	262	<b>(504)</b>
	1,493	(4,165)	1,146	<b>(1,526)</b>

	2016	Acquired in business combination	Recognized in profit or loss	2017
<b>Deferred tax assets (liabilities) in relation to:</b>				
Losses carryforward	8,601	159	(800)	7,960
Investment tax credits	247	-	(66)	181
Investments	50	-	(7)	43
Property, plant and equipment	(6,807)	(538)	1,265	(6,080)
Intangibles assets	(292)	(743)	424	(611)
	1,799	(1,122)	816	1,493

Accumulated loss carryforward balances are \$26.8 million (2017 - \$30.4 million) with December 31, 2031 being the earliest expiry date of loss carryforward balances.

Deferred income tax balances are classified as follows:

	2018	2017
Deferred tax assets	<b>6,210</b>	6,506
Deferred tax liabilities	<b>(7,736)</b>	(5,013)
	<b>(1,526)</b>	1,493

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### 17. Share capital

#### a) Common shares

Authorized, unlimited number

Class A common voting shares

Class B common non-voting shares

	Notes	Class A #	Amount \$
As at December 31, 2016		16,898,824	57,912
Shares issued in settlement of advances from shareholders		746,938	2,151
Shares issued pursuant to business combinations prior to share exchange		3,004,124	11,064
Shares issued in settlement of seller's note		1,922,070	6,727
Sub-total		22,571,956	77,854
Share exchange on completion of capital restructuring		63,201,503	-
Sub-total		85,773,459	77,854
Shares issued in exercise of stock options		30,345	30
Shares issued pursuant to capital restructuring		735,000	735
Shares issued pursuant to business combinations subsequent to share exchange		2,350,000	1,175
As at December 31, 2017		88,888,804	79,794
Shares issued in settlement of seller's note	15	1,924,320	1,773
Shares issued pursuant to business combinations	6	2,600,000	1,664
<b>As at December 31, 2018</b>		<b>93,413,124</b>	<b>83,231</b>

#### b) Escrow shares

As at December 31, 2018, the Company has the following escrowed common shares:

	2018	2019
Directors and officers	22,678,100	-
Vier shareholders - Note 6e	96,250	-
Acquisition	5,091,441	1,465,721
	<b>27,865,791</b>	<b>1,465,721</b>

Included in the escrowed share balances are 2,160,009 (2017 - 3,060,003) related to the 2017 acquisition of the chemical service company, Note 6c, that are contingent on meeting annual and cumulative EBITDA targets. The chemical service company did not meet its EBITDA target for the year ended December 31, 2018. During the year, the Company released 899,994 shares from escrow as the chemical service company results exceeded the target EBITDA for the previous year ended December 31, 2017.

### 18. Share-based compensation

#### Stock Option Plan

The Company grants stock options to directors, officers, employees and consultants of the Company 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.

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In estimating expected stock price volatility at the time of a particular stock option grant, the Company relies on observations of historical volatility trends. In determining the expected term of the option grants, the Company has observed the actual terms of prior grants with similar characteristics and the actual exercise schedule of the grant.

Other assumptions required for estimating fair value with the Black-Scholes model are the expected risk-free interest rate and expected dividend yield of the company's Common Shares. The risk-free interest rates used were the Canadian Treasury zero-coupon rates for bonds matching the expected term of the option on the date of grant. The expected dividend yield of the Company's Common Shares over the expected term of the option was determined based on the Company's dividend policy on the date of grant. The expected forfeiture rate was determined based on the Company's prior historical forfeiture rates on the date of grant.

The total number of stock options available to be granted under the Stock Option Plan cannot exceed 9,341,312. Each stock option will entitle the option-holder to acquire one Common Share of the Company. Under the Stock Option Plan, the exercise price of a stock option granted shall be as determined by the Board of Directors when the stock option is granted subject to any limitations imposed by any relevant stock exchange or regulatory authority and shall be an amount at least equal to 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. These options vest in one to three years and expire in five years.

	December 31, 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	750,000	1.00	4,350,000	1.00
Exercised	-	1.00	(30,345)	1.00
Expired	(78,155)	-	-	-
Forfeited	(225,000)	1.00	-	1.00
Balance - end of period	4,875,000	1.00	4,428,155	1.00
Exercisable - end of period	1,375,000	1.00	78,155	1.00

The following table summarizes information about share options outstanding as at December 31, 2018:

Options outstanding				Options exercisable	
Exercise Price(\$)	Outstanding options	Weighted average exercise price (\$)	Weighted average remaining term (years)	Outstanding options	Weighted average exercise price(\$)
1.00	4,125,000	1.00	3.75	1,375,000	1.00
1.00	750,000	1.00	4.75	-	1.00
	4,875,000	1.00	3.90	1,375,000	1.00

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The fair value of options granted to employees and consultants was estimated at the date of grant using the Black-Scholes Option Pricing Model, using the following weighted average assumptions:

<b>For the years ended</b>	<b>2018</b>	<b>2017</b>
Volatility factor of expected market price (%)	<b>55.6</b>	55.8
Weighted average risk - free interest rate (%)	<b>2.0</b>	1.8
Weighted average expected life in years	<b>5.0</b>	4.8
Weighted average expected annual dividends per share (%)	-	-
Weighted average fair value per option(\$)	<b>0.10</b>	0.14
Weighted average forfeiture rate (%)	<b>10.0</b>	3.8

### Warrants

On August 31, 2015, the grant date, the Company issued 2,197,206 warrants (the "Warrant Awards") to two directors of the Company. The Warrant Awards vested immediately on the date of grant. Each warrant entitles the holder to purchase a Class A common share at an exercise price of \$1.20 per Class A common share. The exercise price of each warrant of \$1.20 was equal to the fair value of a Class A common share on August 31, 2015. The Warrant Awards expire in five years, or August 31, 2020 and are subject to escrow provisions to be released over the next two years.

The following warrants were issued and outstanding:

Date issued	Number issued	Expiry date	Exercise price (per warrant)	Fair value at grant date (per warrant)	Number outstanding as at December 31, 2018	Number outstanding as at December 31, 2017
August 31, 2015	2,197,206	August 31, 2020	\$ 1.20	\$ 0.33	2,197,206	2,197,206

The weighted average exercise price of the warrants outstanding as at December 31, 2018 was \$1.20 (2017 - \$1.20).

Total compensation cost recognized for share-based compensation awards for the year ended December 31, 2018, is \$194 (2017 - \$5) and is credited to contributed surplus on the consolidated statements of financial position.

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### 19. Commitments

Future minimum annual operating lease payments for office equipment and premises, excluding any future payments related to terminated leases, are as follows:

2019	5,435
2020	5,128
2021	4,731
2022	4,421
2023	3,305
Thereafter	3,772
	<b>26,792</b>

### 20. Revenue

Major categories of revenue recognized during the year are as follows:

	2018	2017
Sales of goods	8,519	6,998
Rendering of services	125,420	74,863
Industrial contracting	16,446	36,558
	<b>150,385</b>	118,419

Revenue recognized in the current year related to past performance obligations is nil (2017 – nil).

### 21. Expenses by nature

	2018	2017
Personnel	59,701	49,913
Subcontractors	33,347	23,315
Materials	20,199	19,047
Equipment costs	6,541	2,911
Property and maintenance	7,045	5,432
Other general and administrative expenses	2,943	2,269
Share-based compensation	194	5
Amortization	17,882	13,641
Total expenses	<b>147,852</b>	116,533

	2018	2017
Direct costs	109,892	86,116
General and administrative expenses	19,884	16,771
Share-based compensation	194	5
Amortization	17,882	13,641
Total expenses	<b>147,852</b>	116,533

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### 22. Finance costs

	2018	2017
Interest on long-term debt	4,583	4,076
Financing and bank charges	4,163	1,642
Interest on finance leases	244	75
Interest on sellers' notes	132	567
Interest on onerous lease	59	133
	<b>9,181</b>	<b>6,493</b>

### 23. Net income (loss) per share

	2018	2017
Numerator:		
Net income (loss) and comprehensive income (loss) for the year	2,291	(2,948)
Denominator:		
Weighted average shares outstanding - basic and diluted	89,837,995	76,501,608
Income (loss) per share - basic and diluted	0.03	(0.04)

In calculating the loss per share for the year ended December 31, 2018, the Company excluded 2,197,206 warrants (2017 – 2,197,206), 4,875,000 options (2017 – 4,428,155), and 2,160,009 contingent shares (2017 – 3,060,003) as their impact was anti-dilutive.

### 24. Related party transactions

All related party transactions are 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	2018	2017
<i>Transactions:</i>			
General and administrative expenses - rent	(i)	900	900
Property and equipment additions	(i)	1,186	709
Proceeds from sale of property and equipment	(i)	-	75

(i) Related by common director, officer

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2018, remuneration of \$1,921 (2017 - \$1,328) included \$1,805 of salaries and short-term benefits and \$116 of share-based compensation (2017 - \$1,323 and \$5, respectively) which were paid to key management. Directors and key management own 61.9% of the company.

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### 25. Supplemental cash flow information

	2018	2017
<i>Changes in non-cash working capital:</i>		
Trade and other receivables	1,202	(9,579)
Contract asset	921	(173)
Inventories	12	525
Prepaid expenses and deposits	(1,048)	(64)
Accounts payable and accrued liabilities	(5,300)	(2,125)
Contract liability	499	389
Income taxes payable	(22)	(256)
	<b>(3,736)</b>	<b>(11,283)</b>
<i>Net cash paid during the period for:</i>		
Interest	5,709	3,017
Income taxes	91	335

### 26. Financial assets and liabilities

#### Fair value of financial instruments

The fair value of financial instruments is the amount that would be agreed to in arm's length transaction between knowledgeable, willing parties who are under no obligation to act. Fair value can be determined by reference to prices in active markets to which the Company has access. In the absence of active markets, the Company determines fair value based on market or by reference to other similar products.

The carrying values of cash and cash equivalents, accounts receivables, accounts payables and accrued liabilities, and sellers' notes approximate their estimated fair value due to their short terms to maturity.

The fair value of the Company's operating loan and senior debt bear interest at floating interest rates and carrying value approximates fair value. The carrying value of the Company's provisions have been discounted to reduce the provision to fair value.

Under IFRS 9, Financial Instruments, the Company is required to review impairment of its trade and other receivables at each reporting period and to review its loss allowance for expected future credit losses. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. Any provisions recorded by the Company are reviewed regularly to determine if any of the balances provided for should be written off. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company's customers.

The Company completes a detailed review of its historical credit losses as part of its impairment assessment. The Company has had minimal historical impairment losses on its trade and other receivables, due in part to its credit management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize a loss allowance on all outstanding trade and other receivables.

At December 31, 2018, 14.1% (2017 – 6.7%) of the Company's trade receivables were more than 90 days old. The Company believes the unimpaired amounts greater than 90 days old are still collectible based on historic payment behavior and an analysis of the underlying customers' ability to pay.

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### Financial risk management

The significant financial risks to which the Company is exposed are credit risk, interest rate risk, currency risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. The Company had no derivatives outstanding at December 31, 2018 and 2017.

#### *a) Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its accounts receivable. The Company does not obtain collateral or other security to support the accounts receivable subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

The Company's revenues are from a diverse customer base that includes the energy, real estate, utility and mining industries in Western Canada. The Company believes that there is no unusual exposure associated with the collection of accounts receivables outside of the normal risk associated with contract audits and normal trade terms common in the industry. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. For the year ended December 31, 2018 the company had no customers that accounted for greater than 10% of the consolidated sales (2017 – two customers for 27.2%). The aging analysis of accounts receivables is as follows:

	2018	2017
0 to 30 days	18,667	15,058
31 to 60 days	11,730	9,531
61 to 90 days	4,246	6,756
Over 90 days	5,698	2,255
Holdbacks	62	77
Trade accounts receivable	40,403	33,677
Allowance for expected credit losses	(458)	(62)
Trade receivables, net of allowance	39,945	33,615
Other receivables	358	1,285
	40,303	34,900

The movement in the Company's allowance for expected credit losses account is as follows:

	2018	2017
Balance, beginning of the year	(62)	(198)
Increase pursuant to business combinations	(604)	(35)
Receivables written off during the year	129	280
Recovery of previously written of balances	331	37
Additional allowance for expected credit losses	(252)	(146)
Balance, end of the year	(458)	(62)

#### *b) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The operating loan, revolving loan and term loan (Note 14) bear interest at variable rates based on the bank's prime lending rate and/or the Bankers' Acceptance rate

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plus 1.00 to 3.00%. Changes in the bank's prime lending rate and/or the Bankers' Acceptance rate plus applicable margins can cause fluctuations in interest payments and cash flows. The Company does not use derivative financial instruments to alter the effects of this risk. As at December 31, 2018, with other variables unchanged, an increase or decrease of 1% in interest rates would impact income before income taxes by approximately \$0.8 million (December 31, 2017 - \$0.6 million).

### c) *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company enters into foreign currency purchases and sales transactions and has assets and liabilities that are dominated in foreign currencies and thus is exposed to financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

### d) *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's ability to meet obligations depends on the receipt of funds from its operating subsidiaries and other related sources, whether in the form of revenue or advances. At December 31, 2018, significant liabilities of the Company include the operating loan, trade accounts payable and accrued liabilities, other liabilities, revolving loan, equipment loans, term loan, and obligations under capital leases. Contractual maturities for financial liabilities as at December 31, 2018 are as follows:

	Due within one year	Due between one and five years	Total
Accounts payable and accrued liabilities	17,188	-	<b>17,188</b>
Revolving loan	-	29,000	<b>29,000</b>
Term loan	6,875	39,676	<b>46,551</b>
Equipment loans	1,800	2,777	<b>4,577</b>
Finance leases	1,925	5,552	<b>7,477</b>
Provisions	3,058	2,360	<b>5,418</b>
Long-term financial liabilities	13,658	79,365	<b>93,023</b>

## 27. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on the Company's debt and credit facilities and preserve financial flexibility in order to benefit from potential opportunities that may arise.

The capital structure of the Company consists of net debt and Shareholders' equity. Net debt is made up of operating loan, revolving loan, and term loan less cash. The Company continues to manage towards a more balance split between the level of net debt and shareholders' equity in order to facility growth in capital markets.

The Company manages the capital structure and adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue or re-acquire shares, acquire or dispose of assets, adjust the amount of cash and bank indebtedness through the refinancing of existing bank debt facilities to change amounts or terms and adjust long-term debt balances.

The Company typically monitors its capital using measures that are consistent with the borrowing covenants under its operating loan, revolving loan and term loan (Note 14).

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### 28. 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 3. There are no significant inter-segment transactions. 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 year ended December 31, 2018								
	Environmental		Industrial		Corporate		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	125,023	72,693	24,965	45,625	397	101	150,385	118,419
Net Income (loss) before tax	5,523	2,902	3,535	2,900	(7,844)	(9,487)	1,214	(3,685)
Amortization	16,463	11,216	1,419	2,425	-	-	17,882	13,641
Gross capital expenditures	11,314	5,243	535	427	-	-	11,849	5,670

  

	Environmental	Industrial	Corporate	Total
<b>As as December 31, 2018</b>				
Total assets	159,726	16,968	8,127	184,821
Goodwill and Intangible assets	35,935	-	-	35,935
Total liabilities	27,761	4,329	87,036	119,126
<b>As as December 31, 2017</b>				
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