

Condensed Consolidated Interim Financial Statements of

Vertex Resource Group Ltd.

September 30, 2022
(Unaudited)

Notice to Reader: As required by National Instrument 51-102, Part 4, subsection 4.3(3)(a), readers are advised that the Company's independent auditors have not performed a review of these condensed consolidated interim financial statements.

Vertex Resource Group Ltd.

September 30, 2022

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Vertex Resource Group Ltd.

Condensed consolidated interim statements of financial position

(in thousands of Canadian dollars)

(unaudited)

As at	Notes	September 30, 2022	December 31, 2021
Assets			
Current assets			
Cash		5,106	-
Accounts receivable		75,272	55,197
Contract assets		1,112	1,142
Inventories		4,351	4,237
Prepaid expenses and deposits		3,768	2,866
		89,609	63,442
Property and equipment	4	78,670	72,790
Right of use assets	5	36,317	21,789
Intangible assets	3	11,023	1,784
Goodwill	3	32,301	25,194
Deferred income taxes	3	6,343	1,571
		254,263	186,570
Liabilities			
Current liabilities			
Operating loan		-	400
Accounts payable and accrued liabilities		38,719	28,369
Contract liabilities		3,606	2,838
Current portion of loans and borrowings	6	15,255	18,433
Current portion of other liabilities	12	2,912	1,390
Current portion of lease liabilities	12	6,439	7,096
		66,931	58,526
Loans and borrowings	6	75,170	61,085
Lease liabilities	12	23,925	13,262
Convertible debenture	12	12,539	-
Deferred income taxes		4,131	2,470
Other liabilities	12	2,968	1,527
		185,664	136,870
Shareholders' Equity			
Common shares		94,473	81,071
Contributed surplus		3,771	3,621
Equity portion of convertible debenture	12	2,010	-
Deficit		(31,655)	(34,992)
		68,599	49,700
		254,263	186,570

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

Vertex Resource Group Ltd.

Condensed consolidated interim statements of net income and comprehensive income

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

		Three months ended		Nine months ended	
	Notes	September 30,		September 30,	
		2022	2021	2022	2021
Revenue		59,139	42,284	158,537	113,362
Direct costs ⁽¹⁾		43,205	30,202	118,923	82,043
Gross profit		15,934	12,082	39,614	31,319
General and administrative expenses		5,522	4,449	14,985	11,492
Depreciation and amortization		4,939	5,224	14,210	14,919
Finance costs	8	2,183	1,551	5,905	4,549
Share-based compensation	7	50	-	150	-
Income before income taxes		3,240	858	4,364	359
Income tax expense		763	209	1,027	87
Net income and comprehensive income for the period		2,477	649	3,337	272
Net income per share					
Basic and diluted	10	0.02	0.01	0.03	0.00

(1) Direct costs do not include depreciation.

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

Vertex Resource Group Ltd.

Condensed consolidated interim statements of changes in shareholders' equity

(in thousands of Canadian dollars)

(unaudited)

	Nine months ended	
	September 30,	
	2022	2021
Common Shares		
Balance, beginning of the period	81,071	81,071
Shares issued in business combination	3	-
Balance, end of the period	94,473	81,071
Contributed Surplus		
Balance, beginning of the period	3,621	3,621
Share-based compensation	7	-
Balance, end of the period	3,771	3,621
Equity portion of Convertible Debenture		
Balance, beginning of the period	-	-
Equity portion of convertible debenture	2,010	-
Balance, end of the period	2,010	-
Deficit		
Balance, beginning of the period	(34,992)	(36,650)
Net income and comprehensive income	3,337	272
Balance, end of the period	(31,655)	(36,378)
Total Shareholders' Equity	68,599	48,314

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

Vertex Resource Group Ltd.

Condensed consolidated interim statements of cash flows

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

(unaudited)

		Three months ended		Nine months ended	
	Notes	September 30,		September 30,	
		2022	2021	2022	2021
Operating activities					
Net income		2,477	649	3,337	272
Adjustments for:					
Depreciation and amortization		4,939	5,223	14,211	14,919
Finance costs	8	2,183	1,551	5,905	4,549
Gain on disposal of property and equipment		(376)	(243)	(815)	(617)
Income tax expense		757	230	1,027	85
Share-based compensation		50	-	150	-
		10,030	7,410	23,815	19,208
Changes in non-cash operating working capital items	12	(7,991)	(4,848)	(13,991)	(8,928)
Cash provided by operating activities		2,039	2,562	9,824	10,280
Investing activities					
Purchase of property and equipment	4	(2,156)	(1,838)	(8,058)	(5,327)
Proceeds from disposal of property and equipment		1,154	1,065	2,876	1,903
Acquisition, net of cash acquired	3	(1,247)	(130)	(1,247)	(4,528)
Cash used in investing activities		(2,249)	(903)	(6,429)	(7,952)
Financing activities					
Proceeds from revolving loan	12	9,000	4,600	7,500	18,100
Proceeds from convertible debenture	12	-	-	15,000	-
Proceeds from term loan	12	10,000	-	10,000	-
Proceeds from equipment loans	12	1,358	220	2,840	1,419
Repayments of lease liabilities	12	(4,471)	(2,180)	(9,951)	(5,946)
Repayment of term loan	12	(1,105)	(1,381)	(6,866)	(7,766)
Repayment of equipment loans	12	(6,673)	(706)	(8,639)	(2,139)
Repayment of working capital and co-lend term	12	(413)	(308)	(1,238)	(375)
Repayments of other liabilities	12	(375)	(450)	(1,125)	(1,250)
Repayment of operating loan		(223)	-	(400)	(253)
Interest paid		(1,560)	(997)	(4,442)	(3,322)
Deferred financing charges		(222)	-	(968)	-
Cash provided by (used in) financing activities		5,316	(1,202)	1,711	(1,532)
Increase in cash		5,106	457	5,106	796
Cash, beginning of period		-	339	-	-
Cash, end of period		5,106	796	5,106	796

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

Vertex Resource Group Ltd.

Notes to the condensed consolidated interim financial statements

September 30, 2022

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

(unaudited)

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 and maintains its head office in Sherwood Park, Alberta, Canada. The Company provides environmental consulting and support services to a diverse clientele across Canada and in select locations in the United States.

2. Basis of preparation

a) *Statement of compliance*

The Company prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (IAS 34).

The condensed consolidated interim financial statements were approved by the Board of Directors (the “Directors”) on November 9, 2022. These condensed consolidated interim financial statements should be read in conjunction with the Company’s most recent annual financial statements as the accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those disclosed therein.

b) *Significant accounting policies*

These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2021.

3. Business acquisitions

During the nine-month period ended September 30, 2022, the Company completed two business acquisitions. Details of the preliminary purchase prices and allocation to the assets and liabilities acquired are as follows:

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September 30, 2022

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	Provisional fair value as at		Total
	April 25, 2022	September 29, 2022	
	Cordy	Young	
Accounts receivable	3,893	3,755	7,648
Other current assets	115	467	582
Property and equipment	544	8,791	9,335
Right of use assets	11,861	3,570	15,431
Intangible assets	3,800	6,000	9,800
Deferred tax asset	5,902	-	5,902
	26,115	22,583	48,698
Current liabilities	(8,402)	(3,916)	(12,318)
Loans and borrowings	-	(7,648)	(7,648)
Lease liabilities	(11,861)	(3,570)	(15,431)
Deferred tax liability	-	(1,759)	(1,759)
Net assets	5,852	5,690	11,542
Fair value of consideration:			
Cash	-	1,247	1,247
Promissory note, included with other liabilities	-	4,000	4,000
Common shares	10,402	3,000	13,402
	10,402	8,247	18,649
Goodwill	4,550	2,557	7,107

a) Cordy Oilfield Services Ltd. ("Cordy")

On April 25, 2022, the Company completed a definitive amalgamation agreement that combined, in an all-share transaction with Cordy Oilfield Services Inc. ("Cordy") a provider of environmental and hydro-excavating services. Under the terms of the amalgamation agreement, shareholders of Cordy received 0.081818 common shares of Vertex for every one common share of Cordy. The total consideration of \$10.4 million was comprised solely of 18,913,253 common shares at a fair value of \$0.55 per share. Based on the preliminary allocation of fair values to the assets acquired and the liabilities assumed the Company identified goodwill of \$4.6 million as net assets acquired were less than consideration paid. The intangible assets acquired related to customer relationships and assembled workforce. The goodwill recognized is attributable to expected future cash flows and business synergies from the acquired business operations. The goodwill is not deductible for tax purposes. Cordy's results are presented in the environmental services segment.

b) Young EnergyServe Inc. ("Young")

On September 29, 2022, the Company completed a share purchase agreement to acquire 100% of the outstanding shares of Young EnergyServe Inc. ("Young"), a privately held company providing turnkey turnaround solutions, robotic tank cleaning services, and various other industrial services throughout Canada. The total consideration of \$8.2 million was comprised of cash of \$1.2 million, an unsecured promissory note of \$4.0 million bearing interest at 4% per annum, principal and interest payable monthly, maturing on September 15, 2025 and the issuance of 5,454,545 Class A common shares at a fair value

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of \$0.55 per share for \$3.0 million which has been recorded as an increase to share capital. Also on September 29, 2022, the Company entered into a 5-year facility lease to rent an office and yard from the vendor. The facility lease resulted in a right of use asset and corresponding lease liability of \$3.6 million. Based on the preliminary allocation of fair values to the assets acquired and liabilities assumed the Company identified goodwill of \$2.6 million as net assets acquired were less than consideration paid. The intangible assets acquired relate to customer relationships, non-compete agreements and assembled workforce. The goodwill recognized is attributable to expected future cash flows and business synergies from the acquired business operations. The goodwill is not deductible for tax purposes. Young's results will be presented in the environmental services segment.

Revenue and net income from the date of acquisitions to September 30, 2022 was \$11.3 million and \$0.2 million, respectively. The Company estimates it would have reported consolidated revenue of approximately \$184.1 million and a net income of approximately \$3.1 million for the nine-month period ended September 30, 2022 if the acquisitions had been completed on January 1, 2022.

The Company has not yet finalized its allocation of fair value to the net assets acquired as the Company does not yet have complete and final information from the acquirees. Specifically, the Company has not confirmed and verified the fair value assessments of property and equipment, intangible assets, deferred tax asset and accrued liabilities.

4. Property and equipment

	Land, buildings, and improvements	Machinery and equipment	Office furniture and equipment	Rolling stock	Total
Cost					
As at December 31, 2021	10,414	57,981	5,928	60,025	134,348
Additions	310	643	231	6,874	8,058
Additions from business acquisitions (Note 3)	12	8,334	81	908	9,335
Transfer from right of use assets (Note 5)	-	-	-	409	409
Disposals	(235)	(6,508)	-	(7,581)	(14,324)
As at September 30, 2022	10,501	60,450	6,240	60,635	137,826
Accumulated depreciation					
As at December 31, 2021	6,170	34,774	3,415	17,199	61,558
Depreciation	380	2,288	592	6,300	9,560
Transfer from right of use assets (Note 5)	-	-	-	206	206
Disposals	(128)	(5,835)	-	(6,205)	(12,168)
As at September 30, 2022	6,422	31,227	4,007	17,500	59,156
Carrying value					
As at December 31, 2021	4,244	23,207	2,513	42,826	72,790
As at September 30, 2022	4,079	29,223	2,233	43,135	78,670

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5. Right of use assets

The Company's significant lease arrangements include contracts for leasing office, shop and yard premises, and operating equipment.

	Real property	Operating equipment	Total
Cost			
As at December 31, 2021	21,280	13,968	35,248
Additions	630	3,445	4,075
Additions from business acquisitions (Note 3)	3,833	11,598	15,431
Transfer to property and equipment (Note 4)	-	(409)	(409)
Disposals	(1,046)	(657)	(1,703)
As at September 30, 2022	24,697	27,945	52,642
Accumulated depreciation			
As at December 31, 2021	10,409	3,050	13,459
Depreciation	2,436	1,654	4,090
Transfer to property and equipment (Note 4)	-	(206)	(206)
Disposals	(660)	(358)	(1,018)
As at September 30, 2022	12,185	4,140	16,325
Carrying value			
As at December 31, 2021	10,871	10,918	21,789
As at September 30, 2022	12,512	23,805	36,317

6. Loans and borrowings

	September 30, 2022			December 31, 2021		
	Current	Non-current	Total	Current	Non-current	Total
Secured						
Revolving loan	-	37,500	37,500	-	30,000	30,000
Syndicate term loan	5,216	30,334	35,550	8,424	24,330	32,754
Equipment loans	3,814	7,336	11,150	3,880	5,422	9,302
Co-lend term loan	4,792	-	4,792	5,729	-	5,729
Working capital loan	1,433	-	1,433	400	1,333	1,733
Total borrowings	15,255	75,170	90,425	18,433	61,085	79,518

During the quarter the Company received an advance under the syndicate term loan of \$10 million. \$1.2 million of the proceeds from the advance was used to fund the cash component of the Young acquisition (Note 3) and \$5.8 million was used to settle obligations of Young. At September 30, 2022, the Company was in compliance with the terms and covenants of its lending agreements.

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a) *Transaction costs*

The Company incurs transaction costs from time to time as it negotiates new borrowing arrangements. Transaction costs are capitalized and amortized on a straight-line basis over the term of the respective borrowing arrangement.

	September 30, 2022	December 31, 2021
Term loan - face value	35,964	32,824
Transaction costs	(414)	(70)
Carrying amount	35,550	32,754

b) *Principal payments*

Scheduled principal payments for the co-lend term loan, subordinate working capital loan, equipment loans, revolving loan and syndicate term loan, assuming they continue until maturity, within the next five years are as follows:

Due Within	Working capital and co-lend term loans	Equipment loans	Revolving loan	Term loan	Total
One year	2,683	4,183	-	5,216	12,082
Two years	1,250	3,238	-	5,216	9,704
Three years	1,250	1,872	37,500	25,118	65,740
Four years	1,042	1,134	-	-	2,176
Five years	-	723	-	-	723
	6,225	11,150	37,500	35,550	90,425

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

	September 30, 2022		December 31, 2021	
	Outstanding options	Weighted average exercise price (\$)	Outstanding options	Weighted average exercise price (\$)
Balance - beginning of period	3,000,000	0.63	3,760,000	1.00
Granted	-	-	2,500,000	0.55
Forfeited	(250,000)	0.73	(3,260,000)	1.00
Balance - end of period	2,750,000	0.62	3,000,000	0.63
Exercisable - end of period	400,000	1.00	500,000	1.00

8. Finance costs

	Three months ended		Nine months ended	
	September 30, 2022	2021	September 30, 2022	2021
Interest on loans	1,265	1,079	3,468	3,056
Interest accretion on lease and other liabilities	444	369	1,285	1,072
Interest on convertible debenture	300	-	679	-
Financing and bank charges	174	103	473	421
	2,183	1,551	5,905	4,549

9. Government assistance

For the three months ended September 30, 2022, neither direct costs (personnel) or general and administrative expenses (personnel) include any government assistance (three months ended September 30, 2021 - \$0.3 million and \$0.1 million respectively). For the nine months ended September 30, 2022, neither direct costs (personnel) or general and administrative expenses (personnel) include any government assistance (nine months ended September 30, 2021 - \$2.7 million and \$1.0 million respectively).

10. Net income per share

	Three months ended		Nine months ended	
	September 30, 2022	2021	September 30, 2022	2021
Numerator:				
Net income and comprehensive income for the period	2,477	649	3,337	272
Denominator:				
Weighted average shares outstanding - basic & diluted	110,284,945	91,253,115	102,308,486	91,253,115
Net income per share - basic and diluted	0.02	0.01	0.03	0.00

In calculating net income per share for the three and nine-month periods ended September 30, 2022, the Company excluded 2,750,000 options and the impact of the convertible debenture fully converted to

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common shares of 23,076,923 (three and nine-months periods ended September 30, 2021 – 3,440,000 options), as the impact was anti-dilutive.

Total shares outstanding at September 30, 2022 are 115,620,913.

11. Related party transactions

All related party transactions are in the normal course of business and are on terms that are similar to those that would be adopted if the parties were dealing at arm's length. Related party transactions include transactions with other private companies that are controlled by a director or officer.

At September 30, 2022, lease liabilities include \$4.2 million (September 30, 2021 - \$4.8 million) of liabilities relating to leases with a related party. Principal payments of unsecured lease liabilities and associated interest accretion for the three-month period ended September 30, 2022 were \$0.2 million (three months ended September 30, 2021 - \$0.2 million) and for the nine-months ended September 30, 2022 were \$0.7 million (nine-months ended September 30, 2021 - \$0.7 million).

12. Supplemental cash flow information

	Three months ended		Nine months ended	
	September 30, 2022	2021	September 30, 2022	2021
<i>Changes in non-cash working capital:</i>				
Accounts receivable	(12,294)	(10,953)	(12,427)	(8,402)
Contract assets	893	324	30	(1,437)
Inventories	175	(752)	251	(595)
Prepaid expenses and deposits	(547)	(939)	(685)	(419)
Accounts payable and accrued liabilities	3,820	6,760	(1,928)	1,108
Contract liabilities	(38)	712	768	817
Changes in non-cash working capital	(7,991)	(4,848)	(13,991)	(8,928)

The table below reconciles the movement of financial liabilities to cash flows arising from financing activities:

	Other liabilities	Convertible debenture	Lease liabilities	Loans and borrowings
As at December 31, 2021	2,917	-	20,358	79,518
<i>Changes from financing cash flows:</i>				
Additions/Proceeds	4,000	15,000	4,074	21,840
Interest accretion during the year	88	-	1,196	-
Repayments	(1,125)	-	(9,951)	(18,242)
Debt issue costs	-	(501)	-	(467)
Amortization of deferred debt costs	-	50	-	128
Disposals	-	-	(744)	-
Total changes from financing cash flows:	2,963	14,549	5,425	3,259
Additions from business acquisition (Note 3)	-	-	15,431	7,648
Less amounts classified as equity, net of transaction costs of \$48	-	(2,010)	-	-
As at September 30, 2022	5,880	12,539	30,364	90,425

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13. Segmented information

The Company has two reportable segments described as Engineering and Environmental Consulting (“Environmental Consulting”) and Environmental Services. The accounting policies and practices for each of the segments are the same as those described in Note 2. 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 Consulting consists of a variety of services related to assisting its clients to meet internal environmental standards, environmental legislation and related environmental compliance requirements. These services span multiple industries including energy, mining, utilities, forestry, private development, public infrastructure, telecommunications and government. More specifically, these services include advisory services related to new capital expenditure and asset development, environmental consulting and monitoring on existing assets, emission management solutions, sub-surface engineering, facility engineering, asset retirement and land reclamation services.
- b) Environmental Services consists of a variety of services related to transportation; removal, storage and disposal of materials; and maintenance of facilities, in an environmentally safe manner. Services include fluid management and logistics, waste and recycling, industrial cleaning and maintenance, hydro-excavating, and site services for various industries including energy, telecommunications, public sector, utilities, mining and agriculture.
- c) The “Corporate” segment is comprised of corporate costs, elimination entries and other minor operations.

	For the three month period ended Sept 30, 2022			
	Environmental Consulting	Environmental Services	Corporate	Total
Revenue	18,570	40,737	(168)	59,139
Operating profit (loss) before depreciation and amortization	2,942	8,488	(1,018)	10,412
Depreciation and amortization	410	4,370	159	4,939
Operating profit (loss)	2,532	4,118	(1,177)	5,473
Other information				
Expenditures for additions to :				
Property and equipment	-	2,060	96	2,156

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	For the three month period ended Sept 30, 2021			
	Environmental Consulting	Environmental Services	Corporate	Total
Revenue	12,762	28,829	693	42,284
Operating profit (loss) before depreciation and amortization	2,496	6,416	(1,279)	7,633
Depreciation and amortization	408	4,507	309	5,224
Operating profit (loss)	2,088	1,909	(1,588)	2,409
Other information				
Expenditures for additions to :				
Property and equipment	173	1,530	135	1,838

	For the nine month period ended Sept 30, 2022			
	Environmental Consulting	Environmental Services	Corporate	Total
Revenue	47,624	110,211	702	158,537
Operating profit (loss) before depreciation and amortization	7,803	21,046	(4,220)	24,629
Depreciation and amortization	1,301	12,513	396	14,210
Operating profit (loss)	6,502	8,533	(4,616)	10,419
Other information				
Expenditures for additions to :				
Property and equipment	155	7,653	250	8,058

	For the nine month period ended Sept 30, 2021			
	Environmental Consulting	Environmental Services	Corporate	Total
Revenue	33,045	77,681	2,636	113,362
Operating profit (loss) before depreciation and amortization	6,121	17,101	(3,395)	19,827
Depreciation and amortization	1,249	12,701	969	14,919
Operating profit (loss)	4,872	4,400	(4,364)	4,908
Other information				
Expenditures for additions to :				
Property and equipment	483	4,639	205	5,327

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As as September 30, 2022	Environmental Consulting	Environmental Services	Corporate	Total
Goodwill and intangible assets	20,760	22,564	-	43,324
Total assets	75,569	169,229	9,465	254,263
Total liabilities	25,792	59,995	99,877	185,664

As as December 31, 2021				
Goodwill and intangible assets	20,760	5,792	426	26,978
Total assets	70,798	107,103	8,669	186,570
Total liabilities	26,146	36,227	74,497	136,870