

Condensed Consolidated Interim Financial Statements of

Vertex Resource Group Ltd.

September 30, 2023
(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, 2023

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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, 2023	December 31, 2022
Assets			
Current assets			
Cash		2,194	2,591
Accounts receivable	3	58,488	71,366
Contract assets		-	664
Inventories		3,988	4,399
Prepaid expenses and deposits		4,245	3,053
		68,915	82,073
Property and equipment		83,919	82,463
Right of use assets		49,094	40,983
Intangible assets		7,665	8,486
Goodwill		31,674	31,674
Deferred income taxes		6,865	8,745
		248,132	254,424
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4	35,891	40,386
Contract liabilities		1,510	2,935
Current portion of loans and borrowings	5	15,160	18,508
Current portion of lease liabilities	10	12,700	9,711
Current portion of other liabilities	10	1,826	2,636
		67,087	74,176
Loans and borrowings	5	62,155	70,725
Lease liabilities	10	32,778	24,896
Other liabilities	10	1,333	2,557
Convertible debenture	10	12,942	12,566
Deferred income taxes		3,176	4,768
		179,471	189,688
Shareholders' Equity			
Common shares	6	92,409	92,415
Contributed surplus		5,412	5,259
Accumulated other comprehensive income		8	12
Deficit		(29,168)	(32,950)
		68,661	64,736
		248,132	254,424

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)

(unaudited)

	Notes	Three months ended		Nine months ended	
		September 30, 2023	2022	September 30, 2023	2022
			Restated (Note 12)		Restated (Note 12)
Gross revenue		68,323	67,845	190,127	185,495
Less flow through subcontractor costs		1,518	8,706	4,211	26,958
Net revenue		66,805	59,139	185,916	158,537
Direct costs ⁽¹⁾		49,484	43,205	136,588	118,923
Profit margin		17,321	15,934	49,328	39,614
General and administrative expenses		6,732	5,522	19,168	14,985
Depreciation and amortization		5,851	4,939	17,158	14,210
Finance costs	7	3,162	2,183	8,758	5,905
Share-based compensation		50	50	150	150
Income before income taxes		1,526	3,240	4,094	4,364
Income tax expense		359	763	312	1,027
Net income for the period		1,167	2,477	3,782	3,337
Other comprehensive income					
Foreign currency translation adjustment, net of tax		(4)	13	(4)	19
Total comprehensive income for the period, net of tax		1,163	2,490	3,778	3,356
Net income per share					
Basic and diluted	8	0.01	0.02	0.03	0.03

(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)

	<i>Notes</i>	Common shares	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance, as at December 31, 2021		81,071	3,621	(4)	(34,992)	49,696
Net income for the period		-	-	-	3,337	3,337
Shares issued in business combination		11,344	-	-	-	11,344
Share-based compensation		-	150	-	-	150
Equity portion of convertible debenture		-	2,010	-	-	2,010
Foreign currency translation adjustment, net of tax		-	-	19	-	19
Balance, as at September 30, 2022		92,415	5,781	15	(31,655)	66,556
Balance, as at December 31, 2022		92,415	5,259	12	(32,950)	64,736
Net income for the period		-	-	-	3,782	3,782
Share-based compensation		-	150	-	-	150
Repurchase of shares	6	(6)	3	-	-	(3)
Foreign currency translation adjustment, net of tax		-	-	(4)	-	(4)
Balance, as at September 30, 2023		92,409	5,412	8	(29,168)	68,661

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,	
		2023	2022	2023	2022
Operating activities					
Net income		1,167	2,477	3,782	3,337
Adjustments for:					
Depreciation and amortization		5,851	4,939	17,158	14,211
Finance costs	7	3,162	2,183	8,758	5,905
Gain on disposal of property and equipment		(181)	(376)	(552)	(815)
Deferred tax expense		342	757	288	1,027
Share-based compensation		50	50	150	150
		10,391	10,030	29,584	23,815
Changes in non-cash operating working capital items	10	672	(7,977)	9,188	(13,987)
Cash provided by operating activities		11,063	2,053	38,772	9,828
Investing activities					
Purchase of property and equipment		(3,579)	(2,156)	(9,620)	(8,058)
Proceeds from disposal of property and equipment		2,230	1,154	5,714	2,876
Additions to Intangible assets		(265)	-	(265)	-
Acquisition, net of cash acquired		-	(1,247)	-	(1,247)
Changes in non-cash investing working capital items	10	(360)	-	(2,314)	-
Cash used in investing activities		(1,974)	(2,249)	(6,485)	(6,429)
Financing activities					
Proceeds from loans and borrowings	10	2,143	18,858	5,620	20,340
Repayments of loans and borrowings	10	(2,621)	(6,691)	(17,416)	(16,743)
Repayments of lease liabilities	10	(4,084)	(4,471)	(12,371)	(9,951)
Interest paid		(2,028)	(1,566)	(6,270)	(4,442)
Repayments of other liabilities	10	(687)	(375)	(2,172)	(1,125)
Proceeds from convertible debenture		-	-	-	15,000
Repayment of operating loan		-	(223)	-	(400)
Deferred financing charges		-	(222)	-	(968)
Repurchase of Common Shares	6	(3)	-	(3)	-
Changes in non-cash financing working capital items	10	(3)	(21)	(68)	(23)
Cash (used in) provided by financing activities		(7,283)	5,289	(32,680)	1,688
Effect of foreign currency translation on cash		(4)	13	(4)	19
Increase in cash		1,802	5,106	(397)	5,106
Cash, beginning of period		392	-	2,591	-
Cash, end of period		2,194	5,106	2,194	5,106

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, 2023

(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 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 10, 2023. 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, 2022.

3. Accounts receivable

	September 30, 2023	December 31, 2022
Trade accounts receivable	50,558	61,789
Accrued receivables	8,519	10,480
Other receivables	127	164
Less: allowance for expected credit losses	(716)	(1,067)
	58,488	71,366

4. Accounts payable and accrued liabilities

	September 30, 2023	December 31, 2022
Trade accounts payable	25,693	29,760
Employee related accounts payable	3,633	4,364
Accrued liabilities	6,565	6,262
	35,891	40,386

Vertex Resource Group Ltd.

Notes to the condensed consolidated interim financial statements

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5. Loans and borrowings

	September 30, 2023			December 31, 2022		
	Current	Non-current	Total	Current	Non-current	Total
Secured						
Revolving loan	-	34,500	34,500	-	37,500	37,500
Syndicate term loan	5,173	23,105	28,278	6,981	27,282	34,263
Equipment loans	6,034	3,933	9,967	6,639	5,018	11,657
Co-lend term loan	3,542	-	3,542	4,479	-	4,479
Working capital loan	411	617	1,028	409	925	1,334
Total borrowings	15,160	62,155	77,315	18,508	70,725	89,233

At September 30, 2023, the Company was in compliance with the terms and covenants of its lending agreements.

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, 2023	December 31, 2022
Term loan - face value	28,740	34,604
Transaction costs	(462)	(341)
Carrying amount	28,278	34,263

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	1,661	3,726	-	5,173	10,560
Two years	1,661	2,231	34,500	23,105	61,497
Three years	1,248	1,623	-	-	2,871
Four years	-	1,604	-	-	1,604
Five years	-	783	-	-	783
	4,570	9,967	34,500	28,278	77,315

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6. Share capital

Authorized, unlimited number

Class A common voting shares

Class B common non-voting shares

	Class A	Amount
	#	\$
As at December 31, 2022	115,620,890	92,415
Repurchase of shares	(7,500)	(6)
As at September 30, 2023	115,613,390	92,409

On August 25, 2023, the Company announced that the TSX Venture Exchange approved a normal course issuer bid ("NCIB") permitting the purchase for cancellation of up to 5.8 million Vertex common shares. In the period ended September 30, 2023, the Company repurchased 7,500 shares for a total amount of \$3. These shares had an average carrying value of \$0.80 for a total amount of \$6. Vertex has also repurchased 88,000 shares, after September 30, 2023, that are scheduled to be cancelled.

7. Finance costs

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Interest on loans and borrowings	1,725	1,265	5,272	3,468
Interest accretion on lease liabilities	1,010	418	2,094	1,196
Interest on convertible debenture	300	300	900	679
Financing and bank charges	88	174	354	473
Interest accretion on other liabilities	39	26	138	89
	3,162	2,183	8,758	5,905

8. Net income per share

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Numerator:				
Net income per share	1,167	2,477	3,782	3,337
Denominator:				
Weighted average shares outstanding - basic & diluted	115,620,482	110,284,945	115,620,753	102,308,486
Net income per share - basic and diluted	0.01	0.02	0.03	0.03

In calculating the income per share for the three and nine-month periods ended September 30, 2023, the Company excluded 2,125,000 options and the impact of the convertible debenture fully converted to common shares of 23,076,923 (three and nine-months period ended September 30, 2022 – 2,750,000 options, 23,076,923 convertible debenture), as the impact was anti-dilutive.

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9. 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, 2023, lease liabilities include \$3.6 million (September 30, 2022 - \$4.2 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, 2023 were \$0.2 million (three months ended September 30, 2022 - \$0.2 million) and for the nine-months ended September 30, 2023 were \$0.7 million (nine-months ended September 30, 2022 - \$0.7 million).

10. Supplemental cash flow information

	Three months ended		Nine months ended	
	September 30, 2023	2022	September 30, 2023	2022
<i>Changes in non-cash working capital:</i>				
Accounts receivable	(12,127)	(12,294)	12,878	(12,427)
Contract assets	490	893	664	30
Inventories	401	175	411	251
Prepaid expenses and deposits	(306)	(547)	(1,192)	(685)
Accounts payable and accrued liabilities	11,038	3,813	(4,530)	(1,947)
Contract liabilities	813	(38)	(1,425)	768
Changes in non-cash working capital	309	(7,998)	6,806	(14,010)
<i>Changes in non-cash working capital items from:</i>				
Operating activities	672	(7,977)	9,188	(13,987)
Investing activities	(360)	-	(2,314)	-
Financing activities	(3)	(21)	(68)	(23)

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

	Convertible debenture	Other liabilities	Lease liabilities	Loans and borrowings
As at December 31, 2022	12,566	5,193	34,607	89,233
<i>Changes from financing cash flows:</i>				
Proceeds	-	-	-	3,620
Repayments	-	(2,172)	(12,371)	(15,416)
Total changes from financing cash flows:	-	(2,172)	(12,371)	(11,796)
Additions/adjustments during year	376	-	21,148	(376)
Interest accretion during the year	-	138	2,094	-
Amortization of deferred debt costs	-	-	-	254
As at September 30, 2023	12,942	3,159	45,478	77,315

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11. 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 and other minor operations.

	For the three month period ended September 30, 2023			
	Environmental Consulting	Environmental Services	Corporate	Total
Gross revenue	20,017	49,329	(1,023)	68,323
Less flow through subcontractor costs	1,518	-	-	1,518
Net revenue	18,499	49,329	(1,023)	66,805
Operating profit (loss) before depreciation and amortization	2,747	9,846	(2,004)	10,589
Depreciation and amortization	956	4,859	36	5,851
Operating profit (loss)	1,791	4,987	(2,040)	4,738
Other information				
Expenditures for additions to :				
Property and equipment	1	2,173	26	2,200
Intangibles	265	-	-	265

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Notes to the condensed consolidated interim financial statements

September 30, 2023

(in thousands of Canadian dollars, except per share amounts)
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	For the three month period ended September 30, 2022			
				Restated (Note 12)
	Environmental Consulting	Environmental Services	Corporate	Total
Gross revenue	27,276	40,737	(168)	67,845
Less flow through subcontractor costs	8,706	-	-	8,706
Net 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

	For the nine month period ended September 30, 2023			
	Environmental Consulting	Environmental Services	Corporate	Total
Gross revenue	47,557	145,510	(2,940)	190,127
Less flow through subcontractor costs	4,211	-	-	4,211
Net revenue	43,346	145,510	(2,940)	185,916
Operating profit (loss) before depreciation and amortization	5,751	30,800	(6,391)	30,160
Depreciation and amortization	1,543	15,382	233	17,158
Operating profit (loss)	4,208	15,418	(6,624)	13,002
Other information				
Expenditures for additions to :				
Property and equipment	316	7,980	300	8,596
Intangibles	265	-	-	265

Vertex Resource Group Ltd.

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

(unaudited)

For the nine month period ended September 30, 2022					
	Environmental Consulting	Environmental Services	Corporate	Total	Restated (Note 12)
Gross revenue	74,582	110,211	702	185,495	
Less flow through subcontractor costs	26,958	-	-	26,958	
Net 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	

	Environmental Consulting	Environmental Services	Corporate	Total
As at September 30, 2023				
Goodwill and intangible assets	21,003	18,336	-	39,339
Total assets	60,981	182,146	5,005	248,132
Total liabilities	21,306	81,976	76,189	179,471
As at December 31, 2022				
Goodwill and intangible assets	20,760	19,400	-	40,160
Total assets	71,253	174,390	8,781	254,424
Total liabilities	26,332	68,374	94,982	189,688

12. Restatement of comparative period

During 2022, management identified that revenue from certain contracts with customers was recorded net of the costs incurred to reflect an agency relationship and to match the economic nature of the cash flows of the contracts. Under the terms of the contracts the Company was the principal in the arrangement. As a result, revenue and direct costs were understated. The error has been corrected by restating the comparative period. The following summarizes the impact of the change on the condensed consolidated statement of net income and comprehensive income for the three and nine months ended September 30, 2022.

Three months ended September 30, 2022	As previously reported	Adjustment	As restated
Gross revenue	-	67,845	67,845
Less flow through subcontractor costs	-	8,706	8,706
Net revenue	59,139	-	59,139

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(in thousands of Canadian dollars, except per share amounts)
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Nine months ended September 30, 2022	As previously reported	Adjustment	As restated
Gross revenue	-	185,495	185,495
Less flow through subcontractor costs	-	26,958	26,958
Net revenue	158,537	-	158,537

There is no impact to the Company's statement of financial position as at September 30, 2022, no impact on profit margin, net income, basic or diluted earnings per share, and no impact on operating, investing, or financing cash flows for the three and nine months ended September 30, 2022.