

Consolidated financial statements of

Vertex Resource Group Ltd.

Years ended December 31, 2022 and 2021

Vertex Resource Group Ltd.

December 31, 2022 and 2021

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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 Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of net income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

We are independent of the Entity 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.

Emphasis of Matter – Restatement of Financial Statements

We draw attention to Note 29 to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2021 has been restated. Note 29 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information. Our opinion is not modified in respect of this matter.



Key Audit Matters

Recognition and measurement of a deferred tax asset acquired in a business combination

Description of the matter

We draw attention to Notes 5(i)(c), 6 and 16 to the financial statements. The Entity acquired Cordy Oilfield Services Ltd. and recognized \$8.3 million as a deferred tax asset related to carryforward tax losses available to the Entity. In determining the value assigned to the deferred tax asset acquired in a business combination, significant judgment was required to assess the extent of carryforward tax losses available to the Entity in accordance with tax legislation.

Why the matter is a key audit matter

We identified the recognition and measurement of a deferred tax asset acquired in a business combination as a key audit matter. This matter represented an area of significant risk of material misstatement. In addition, significant auditor judgment and the involvement of those with specialized skills and knowledge was required to evaluate the Entity's significant judgment in determining the extent of carryforward tax losses available to the Entity.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter consisted of the following:

We involved income tax professionals with specialized skills and knowledge who assisted with the:

- Inspection of the acquiree's historical tax filings and financial statements to determine the nature and quantum of carryforward tax losses acquired and the date of expiration
- Evaluation of the Entity's recognition and measurement of the deferred tax asset including interpretations of income tax legislation to determine if the amount of carryforward tax losses recognized as a deferred tax asset was available to the Entity in accordance with the income tax legislation
- Examination of the Entity's internal documentation to assess consistency with historical tax filings and financial statements and the relevant income tax legislation.

Evaluation of fair value of customer relationships acquired

Description of the matter

We draw attention to Notes 5(ii)(e), 6 and 11 to the financial statements. The Entity acquired intangible assets related to customer relationships through two separate business combinations. The fair value of the customer relationships acquired in aggregate was \$7.7 million. The fair values of customer relationships acquired in the business combinations were determined using the income approach, which involves quantifying the present value of net cash flows attributed to the subject asset. The Entity's significant assumptions in determining the acquisition-date fair value of the intangible assets include the cash flow forecast, forecast period, customer attrition rate, discount rate, and contributory asset charge.

Why the matter is a key audit matter

We identified the evaluation of the fair value of the customer relationships acquired as a key audit matter. This matter created a significant risk of a material misstatement given the high degree of estimation uncertainty in determining the fair value of the customer relationships. In addition, significant auditor judgment and the involvement of those with specialized skills and knowledge were required in evaluating the results of our procedures. This was necessary due to the sensitivity of the fair value to possible changes in significant assumptions.



How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter consisted of the following:

- We compared the Entity's cash flow forecasts to historical results. We took into account changes in conditions and events to assess the Entity's cash flow forecasts
- We evaluated the forecast periods by comparing to the useful lives assigned to customer relationships by the Entity in the past and to industry standards.

In addition, we involved valuation professionals with specialized skills and knowledge, who assisted with the:

- Assessment of the valuation approach used by the Entity to estimate the fair value of the customer relationships
- Evaluation of the discount rates by comparing to a discount rate range. This range was independently developed using the capital asset pricing model and weighted average cost of capital
- Evaluation of the customer attrition rates by comparing to historical attrition rates and industry standards
- Evaluation of the contributory asset charges by comparing to market rates of return on similar assets.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at 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 the 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 generally accepted auditing standards 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 the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, 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 Entity'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 Entity'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 Entity 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.
- 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.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Ravine Basahti.

Edmonton, Canada

March 22, 2023

Vertex Resource Group Ltd.

Consolidated statements of financial position

As at December 31

(in thousands of Canadian dollars)

As at	Notes	2022	2021
Assets			
Current assets			
Cash		2,591	-
Accounts receivable	7	71,366	55,197
Contract assets		664	1,142
Inventories	8	4,399	4,237
Prepaid expenses and deposits		3,053	2,866
		82,073	63,442
Property and equipment	9	82,463	72,790
Right of use assets	10	40,983	21,789
Intangible assets	11	8,486	1,784
Goodwill	12	31,674	25,194
Deferred income taxes	16	8,745	1,571
		254,424	186,570
Liabilities			
Current liabilities			
Operating loan		-	400
Accounts payable and accrued liabilities	13	40,386	28,373
Contract liabilities		2,935	2,838
Current portion of loans and borrowings	14	18,508	18,433
Current portion of lease liabilities		9,711	7,096
Current portion of other liabilities		2,636	1,390
		74,176	58,530
Loans and borrowings	14	70,725	61,085
Lease liabilities		24,896	13,262
Other liabilities		2,557	1,527
Convertible debenture	15	12,566	-
Deferred income taxes	16	4,768	2,470
		189,688	136,874
Shareholders' Equity			
Common shares	17	92,415	81,071
Contributed surplus		5,259	3,621
Accumulated other comprehensive income		12	(4)
Deficit		(32,950)	(34,992)
		64,736	49,696
		254,424	186,570

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

Approved by the Board

(Signed) "Terry Freeman" Director

(Signed) "Brian F. Butlin" Director

Vertex Resource Group Ltd.

Consolidated statements of income and comprehensive income

Years ended December 31

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

		Year ended	
		December 31,	
	Notes	2022	2021
			Restated (Note 29)
Gross revenue	19	257,161	185,049
Less flow through subcontractor costs	20	38,783	25,611
Net revenue	19	218,378	159,438
Direct costs ⁽¹⁾	20	166,127	117,150
Profit margin		52,251	42,288
General and administrative expenses	20	20,066	16,052
Depreciation and amortization	21	20,376	19,621
Finance costs	22	8,875	6,057
Share-based compensation	18	200	-
Income before income taxes		2,734	558
Income tax expense (recovery)	16	692	(1,100)
Net income for the year		2,042	1,658
Other comprehensive income			
Foreign currency translation adjustment, net of tax		16	(4)
Total comprehensive income for the year, net of tax		2,058	1,654
Net income per share			
Basic and diluted	23	0.02	0.02

(1) Direct costs do not include depreciation.

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	Common shares	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance, as at December 31, 2020		81,071	3,621	-	(36,650)	48,042
Net income for the year		-	-	-	1,658	1,658
Foreign currency translation adjustment, net of tax		-	-	(4)	-	(4)
Balance, as at December 31, 2021		81,071	3,621	(4)	(34,992)	49,696
Net income for the year		-	-	-	2,042	2,042
Shares issued in business combinations	6	11,344	-	-	-	11,344
Share-based compensation	18	-	200	-	-	200
Equity portion of convertible debenture	15	-	1,438	-	-	1,438
Foreign currency translation adjustment, net of tax		-	-	16	-	16
Balance, as at December 31, 2022		92,415	5,259	12	(32,950)	64,736

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	2022	2021
Operating activities			
Net income		2,042	1,658
Adjustments for:			
Depreciation and amortization	21	20,376	19,621
Finance costs	22	8,875	6,057
Gain on disposal of property and equipment		(778)	(977)
Income tax expense (recovery)	16	602	(1,100)
Share-based compensation	18	200	-
		31,317	25,259
Changes in non-cash operating working capital items	25	(9,848)	(12,248)
Income tax paid		(28)	(53)
Cash provided by operating activities		21,441	12,958
Investing activities			
Purchase of property and equipment		(13,766)	(9,054)
Proceeds from disposal of property and equipment		3,633	2,831
Acquisition, net of cash acquired	6	(273)	(4,529)
Changes in non-cash investing working capital items	25	(2,432)	(783)
Cash used in investing activities		(12,838)	(11,535)
Financing activities			
Proceeds from revolving loan		7,500	23,100
Proceeds from convertible debenture		15,000	-
Proceeds from term loan		10,000	-
Proceeds from equipment loans		3,744	2,494
Principal payments of lease liabilities		(13,710)	(7,957)
Repayment of term loan		(8,220)	(9,146)
Interest paid		(6,561)	(4,640)
Repayment of equipment loans		(8,771)	(2,828)
Repayment of working capital and co-lend term loans		(1,650)	(788)
Principal payments of other liabilities		(1,867)	(1,625)
Deferred financing charges		(968)	179
(Repayment of) proceeds from operating loan	14	(400)	147
Changes in non-cash financing working capital items	25	(125)	(355)
Cash used in financing activities		(6,028)	(1,419)
Effect of foreign currency translation on cash		16	(4)
Increase in cash		2,591	-
Cash, beginning of period		-	-
Cash, end of period		2,591	-

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

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

December 31, 2022 and 2021

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

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. The Company 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*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and the accounting policies set out below have been applied consistently to all periods presented, except as disclosed in Note 29. These consolidated financial statements were approved by the Board of Directors (the "Directors") on March 21, 2023.

b) *Basis of measurement*

The Company's consolidated financial statements have been prepared on a going concern basis under the historical cost model.

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 recognized 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, monetary assets and liabilities of the U.S. operations that have a U.S. dollar functional currency are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Non-monetary assets and liabilities that are measured at fair value in U.S. dollars are translated into the functional currency at the exchange rate when the fair value was determined. 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 recognized 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, joint ventures and its limited partnerships. Subsidiaries, joint ventures 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, joint ventures 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, 2022 and 2021 are Vertex Resource Services Ltd., Vertex Professional Services Ltd., Acden Vertex LP, Vertex Resource Services Inc. and Dominion Leasing Inc. The Company has applied uniform accounting policies 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 and judgments. Significant estimates and judgments are outlined in Note 5.

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

December 31, 2022 and 2021

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

3. Significant accounting policies

a) *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. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. A gain on bargain purchase arises when the sum of the fair value of identifiable net assets exceeds the fair value of consideration. Acquisition-related costs and gain on bargain purchase are recognized in income or loss as incurred.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Changes in the fair value of liabilities classified as contingent consideration are recognized in income or loss.

b) *Inventories*

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

c) *Property and equipment*

Property and equipment are recorded at cost, less accumulated depreciation 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.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as described below.

Buildings and improvements	20 years
Machinery and equipment	3-20 years
Office furniture and equipment	5-7 years
Rolling stock	5-30 years

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

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

d) *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.

Internally generated intangible assets

Research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized in profit or loss as incurred.

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Development activities involve a plan or design for the production of new or substantially improved product and process. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Amortization is recorded using the following estimated useful lives:

Customer relationships	3-5 years
Non-compete agreements	3-5 years
Development costs	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.

e) *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 ("CGU") 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 CGU 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.

f) *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 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 goodwill is monitored for internal reporting purposes.

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

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

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

depreciation that would have been determined had no impairment loss been recognized. Any reversal is limited to this latter amount.

g) *Convertible debenture*

The convertible debenture is denominated in Canadian dollars and can be converted to ordinary shares at the option of the holder and the number of shares to be issued is fixed and does not vary with changes in fair value. The liability component of the convertible debenture is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest method. The equity component is not remeasured. Interest related to the financial liability is recognized in income or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

h) *Revenue recognition*

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

The Company's services are provided based on orders and contracts with customers that include fixed or determinable prices and are based on 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 an "over 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) Rendering of services: The Company's services revenue includes consulting, fluid management and logistics, waste and recycling, industrial cleaning and maintenance, hydro-excavating and equipment rentals. 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.

b) Contracting: Contracting revenue includes revenue from contracts entered into to provide consulting services to various industries, including energy, mining, utilities, forestry, private development, public infrastructure, telecommunications and government. Revenue from such contracts is recognized over time by measuring the progress towards satisfaction of the performance obligations under the contract.

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 fixed fee 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. 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.

When the outcome of an over time 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.

Vertex Resource Group Ltd.

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December 31, 2022 and 2021

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

When contract costs incurred to date plus recognized profit exceed progress billings, the surplus is shown as contract assets in the consolidated statements 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 statements of financial position.

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.

c) Net revenue:

While providing services, the Company incurs flow through costs paid to subcontractors that are billed and recoverable directly from customers. The recoverable amounts are included in the Company's gross revenue. Since these flow through costs can vary significantly from contract to contract, changes in gross revenue may not be indicative of the Company's revenue trends. Therefore, the Company also reports net revenue. The Company assesses its revenue arrangements against specific criteria to determine whether it is acting as principal or agent. In general, the Company acts as a principal in its revenue arrangements because it obtains control of services before they are provided to the customer.

i) *Government assistance*

Government assistance is recognized when there is reasonable assurance that the assistance will be received and that the Company will comply with all relevant conditions. Government assistance related to current expenses is recorded as a reduction of the related expenses.

j) *Income taxes*

Current tax

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of prior years.

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, deferred tax liabilities are not recognized if the temporary difference arises 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.

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Current and deferred tax are recognized in income 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 combinations.

k) *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 graded vesting 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 income or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

l) *Financial instruments*

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.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position 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:

- o Cash is initially recognized at fair value and is subsequently measured at amortized cost with changes therein recognized in net income (loss).
- o The Company's accounts receivable and contract assets 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, accounts receivable and contract assets are measured at amortized cost using the effective interest method, less any impairment losses.
- o Accounts payable and accrued liabilities and contract liabilities, operating loan, loans and borrowings and other liabilities including promissory notes issued on 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 and borrowings are deferred and amortized using the straight-line method over the term of the loan.

m) *Financial asset impairment*

Financial asset impairments are accounted for under the IFRS 9, Financial Instruments ("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.

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The expected credit loss model generally requires entities to recognize expected credit losses in income 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. 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.

n) 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.

o) Fair value measurement

Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs.

Level 1	Quoted prices are available in active markets for identical assets or liabilities as at 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 at 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.

The Company does not have any financial assets and liabilities measured at fair value on a recurring basis.

p) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for considerations. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, if applicable, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right of use ("ROU") asset and a lease liability at the commencement date of a lease. The ROU asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The Company has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

The ROU asset is subsequently amortized from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the ROU asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease if the Company is reasonably certain to exercise an option to terminate.

The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The lease payments are discounted using the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable. The Company determines its incremental borrowing rate using an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company and makes adjustments specific to the lease term and security. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Company's estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments are not included in the initial measurement of the lease liability and are charged directly to profit. Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are accounted for as expenses on a straight-line basis in the consolidated statements of net income and comprehensive income.

q) *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, to assess their performance, and for which discrete financial information is available.

r) *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 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.

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s) *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.

t) *Finance costs*

Finance costs encompass interest expense on loans and borrowings and accretion expense on lease liabilities and other liabilities and are recognized as an expense in the period in which they are incurred.

4. Future accounting standard pronouncements

The Company has listed below new and revised standards and interpretations that have been approved by the IASB. The Company is currently considering the impact of adopting these standards and interpretations on the consolidated financial statements and cannot reasonably estimate the effect at this time.

The following amendment to existing standards has been issued and is applicable to the Company for its annual periods beginning on January 1, 2023 and thereafter, with an earlier application permitted:

- Amendments to IAS 1 change the requirements in IAS 1 with regards to disclosure of accounting policies. Applying the amendments, an entity discloses its material accounting policies instead of its significant accounting policies. Further amendments to IAS 1 are made to explain how an entity can identify a material accounting policy.
- Amendments to IAS 8 introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

5. Critical accounting judgments and key sources of estimation uncertainty

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.

(i) Critical judgments in applying the Company's accounting policies

a) *Non-financial assets*

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 outcome of impairment testing.

Identifying events or changes in circumstances that may indicate or cause an asset's carrying value to exceed its recoverable amount requires judgment in assessing what events or circumstances would have such an impact.

b) *Provisions and contingencies*

The determination of provisions and contingencies is a complex process that involves judgment 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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c) *Business combinations*

The acquired assets and assumed liabilities are recognized at fair value on the date the Company effectively obtains control. The measurement of the assets and liabilities acquired in each business combination is based on information available on the acquisition date. The estimates of fair value of the acquired intangible assets (including goodwill), property and equipment and other assets and the liabilities assumed at the date of acquisition require management judgment. In determining the value assigned to the deferred tax asset acquired in a business combination, significant judgment was required to assess the extent of carryforward tax losses available to the Company in accordance with tax legislation.

d) *Joint ventures and limited partnership*

The Company has joint venture and limited partnership agreements with unrelated parties for the purpose of executing certain contracts. The Company has determined that where they have a 49% interest in the limited partnership, or a minority interest, for the purpose of applying consolidation principles, that the Company controls these relationships.

(ii) Key sources of estimation uncertainty

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

a) *Impairment of financial assets*

Financial assets measured at amortized cost are non-derivative financial assets with fixed or determinable payments and include cash, cash equivalents and accounts receivable. They are recognized initially at their face value, except when fair value is materially different, and are subsequently measured at amortized cost using the effective interest rate method, less a provision for impairment. A provision for impairment is established using a forward-looking expected credit loss model.

b) *Impairment of non-financial assets*

The Company tests non-financial assets for impairment when triggering events are identified and performs an annual impairment test for CGU's containing goodwill, or more frequently if events indicate that a carrying amount may be impaired. 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, ROU assets, intangible assets and goodwill are 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 must use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing non-financial assets for impairment. Management estimates expected future cash flows from each CGU, or group of CGUs, in determining the recoverable amount. 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 as disclosed in Note 12 to these consolidated financial statements.

c) *Deferred tax assets*

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be used. Future taxable income is determined based on the Company's cash flow projections. 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. Unrecognized deferred income tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable income will be available against which they can be used. 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.

d) *Property and equipment and definite lived intangible assets*

Identifying useful lives and residual values involve judgement and estimates. The considerations for estimated useful lives and residual values are reviewed annually and 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.

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e) *Intangible assets acquired from business combinations*

The Company assigns values to acquired intangible assets using the income approach, which involves quantifying the present value of net cash flows attributed to the subject asset. This involves management estimation and subjectivity to determine the cash flows forecast, forecast period, customer attrition rate, discount rate and contributory asset charge.

f) *Convertible debenture*

The equity component of the convertible debenture is determined using a valuation approach that includes inputs such as interest rate, share price volatility, risk-free rate, dilution and discount rates. Many of these inputs are subject to management estimation.

6. Business combinations

Acquisitions of Cordy Oilfield Services Ltd (“Cordy”) and Young EnergyServe Inc. (“Young”)

a) Cordy Oilfield Services Ltd.

On April 25, 2022, the Company completed a definitive amalgamation agreement that combined the Company, in an all-share transaction, with 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 purchase price consisted of consideration of \$8.9 million comprised solely of 18,913,253 common shares at a fair value of \$0.47 per share and the assumption of \$11.9 million of lease liabilities. Accounts receivable is comprised of contractual amounts due of \$4.3 million, of which \$0.8 million was expected to be uncollectible at the date of acquisition. Based on the allocation of fair values to the assets acquired and the liabilities assumed the Company identified intangible assets acquired related to customer relationships of \$3.8 million, recorded a deferred tax asset of \$8.3 million related to accumulated non-capital losses available to be carried forward and applied against future taxable income, recorded \$1.3 million of deferred tax liabilities related to timing differences for property equipment and intangibles and goodwill of \$2.1 million. 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 with the environmental services segment and form part of the environmental logistics CGU.

Gross revenue and net income from the date of acquisition to December 31, 2022 was \$17.6 million and \$0.7 million respectively. The Company estimates it would have reported consolidated gross revenue of approximately \$266.3 million and a net income of approximately \$0.8 million for the year ended December 31, 2022 if the acquisition had been completed on January 1, 2022.

b) Young EnergyServe Inc.

On September 29, 2022, the Company completed a share purchase agreement to acquire 100% of the outstanding shares of Young, a privately held company providing turnkey turnaround solutions, robotic tank cleaning services, and various other industrial services throughout Canada. The purchase price was comprised of the following: (i) cash of \$1.3 million, (ii) an unsecured promissory note with a fair value of \$4.0 million bearing interest at 4% per annum, principal and interest payable monthly, maturing on September 15, 2025, (iii) the issuance of 5,454,545 Class A common shares at a fair value of \$0.45 per share for \$2.5 million, and (iv) the assumption of \$11.6 million in loans and borrowings and lease liabilities. Immediately after closing the transaction, \$5.5 million of the loans and borrowings were repaid. In addition, at December 31, 2022, the Company accrued an additional \$2.5 million payment to the previous shareholder of Young and paid this amount in fiscal 2023 upon finalization of working capital and net loans and borrowings adjustments. The lease liabilities acquired include a lease liability for 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. Accounts receivable is comprised of contractual amounts due of \$5.5 million, of which nil was expected to be uncollectible at the date of acquisition. Based on the allocation of fair values to the assets acquired and liabilities assumed the Company identified \$3.9 million in intangible assets related to customer relationships and goodwill of \$4.4 million. 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 and form part of the environmental logistics CGU.

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Gross revenue and net loss from the date of acquisition to December 31, 2022 was \$1.8 million and \$0.7 million respectively. The Company estimates it would have reported consolidated gross revenue of approximately \$273.3 million and a net income of approximately \$3.0 million for the year ended December 31, 2022 if the acquisition had been completed on January 1, 2022.

Details of the acquisition accounting for the assets and liabilities based on their estimated fair values are as follows:

	Fair value as at		Total
	April 25, 2022	September 29, 2022	
	Cordy	Young	
Cash	993	-	993
Accounts receivable	3,470	5,497	8,967
Other current assets	114	745	859
Property and equipment	544	8,297	8,841
Right of use assets	11,861	4,245	16,106
Intangible assets	3,800	3,900	7,700
Deferred tax asset	7,019	-	7,019
	27,801	22,684	50,485
Current liabilities	(9,127)	(4,237)	(13,364)
Loans and borrowings	-	(7,383)	(7,383)
Lease liabilities	(11,861)	(4,245)	(16,106)
Deferred tax liability	-	(969)	(969)
Net assets	6,813	5,850	12,663
Fair value of consideration:			
Cash	-	1,266	1,266
Working capital adjustment	-	2,533	2,533
Promissory note, included with other liabilities	-	4,000	4,000
Common shares	8,889	2,455	11,344
	8,889	10,254	19,143
Goodwill	2,076	4,404	6,480

Acquisition of environmental services company

On February 26, 2021, the Company acquired 100% of the outstanding shares of an environmental service company, providing industrial cleaning, waste management and hydro-excavating based out of northern Alberta. The total consideration of \$10.4 million was comprised of cash of \$7.1 million, unsecured, non-interest bearing promissory notes with a fair value of \$3.3 million and the assumption of \$10.7 million in loans and leases. Other current assets include accounts receivable which is comprised of contractual amounts due of \$2.0 million, of which \$0.2 million was expected to be uncollectible at the date of acquisition. The intangibles acquired relate to non-compete agreements and customer relationships. The goodwill recognized is attributable to the temporary differences from the acquisition giving rise to a deferred tax liability and a corresponding adjustment to goodwill. The goodwill is not deductible for tax purposes.

In order to determine the fair value of the consideration, the promissory notes totaling \$3.6 million, being financed over 36 months, were fair valued. The Company measured the fair value of the promissory notes as the present value of all future cash outflows discounted using an estimated market rate of interest of 5.7%.

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The entity's results are presented in the environmental services segment and form part of the environmental logistics CGU.

	Fair value as at February 26, 2021
Cash and cash equivalents	2,576
Other current assets	2,704
Intangible assets	1,630
Property and equipment	14,876
Right of use assets	3,754
	25,540
Current liabilities	(2,085)
Loans and borrowings	(6,908)
Lease liabilities	(3,754)
Deferred tax liability	(2,737)
Net assets	10,056
Fair value of consideration:	
Cash	7,105
Promissory notes, included with other liabilities	3,319
	10,424
Goodwill	368

Gross revenue and net income from the date of acquisition to December 31, 2021 were \$13.0 million and \$1.3 million, respectively. The Company estimates it would have reported consolidated gross revenue of approximately \$186.4 million and net income of \$1.9 million for the year ended December 31, 2021 if the acquisition had been completed on January 1, 2021.

7. Accounts receivable

	2022	2021
Trade accounts receivable	61,789	42,894
Accrued receivables	10,480	12,903
Other receivables	164	255
Less: allowance for expected credit losses	(1,067)	(855)
	71,366	55,197

8. Inventories

	2022	2021
Parts and consumables	4,399	3,294
Manufacturing raw materials	-	943
	4,399	4,237

During the year ended December 31, 2022, the Company recognized \$6.8 million (2021 - \$3.3 million) of inventories in direct costs as an expense.

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9. Property and equipment

	Land, buildings, and improvements	Machinery and equipment	Office furniture and equipment	Rolling stock	Total
Cost					
As at December 31, 2020	10,934	59,475	5,225	50,607	126,241
Additions	144	1,942	675	6,853	9,614
Additions from business acquisition (Note 6)	-	2,853	223	11,800	14,876
Transfer from right of use assets (Note 10)	-	-	-	852	852
Disposals	(664)	(6,289)	(195)	(10,087)	(17,235)
As at December 31, 2021	10,414	57,981	5,928	60,025	134,348
Additions	457	1,714	421	13,606	16,198
Additions from business acquisitions (Note 6)	12	7,986	81	762	8,841
Transfer from right of use assets (Note 10)	-	-	-	955	955
Disposals	(234)	(6,692)	-	(9,651)	(16,577)
As at December 31, 2022	10,649	60,989	6,430	65,697	143,765
Accumulated depreciation					
As at December 31, 2020	5,690	37,559	2,832	15,963	62,044
Depreciation	551	3,343	778	9,851	14,523
Transfer from right of use assets (Note 10)	-	-	-	372	372
Disposals	(71)	(6,128)	(195)	(8,987)	(15,381)
As at December 31, 2021	6,170	34,774	3,415	17,199	61,558
Depreciation	480	2,888	772	8,755	12,895
Transfer from right of use assets (Note 10)	-	-	-	476	476
Disposals	(128)	(5,998)	-	(7,501)	(13,627)
As at December 31, 2022	6,522	31,664	4,187	18,929	61,302
Carrying value					
As at December 31, 2021	4,244	23,207	2,513	42,826	72,790
As at December 31, 2022	4,127	29,325	2,243	46,768	82,463

Property and equipment are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable. In 2022 and 2021, the Company did not record an impairment loss on property and equipment.

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10. Right of use

a) Right of use assets

The Company's significant lease arrangements include contracts for leasing office, shop and yard premises and operating equipment. All leases involve right of use assets that are unsecured unless otherwise indicated.

	Real property	Operating equipment	Total
Cost			
As at December 31, 2020	18,069	11,126	29,195
Additions	828	2,323	3,151
Additions from business acquisition (Note 6)	2,383	1,371	3,754
Transfer to property and equipment (Note 9)	-	(852)	(852)
As at December 31, 2021	21,280	13,968	35,248
Additions	6,326	4,544	10,870
Additions from business acquisitions (Note 6)	3,833	12,273	16,106
Transfer to property and equipment (Note 9)	-	(955)	(955)
Disposals	(2,389)	(787)	(3,176)
As at December 31, 2022	29,050	29,043	58,093
Accumulated depreciation			
As at December 31, 2020	7,096	2,069	9,165
Depreciation	3,313	1,353	4,666
Transfer to property and equipment (Note 9)	-	(372)	(372)
As at December 31, 2021	10,409	3,050	13,459
Depreciation	3,549	2,934	6,483
Transfer to property and equipment (Note 9)	-	(476)	(476)
Disposals	(1,998)	(358)	(2,356)
As at December 31, 2022	11,960	5,150	17,110
Carrying value			
As at December 31, 2021	10,871	10,918	21,789
As at December 31, 2022	17,090	23,893	40,983

ROU assets acquired during the year ended December 31, 2022 totalled \$10.9 million (2021 - \$3.2 million) and have been treated as non-cash transactions for purposes of the consolidated statements of cash flows.

ROU assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable. The Company did not record an impairment loss during the years ended 2022 or 2021 on ROU assets.

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11. Intangible assets

	Customer relationships	Non-compete agreements	Development costs	Total
Cost				
As at December 31, 2020	-	-	801	801
Additions (Note 6)	1,300	330	-	1,630
As at December 31, 2021	1,300	330	801	2,431
Additions (Note 6)	7,700	-	-	7,700
As at December 31, 2022	9,000	330	801	10,131
Accumulated amortization				
As at December 31, 2020	-	-	215	215
Amortization	217	55	160	432
As at December 31, 2021	217	55	375	647
Amortization	772	66	160	998
As at December 31, 2022	989	121	535	1,645
Carrying value				
As at December 31, 2021	1,083	275	426	1,784
As at December 31, 2022	8,011	209	266	8,486

Intangible assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable.

12. Goodwill

Goodwill is measured by management at the CGU level. A CGU level summary of the goodwill allocation is presented below:

	Environmental consulting	Environmental logistics	Total
Carrying value			
As at December 31, 2020	20,760	4,066	24,826
Additions (Note 6)	-	368	368
As at December 31, 2021	20,760	4,434	25,194
Additions (Note 6)	-	6,480	6,480
As at December 31, 2022	20,760	10,914	31,674

Impairment test for goodwill

The recoverable amount of the CGUs was determined based on fair value less costs of disposal ("FVLCD") calculations using Level 3 inputs. These calculations use projections over a five-year period based on assumptions similar to those of a market participant. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below. The Company performs its impairment tests annually.

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Management performed the annual impairment test as at September 30, 2022. No impairment was recorded and no classes of assets were impaired for the years ending December 31, 2022 and 2021.

a) Key assumptions used for recoverable amount calculations:

<i>In percent</i>	2022	2021
Discount rate		
Environmental consulting CGU	17.0	16.0
Environmental logistics CGU	16.0	16.0
Terminal value growth rate	2.5	2.5
Budgeted EBITDA growth rate (average of next five years)		
Environmental consulting CGU	4.7	2.3
Environmental logistics CGU	12.2	8.2

Management determined forecasted gross margins based on past performance and its expectations for market trends. Growth rates applied to expenditures in the forecasts were 2.0%. The discount rates used reflect specific risks related to the relevant CGU.

The recoverable amounts were based on FVLCD using discounted cash flows ("DCF") methodology (2021 - DCF methodology). The significant assumptions applied in the goodwill impairment tests are described below:

- Cash flows: Estimated cash flows are based on budgeted earnings before interest, taxes, depreciation and amortization ("EBITDA"). The forecast is extended to a total of five years based on an analysis of the industry's expected growth rates, historical and forecasted volume changes, growth rates and inflation rates.
- Discount rate: The weighted average cost of capital ("WACC") was estimated based on market capital structure of debt, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, an unsystematic risk premium, and after-tax cost of debt based on corporate bond yields.
- Terminal value growth rate: Five years of cash flows have been included in the DCF models. Maintainable debt-free net cash flows beyond the forecast period are estimated to approximate the 2027 cash flows increased by a terminal growth rate of 2.5% and is based on forecasted inflation rates and management's experience.

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 change to the annual impairment test results or conclusions noted above.

If budgeted EBITDA growth used in the FVLCD calculation for the environmental consulting CGU had been 9.5% lower in each of the five years of cash flows than management's estimates as at December 31, 2022, the change in this key assumption would result in a recoverable amount equal to the carrying value of the CGU. The recoverable amount of the environmental consulting CGU as at December 31, 2022 exceeds its carrying value by \$5.0 million.

Similarly, if the budgeted EBITDA growth used for the environmental logistics CGU had been 15.0% lower in each of the five years of cash flows than management's estimates as at December 31, 2022, the change in this key assumption would result in a recoverable amount equal to the carrying value of the CGU. The recoverable amount of the environmental logistics CGU as at December 31, 2022 exceeds its carrying value by \$50.2 million. Any additional change in these assumptions would cause goodwill to become impaired.

13. Accounts payable and accrued liabilities

	2022	2021
Trade accounts payable	29,760	20,371
Employee related accounts payable	4,364	5,486
Accrued liabilities	6,262	2,516
	40,386	28,373

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14. Loans and borrowings

	December 31, 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	6,981	27,282	34,263	8,424	24,330	32,754
Equipment loans	6,639	5,018	11,657	3,880	5,422	9,302
Co-lend term loan	4,479	-	4,479	5,729	-	5,729
Working capital loan	409	925	1,334	400	1,333	1,733
Total borrowings	18,508	70,725	89,233	18,433	61,085	79,518

Secured credit facilities

In 2022, the total secured syndicate credit facilities were \$76.8 million (2021 - \$67.8 million) and were comprised of three committed facilities: a \$37.5 million (2021 - \$30.0 million) syndicated facility ("revolving loan"), a \$34.3 million (2021 - \$32.8 million) term loan facility ("syndicate term loan") and a \$5.0 million (2021 - \$5.0 million) operating facility ("operating loan"). This agreement includes an additional \$20.0 million accordion facility. The syndicate credit facilities are for a committed term and are secured by a debenture over all assets of the Company.

Access to the Company's borrowings is subject to a borrowing base calculation. The amounts outstanding under the operating and revolving facility must be below the borrowing base amount. As at December 31, 2022, the Company has access to \$7.5 million of undrawn borrowing facilities.

During the year, the Company amended its secured syndicate credit facilities to extend the maturity date from May 31, 2023 to May 31, 2025 and to amend the borrowing covenant ratios [refer to (e) below].

a) *Revolving loan*

The revolving loan is authorized to a maximum of \$40.0 million and 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 1.0%-2.3%, CAD Bankers' Acceptance rate and secured overnight financing rate ("SOFR") loans plus stamping fees of 2.0%-3.3% and matures on May 31, 2025. 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 0.4%-0.7%. The interest rate ranges are based on the funded debt to Bank EBITDA ratio [refer to (e) below] for the preceding quarter.

As at December 31, 2022, \$32.5 million (2021 - \$29.0 million) was drawn under CAD bankers' acceptances with a rate of 7.1% and \$5.0 million (2021 - \$1.0 million) was drawn under prime rate loans with a rate of 8.2%.

b) *Syndicate term loan*

During the year the Company increased the syndicate term loan by \$10.0 million. The interest rate on the syndicate term loan can be a mix of rates ranging from HSBC's CAD prime rate or USD base rate plus 1.0%-2.3%, CAD Bankers' Acceptance rate and SOFR loans plus stamping fees of 2.0%-3.3%. The interest rate ranges are based on the net senior funded debt to Bank EBITDA ratio for the preceding quarter. The syndicate term loan is repayable in nine quarterly principal payments of \$1,354 commencing December 31, 2022, with a final payment of \$22.4 million due on maturity of May 31, 2025. In addition to the scheduled principal payments, the syndicate term loan includes an additional principal payment based on an annual excess cash flow. The excess cash flow calculation is applicable if the net syndicated funded debt to Bank EBITDA ratio as at December 31, 2022 exceeds 2.75:1.00, and at year-end the excess cash flow calculation resulted in an additional payment on the term loan of \$1.8 million (2021 - \$3.0 million), which has been included in the current portion of loans and borrowings on the consolidated statements of financial position. As at December 31, 2022, \$34.1 million (2021 - \$32.7 million) was drawn under CAD bankers' acceptances with a rate of 7.5% and \$0.5 million (2021 - \$0.1 million) was drawn under prime rate loans with a rate of 8.2%.

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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 reborrowed 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 1.0%-2.3%. There was nil drawn on this facility as at December 31, 2022 (2021 – \$0.4 million).

d) *Transaction costs*

Transaction costs on new loans and borrowing agreements are capitalized and amortized on a straight-line basis over the term of the respective agreements.

	December 31,	December 31,
	2022	2021
Term loan - face value	34,604	32,824
Transaction costs	(341)	(70)
Carrying amount	34,263	32,754

e) *Borrowing covenants – senior credit facility*

All loans are being provided in Canadian dollars and are subject to the following financial covenants, as defined in the agreements, except for the subordinate working capital loan Note 14(h):

- The ratio of consolidated syndicated indebtedness to trailing bank earnings before interest, taxes, depreciation and amortization (EBITDA), calculated on a trailing 12-month basis,
- The ratio of consolidated senior indebtedness to trailing bank EBITDA, calculated on a trailing 12-month basis,
- The ratio of net cash flow to fixed charges, the fixed charge coverage ratio, calculated on a rolling 4-quarter basis.

As at December 31, 2022, the Company was in compliance with the terms and covenants of its lending agreements.

f) *Equipment loans*

Certain equipment loans are due on demand, bear interest at rates ranging from 3.1% to 9.0% and have maturity dates (assuming they are serviced until maturity) ranging from April 23, 2023, to November 20, 2027. Equipment loans are secured by rolling stock with a net book value of \$12.7 million (2021 - \$15.1 million) (Note 9).

g) *Co-lend term loan*

On June 24, 2020, under a separate loan agreement with HSBC Bank Canada, a demand term loan for \$6.3 million was obtained under BDC Co-Lending Program. The loan is 80% funded by BDC, is secured by the assets of the Company ranking second to the secured syndicate credit facilities, bears interest at the rate of HSBC's CAD prime rate plus 4.25% per annum, is repayable in monthly interest-only payments for the first year, then monthly principal payments of \$104 plus interest payments over five years commencing July 2021 and maturing June 2026. For the purposes of the covenants noted above, this loan meets the definition of net senior funded debt but does not meet the definition of net syndicated funded debt. As at December 31, 2022, the rate of interest on this loan was 10.7%.

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h) Subordinate working capital loan

On October 23, 2020, under a separate loan agreement with BDC, a loan for \$2.0 million was agreed to. The loan is secured by assets of the Company ranking behind the secured credit facility and the co-lend term loan, bears interest at BDC's floating base rate less 1.75% per annum. For the purposes of the covenants noted above, this loan does not meet the definition of net senior funded debt or net syndicated funded debt. On November 7, 2022 the repayment terms were amended. As December 31, 2022, the Company is required to make 3 monthly principal payments of \$33 plus interest payments, 35 monthly principal payments of \$34 plus interest payments with a final payment of \$34 on March 1, 2026. As at December 31, 2022, the interest rate was 6.8%.

i) 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	1,658	4,185	-	6,981	12,824
Two years	1,661	3,497	-	5,327	10,485
Three years	1,661	1,666	37,500	21,955	62,782
Four years	833	1,360	-	-	2,193
Five years	-	949	-	-	949
	5,813	11,657	37,500	34,263	89,233

15. Convertible debenture

On March 7, 2022, the Company completed a \$15 million, private placement of secured and subordinated convertible debenture ("the Debenture"). The Debenture has a five (5) year term from the date of issuance bearing interest at a rate of 8.0% per annum, payable monthly in arrears in cash. At any time during the term, the holders of the Debenture may elect to convert the outstanding net principal amount, or any portion thereof, into common shares of the Company at a conversion price of \$0.65 per share.

Interest on the principal amount outstanding is calculated and payable monthly and was first payable on March 31, 2022.

	Contributed surplus	Liability
Proceeds from issuance of convertible debenture	-	15,000
Less transaction costs	-	(501)
Net proceeds	-	14,499
Amount classified as equity (net of transaction costs of \$48)	2,010	(2,010)
Amortization of deferred debt costs	-	77
Impact of temporary tax difference	(572)	-
Balance, as December 31, 2022	1,438	12,566

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16. Income taxes

A reconciliation of the effective income tax rate is as follows:

	2022	2021
Income before income taxes	2,734	558
Combined federal and provincial income taxes statutory rate	23.5%	23.5%
Expected income tax expense	642	131
Effect on income taxes of:		
Non-deductible items	144	63
Change in statutory tax rate	29	(31)
Change in unrecognized deferred tax assets	(238)	(1,229)
Prior year adjustments	115	(34)
	50	(1,231)
Income tax expense (recovery)	692	(1,100)

Income taxes were comprised of the following:

	2022	2021
Current income tax	90	1
Deferred income tax expense (recovery)	602	(1,101)
Income tax expense (recovery)	692	(1,100)

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

	2021	Convertible debenture	Acquired in business combination	Recognized in profit or loss	2022
Deferred tax assets (liabilities) in relation to:					
Losses carryforward	1,130	-	8,567	(930)	8,767
Deferred financing charges	124	-	-	(38)	86
Investment tax credits	101	-	-	(49)	52
Right of use assets and liabilities, net	457	-	(473)	(240)	(256)
Convertible debenture	-	(572)	-	-	(572)
Property and equipment	(2,292)	-	(235)	421	(2,106)
Intangibles Assets	(419)	-	(1,809)	234	(1,994)
	(899)	(572)	6,050	(602)	3,977

	2020	Acquired in business combination	Recognized in profit or loss	2021
Deferred tax assets (liabilities) in relation to:				
Losses carryforward	2,386	-	(1,256)	1,130
Right of use assets and liabilities, net	530	-	(73)	457
Deferred financing charges	205	-	(81)	124
Investment tax credits	83	-	18	101
Property and equipment	(2,324)	(2,339)	2,371	(2,292)
Intangibles Assets	(143)	(398)	122	(419)
	737	(2,737)	1,101	(899)

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Deferred income tax balances are classified as follows:

	2022	2021
Deferred tax assets	8,745	1,571
Deferred tax liabilities	(4,768)	(2,470)
	3,977	(899)

	2022		2021	
	Gross Amount	Tax Effect	Gross Amount	Tax Effect
Unrecognized deferred tax assets in relation to:				
Non-capital income tax losses	13,772	3,244	3,256	809
Intangibles	444	104	381	93
Other	240	56	207	49
	14,456	3,404	3,844	951

Deferred tax assets have not been recognized in respect of losses that have arisen in subsidiaries that have not established indicators demonstrating that it is probable that future taxable profits will be available to utilize those loss carry-forwards or accessibility to the loss carry forwards may be restricted or both. These non-capital losses expire between 2027 and 2042. The investment tax credits will expire between 2026 and 2027. The recovery of the remaining unrecognized assets is dependent on future taxable earnings being more than those arising from the reversal of existing taxable temporary differences.

17. Share capital

Common shares

Authorized, unlimited number

Class A common voting shares

Class B common non-voting shares

	Note	Class A	Amount
		#	\$
As at December 31, 2020 and 2021		91,253,115	81,071
Shares issued in business combinations	6	24,367,775	11,344
As at December 31, 2022		115,620,890	92,415

18. Share-based compensation

a) *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 granted at a price and vest in the manner determined by the Board at the time of the grant. The term of options granted is determined by the Board of Directors at the time of grant and cannot exceed ten years.

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 option pricing 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.

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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 10% of the outstanding shares. 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, 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
Expired	(350,000)	1.00	-	-
Forfeited	(250,000)	0.73	(3,260,000)	1.00
Balance - end of period	2,400,000	0.56	3,000,000	0.63
Exercisable - end of period	833,333	0.58	500,000	1.00

The following table summarizes information about share options outstanding as at December 31, 2022:

Exercise Price (\$)	Options outstanding			Options exercisable	
	Outstanding options	Weighted average exercise price (\$)	Weighted average remaining term (years)	Outstanding options	Weighted average exercise price(\$)
1.00	50,000	1.00	0.75	50,000	1.00
0.55	2,350,000	0.55	3.75	783,333	0.55
	2,400,000	0.56	3.69	833,333	0.58

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:

For the years ended	2022	2021
Volatility factor of expected market price (%)	97.2	76.0
Weighted average risk - free interest rate (%)	3.0	1.4
Weighted average expected life in years	4.0	4.0
Weighted average fair value per option(\$)	0.31	0.14
Weighted average forfeiture rate (%)	10.5	10.9

Total compensation cost recognized for share-based compensation awards for the year ended December 31, 2022, was \$200 (2021 - nil) and is credited to contributed surplus on the consolidated statements of financial position.

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19. Gross and net revenue

Major categories of gross and net revenue from contracts with customers recognized during the year are as follows:

	2022	2021
		Restated (Note 29)
<u>Gross revenue</u>		
Rendering of services	246,216	177,663
Contracting	10,945	7,386
	257,161	185,049
<u>Net revenue</u>		
Rendering of services	207,433	152,052
Contracting	10,945	7,386
	218,378	159,438

The Company invoices in accordance with contractual terms.

20. Expenses by nature

	2022	2021
		Restated (Note 29)
Personnel	70,552	50,859
Subcontractors	51,565	41,562
Flow through subcontractor costs	38,783	25,611
Equipment costs	34,849	19,969
Materials	22,822	14,411
Property and maintenance	3,916	4,387
Other general and administrative expenses	2,489	2,014
Total expenses	224,976	158,813

Reported as:

	2022	2021
		Restated (Note 29)
Direct costs	166,127	117,150
Flow through subcontractor costs	38,783	25,611
General and administrative expenses	20,066	16,052
Total expenses	224,976	158,813

21. Depreciation and amortization

	2022	2021
Depreciation of property and equipment	12,895	14,523
Depreciation of right of use assets	6,483	4,666
Amortization of intangible assets	998	432
	20,376	19,621

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22. Finance costs

	2022	2021
Interest on loans and borrowings	5,260	4,194
Interest accretion on lease liabilities	1,898	1,294
Interest accretion on other liabilities	143	122
Interest on convertible debenture	979	-
Financing and bank charges	595	447
	8,875	6,057

23. Net income per share

	2022	2021
Numerator:		
Net income for the year	2,042	1,658
Denominator:		
Weighted average shares outstanding - basic & diluted	105,663,931	91,253,115
Net income per share - basic and diluted	0.02	0.02

In calculating the net income per share for the year ended December 31, 2022, the Company excluded 2,400,000 options and the conversion impact of the convertible debenture (2021 – 3,000,000 options) as their impact was anti-dilutive.

24. 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 private companies that are controlled by a director or officer.

Lease liabilities includes \$4.1 million (2021 - \$4.7 million) relating to leases with a related party. Principal payments for these unsecured lease liabilities and associated interest accretion for the year ended December 31, 2022 were \$0.9 million (2021 - \$0.9 million).

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and executive management of the Company. For the year ended December 31, 2022, remuneration of \$1,621 (2021 - \$1,328) included \$1,508 of salaries and short-term benefits and \$113 of share-based compensation (2021 - \$1,328 and nil, respectively), which were paid to key management. Directors and key management own 38% of the Company.

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25. Supplemental cash flow information

Changes in non-cash working capital items comprise the following:

	2022	2021
<i>Changes in non-cash working capital:</i>		
Accounts receivable	(7,202)	(21,030)
Contract assets	478	(930)
Inventories	552	(132)
Prepaid expenses and deposits	(42)	203
Accounts payable and accrued liabilities	(6,288)	6,850
Contract liabilities	97	1,653
Changes in non-cash working capital	(12,405)	(13,386)
<i>Changes in non-cash working capital items from:</i>		
Operating activities	(9,848)	(12,248)
Investing activities	(2,432)	(783)
Financing activities	(125)	(355)

Property and equipment additions have been reduced by \$3,033 (2021 – \$601) for amounts not paid for at year end and included in accounts payable and accrued liabilities. In addition, refer to the table below for non-cash transactions related to lease liabilities.

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, 2020	-	1,100	20,116	59,599
<i>Changes from financing cash flows:</i>				
Proceeds	-	-	-	25,594
Repayments	-	(1,625)	(7,957)	(12,762)
Total changes from financing cash flows:	-	(1,625)	(7,957)	12,832
Additions from business acquisition (Note 6)	-	3,319	3,754	6,908
Additions during year	-	-	3,151	-
Interest accretion during the year	-	123	1,294	-
Amortization of deferred debt costs	-	-	-	179
As at December 31, 2021	-	2,917	20,358	79,518
<i>Changes from financing cash flows:</i>				
Proceeds	15,000	-	-	21,244
Repayments	-	(1,867)	(13,710)	(18,641)
Debt issue costs	(501)	-	-	(467)
Total changes from financing cash flows:	14,499	(1,867)	(13,710)	2,136
Additions from business acquisition (Note 6)	-	4,000	16,106	7,383
Additions during year	-	-	9,955	-
Interest accretion during the year	-	143	1,898	-
Amortization of deferred debt costs	77	-	-	196
Less amounts classified as equity, net of transaction costs of \$48	(2,010)	-	-	-
As at December 31, 2022	12,566	5,193	34,607	89,233

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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 an 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 Company classifies and measures its cash, accounts receivable, accounts payable and accrued liabilities at amortized cost and their fair values are not materially different from their carrying amounts due to their short-term nature.

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 remaining loans and borrowings and other liabilities are also deemed to approximate fair value as their maturity dates are short term.

The convertible debenture matures in 2027 and approximates fair value as interest is paid monthly and the rate of interest is at a market rate for similar debt instruments.

Financial risk management

The significant financial risks to which the Company is exposed are credit risk, commodity price 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 as at December 31, 2022 and 2021.

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 limits its exposure to credit risk by holding its cash with high-quality credit institutions. 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, telecommunications, public sector, real estate, utility and mining industries in Western Canada. The Company believes that there is no unusual exposure associated with the collection of accounts receivable 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, 2022, the Company had no customers that accounted for more than 10% of the consolidated sales (2021 - nil). The aging analysis of accounts receivables is as follows:

	December 31, 2022	December 31, 2021
0 to 30 days	31,128	21,425
31 to 60 days	15,750	11,599
61 to 90 days	7,035	5,580
Over 90 days	7,446	4,086
Holdbacks	430	204
Trade accounts receivable	61,789	42,894
Accrued receivables	10,480	12,903
Allowance for expected credit losses	(1,067)	(855)
Trade and accrued receivables, net of allowance	71,202	54,942
Other receivables	164	255
	71,366	55,197

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.

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As at December 31, 2022, 12.1% (2021 – 7.5%) of the Company's 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.

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

	2022	2021
Balance, beginning of the year	(855)	(688)
Increase pursuant to business combination	(805)	(219)
Receivables written off during the year	67	46
Recovery of previously written off balances	546	257
Additional allowance for expected credit losses	(20)	(251)
Balance, end of the year	(1,067)	(855)

b) *Commodity price risk*

The Company is directly affected by fluctuation in the level of exploration, energy development and production carried on by some of its customers, which is in turn dictated by numerous factors, including world energy, prices and government policies. The demand, pricing and terms for services provided by the Company depend, in part, upon the level of industry activity for Canadian and U.S. oil and natural gas exploration and development. Industry conditions are influenced by numerous factors over which the Company has no control including: the level of oil and natural gas prices, expectations about future oil and natural gas prices, the cost of exploring for, producing and delivering oil and natural gas, the discovery rates of new oil and natural gas reserves, available pipeline and other oil and natural gas transportation capacity, worldwide weather conditions, global political, military, regulatory and economic conditions, and the ability of oil and natural gas companies to raise equity capital or debt financing. The conflict between Ukraine and the Russian Federation will have a continuing impact on future commodity prices in energy, mining and agriculture. Input costs for the Company's transportation and logistics services are impacted by fluctuating commodity prices that the Company mitigates with fuel surcharges.

c) *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 syndicate term loan (Note 14) bear interest at variable rates based on the bank's prime lending rate and/or the bankers' acceptance rate plus 2.0% to 3.3%. The co-lend term loan and the subordinate working capital loan bear interest at the bank's prime lending rate plus 4.3% and BDC's floating base rate less 1.8% respectively. 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, 2022, with other variables unchanged, an increase or decrease of 1% in interest rates would impact income before income taxes by approximately \$1.1 million (2021 - \$0.8 million).

d) *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 US dollar purchases and US dollar sales transactions and has assets and liabilities that are denominated in US dollars and thus is exposed to financial risk of earnings fluctuations arising from changes in exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to US dollar currency risk. As at December 31, 2022, with other variables unchanged, an increase or decrease of 1% in foreign exchange rates would impact income before income taxes by approximately \$0.1 million (2021 - \$0.1 million).

e) *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.

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Management monitors liquidity using cash flow and debt covenant compliance forecasts, along with monitoring the availability of undrawn borrowing facilities.

As at December 31, 2022, the Company had determined that it was in compliance with all its covenants. The Company's borrowings are also subject to a borrowing base calculation. The amounts outstanding under the operating loan and revolving facility must be below the Borrowing Base amount. As at December 31, 2022, the Company had access to \$7.5 million of undrawn borrowing facilities, which expire on May 31, 2025.

As at December 31, 2022, significant liabilities of the Company include the operating loan, trade accounts payable and accrued liabilities, loans and borrowings, lease liabilities, convertible debenture and other liabilities. Contractual maturities for financial liabilities on an undiscounted basis, including interest and principal as at December 31, 2022 were as follows:

Due Within	Operating loan ¹	Loans and borrowings	Other liabilities	Convertible debenture	Lease liabilities	Total
One year	40,388	17,524	2,834	1,109	12,474	74,329
Two years	-	14,447	1,602	1,109	9,973	27,131
Three years	-	64,489	1,017	1,109	7,231	73,846
Four years	-	2,294	-	1,109	5,303	8,706
Five years	-	982	-	15,209	3,656	19,847
Thereafter	-	-	-	-	4,719	4,719
	40,388	99,736	5,453	19,645	43,356	208,578

(1) Operating loan and accounts payable and accrued liabilities

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, loans and borrowings, other liabilities, and convertible debenture less cash. The Company continues to manage towards a more balanced split between the level of net debt and shareholders' equity in order to facilitate 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 reacquire shares, acquire or dispose of assets, adjust the amount of cash 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 secured credit facilities (Note 14).

28. Segmented information

The Company has two reportable segments described as Engineering and Environmental Consulting ("Environmental Consulting") and Environmental Services. 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.

- 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.

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- 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 "Other" segment is comprised of corporate costs and other minor operations.

Financial information regarding the results of each reportable segment is included below. Performance is measured based on operating profit before depreciation and amortization, and follows the organization, management and reporting structure of the Company. Operating profit before depreciation and amortization is one of the primary benchmarks used by management to evaluate the performance of its operating segments. Operating profit before depreciation and amortization is calculated as gross profit less general and administrative expenses.

	For the Year ended Dec 31, 2022			
	Environmental Consulting	Environmental Services	Other	Total
Gross revenue	104,604	151,332	1,225	257,161
Less flow through subcontractor costs	38,783	-	-	38,783
Net revenue	65,821	151,332	1,225	218,378
Operating profit (loss) before depreciation and amortization	10,653	26,025	(4,493)	32,185
Depreciation and amortization	1,538	18,500	338	20,376
Operating profit (loss)	9,115	7,525	(4,831)	11,809
Other information				
Expenditures for additions to :				
Property and equipment	261	15,783	154	16,198
Intangibles	-	7,700	-	7,700

As as December 31, 2022	Environmental Consulting	Environmental Services	Other	Total
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

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	For the Year ended Dec 31, 2021			
	Restated (Note 29)			
	Environmental Consulting	Environmental Services	Other	Total
Gross revenue	74,541	107,771	2,737	185,049
Less flow through subcontractor costs	25,611	-	-	25,611
Net revenue	48,930	107,771	2,737	159,438
Operating profit (loss) before depreciation and amortization	8,488	22,438	(4,690)	26,236
Depreciation and amortization	1,696	16,839	1,086	19,621
Operating profit (loss)	6,792	5,599	(5,776)	6,615
Other information				
Expenditures for additions to :				
Property and equipment	876	8,558	362	9,796
Intangibles	-	1,630	-	1,630
As as December 31, 2021	Environmental Consulting	Environmental Services	Other	Total
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	74,501	136,874

29. 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 consolidated statement of net income and comprehensive income for the year ended December 31, 2021.

	As previously reported	Adjustment	As restated
Gross revenue	-	185,049	185,049
Less flow through subcontractor costs	-	25,611	25,611
Net revenue	159,438	-	159,438

There is no impact to the Company's statement of financial position as at December 31, 2021, 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 year ended December 31, 2021.