

# Vertex Resource Group Ltd.

## Management's Discussion and Analysis

For the three and twelve months ended December 31, 2022, and 2021

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*The following Management's Discussion and Analysis ("MD&A") is dated March 21, 2023, and is a discussion of the consolidated financial position and results of Vertex Resource Group Ltd. ("Vertex" or the "Company") for the three and twelve months ended December 31, 2022 and 2021, and should be read together with Vertex's annual audited consolidated financial statements and accompanying notes (the "Annual Financial Statements") for the year ended December 31, 2022, and the Annual Information Form ("AIF") for the same year filed on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com). All dollar amounts in this MD&A are in thousands of Canadian dollars, except per share amounts or unless otherwise stated.*

*This MD&A, the Annual Financial Statements and 2021 comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and accounting policies have been applied consistently to all periods presented, except as noted in Section 6.11. The policies applied are also Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises in Canada. This MD&A contains forward looking information and reference should be made to Section 9.0 Forward-Looking Information.*

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### 1.0 Executive Overview

Vertex is a TSX Venture Exchange publicly traded environmental services company providing industry leading solutions to a diverse range of clients across Canada and within select regions of the United States. Vertex helps its clients achieve their developmental and operational goals through a versatile suite of integrated services. From initial site selection, consultation, and regulatory approval, through the construction, operation and maintenance phases, to conclusion and environmental cleanup, Vertex offers services throughout the life cycle of its clients' projects. The Company services a wide array of high-quality customers operating in numerous industries, and Vertex trades under the symbol "VTX".

The Company has two reportable segments:

#### **Environmental Consulting**

Through Vertex's Environmental Consulting segment, the Company provides 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.

#### **Environmental Services**

Through Vertex's Environmental Services segment, the Company provides a variety of services related to transportation, removal, storage, 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.

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### 2.0 Fourth Quarter Operational and Financial Highlights

Vertex had a strong conclusion to a very busy and successful year. The fourth quarter of 2022 closed with a strong backlog of projects for both operating segments as customers across all business lines are budgeting spending at or above 2022 levels.

#### Fourth quarter highlights:

Vertex achieved the highest net revenue for any quarter in company history at \$59.8 million.

Profit margin increased to \$12.6 million in the quarter compared to \$11.0 million in Q4 2021.

Record fourth quarter adjusted EBITDA<sup>1</sup> of \$7.6 million compared to \$6.4 million in Q4 2021.

Free cash flow<sup>1</sup> generated was \$4.4 million in the quarter compared to \$4.2 million in Q4 2021.

	Three months ended	
	December 31,	
	2022	2021
		Restated (Section 6.11)
<b>Gross revenue</b>	<b>71,666</b>	59,953
Less flow through subcontractor costs	<b>11,825</b>	13,877
<b>Net revenue</b>	<b>59,841</b>	46,076
Direct costs	<b>47,204</b>	35,107
<b>Profit margin</b>	<b>12,637</b>	10,969
General and administrative expenses	<b>5,081</b>	4,560
Depreciation and amortization	<b>6,166</b>	4,702
Finance costs	<b>2,970</b>	1,508
Share-based compensation	<b>50</b>	-
<b>(Loss) income before taxes</b>	<b>(1,630)</b>	199
Income tax recovery	<b>(335)</b>	(1,187)
<b>Net (loss) income for the period</b>	<b>(1,295)</b>	1,386
<b>Other comprehensive income</b>		
Foreign currency translation adjustment, net of tax	<b>4</b>	(1)
<b>Total comprehensive (loss) income for the period</b>	<b>(1,291)</b>	1,385
<b>ADJUSTED EBITDA<sup>(1)</sup></b>		
Environmental Consulting	<b>2,850</b>	2,367
Environmental Services	<b>4,979</b>	5,337
Other	<b>(273)</b>	(1,295)
	<b>7,556</b>	6,409

(1) See Non-IFRS Financial Measures - Section 8.0

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### 3.0 Annual Operational and Financial Highlights

During the year, the global economy has maintained a steady demand for services as customers across multiple industries are mindful of energy transition, resulting in spending on projects related to managing environmental liabilities and projects related to achieving a lower carbon footprint. Industrial plant and facility maintenance has resumed to historical levels and intervals. Lastly, high commodity prices coupled with global supply uncertainty continues to spur activity for those involved in energy security.

Vertex's acquisitions in the year, combined with cross-selling and integration efforts have helped to grow the record revenue in the quarter and for the fiscal year end.

#### Annual highlights:

Net revenue of \$218.4 million, an increase of 37% from \$159.4 million in 2021, is the highest revenue achieved in the Company's operating history.

Adjusted EBITDA<sup>1</sup> of \$32.2 million compared to \$26.2 million in 2021, is also the highest in the Company's history.

Reported net income of \$2.0 million in 2022 compared to \$1.7 million in the prior year.

Free cash flow<sup>1</sup> generated was \$23.5 million compared to \$21.8 million in 2021.

Completed the second quarter acquisition of Cordy Oilfield Services Inc. ("Cordy") and the third quarter acquisition of Young EnergyServe Inc. ("Young"). These acquisitions, combined with our existing operations will result in a transformational change for our Environmental Services segment.

The Company extended the maturity date of its secured credit facilities to May 31, 2025, increased the revolving loan commitment by \$10.0 million and increased the syndicated term loan by \$10.0 million.

During the year, Vertex issued a \$15.0M convertible debenture, with a term of 5 years, 8.0% annual interest paid monthly, at a conversion price of \$0.65.

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### 3.1 Annual Select Financial Information

	<b>2022</b>	2021
		Restated (Section 6.11)
<b>Gross revenue</b>	<b>257,161</b>	185,049
Less flow through subcontractor costs	<b>38,783</b>	25,611
<b>Net revenue</b>	<b>218,378</b>	159,438
Direct costs	<b>166,127</b>	117,150
<b>Profit margin</b>	<b>52,251</b>	42,288
General and administrative expenses	<b>20,066</b>	16,052
Depreciation and amortization	<b>20,376</b>	19,621
Finance costs	<b>8,875</b>	6,057
Share-based compensation	<b>200</b>	-
<b>Income before taxes</b>	<b>2,734</b>	558
Income tax expense (recovery)	<b>692</b>	(1,100)
<b>Net income for the year</b>	<b>2,042</b>	1,658
<b>Other comprehensive income</b>		
Foreign currency translation adjustment, net of tax	<b>16</b>	(4)
<b>Total comprehensive income for the year</b>	<b>2,058</b>	1,654
<b>Net income per share</b>		
Basic and diluted	<b>0.02</b>	0.02
<b>Weighted average number of shares outstanding for the purpose of calculating earnings per share</b>		
Basic and diluted	<b>105,663,931</b>	<b>91,253,115</b>

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	December 31,	
	2022	2021
Total assets	254,424	186,570
Total loans and borrowings and secured lease liabilities, less cash	103,765	87,073
<b>ADJUSTED EBITDA <sup>(1)</sup></b>		
Environmental Consulting	10,653	8,488
Environmental Services	26,025	22,438
Other	(4,493)	(4,690)
	32,185	26,236

(1) See Non-IFRS Financial Measures - Section 8.0

#### 4.0 Outlook

2022 was an excellent year for Vertex with the results being driven by operational efficiencies, realized synergies from our previous acquisitions, strong, stable commodity pricing, as well as the gradual return to pre-COVID activity levels. Our outlook for 2023 is that North American economies will continue to benefit from favourable commodity prices in energy, utilities, agriculture and forestry. In addition, we have major capital projects from multiple midstream, utilities/telecommunications, municipal infrastructure and energy transition projects in 2023 and 2024.

Vertex is well positioned for 2023 earnings growth with strong secured backlog, and increased demand for our services which is increasing our utilization of equipment and staff. The two acquisitions completed in 2022 will contribute to Vertex's growth in 2023 and beyond. The benefits of these acquisitions will be impactful in 2023 providing additional free cashflow generation through savings from integration, elimination of duplicate corporate office costs and by increasing the utilization of the equipment fleet and personnel.

The current trend towards less carbon-intensive energy sources is presenting new opportunities for Vertex. Vertex is working closely with several of our Indigenous Partners and customers to advance projects that reduce atmospheric carbon emissions, enhance biodiversity, carbon sequestering, utilize or convert to wind or solar, renewable natural gas (RNG), biofuels, helium and emerging hydrogen opportunities.

Vertex's future outlook is positive with commodity prices supporting maintenance and development activity as well as the continued strengthening of environmental legislation in both Canada and the United States resulting in increased asset retirement liabilities being addressed. Further government and industry initiatives around energy transition and lowering carbon intensity are providing Vertex with numerous opportunities for our solutions and services. Vertex continues to demonstrate the strength and resiliency of our business model and is in an enviable position to facilitate further growth through cross-selling of our services throughout the life-cycle of our client's projects in a variety of industries.

Vertex's vision of being a world-leading environmental services company has not changed. As an environmental service business, we believe we are uniquely positioned for ESG performance. We understand that we have a responsibility to maximize our internal ESG performance and have made a corporate commitment to do so. More substantially, we understand that our opportunity to support the ESG initiatives of our customers has a significantly broader global impact. As such our ESG system design includes both an internal and a customer focus. As our ESG journey evolves so too will our measurement and reporting, holding ourselves accountable to

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internal and customer metrics. Ultimately, our intent is to create business resiliency by becoming a primary source of executable ESG supply chain solutions for our customers.

### 5.0 Results from Operations

#### 5.1 Gross and net revenue

The following tables sets forth gross and net revenue by reportable operating segments for the following years:

	Year ended		Variance	
	December 31,	2021	\$	%
Gross revenue	2022			
Environmental Consulting	104,604	74,541	30,063	40.3%
Environmental Services	151,332	107,771	43,561	40.4%
Other	1,225	2,737	(1,512)	-55.2%
Gross revenue	257,161	185,049	72,112	39.0%

	Year ended		Variance	
	December 31,	2021	\$	%
Net Revenue	2022			
Environmental Consulting	65,821	48,930	16,891	34.5%
Environmental Services	151,332	107,771	43,561	40.4%
Other	1,225	2,737	(1,512)	-55.2%
Net revenue	218,378	159,438	58,940	37.0%

Gross revenue for the year ended December 31, 2022, increased by \$72.1 million or 39% driven by activity in the Environmental Consulting segment related to government sponsored site rehabilitation programs. These programs had an end date of December 31, 2022 for customers to submit their record of qualifying program work.

Net revenue for the year ended December 31, 2022, increased by \$58.9 million or 37% due to increased industry activity through the year as well as contributions from the acquisitions in 2022 and 2021.

Net revenue for the Environmental Consulting segment increased by \$16.9 million compared to 2021. The increase was due to high demand for services related to remediation, abandonment and new development projects in various industries including energy transition.

The Environmental Services segment generated 40% higher net revenues compared to 2021 due to strong demand for services resulting in high equipment utilization combined with additional volume from the acquisitions completed in the second and third quarters. The segment sustained a more consistent level of revenues throughout the year compared to 2021, which saw intermittent COVID-19 closures or restrictions on work sites in the first half of 2021.

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### 5.2 Profit Margin

	Year ended December 31,		Variance	
	2022	2021	\$	%
Profit margin	52,251	42,288	9,963	23.6%
Profit margin as a % of net revenue	23.9%	26.5%	-2.6%	-9.8%

Vertex experienced a strong demand for services all year which led to general rate increases, fuel surcharges, fair price adjustments and strong equipment and personnel utilization. Offsetting the positive impact in demand for services was rising input and supply chain costs which management continues to aggressively manage.

Reported profit margin in the year ended 2021 includes wage subsidies of \$2.7 million compared to nil in 2022.

### 5.3 General and Administrative Expenses (G&A)

	Year ended December 31,		Variance	
	2022	2021	\$	%
G&A	20,066	16,052	4,014	25.0%
G&A as a % of net revenue	9.2%	10.1%	-0.9%	-8.7%

G&A increased by \$4.0 million due to additional support and facility costs related to the two acquisitions, and personnel costs related to volume demands of a recovering economy. G&A as a % of net revenue decreased year over year.

### 5.4 Adjusted EBITDA

	Year ended December 31,		Variance	
	2022	2021	\$	%
Environmental Consulting	10,653	8,488	2,165	25.5%
Environmental Services	26,025	22,438	3,587	16.0%
Other	(4,493)	(4,690)	197	-4.2%
Adjusted EBITDA	32,185	26,236	5,949	22.7%
Adjusted EBITDA <sup>(1)</sup> as a % of net revenue	14.7%	16.5%	-1.7%	-10.4%

(1) See Adjusted EBITDA definition Section 8.0.

Adjusted EBITDA finished the year at \$32.2 million the highest level in the Company's history. The increase is due to steady demand for services, rate increases, contributions from acquisitions, realized integration savings from acquisitions and an overall recovery in the markets where the Company provides services.

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### 5.5 Other Items

	Year ended December 31,		Variance	
	2022	2021	\$	%
Depreciation and amortization	20,376	19,621	755	3.8%
Finance costs	8,875	6,057	2,818	46.5%
Share-based compensation	200	-	200	0.0%
<b>Total</b>	<b>29,451</b>	<b>25,678</b>	<b>3,773</b>	<b>14.7%</b>

Depreciation and amortization increased by \$0.8 million to \$20.4 million for 2022 as both acquisitions completed during the year added property and equipment and amortizing intangible assets as well as full year depreciation and amortization on the 2021 acquisition.

Financing costs increased by \$2.8 million year over year as prime lending rates were increased numerous times. In addition, both acquisitions came with additional borrowings and the convertible debenture was added in Q1 2022. While debt levels have increased from the previous period debt leverage has improved as noted in Section 6.5.

### 5.6 Net Income for the Year

	Year ended December 31,		Variance	
	2022	2021	\$	%
Net income for the year	2,042	1,658	384	-23.2%

Net income for the year increased by \$0.4 million due to improved profitability which was offset by increasing finance costs.

### 5.7 Summary of Quarterly Results

(\$000 except per share amounts)	2022				2021			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
		Restated (Section 6.11)				Restated (Section 6.11)		
Gross revenue	71,666	67,846	62,854	54,795	59,953	47,392	39,788	37,916
Net revenue	59,841	59,139	53,969	45,429	46,076	42,284	38,130	32,948
Net income (loss)	(1,295)	2,477	1,600	(740)	1,386	649	194	(571)
Basic and diluted income (loss) per share	(0.01)	0.02	0.02	(0.01)	0.02	0.01	0.00	(0.01)
Adjusted EBITDA <sup>(1)</sup>	7,556	10,412	8,557	5,660	6,409	7,633	7,539	4,655

(1) See Adjusted EBITDA definition Section 8.0.

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### 6.0 Liquidity and Capital Management

The following table sets forth the Company's cash flow by activity for the following years:

	Year ended December 31,	
	2022	2021
Cash provided by operating activities	21,441	12,958
Cash used in investing activities	(12,838)	(11,535)
Cash used in financing activities	(6,028)	(1,419)
	<b>2,575</b>	-

The Company expects to generate sufficient cash flows from operations and continues to access its credit facilities to meet contractual obligations, planned expenditures, and growth initiatives as they are required. The Company typically utilizes its available committed operating loans and equipment lease lines which provide more than \$13 million to fund working capital requirements and planned expenditures.

#### 6.1 Cash Provided by Operating Activities

Cash provided by operating activities before non-cash working capital items was \$31.3 million during 2022, an increase of \$6.0 million from \$25.3 million during 2021. This improvement was further improved by a reduction of the impact of non-cash working capital year over year as a ramp up of activity elevated the working capital requirement in fiscal 2021.

#### 6.2 Cash Used in Investing Activities

Cash used in investing activities was \$12.8 million during 2022, an increase of \$1.4 million from the cash used in investing activities of \$11.4 million during 2021. Net capital expenditures were \$10.2 million, up from 6.3 million in 2021 as activity dictated an increase to replacement capital expenditures on property and equipment, as well as, rising property and equipment costs due to inflation. The net cash outlay for the two acquisitions in 2022 was \$0.3 million.

#### 6.3 Cash Used in Financing Activities

Cash used in financing activities was \$6.0 million during 2022, an increase of \$5.3 million from cash used by financing activities of \$0.7 million during 2021. Cash generated from operations was applied to reduce debt obligations during the year.

#### 6.4 Adjusted Working Capital

	December 31, 2022	December 31, 2021
Current assets	82,073	63,442
Current liabilities (excluding current portion of loans and borrowings, other liabilities, and lease liabilities)	43,321	31,611
Adjusted Working Capital <sup>1</sup>	38,752	31,831

(1) See Non-IFRS Financial Measures - Section 8.0

Adjusted working capital at year end 2022 was \$38.7 million, an increase of \$6.9 million from December 31, 2021. The increase is a result of executing work related to government sponsored programs in both 2022 and 2021 for abandoned site rehabilitation programs, programs that were working capital intensive. The two

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acquisitions in 2022 also had the impact of increasing both current assets and current liabilities as Vertex integrated the additional operations and the related balance sheet accounts in the year.

### 6.5 Credit Facilities

	December 31, 2022	December 31, 2021
Revolving and operating loans:		
Committed revolving and operating facilities	45,000	35,000
Drawn on revolving and operating facilities	37,500	30,400
Available revolving and operating facilities	7,500	4,600

Debt as of December 31, 2022, consisted of the items noted in Section 6.6 Commitments and Contingencies.

In 2022, the total secured 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 General Security Agreement over all assets of the Company.

During the year, the Company amended its secured syndicate credit facilities and the salient features are as follows: a) the maturity date was extended to May 31, 2025, b) \$10.0 million was added to the syndicate term loan and; c) ratios were revised for existing covenants.

As described in Note 15 in the consolidated financial statement for 2022, on March 7, 2022, the Company completed a \$15 million, non-brokered private placement of a subordinated convertible debenture. The proceeds were used for general corporate purposes including future acquisitions.

**At December 31, 2022, the following terms were in effect:**

#### Syndicate Credit Facilities

The revolving loan and 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 secured overnight financing rate ("SOFR") loans plus stamping fees of 2.0%-3.3%. 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 EBITDA ratio for the preceding quarter.

In addition to the scheduled principal payments, the syndicate term loan includes an additional principal payment based on an annual excess cash flow calculation. The excess cash flow calculation is applicable if the funded debt to EBITDA ratio as at December 31, 2022 exceeds 2.75:1.00. At year-end the excess cash flow calculation will result in an additional payment required 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 at December 31, 2022.

The syndicate facilities include a secured operating facility authorized to a maximum of \$5.0 million to be used for general corporate purposes. The operating loan may be borrowed, repaid and re-borrowed on a revolving basis from the closing date until the maturity date. To the extent funds are drawn on the operating facility, they will bear interest at rates ranging from HSBC's CAD prime rate or USD base rate plus 1.0%-2.3%.

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The syndicate credit facilities are subject to financial covenants noted below.

### Debt Covenants

Trailing twelve-month bank EBITDA (defined below) includes various adjustments as approved by the syndicate of lenders, when calculating covenants. Bank EBITDA was \$33.8 million for the trailing twelve months ending December 31, 2022.

All loans are being provided in Canadian dollars and are subject to the following financial covenants, except for the subordinate working capital loan:

- The ratio of consolidated syndicated indebtedness to trailing bank EBITDA, calculated on a trailing 12-month basis,
- The ratio of consolidated senior indebtedness to trailing bank EBITDA, calculated on a trailing twelve-month basis,
- The ratio of net cash flow to fixed charges, the fixed charge coverage ratio, calculated on a rolling 4-quarter basis.

The relevant definitions of key ratio terms set forth in Credit Facility is as follows:

- Consolidated syndicated indebtedness is defined as bank indebtedness, the outstanding balance of the revolving loan, the outstanding principal balance of the senior term loan, and principal portions of any equipment loans and secured lease liabilities.
- Consolidated senior indebtedness is defined as consolidated syndicated indebtedness plus any outstanding principal balance of the BDC Co-lend loan.
- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill/intangible impairment, stock-based compensation, and other gains and losses not considered reflective of underlying operations. Trailing 12-month EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA.
- Net cash flow is defined as EBITDA reduced by net capital expenditures and cash taxes.
- Fixed charges are calculated as interest expense plus scheduled principal payments of indebtedness during the 12-month trailing period.

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

	Target	December 31, 2022	2021
<i>Credit facilities</i>			
Funded debt to EBITDA	< 3.50 : 1	<b>3.03</b>	3.81
Net syndicate funded debt to EBITDA	< 3.25 : 1	<b>2.90</b>	3.56
Fixed charge coverage ratio	> 1.20 : 1	<b>1.44</b>	1.45

### 6.6 Commitments and Contingencies

As part of the Company's normal operations, it often enters into contracts, such as leases and purchase contracts, which obligate the Company to make disbursements in the future. Contractual maturities for financial liabilities on an undiscounted basis, including interest and principal at December 31, 2022 are as follows:

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

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(1) Operating loan and accounts payable and accrued liabilities

### Legal Claims

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and other third parties. Management believes that adequate provisions have been made for potential claims in the Company's accounts. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Company.

### Off-Balance Sheet Arrangements

As at December 31, 2022 and 2021, the Company did not have any off-balance sheet arrangements.

### 6.7 Capital Expenditures

The Company's net capital expenditures were in line with the Company's approved capital plan for 2022 in response to a recovering economic climate. The Company undertakes to sell any under-utilized assets that cannot be redeployed in other geographical locations in order to improve utilization. In 2022, the Company sold \$3.6 million worth of capital assets compared to \$2.8 million for 2021.

### 6.8 Credit Risk

The Company's gross and net 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 – no customers). The aging analysis of accounts receivable is as follows:

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	2022	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

### 6.9 Outstanding Share Data

As of the date of this MD&A, the Company had 115,620,890 common shares outstanding. As of the same date, the Company had outstanding 2,400,000 stock options to purchase up to an aggregate of 2,400,000 common shares.

### 6.10 Transactions with Related Parties

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.

### 6.11 Restatement of comparative period

As noted in Note 29 in the consolidated financial statements.

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.

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### 7.0 Critical Accounting Judgments, Estimates and Accounting Policy Developments

#### 7.1 Critical Judgments And Estimates in Applying the Company's Accounting Policies

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of revenues and expenses during the reporting period, as well as the disclosures of contingent assets and liabilities. Accordingly, actual results could differ from these estimates and judgments.

The Company has:

- continuously refined and documented its management and internal reporting systems to ensure that accurate and timely internal and external information is gathered and disseminated. Management also regularly evaluates these estimates and assumptions, which are based on past experience and other factors that are deemed reasonable under the circumstances; and
- hired employees and consultants who have the skills required to make such estimates and ensures that employees or departments with the most knowledge of the activity are responsible for the estimates. Furthermore, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

The Company's summary of significant accounting policies, estimates and critical judgements are contained in note 5 to the consolidated financial statements.

#### 7.2 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.

#### 7.3 Financial Instruments

The Company considers managing risk as being an integral part of its development and diversification strategies. The Company uses a proactive and rigorous approach for management of the financial risks to which it is exposed.

The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

The Company's most significant financial risk exposure and its financial risk management policies are discussed in Note 26 to the Annual Financial Statements.

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### 8.0 Non-IFRS Financial Measures

This release includes certain terms or performance measures that are not defined under International Financial Reporting Standards ("IFRS"), including "Adjusted EBITDA". The data presented is intended to provide additional information that should not be considered in isolation or as a substitute measure of performance prepared in accordance with IFRS. The non-IFRS measures should be read in conjunction with the Company's financial statements and accompanying notes.

**A) "Adjusted EBITDA"** is a non-IFRS financial measure which is calculated by adjusting net income (loss) for the sum of income taxes, finance costs including interest accretion on lease liabilities, depreciation of property and equipment and right of use assets, amortization of intangible assets, share-based compensation, restructuring costs and impairment. The Company uses Adjusted EBITDA as an indicator of its principal business activities operational performance prior to consideration of how its activities are financed and the impact of taxation, non-cash depreciation and amortization, restructuring costs and other non-cash expenses such as impairments required under IFRS. Adjusted EBITDA does not have a standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures provided by other companies. Adjusted EBITDA is used by many analysts as an important analytical tool and management of Vertex believes it is useful for providing readers with additional clarity on Vertex's operational performance. This measure is also considered important by the Company's lenders in determining compliance by the Company with the financial covenants under its lending arrangements.

	Three months ended		Year ended	
	December 31,		December 31,	
	2022	2021	2022	2021
<b>Net income (loss) for the period</b>	<b>(1,295)</b>	1,386	<b>2,042</b>	1,658
<b>Add:</b>				
Depreciation and amortization	<b>6,166</b>	4,702	<b>20,376</b>	19,621
Finance costs	<b>2,970</b>	1,508	<b>8,875</b>	6,057
Share-based compensation	<b>50</b>	-	<b>200</b>	-
Income tax expense (recovery)	<b>(335)</b>	(1,187)	<b>692</b>	(1,100)
<b>ADJUSTED EBITDA</b>	<b>7,556</b>	6,409	<b>32,185</b>	26,236
Environmental Consulting	<b>2,850</b>	2,367	<b>10,653</b>	8,488
Environmental Services	<b>4,979</b>	5,337	<b>26,025</b>	22,438
Other	<b>(273)</b>	(1,295)	<b>(4,493)</b>	(4,690)
	<b>7,556</b>	<b>6,409</b>	<b>32,185</b>	26,236

**B) "Free cash flow"** is a non-IFRS financial measure which is calculated by reducing adjusted EBITDA by maintenance capital expenditures net of disposal proceeds.

Adjusted EBITDA	<b>7,556</b>	6,409	<b>32,185</b>	26,236
Maintenance capex	<b>(3,868)</b>	(3,110)	<b>(12,282)</b>	(7,263)
Proceeds from disposal of property and equipment	<b>757</b>	928	<b>3,633</b>	2,831
	<b>4,445</b>	4,227	<b>23,536</b>	21,804

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C) "Adjusted Working Capital" is a non-IFRS financial measure which is calculated by reducing current liabilities by the current portion of loans and borrowings, lease liabilities and other liabilities.

	December 31, 2022	December 31, 2021
Current assets	82,073	63,442
Current liabilities	74,176	58,530
Current portion of loans and borrowings	(18,508)	(18,433)
Current portion of lease liabilities	(9,711)	(7,096)
Current portion of other liabilities	(2,636)	(1,390)
Current liabilities (excluding current portion of loans and borrowings, lease liabilities, and other liabilities)	43,321	31,611
Adjusted working capital	38,752	31,831

### 9.0 Forward-Looking Information

Any "financial outlook" or "future oriented financial information" in this MD&A, as defined by applicable securities laws, has been approved by management of Vertex. Such financial outlook or future oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other circumstances.

Certain statements contained in this document constitute "forward-looking information". When used in this document or by any of the Company's management, the words "may", "would", "will", "intend", "plan", "propose", "anticipate" and "believe" are intended to identify forward-looking information. In particular, but without limiting the foregoing, this document contains forward-looking information and statements pertaining to the following: the Company's key strategies, objectives and competitive strengths; anticipated expenses; the Company's ability to integrate and capitalize on underutilized equipment through cross-selling opportunities across service lines and reducing redundant costs in 2023; growth opportunities in 2023; supply and demand for the Company's services; anticipated savings in 2023; activity levels in the oil and gas industry and other industries in which the Company operates; annual gross maintenance capital expenditures for 2023; future development activities; and the Company's ability to retain existing clients and attract new business, particularly business outside of the oil and gas industry. Such statements reflect the Company's forecasts, estimates and expectations, as they relate to the Company's current views based on its experience and expertise with respect to future events, and are subject to certain risks, uncertainties, and assumptions.

The forward-looking information and statements contained in this document reflect several material factors and expectations and assumptions of the Company, including, without limitation: that the Company will continue to conduct its operations in a manner consistent with past operations; positive future trends in revenue, gross profit margin, Adjusted EBITDA, Bank EBITDA and net income; the general continuance of current or, where applicable, assumed industry conditions; the mix of revenue from non-oil and gas customers in 2023; pricing of the Company's services; the Company's ability to market successfully to current and new clients; the Company's ability to obtain qualified personnel and equipment in a timely and cost-effective manner; the Company's future debt levels; the impact of competition on the Company; the Company's ability to obtain financing on acceptable terms; the general continuance of current or, where applicable, assumed industry conditions; the continuance of existing tax, royalty and regulatory regimes; the impact of seasonal weather conditions; client activity levels; anticipated market recovery; the Company's

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anticipated business strategies and expected success; the Company's ability to utilize its equipment; levels of deployable equipment; and future sources of funding for the Company's capital program.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements, including, without limitation: volatility of the oil and natural gas industry; dependence on customer contracts and market acceptance; the Company's growth strategy may not achieve anticipated results; potential litigation claims; difficulty in attracting and retaining skilled personnel; adverse litigation judgments, settlements and exposure to liability resulting from legal proceedings could reduce profits of limit Vertex's ability to operate; the market for Vertex's products and services is subject to extensive government and regulatory approvals; health, safety and environment laws and regulations may require the Company to make substantial expenditures or cause it to incur substantial liabilities; the Company may fail to realize anticipated benefits of future acquisitions; Vertex's indebtedness may adversely affect its financial flexibility and competitive position; competition in the industries in which Vertex operates; downturns in general economic and market conditions; operational hazards and unforeseen interruptions for which Vertex may not be adequately insured; positive covenants in Vertex's material contracts could limit its ability to operate; third part credit risk; conservation measures and technological advances may reduce demand for hydrocarbons; loss of the Company's information and computer systems or cyber-attacks; director and officer conflicts of interest; a reassessment by tax authorities of Vertex's income calculations; volatility in the price of the Common Shares; and the risk factors set forth under the heading "Risk Factors" in the AIF.

Vertex's business is subject to a number of risks and uncertainties. Readers are encouraged to review and carefully consider the risk factors described in the AIF, which risk factors are specifically incorporated by reference herein.

The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A. The Company does not intend and does not assume any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments, unless required by law.

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### 10.0 Additional Information

Additional information, including the AIF, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.vertex.ca](http://www.vertex.ca).