

# Vertex Resource Group Ltd.

## Management's Discussion and Analysis

For the three and twelve months ended December 31, 2023, and 2022



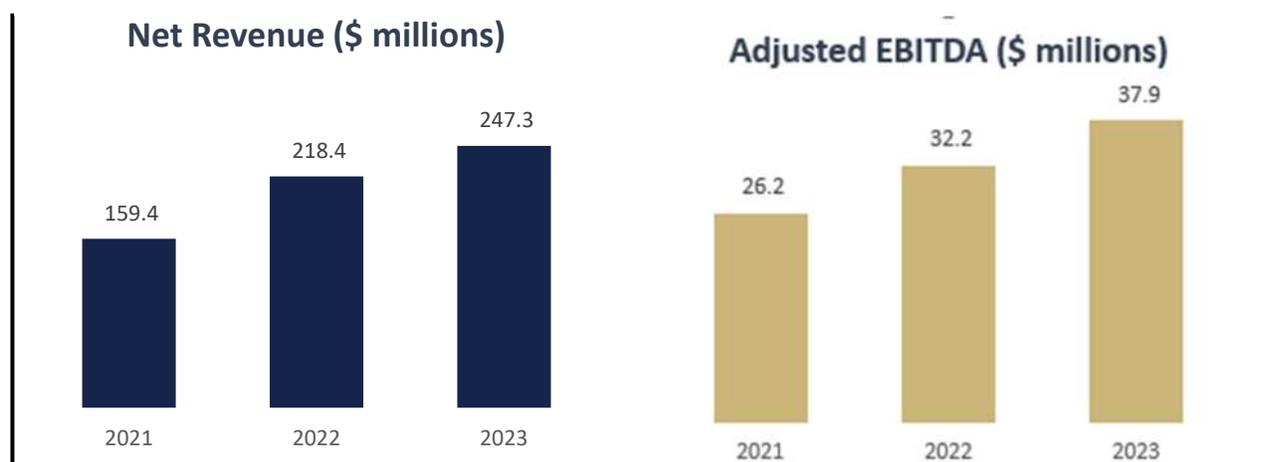
The following Management's Discussion and Analysis ("MD&A") is dated March 26, 2024, and is a discussion of the consolidated financial position and results of Vertex Resource Group Ltd. ("Vertex" or the "Company") for the three and twelve months ended December 31, 2023 and 2022, and should be read together with Vertex's annual audited consolidated financial statements and accompanying notes (the "Annual Financial Statements") for the year ended December 31, 2023, and the Annual Information Form ("AIF") for the same year filed on the SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca). 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 2022 comparative information have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standard Board ("IFRS"), which 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 "Forward-Looking Information".

### Highlights

(in thousands of Canadian Dollars)	Three months ended		Years ended	
	December 31,		December 31,	
	2023	2022	2023	2022
<b>Gross revenue</b>	<b>65,110</b>	71,666	<b>255,237</b>	257,161
<b>Less flow through subcontractor costs</b>	<b>3,767</b>	11,825	<b>7,978</b>	38,783
<b>Net revenue</b>	<b>61,343</b>	59,841	<b>247,259</b>	218,378
<b>Profit margin</b>	<b>12,356</b>	12,637	<b>61,684</b>	52,251
Profit margin %	<b>20%</b>	21%	<b>25%</b>	24%
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>7,772</b>	7,556	<b>37,932</b>	32,185
Adjusted EBITDA % <sup>(1)</sup>	<b>13%</b>	13%	<b>15%</b>	15%
<b>Free cash flow <sup>(1)</sup></b>	<b>4,042</b>	1,159	<b>17,810</b>	12,558
<b>Adjusted EBITDA per share, basic and diluted <sup>(1)</sup></b>	<b>0.07</b>	0.07	<b>0.33</b>	0.30
<b>Earnings (loss) per share, basic and diluted</b>	<b>(0.01)</b>	(0.01)	<b>0.02</b>	0.02

(1) See "Non-IFRS Financial Measures"



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### Fourth Quarter Operational and Financial Highlights

Vertex had a solid conclusion to a steady and successful year. The fourth quarter of 2023 closes much like the year began with visibility on upcoming projects for both operating segments as customers across all business lines are expected to spend in 2024 at levels that are consistent with last year.

#### Fourth quarter highlights:

- Vertex achieved the highest net revenue for any fourth quarter in the company's history at \$61.3 million.
- Record fourth quarter adjusted EBITDA<sup>1</sup> of \$7.8 million compared to \$7.6 million in Q4 2022.
- Free cash flow<sup>1</sup> generated was \$4.0 million compared to \$1.2 million in Q4 2022.
- Repurchased common shares throughout the fourth quarter at a weighted average of \$0.40, for total consideration of \$453. The total amount of common shares repurchased and cancelled during the fourth quarter of 2023 represents 1.0% of the total issued and outstanding common shares of the Company.

### Annual Operational and Financial Highlights

During the year, the North American economy has maintained a steady demand for services amongst customers across multiple industries. Industrial plant and facility maintenance exceeded historical levels in 2023 and is expected to return to regular intervals in 2024.

Vertex has navigated through some unforeseen difficulties this year such as a record wildfire season adversely affecting business and the Environmental Consulting segment has seen a much higher than expected drop off in asset retirement after the government site rehabilitation programs ("SRP") finished at the end of 2022. Despite these challenges, Vertex has been able to achieve growth and record income for the fiscal year.

Vertex has achieved solid growth stemming from organic growth of existing business lines coupled with cross-selling and integration from prior year acquisitions, and the expansion of new locations in the United States. This has led to record revenue for the fourth quarter and fiscal year.

#### Annual highlights:

- Net revenue of \$247.3 million, an increase of 13% from \$218.4 million in 2022, is the highest net revenue achieved in the Company's operating history.
- Adjusted EBITDA<sup>1</sup> of \$37.9 million compared to \$32.2 million in 2022, also the highest in the Company's history.
- Net revenue growth of 26% in Environmental Services which more than offset a 7% reduction in Environmental Consulting.
- Reported net income of \$2.5 million in 2023 compared to \$2.0 million in the prior year.
- Reduced loans and borrowings during the year by \$13.3 million.
- Free cash flow<sup>1</sup> generated was \$17.8 million compared to \$12.6 million in 2022.

(1) See "Non-IFRS Financial Measures"

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### **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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## Management's Discussion and Analysis

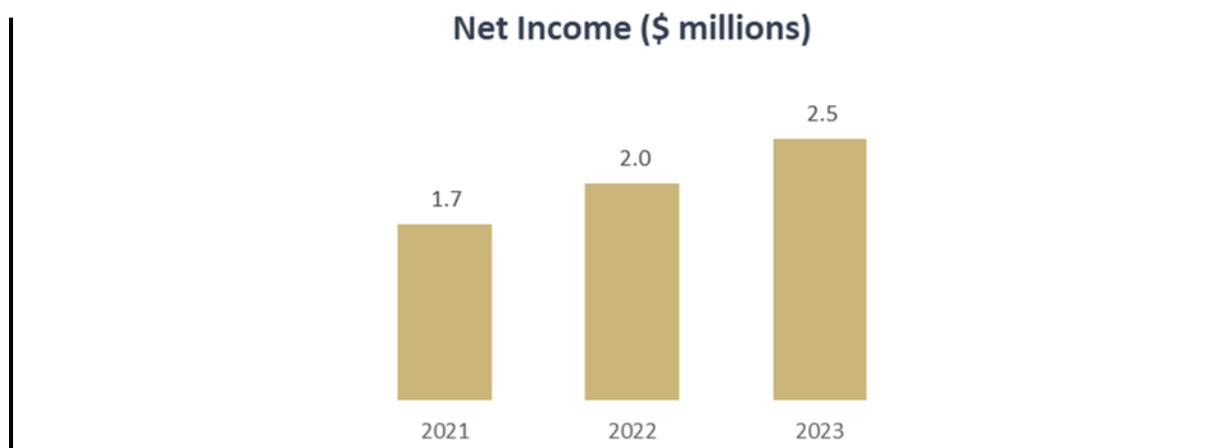
For the three and twelve months ended December 31, 2023, and 2022



### Result of Operations

	Three months ended		Years ended	
	December 31,		December 31,	
	2023	2022	2023	2022
<b>Gross revenue</b>	<b>65,110</b>	71,666	<b>255,237</b>	257,161
Less flow through subcontractor costs	<b>3,767</b>	11,825	<b>7,978</b>	38,783
<b>Net revenue</b>	<b>61,343</b>	59,841	<b>247,259</b>	218,378
Direct costs	<b>48,987</b>	47,204	<b>185,575</b>	166,127
<b>Profit margin</b>	<b>12,356</b>	12,637	<b>61,684</b>	52,251
General and administrative expenses	<b>4,584</b>	5,081	<b>23,752</b>	20,066
Depreciation and amortization	<b>6,461</b>	6,166	<b>23,619</b>	20,376
Finance costs	<b>2,728</b>	2,970	<b>11,486</b>	8,875
Share-based compensation	<b>14</b>	50	<b>164</b>	200
<b>Income before taxes</b>	<b>(1,431)</b>	(1,630)	<b>2,663</b>	2,734
Income tax expense (recovery)	<b>(107)</b>	(335)	<b>205</b>	692
<b>Net income (loss) for the period</b>	<b>(1,324)</b>	(1,295)	<b>2,458</b>	2,042
<b>Other comprehensive loss</b>				
Foreign currency translation adjustment, net of tax	<b>5</b>	4	<b>1</b>	16
<b>Total comprehensive income for the period</b>	<b>(1,319)</b>	(1,291)	<b>2,459</b>	2,058
<b>Earnings per share</b>				
Basic and diluted	<b>(0.01)</b>	(0.01)	<b>0.02</b>	0.02
<b>ADJUSTED EBITDA <sup>(1)</sup></b>				
Environmental Consulting	<b>1,561</b>	2,850	<b>7,312</b>	10,653
Environmental Services	<b>6,035</b>	4,979	<b>37,135</b>	26,025
Corporate	<b>176</b>	(273)	<b>(6,515)</b>	(4,493)
	<b>7,772</b>	7,556	<b>37,932</b>	32,185

(1) See Non-IFRS Financial Measures



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### Outlook

2023 was a solid year for Vertex with the results being driven by operational efficiencies, organic growth, and realized synergies from previous acquisitions. We believe that activity levels in 2024 will remain steady for both of our operating segments across North America. In addition to our new United States locations providing more opportunities, there are multiple major capital projects in industries in the midstream, utilities/telecommunications, and municipal infrastructure industries planned for 2024 and 2025.

Throughout 2024 Vertex will remain focused on increasing shareholder value, by continuing to drive operational efficiencies, repay debt and enhance our suite of services to meet customer demands with a disciplined approach. On August 25, 2023, Vertex received approval from the TSX Venture Exchange ("TSXV") to commence a NCIB to repurchase up to 5% of the issued and outstanding Common Shares as of August 18, 2023. To date, Vertex has repurchased and cancelled 2,934,800 common shares under its Normal Course Issuer Bid ("NCIB") at an average share price of \$0.40. The Board of Directors and management believe there is a substantive disparity between Vertex's share price and the fundamental value of the business, therefore, Vertex will continue to assess capital allocations on its NCIB against other capital expenditures to enhance customer desirability of our services.

Vertex's outlook remains positive with customer demand 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.

### Results from Operations

#### Gross and net revenue

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

	Years ended		Variance	
	2023	2022	\$	%
Environmental Consulting	69,534	104,604	(35,070)	-33.5%
Environmental Services	189,915	151,332	38,583	25.5%
Corporate	(4,212)	1,225	(5,437)	-
Gross revenue	255,237	257,161	(1,924)	-0.7%

	Years ended		Variance	
	2023	2022	\$	%
Environmental Consulting	61,556	65,821	(4,265)	-6.5%
Environmental Services	189,915	151,332	38,583	25.5%
Corporate	(4,212)	1,225	(5,437)	-
Net revenue	247,259	218,378	28,881	13.2%

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Gross revenue for the year ended December 31, 2023, decreased by \$1.9 million or 1%.

The Environmental Consulting segment experienced a significant reduction of revenue from flow through subcontractor costs related to government sponsored site rehabilitation programs. These programs had an end date of December 31, 2022, for customers to submit records of qualifying program work and returns the revenue earned from flow through costs to more historical levels. The decrease in Environmental Consulting was offset by significant growth in the Environmental Services segment as organic growth initiatives positively impacted operations and prior year acquisitions were integrated into operations for the entire fiscal year.

Net revenue for the year ended December 31, 2023, increased by \$28.9 million or 13% due to the above noted factors.

Net revenue for the Environmental Consulting segment decreased by \$4.3 million compared to 2022. The decrease was due to a lower demand for services related to remediation and abandonment after the ending of the government sponsored SRP at the end of 2022.

The Environmental Services segment generated 25.5% higher net revenues compared to 2022 due to strong demand for services, additional volume from prior year acquisitions, successful marketing efforts to new customers in the United States. The segment saw some inconsistencies in revenue levels through the spring and summer due to a record wildfire season having an adverse impact on operations and limited further growth.

Net revenue in the Corporate segment is comprised of intersegment eliminations in 2023 compared to 2022 where the Corporate segment included both intersegment eliminations and net revenue from minor operations.

### Profit Margin

	Years ended		Variance	
	2023	2022	\$	%
Profit margin	<b>61,684</b>	52,251	<b>9,433</b>	18.1%
Profit margin as a % of net revenue	<b>24.9%</b>	23.9%	<b>1.0%</b>	4.3%

Vertex experienced a steady demand for services throughout the year which led to general rate increases, despite the ending of the government SRP program and a long wildfire season. Integrating 2022 acquisitions into our operations had a positive impact on profitability. Offsetting the positive impact in demand for services was rising input and supply chain costs which management continues to aggressively manage.

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

	Years ended		Variance	
	2023	2022	\$	%
G&A	<b>23,752</b>	20,066	<b>3,686</b>	18.4%
G&A as a % of net revenue	<b>9.6%</b>	9.2%	<b>0.4%</b>	4.5%

G&A increased by \$3.7 million due to additional support and facility costs related to having a full year of the prior year acquisitions, and personnel costs related to increased revenue. G&A as a % of net revenue was flat year over year. Management is carefully monitoring these costs going into 2024.

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### Other Items

	Years ended		Variance	
	2023	2022	\$	%
Depreciation and amortization	<b>23,619</b>	20,376	<b>3,243</b>	15.9%
Finance costs	<b>11,486</b>	8,875	<b>2,611</b>	29.4%
Share-based compensation	<b>164</b>	200	<b>(36)</b>	-18.0%
Total	<b>35,269</b>	29,451	<b>5,818</b>	19.8%

Depreciation and amortization increased by \$3.2 million to \$23.6 million for 2023 as both acquisitions completed during the prior year added property and equipment and amortizing intangible assets.

Financing costs increased by \$2.6 million year over year as prime lending rates remain at their highest level in the over 20 years. While overall debt levels have decreased over the prior year, high interest rates at both the lending institutions and equipment finance companies led to the increase in finance costs.

### Net Income for the Year

	Years ended		Variance	
	2023	2022	\$	%
Net income for the year	<b>2,458</b>	2,042	<b>416</b>	20.4%

Net income for the year increased by \$0.4 million due to a 13% increase in net revenue, offset by increasing finance costs, depreciation and amortization.

### Summary of Quarterly Results

2023 - Quarters Ended				
(\$000 except per share amounts)	Q1	Q2	Q3	Q4
Gross revenue	58,657	63,147	68,323	65,110
Net revenue	56,808	62,303	66,805	61,343
Net income (loss)	1,011	1,604	1,167	(1,324)
Basic and diluted income (loss) per share	0.01	0.01	0.01	(0.01)
Adjusted EBITDA <sup>(1)</sup>	8,615	10,956	10,589	7,772

(1) See Non-IFRS Financial Measures

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2022 - Quarters Ended (\$'000 except per share amounts)	Q1	Q2	Q3	Q4
Gross revenue	54,795	62,854	67,846	71,666
Net revenue	45,429	53,969	59,139	59,841
Net income (loss)	(740)	1,600	2,477	(1,295)
Basic and diluted income (loss) per share	(0.01)	0.02	0.02	(0.01)
Adjusted EBITDA <sup>(1)</sup>	5,660	8,557	10,412	7,556

(1) See Non-IFRS Financial Measures

### Liquidity and Capital Management

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

	Years ended	
	2023	2022
Cash provided by operating activities	<b>44,950</b>	21,441
Cash used in investing activities	<b>(9,165)</b>	(12,838)
Cash used in financing activities	<b>(40,387)</b>	(6,028)
	<b>(4,602)</b>	2,575

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. At December 31, 2023 the Company has \$19 million of available committed operating loans (\$10.5 million) and equipment lease lines (\$8.5 million).

### Cash Provided by Operating Activities

Cash provided by operating activities was \$45.0 million during 2023, an increase of \$23.5 million (110%) from \$21.4 million during 2022. The increase in cash provided by operating activities was a result of unwinding working capital that had been committed to the highly working capital-intensive site rehabilitation program projects in 2022 along with stronger operating results in 2023.

### Cash Used in Investing Activities

Cash used in investing activities was \$9.2 million during 2023, a decrease of \$3.6 million from the cash used in investing activities of \$12.8 million during 2022. While the purchase of property and equipment increased from 2022 as replacement capital expenditures were required, the expenditures increase were offset by proceeds from asset disposals increasing by \$4.1 million to \$7.7 million in 2023.

### Cash Used in Financing Activities

Cash used in financing activities was \$40.4 million during 2023, an increase of \$34.4 million from cash used by financing activities of \$6.0 million during 2022. Cash generated from operations was applied to reduce debt obligations during the year. Vertex also began a Normal Course Issuer Bid to buyback outstanding shares in the fourth quarter.

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### Adjusted Working Capital

	December 31, 2023	December 31, 2022
Current assets	70,408	82,073
Current liabilities (excluding current portion of loans and borrowings, other liabilities, and lease liabilities)	42,215	43,321
Working Capital <sup>(1)</sup>	28,193	38,752

(1) See Non-IFRS Financial Measures

Adjusted working capital at year end 2023 was \$28.2 million, a decrease of \$10.6 million from December 31, 2022. The decrease is a result of the work related to government sponsored programs coming to an end at the end of 2022 that were working capital intensive.

### Credit Facilities

	December 31, 2023	December 31, 2022
Revolving and operating loans:		
Committed revolving and operating facilities	45,000	45,000
Drawn on revolving and operating facilities	34,500	37,500
Available revolving and operating facilities	10,500	7,500

Debt as of December 31, 2023, consisted of the items noted in Commitments and Contingencies. In 2023, the total secured credit facilities were \$72.0 million (2022 - \$79.3 million) and were comprised of three committed facilities: a \$40.0 million (2022 - \$40.0 million) syndicated facility ("revolving loan"), a \$27.0 million (2022 - \$34.3 million) term loan facility ("syndicate term loan"), and a \$5.0 million (2022 - \$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.

### At December 31, 2023, the following terms were in effect:

#### Syndicated Credit Facilities

The revolving loan and syndicate term loan can be a mix of rates ranging from the lead syndicated lender's CAD prime rate or USD base rate plus 1.0%-2.3%, CAD bankers' acceptance rate and secured overnight financing rate 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 Bank 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, 2023 exceeds 2.75:1.00. At year-end the excess cash flow calculation resulted in an additional payment on the term loan of nil (2022 - \$1.8 million).

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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 the lead syndicated lender's CAD prime rate or USD base rate plus 1.0%-2.3%.

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 \$33.4 million for the trailing twelve months ended December 31, 2023.

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

### **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, 2023 are as follows:

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Due Within	Bank indebtedness <sup>(1)</sup>	Loans and borrowings	Other liabilities	Convertible debenture	Lease liabilities	Total
One year	40,754	16,331	1,602	1,200	13,915	<b>73,802</b>
Two years	-	62,981	1,017	1,200	12,400	<b>77,598</b>
Three years	-	2,839	-	1,200	10,592	<b>14,631</b>
Four years	-	1,899	-	15,200	6,436	<b>23,535</b>
Five years	-	880	-	-	3,365	<b>4,245</b>
Thereafter	-	10	-	-	3,124	<b>3,134</b>
	<b>40,754</b>	<b>84,940</b>	<b>2,619</b>	<b>18,800</b>	<b>49,832</b>	<b>196,945</b>

(1) Bank indebtedness 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, 2023 and 2022, the Company did not have any off-balance sheet arrangements.

### Capital Expenditures

The Company's net capital expenditures were in line with the Company's approved capital plan for 2023. The Company undertakes to sell any redundant assets that cannot be redeployed in other geographical locations. In 2023, the Company sold \$7.7 million worth of capital assets compared to \$3.6 million for 2022.

### 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 Canada and certain markets in the United States. 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, 2023, the Company had nil customers that accounted for more than 10% of the consolidated sales (2022 – nil customers). The aging analysis of accounts receivables is as follows:

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	December 31, 2023	December 31, 2022
0 to 30 days	34,141	31,128
31 to 60 days	10,534	15,750
61 to 90 days	8,424	7,035
Over 90 days	4,386	7,446
Holdbacks	254	430
Trade accounts receivable	57,739	61,789
Accrued receivables	4,190	10,480
Allowance for expected credit losses	(1,364)	(1,067)
Trade and accrued receivables, net of allowance	60,565	71,202
Other receivables	277	164
	60,842	71,366

### Outstanding Share Data

As of the date of this MD&A, the Company had 112,702,590 common shares outstanding. As of the same date, the Company had outstanding 4,120,000 stock options to purchase up to an aggregate of 4,120,000 common shares.

On August 25, 2023, the Company announced that the TSX Venture Exchange approved a normal course issuer bid ("NCIB") permitting the repurchase for cancellation of up to 5,781,045 common shares. In the year ended December 31, 2023, the Company repurchased and cancelled 1,126,800 shares for a total of \$452. These shares had an average carrying value of \$0.80 for a total amount of \$901. Subsequent to the year end, the Company has repurchased and cancelled 1,808,000 shares for a total amount of \$726.

### 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 include \$3.4 million (2022 - \$4.1 million) relating to facility leases with an officer of the company. Principal payments for these unsecured lease liabilities and associated interest accretion for the year ended December 31, 2023, were \$0.9 million (2022 - \$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, 2023, remuneration of \$1,411 (2022 - \$1,621) included \$1,315 of salaries and short-term benefits and \$96 of share-based compensation (2022 - \$1,508 and \$113, respectively), which were paid to key management. Directors and key management own 25% of the Company.

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

#### 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

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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 material accounting policies, estimates and critical judgements are contained in notes 4, 5 & 6 to the consolidated financial statements.

### Changes in material accounting policies

- The Company adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.
- The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.
- Management reviewed the accounting policies and made updates to the information disclosed in note 4, Material accounting policies in certain instances in line with the amendments.

### Future Accounting Standard Pronouncements

The following amendments to existing standards have been issued and are applicable to the Company for its annual periods beginning on January 1, 2024 and thereafter, are to be applied retrospectively, with an earlier application permitted:

- Amendments to IAS 1 may change the classification of certain liabilities as current or non-current. In addition, companies may need to provide new disclosures for liabilities subject to covenants.
- Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments that arise in a sale and leaseback transaction.

The Company is currently evaluating the impact of adopting these standards on the consolidated financial statements and cannot reasonably estimate the effect at this time.

### 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.

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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.

### 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.

**"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 the 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		Years ended	
	December 31,		December 31,	
	2023	2022	2023	2022
<b>Net income (loss) for the period</b>	<b>(1,324)</b>	(1,295)	<b>2,458</b>	2,042
<b>Add:</b>				
Depreciation and amortization	<b>6,461</b>	6,166	<b>23,619</b>	20,376
Finance costs	<b>2,728</b>	2,970	<b>11,486</b>	8,875
Share-based compensation	<b>14</b>	50	<b>164</b>	200
Income tax expense (recovery)	<b>(107)</b>	(335)	<b>205</b>	692
<b>Adjusted EBITDA</b>	<b>7,772</b>	7,556	<b>37,932</b>	32,185

**"Free cash flow"** is a non-IFRS financial measure. The most directly comparable GAAP measure for free cash flow is cash flow from operating activities. A summary of the reconciliation of cash flow from operating activities to free cash flow is set forth in the table below. Management uses the term "free cash flow" for its own performance measure and to provide shareholders and potential investors with a measurement of the Company's efficiency and its ability to generate the cash necessary to fund its future growth expenditures, to repay debt and provide shareholder returns.

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	Three months ended		Years ended	
	December 31,		December 31,	
	2023	2022	2023	2022
Cash provided by operating activities	6,178	11,613	44,950	21,441
Changes in non-cash operating working capital items	2,409	(4,111)	(6,874)	9,848
Maintenance capex	(3,436)	(3,868)	(15,168)	(12,282)
Cash interest	(1,733)	(2,119)	(8,003)	(6,561)
Depreciation of right of use assets - real property	(1,332)	(1,113)	(4,860)	(3,549)
Cash taxes	(69)	-	26	28
Proceeds from disposal of property and equipment	2,025	757	7,739	3,633
<b>Free cash flow</b>	<b>4,042</b>	<b>1,159</b>	<b>17,810</b>	<b>12,558</b>

**“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. Adjusted working capital is used by Vertex to monitor its capital structure, liquidity, and its ability to fund current operations.

	December 31,	December 31,
	2023	2022
Current assets	70,408	82,073
Current liabilities, less	69,170	74,176
Current portion of loans and borrowings	(14,701)	(18,508)
Current portion of lease liabilities	(10,722)	(9,711)
Current portion of other liabilities	(1,532)	(2,636)
Current liabilities (excluding current portion of loans and borrowings, lease liabilities, and other liabilities)	42,215	43,321
<b>Adjusted working capital <sup>(1)</sup></b>	<b>28,193</b>	<b>38,752</b>

**“Adjusted EBITDA per share, basic and diluted”** is a non-financial measure which is calculated by dividing adjusted EBITDA by the weighted average shares outstanding – basic and diluted.

### Forward-Looking Information

This MD&A contains forward-looking statements and information (“forward-looking statements”) within the meaning of applicable Canadian securities laws. The forward-looking statements contained in this MD&A are based on the expectations, estimates and projections of management of Vertex as of the date of this MD&A unless otherwise stated. The use of any of the words “believe”, “expect”, “anticipate”, “contemplate”, “target”, “plan”, “outlook”, “potential”, “estimated”, “intends”, “continue”, “may”, “will”, “should” and similar expressions are intended to identify forward-looking statements. More particularly and without limitation, this MD&A contains forward-looking statements concerning anticipated financial performance; the outlook for 2024; the Company’s ability to grow profitably; sufficiency of working capital; and with respect to Vertex’s ability to meet evolving customer demands.

Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Investors are cautioned that forward-looking statements are based on the opinions,

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assumptions and estimates of management considered reasonable at the date the statements are made, and actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to the risks associated with the industries in which Vertex operates in general, such as:

- Ability to access sufficient capital from internal and external sources
- Ability to market to new customers
- Ability to obtain equipment in a timely and cost-efficient manner
- Ability to secure work
- Adjustments and cancellations of backlog
- Changes in legislation, including but not limited to tax laws and environmental regulations
- Collection of recognized revenue
- Commodity price, interest rate and exchange rate fluctuations
- Competition, ethics, and reputational risks
- Compliance with environmental laws risks
- Cyber-security risks
- Economy and cyclicalities
- Global pandemics
- Health, safety and environmental risks
- Industry and inherent project delivery risks
- Insurance risk
- Joint venture risk
- Labour matters
- Litigation risk
- Loss of key management; ability to hire and retain qualified and capable personnel
- Maintaining safe worksites
- Operational risks
- Potential for non-payment and credit risk and ongoing financing availability
- Third party credit risk
- Unforeseen weather conditions
- Unanticipated shutdowns, work stoppages, and lockouts
- Volatility of market trading

Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on other factors that could affect the operations or financial results of the parties, and the combined company are included in reports on file with applicable securities regulatory authorities, including but not limited to: Annual Information Form for the year ended December 31, 2023, which may be accessed on Vertex's SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca).

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as, and to the extent required by applicable securities laws.