

Consolidated financial statements of

Vertex Resource Group Ltd.

December 31, 2020

Vertex Resource Group Ltd.

December 31, 2020

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Independent auditor's report

To the Shareholders of Vertex Resource Group Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Vertex Resource Group Ltd. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss 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
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated 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 consolidated 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 Company'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 Company'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 consolidated 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Anna Coghill.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 22, 2021

Vertex Resource Group Ltd.

Consolidated statements of financial position

Years ended December 31

(in thousands of Canadian dollars)

As at	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents		-	414
Accounts receivable and accrued receivables	6	32,429	32,819
Contract assets	7	212	1,910
Inventories	8	3,276	2,908
Prepaid expenses and deposits		2,892	2,315
		38,809	40,366
Property and equipment	9	64,197	73,658
Right of use assets	10	20,030	23,074
Intangible assets	11	586	1,569
Goodwill	12	24,826	28,126
Deferred income taxes	16	2,753	5,125
		151,201	171,918
Liabilities			
Current liabilities			
Operating loan	14	253	-
Accounts payable and accrued liabilities	13	18,886	15,927
Contract liabilities	7	1,189	75
Income taxes payable	16	-	185
Current portion of loans and borrowings	14	16,992	10,413
Current portion of other liabilities	15	625	1,955
Current portion of lease liabilities	10	5,477	5,187
		43,422	33,742
Loans and borrowings	14	42,607	60,603
Other liabilities	15	475	975
Lease liabilities	10	14,639	19,130
Deferred income taxes	16	2,016	3,915
		103,159	118,365
Shareholders' Equity			
Common shares	17	81,071	83,231
Deficit		(36,650)	(30,952)
Contributed surplus		3,621	1,274
		48,042	53,553
		151,201	171,918

Subsequent event - Note 30

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 loss and comprehensive loss

Years ended December 31

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

	Notes	2020	2019
Revenue	19	136,125	168,070
Direct costs	20,22	97,590	128,778
Gross profit ⁽¹⁾		38,535	39,292
General and administrative expenses	20,22	14,071	16,986
Share-based compensation	18	187	188
Depreciation and amortization	9,10,11	17,937	22,846
Finance costs	21	6,063	5,988
Impairment	11,12	3,665	6,749
Restructuring costs	23	1,896	-
Loss before income taxes		(5,284)	(13,465)
Income tax expense (recovery)	16	414	(2,151)
Net loss and comprehensive loss for the year	24	(5,698)	(11,314)
Net loss per share			
Basic and diluted	24	(0.06)	(0.12)

(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	2020	2019
Common shares			
Balance, beginning of the year		83,231	83,231
Share cancellation	17	(2,160)	-
Balance, end of the year		81,071	83,231
Contributed surplus			
Balance, beginning of the year		1,274	1,086
Share cancellation	17	2,160	-
Share-based compensation	18	187	188
Balance, end of the year		3,621	1,274
Deficit			
Balance, beginning of the year		(30,952)	(19,638)
Net loss and comprehensive loss		(5,698)	(11,314)
Balance, end of the year		(36,650)	(30,952)
Total shareholders' equity		48,042	53,553

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	2020	2019
Operating activities			
Net loss and comprehensive loss for the year		(5,698)	(11,314)
Items not affecting cash			
Depreciation and amortization	9,10,11	17,937	22,846
Impairment	11,12	3,665	6,749
Share-based compensation	18	187	188
Deferred financing charges	14	(54)	129
Gain on disposal of property and equipment and right of use assets		(759)	(671)
Deferred income taxes	16	473	(2,365)
		15,751	15,562
Changes in non-cash operating working capital items	26	5,031	6,612
Cash provided by operating activities		20,782	22,174
Investing activities			
Purchase of property and equipment		(4,444)	(7,645)
Proceeds from disposal of property and equipment		1,486	1,799
Additions to intangible assets		-	(801)
Cash used in investing activities		(2,958)	(6,647)
Financing activities			
Repayment of revolving loan	14	(14,500)	(7,600)
Principal payments of lease liabilities	10	(5,298)	(6,237)
Repayment of term loan	14	(3,732)	(6,172)
Repayment of equipment loans	14	(1,900)	(2,033)
Principal payments of other liabilities	15	(1,830)	(2,582)
Proceeds from co-lend term loan and working capital loan	14	8,250	-
Proceeds from equipment loan	14	519	1,564
Proceeds from operating loan	14	253	-
Proceeds from term loan		-	5,000
Proceeds from other liabilities		-	600
Cash used in financing activities		(18,238)	(17,460)
Decrease in cash and cash equivalents		(414)	(1,933)
Cash and cash equivalents, beginning of year		414	2,347
Cash and cash equivalents, end of year		-	414

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

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(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.

In Canada, the level of activity is influenced by seasonal weather patterns as well as trends in the industries in which its customers operate. The Company is typically the busiest during the third and fourth quarters with lower activity levels in the first and second quarters. In particular, during the second quarter, commonly referred to as the "spring break-up", the frost leaves the ground making certain roads incapable of supporting the weight of heavy equipment resulting in restrictions in the level of industrial and energy service activity across Canada.

2. Basis of preparation

a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and the accounting policies set out below have been applied consistently to all periods presented. These consolidated financial statements were approved by the Board of Directors (the "Directors") on March 22, 2021.

b) *Basis of measurement*

The Company's consolidated financial statements have been prepared on a going concern basis under the historical cost model, except for certain financial instruments measured at fair value, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

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, the assets and liabilities of the Company's operations in the U.S. are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. 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 and its limited partnerships. Subsidiaries 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 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, 2020 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.

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

December 31, 2020 and 2019

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

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. Significant estimates and judgments are outlined in Note 5.

3. Significant accounting policies

a) *New and amended accounting policies adopted in the year*

Amendments to IFRS 16 Leases

In May 2020, the International Accounting Standards Board ("IASB") published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. This practical expedient is applied to leases with similar characteristics and circumstances with changes in lease payments recognized in the consolidated statement of loss. Leases that do not meet the criteria for optional exemption are treated as a lease modification.

The Company negotiated rent concessions on certain equipment leases to which the optional exemption was applied. The impact on the consolidated statement of loss was not significant.

Amendments to IFRS 3 Business Combinations

The Company adopted amendments to IFRS 3, Definition of a Business, to business combinations, which clarifies the definition of a business and provides additional guidance in the assessment of an acquisition. This amendment applies to transactions with acquisition dates on or after January 1, 2020. There was no impact from this amendment in the current period.

Other

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020:

- Definition of Material – Amendments to IAS 1 and IAS 8; and
- Revised Conceptual Framework for Financial Reporting.

These amendments did not have any impact on the amounts recognized in the financial statements.

b) *Cash and cash equivalents*

Cash and cash equivalents consist of cash on deposit, cash equivalents and bankers' acceptances. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

c) *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 profit 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 liability classified contingent consideration are recognized in net loss.

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

December 31, 2020 and 2019

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

d) *Inventories*

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

e) *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	5-10 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.

f) *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.

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
Intellectual property	3-5 years
Non-compete agreements	3-5 years

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

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.

g) 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.

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

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

December 31, 2020 and 2019

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

i) Revenue recognition

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

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 either an "over time" or "point in 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) Sales of goods: Revenue from the sales of goods is mainly comprised of manufactured products and is recognized when the customer retains control of the product transfers to the customer and the Company has fulfilled its performance obligations with respect to delivery of the product.

b) Rendering of services: The Company's services revenue includes equipment rentals, fluid hauling and consulting services. 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.

c) Contracting: Contracting revenue includes revenue from contracts entered into to provide maintenance and construction services to various industries, including energy, mining, agriculture, forestry and petrochemical. Revenue from such contracts is recognized using the over time method.

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 construction 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.

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.

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.

j) 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.

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

December 31, 2020 and 2019

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

k) 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.

Current and deferred tax are recognized in profit 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.

l) 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 straight-line 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 profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

December 31, 2020 and 2019

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

m) 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 and cash equivalents are initially recognized at fair value and are subsequently measured at amortized cost with changes therein recognized in net (loss) income.
- o The Company's accounts receivable and accrued receivables 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, trade and other receivables 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 current liabilities including promissory notes obtained through 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 borrowing are deferred and amortized using the straight-line method over the term of the loan.

n) 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.

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

o) 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.

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p) Fair value measurement

The Company determines the fair value of items classified as fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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.

q) 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.

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.

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The Company used 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 loss and comprehensive loss.

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

s) 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.

t) 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.

u) Finance costs

Finance costs encompass interest expense on financial liabilities and accretion expense on debt and are recognized as an expense in the period in which they are incurred.

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4. Future accounting standard pronouncements

The Company has reviewed new and revised standards and interpretations that have been approved by the IASB. There have been no new standards or interpretations issued during 2020 that are anticipated to have a significant impact on the Company's accounting policies or disclosures.

5. Critical accounting judgments and key sources of estimation uncertainty

Critical judgments 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. 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.

a) *Measure of progress*

The identification of performance obligations and the use of the appropriate revenue recognition method for each performance obligation are the main steps involved in the revenue recognition process, both of which require the exercise of judgment and the use of assumptions.

b) *Property and equipment*

As part of the capitalization process, management must estimate the expected period of benefit over which capitalized costs should be depreciated. The considerations for estimated useful lives 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. Given that the expected period of benefit is an estimate, future results could be affected if management's current assessment of its property and equipment's useful lives differs from actual performance.

c) *Valuation of 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.

d) *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.

e) *Lease – extension options*

Extension options are included in a number of real property leases. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs, which affects the assessment and that is within the control of the Company.

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:

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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) Valuation of non-financial assets

The Company tests property and equipment, ROU assets, intangible assets (if indicators are present) and goodwill annually for impairment. 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 value in use. 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 disclosed in Note 12 to these consolidated financial statements.

c) Deferred tax assets

Management estimates the probability of future taxable income in which deferred tax assets can be utilized based on Company forecasts. 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. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, that deferred tax asset is recognized in full. 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) Leases

The Company estimates the incremental borrowing rate used to measure the lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

e) COVID-19

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The COVID-19 outbreak and related mitigation measures have had an adverse impact on global economic conditions resulting in government response actions, social distancing, business closures and reduced travel. These measures have caused disruptions to normal business operations and have increased economic uncertainty which have had an impact on the Company's financial results for the year ended December 31, 2020.

The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the consolidated financial statements. Management has considered the impact of COVID-19 on significant accounting judgements, estimates and assumptions used in the preparation of the consolidated financial statements. The duration of the pandemic and its impact on the Company's financial performance and position is an area of estimation uncertainty and judgement, which is constantly monitored and reflected in management's estimates.

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6. Accounts receivable and accrued receivables

	2020	2019
Trade accounts receivable	29,370	30,198
Accrued receivables	3,701	1,154
Other receivables	46	1,784
Less: allowance for expected credit losses	(688)	(317)
	32,429	32,819

7. Contract assets and contract liabilities

The net amount due from (to) customers for contract in progress at the consolidated statements of financial position date is as follows:

	2020	2019
Contract cost incurred plus recognized profit less recognized losses to date	1,611	4,515
Less: progress billings	(2,588)	(2,680)
Total net contract position	(977)	1,835
Contract assets	212	1,910
Contract liabilities	(1,189)	(75)
	(977)	1,835

The Company issues invoices in accordance with the billing schedule or contract terms as agreed.

8. Inventories

	2020	2019
Parts and consumables - raw materials	1,673	1,578
Manufacturing inventory - raw materials	812	503
Safety - raw materials	791	827
	3,276	2,908

During the year ended December 31, 2020, the Company recognized \$4.4 million (2019 - \$8.7 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 January 1, 2019	11,305	64,570	5,005	54,773	135,653
Additions	1,163	1,330	1,047	4,105	7,645
Transfer from right of use assets (Note 10)	-	-	-	1,330	1,330
Disposals	-	(871)	(1,067)	(7,131)	(9,069)
As at December 31, 2019	12,468	65,029	4,985	53,077	135,559
Additions	61	669	502	3,212	4,444
Transfer from right of use assets (Note 10)	-	-	-	51	51
Disposals	(1,595)	(6,223)	(262)	(5,733)	(13,813)
As at December 31, 2020	10,934	59,475	5,225	50,607	126,241
Accumulated depreciation					
As at January 1, 2019	5,969	33,240	2,632	10,260	52,101
Depreciation	740	5,702	822	10,079	17,343
Transfer from right of use assets (Note 10)	-	-	-	398	398
Disposals	-	(465)	(1,067)	(6,409)	(7,941)
As at December 31, 2019	6,709	38,477	2,387	14,328	61,901
Depreciation	576	5,207	704	6,693	13,180
Transfer from right of use assets (Note 10)	-	-	-	32	32
Disposals	(1,595)	(6,125)	(259)	(5,090)	(13,069)
As at December 31, 2020	5,690	37,559	2,832	15,963	62,044
Carrying value					
As at December 31, 2019	5,759	26,552	2,598	38,749	73,658
As at December 31, 2020	5,244	21,916	2,393	34,644	64,197

Property and equipment are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable. In 2020 and 2019, 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 January 1, 2019	17,734	8,633	26,367
Additions	1,080	2,999	4,079
Transfer to property and equipment (Note 9)	-	(1,330)	(1,330)
Disposals	(845)	-	(845)
As at December 31, 2019	17,969	10,302	28,271
Additions	198	1,269	1,467
Transfer to property and equipment (Note 9)	-	(51)	(51)
Disposals	(98)	(394)	(492)
As at December 31, 2020	18,069	11,126	29,195
Accumulated depreciation			
As at January 1, 2019	-	594	594
Depreciation	3,423	994	4,417
Impairment	784	-	784
Transfer to property and equipment (Note 9)	-	(398)	(398)
Disposals	(200)	-	(200)
As at December 31, 2019	4,007	1,190	5,197
Depreciation	3,142	997	4,139
Transfer to property and equipment (Note 9)	-	(32)	(32)
Disposals	(53)	(86)	(139)
As at December 31, 2020	7,096	2,069	9,165
Carrying value			
As at December 31, 2019	13,962	9,112	23,074
As at December 31, 2020	10,973	9,057	20,030

ROU assets acquired during the year ended December 31, 2020 totalled \$1.5 million (2019 - \$4.1 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 year ended 2020 (2019 - \$0.8 million) on ROU assets.

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b) Lease liabilities continuity

	Real property	Operating equipment	Total
As at January 1, 2019	19,633	7,477	27,110
Additions	1,080	2,999	4,079
Interest accretion during the year	1,115	351	1,466
Payments	(4,706)	(2,997)	(7,703)
Disposals	(635)	-	(635)
As at December 31, 2019	16,487	7,830	24,317
Additions	198	1,269	1,467
Interest accretion during the year	1,011	273	1,284
Payments	(4,505)	(2,077)	(6,582)
Disposals	(46)	(324)	(370)
As at December 31, 2020	13,145	6,971	20,116

Lease liabilities are presented on the consolidated statements of financial position as follows:

	2020	2019
Current portion of lease liabilities	5,477	5,187
Lease liabilities	14,639	19,130
	20,116	24,317

11. Intangible assets

	Customer relationships	Intellectual property	Non-compete agreements	Development costs	Total
Cost					
As at December 31, 2018	11,178	800	1,220	-	13,198
Additions	-	-	-	801	801
Disposals	(9,488)	-	(385)	-	(9,873)
As at December 31, 2019 and 2020	1,690	800	835	801	4,126
Accumulated amortization					
As at December 31, 2018	10,232	400	712	-	11,344
Amortization	521	267	244	54	1,086
Disposals	(9,488)	-	(385)	-	(9,873)
As at December 31, 2019	1,265	667	571	54	2,557
Amortization	225	133	99	161	618
Impairment	200	-	165	-	365
As at December 31, 2020	1,690	800	835	215	3,540
Carrying value					
As at December 31, 2019	425	133	264	747	1,569
As at December 31, 2020	-	-	-	586	586

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Intangible assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable. During the year, the Company recognized an impairment expense of \$0.4 million (2019 - nil) for intangible assets where the future economic benefits expected from the use of those assets was no longer expected.

12. Goodwill

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

	Rentals	Environmental consulting	Environmental logistics	Total
Carrying value				
As at December 31, 2018	5,955	20,760	7,366	34,081
Impairment	5,955	-	-	5,955
As at December 31, 2019	-	20,760	7,366	28,126
Impairment	-	-	3,300	3,300
As at December 31, 2020	-	20,760	4,066	24,826

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 financial budgets approved by management. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below. The Company performs its annual impairment tests as at December 31 each year.

Management assessed the CGUs with goodwill for impairment at March 31, 2020, and performed the annual impairment test as at December 31, 2020, for the above noted CGUs. The testing was based on results for the year and reflect the challenging results experienced in the current year in addition to uncertainties related to external market factors, including but not limited to the COVID-19 pandemic. Impairment of \$3.3 million was recorded in the environmental logistics CGU (2019 - \$6.0 million in rentals CGU). Both impairments were recognized in the environmental services reportable segment. No impairment was recorded in the environmental consulting CGU and no classes of assets other than goodwill were impaired.

a) Key assumptions used for recoverable amount calculations:

<i>In percent</i>	2020	2019
Discount rate		
Environmental consulting CGU	16.0	15.0
Environmental logistics CGU	17.0	16.0
Rentals CGU	18.0	17.0
Terminal value growth rate	2.5	2.5
Budgeted EBITDA growth rate (average of next five years)		
Environmental consulting CGU	7.9	11.3
Environmental logistics CGU	8.7	9.7
Rentals CGU	12.1	24.7

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

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The recoverable amounts were based on FVLCD using discounted cash flows ("DCF") methodology (2019 - DCF methodology). The significant assumptions applied in the goodwill impairment test are described below:

- Cash flows: Estimated cash flows are based on budgeted EBITDA. The forecast is extended to a total of five years based on an analysis of the industry's expected growth rates, historical and forecast 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 2025 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 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 noted above.

If budgeted EBITDA growth used in the FVLCD calculation for the environmental consulting CGU had been 2.5% lower in each of the five years of cash flows than management's estimates as at December 31, 2020, 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, 2020 exceeds its carrying value by \$6.0 million.

Similarly, if the budgeted EBITDA growth used for the environmental logistics CGU had been 1.0% lower in each of the five years of cash flows than management's estimates as at December 31, 2020, 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, 2020 exceeds its carrying value by \$5.1 million. Any additional change in these assumptions would cause goodwill to become impaired.

13. Accounts payable and accrued liabilities

	2020	2019
Trade accounts payable	14,736	12,134
Employee related accounts payable	1,663	1,685
Accrued liabilities	2,487	2,108
	18,886	15,927

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14. Loans and borrowings

	December 31, 2020			December 31, 2019		
	Current	Non-current	Total	Current	Non-current	Total
Secured						
Revolving loan (a)	-	6,900	6,900	-	21,400	21,400
Syndicate term loan (b)	9,067	32,655	41,722	7,619	37,889	45,508
Equipment loans (f)	1,408	1,319	2,727	2,794	1,314	4,108
Co-lend term loan (g)	6,250	-	6,250	-	-	-
Working capital loan (h)	267	1,733	2,000	-	-	-
Total borrowings	16,992	42,607	59,599	10,413	60,603	71,016

Secured credit facilities

In 2020, the total secured credit facilities were \$76.7 million (2019 - \$80.5 million) and were comprised of three committed facilities: a \$30.0 million (2019 - \$30.0 million) syndicated facility ("revolving loan"), a \$41.7 million (2019 - \$45.5 million) term loan facility ("syndicate term loan") and a \$5.0 million (2019 - \$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 maturing May 31, 2022 and are secured by a General Security Agreement 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, 2020, the Company has access to \$18.4 million of undrawn borrowing facilities.

During the year, the Company amended its secured credit facilities several times due to the ongoing economic environment. The amendments were accounted for as extinguishments. In the year, pricing and financial covenants were adjusted to market twice, the June 30, 2020 syndicate term loan payment of \$1.5 million and the December 31, 2019 excess cash flow payment of \$0.9 million were waived by the lenders. Finally, the maturity date was extended twice.

a) Revolving loan

The revolving loan 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 2.00%-3.50%, CAD bankers' acceptance rate and USD LIBOR loans plus stamping fees of 3.00%-4.50%. 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 0.60%-0.90%. The interest rate ranges are based on the funded debt to EBITDA ratio for the preceding quarter. As at December 31, 2020, \$6.8 million was drawn under CAD bankers' acceptances with a rate of 5.78% and \$0.1 million was drawn under prime rate loans with a rate of 6.15%.

b) Syndicate term loan

The interest rate on the term loan can be a mix of rates ranging from HSBC's CAD prime rate or USD base rate plus 2.00%-3.50%, CAD bankers' acceptance rate and USD LIBOR loans plus stamping fees of 3.00%-4.50%. The interest rate ranges are based on the funded debt to EBITDA ratio for the preceding quarter. The term loan was repayable through one quarterly principal payment of \$1,104 on March 31, 2021, followed by four quarterly principal payments of \$1,382 commencing June 30, 2021, and a final payment of \$35.3 million due on maturity.

In addition to the scheduled principal payments, the 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, 2020 exceeds 2.75:1.00, and at year-end the excess cash flow calculation resulted in an additional payment on the term loan of \$4.0 million (2019 - \$0.9 million), which has been included in the current portion of loans and borrowings on the consolidated

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statements of financial position. As at December 31, 2020, \$41.9 million was drawn under CAD bankers' acceptances with a rate of 5.04% and \$0.1 million was drawn under prime rate loans with a rate of 6.15%.

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 2.00%-3.50%. There was \$0.3 million drawn on this facility as at December 31, 2020 (2019 – \$nil).

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, 2020	December 31, 2019
Term loan - face value	41,971	45,703
Transaction costs	(249)	(195)
Carrying amount	41,722	45,508

e) *Borrowing covenants – senior credit facility*

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

- The ratio of consolidated syndicated indebtedness to trailing bank EBITDA, calculated on a trailing twelve-month basis, must not exceed:
 - o 4.25 to 1.00 for the fourth quarter in fiscal 2020 and the first two quarters in 2021.
 - o 4.00 to 1.00 for the last two quarters in 2021
 - o 3.75 to 1.00 thereafter.
- The ratio of consolidated senior indebtedness to trailing bank EBITDA, calculated on a trailing 12 month basis, must not exceed:
 - o 4.75 to 1.00 for the fourth quarter in fiscal 2020 and the first two quarters in 2021.
 - o 4.50 to 1.00 for the last two quarters in 2021
 - o 4.25 to 1.00 thereafter.
- The ratio of net cash flow to fixed charges, the fixed charge coverage ratio, must not be less than 1.10 to 1.00 calculated on a rolling four-quarter basis.

The relevant definitions of key ratio terms set forth in the senior secured credit facility are 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 Business Development Bank of Canada ("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 is permitted to be added to EBITDA.
- Net cash flow is defined as EBITDA reduced by net capital expenditures and cash taxes.

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- Fixed charges are calculated as interest expense plus scheduled principal payments of indebtedness during the 12-month trailing period.

As at December 31, 2020, 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 3.4% to 6.8% and have maturity dates (assuming they are serviced until maturity) ranging from June 1, 2021 to December 1, 2024. Equipment loans are secured by rolling stock with a net book value of \$5.0 million (2019 - \$6.4 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 credit facility, 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 December 31, 2020, the rate of interest on this loan was 6.7%.

h) Subordinate working capital loan

Under a separate loan agreement with BDC, a loan for \$2.0 million has been 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, is repayable in monthly interest only payments beginning November 23, 2020 until April 1, 2021. Commencing May 1, 2021, the Company is required to make 23 monthly principal plus interest payments of \$33 with a final balloon payment of \$1.2 million on April 1, 2023. 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. This loan was advanced to the Company on October 23, 2020. As at December 31, 2020 the interest rate was 2.8%.

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:

	Working capital and co-lend term loans	Equipment loans	Revolving loan	Syndicate term loan	Total
2021	892	1,228	-	5,067	7,187
2022	2,983	653	6,900	36,655	47,191
2023	1,250	744	-	-	1,994
2024	1,250	102	-	-	1,352
2025	1,250	-	-	-	1,250
Thereafter	625	-	-	-	625
	8,250	2,727	6,900	41,722	59,599

(1) This table excludes the excess cash flow payment of \$4.0 million as it is not a scheduled payment.

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j) Loans and borrowing changes

Changes in liabilities for which cash flows have been classified as financing activities in the consolidated statements of cash flows are as follows:

	Working capital and co-lend term loans	Equipment loans	Revolving loan	Syndicate term loan	Total
As at January 1, 2019	-	4,577	29,000	46,551	80,128
Proceeds and additions	-	1,564	-	5,000	6,564
Change in deferred financing fees	-	-	-	129	129
Repayment	-	(2,033)	(7,600)	(6,172)	(15,805)
As at December 31, 2019	-	4,108	21,400	45,508	71,016
Proceeds and additions	8,250	519	-	-	8,769
Change in deferred financing fees	-	-	-	(54)	(54)
Repayment	-	(1,900)	(14,500)	(3,732)	(20,132)
As at December 31, 2020	8,250	2,727	6,900	41,722	59,599

15. Other liabilities

	Contingent share consideration (a)	Promissory notes (b)	Total
As at January 1, 2019	1,175	3,737	4,912
Contingent deferred payment conversion to promissory note	(1,175)	1,175	-
Additions	-	600	600
Interest accretion during the year	-	138	138
Payments	-	(2,720)	(2,720)
As at December 31, 2019	-	2,930	2,930
Interest accretion during the year	-	95	95
Payments	-	(1,925)	(1,925)
As at December 31, 2020	-	1,100	1,100

Other liabilities are presented on the consolidated statements of financial position as follows:

	2020	2019
Current portion of other liabilities	625	1,955
Non-current portion of other liabilities	475	975
	1,100	2,930

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a) *Contingent share consideration*

In the year ended December 31, 2017, an arrangement to acquire an environmental services company contained a contingent deferred payment amount that could result in the issuance of additional shares if the trading price of the Company did not reach or exceed \$1.00 per share prior to December 31, 2019.

On December 1, 2019, the vendor agreed to convert their contingent share consideration to a promissory note payable with a face value of \$1.2 million. As a result, there is no impact on the consolidated statements of net loss and comprehensive loss. Details of the promissory note have been added to Note 15 (b) (iii).

b) *Promissory notes*

In order to determine the fair value of the consideration paid in several historical acquisitions, the promissory notes totalling \$5.6 million for all acquisitions, being financed over periods ranging from 12 to 25 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%.

- (i) The promissory note from an environmental services acquisition on May 31, 2018 with a fair value of \$2.4 million using a market rate of interest of 5.7%, is unsecured and repayable in monthly instalments of \$0.1 million for 25 months.
- (ii) The promissory note from an environmental services acquisition on July 12, 2018 of \$1.8 million using a market rate of interest of 5.7%, is unsecured and repayable in monthly instalments of \$0.1 million for 24 months.
- (iii) The promissory note from the conversion of the contingent share consideration on December 1, 2019, Note 15(a), bears interest at 6.0%, is unsecured and repayable in equal monthly instalments of principal plus interest for 43 months with a final payment on July 10, 2023.

16. Income taxes

On October 20, 2020, the Alberta government substantively enacted Bill 35 to reduce the Alberta corporate rate from 10% to 8% effective July 1, 2020.

A reconciliation of the statutory tax rates and income taxes payable at these rates to the effective income tax rates and provision for income taxes is as follows:

	2020	2019
Loss before income taxes	(5,284)	(13,465)
Combined federal and provincial income tax statutory rate	23.8%	26.6%
Expected income tax recovery	(1,258)	(3,582)
Effect on income taxes of:		
Non-deductible items	918	1,736
Change in unrecognized deferred tax asset	646	(191)
Change in statutory tax rate	154	112
Prior year adjustments	(46)	(226)
	1,672	1,431
Income tax expense (recovery)	414	(2,151)

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Income taxes were comprised of the following:

	2020	2019
Current income tax	(59)	214
Deferred income tax	473	(2,365)
Income tax expense (recovery)	414	(2,151)

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

	2019	Recognized in profit or loss	2020
Deferred tax assets (liabilities) in relation to:			
Losses carryforward	5,000	(2,614)	2,386
Right of use assets and lease liabilities, net	238	292	530
Deferred financing charges	246	(41)	205
Investment tax credits	104	(21)	83
Property and equipment	(4,174)	1,850	(2,324)
Intangibles assets	(204)	61	(143)
	1,210	(473)	737

	2018	Acquired in business combination	Recognized in profit or loss	2019
Deferred tax assets (liabilities) in relation to:				
Losses carryforward	6,217	-	(1,217)	5,000
Deferred financing charges	422	-	(176)	246
Investment tax credits	148	-	(44)	104
Right of use assets and lease liabilities, net	-	201	37	238
Property and equipment	(7,809)	170	3,465	(4,174)
Intangibles assets	(504)	-	300	(204)
	(1,526)	371	2,365	1,210

Accumulated loss carryforward balance is \$17.5 million (2019 - \$23.5 million). The balance expires in varying annual amounts from 2034 – 2039. The Company did not recognize \$1.9 million of deferred tax assets in 2020 (2019 - \$1.2 million). The recovery of these assets is dependent on future taxable earnings being more than those arising from the reversal of existing taxable temporary differences.

Deferred income tax balances are classified as follows:

	2020	2019
Deferred tax assets	2,753	5,125
Deferred tax liabilities	(2,016)	(3,915)
	737	1,210

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17. Share capital

a) Common shares

Authorized, unlimited number

Class A common voting shares

Class B common non-voting shares

	Notes	Class A	Amount
		#	\$
As at December 31, 2018 and 2019		93,413,124	83,231
Share cancellation		(2,160,009)	(2,160)
As at December 31, 2020		91,253,115	81,071

b) Escrow shares

As at December 31, 2020, the Company has nil escrowed common shares (2019 – 3,625,730). Shares held in escrow at the beginning of the year were released on May 31, 2020 when the respective escrow agreements expired. Included in the 2019 escrowed share balances were 2,160,009 common shares related to the 2017 acquisition of a chemical service company, which were contingent on meeting specified financial targets for the years ended 2018 and 2019. The acquired company did not meet its specified financial targets for the years ended December 31, 2018 or 2019 and, as a result, escrowed common shares of 2,160,009 shares were cancelled on January 31, 2020 and recorded as an increase to contributed surplus in the amount of \$2.16 million.

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 normally granted at the weighted average trading price of the common shares of the Company for the five consecutive trading days immediately preceding the day of grant of the stock option. Stock options vest in the manner determined by the Board at the time of the grant. The term of an option is five years from the date of grant.

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. 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.

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	December 31, 2020		December 31, 2019	
	Outstanding options	Weighted average exercise price (\$)	Outstanding options	Weighted average exercise price (\$)
Balance - beginning of year	4,085,000	1.00	4,875,000	1.00
Forfeited	(325,000)	1.00	(790,000)	1.00
Balance - end of year	3,760,000	1.00	4,085,000	1.00
Exercisable - end of year	3,593,331	1.00	2,498,330	1.00

The following table summarizes information about share options outstanding as at December 31, 2020:

Options outstanding				Options exercisable	
Exercise Price (\$)	Outstanding options	Weighted average exercise price (\$)	Weighted average remaining term (years)	Outstanding options	Weighted average exercise price(\$)
1.00	3,260,000	1.00	1.75	3,260,000	1.00
1.00	500,000	1.00	2.75	333,331	1.00
	3,760,000	1.00	1.88	3,593,331	1.00

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	2020	2019
Volatility factor of expected market price (%)	55.6	55.6
Weighted average risk - free interest rate (%)	2.0	2.0
Weighted average expected life in years	5.0	5.0
Weighted average expected annual dividends per share (%)	-	-
Weighted average fair value per option(\$)	0.10	0.10
Weighted average forfeiture rate (%)	10.0	10.0

Total compensation cost recognized for share-based compensation awards for the year ended December 31, 2019, was \$187 (2019 - \$188) and is credited to contributed surplus on the consolidated statements of financial position.

b) Warrants

On August 31, 2015, the grant date, the Company issued 2,197,206 warrants (the "Warrant Awards") to two directors of the Company. The Warrant Awards vested immediately on the date of grant. Each warrant entitles the holder to purchase a Class A common share at an exercise price of \$1.20 per Class A common share. The exercise price of each warrant of \$1.20 was equal to the fair value of a Class A common share on August 31, 2015. The Warrant Awards expired on August 31, 2020.

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The following warrants were issued and outstanding:

Date issued	Number issued	Expiry date	Exercise price (per warrant)	Fair value at grant date (per warrant)	Number outstanding as at December 31, 2020	Number outstanding as at December 31, 2019
			\$	\$		
August 31, 2015	2,197,206	August 31, 2020	1.20	0.33	-	2,197,206

The weighted average exercise price of the warrants outstanding as at December 31, 2020 was nil (2019-\$1.20).

19. Revenue

Major categories of revenue recognized during the year are as follows:

	2020	2019
Rendering of services	131,077	159,138
Sales of goods	4,164	6,188
Contracting	884	2,744
	136,125	168,070

Revenue recognized in the current year related to past performance obligations is nil (2019 – nil).

20. Expenses by nature

	2020	2019
Subcontractors	45,743	47,913
Personnel	35,202	61,892
Materials	11,511	17,157
Equipment costs	10,917	11,308
Other general and administrative expenses	4,280	3,384
Property and maintenance	4,008	4,110
Total expenses	111,661	145,764

	2020	2019
Direct costs	97,590	128,778
General and administrative expenses	14,071	16,986
Total expenses	111,661	145,764

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21. Finance costs

	2020	2019
Interest on loans	4,101	4,072
Interest accretion on lease and other liabilities	1,379	1,604
Financing and bank charges	583	312
	6,063	5,988

22. Government assistance

For the year ended December 31, 2020, direct costs (personnel) and general and administrative expenses (personnel) are presented net of government assistance of \$7.8 million and \$2.3 million, respectively (2019 - nil). Government assistance represents the Company's eligible claim for the Canada Emergency Wage Subsidy.

23. Restructuring costs

Restructuring costs of \$1,896 were recorded during the year ended December 31, 2020 (2019 - nil). The restructuring costs are primarily related to the right sizing of the Company's direct cost and general administrative cost structures to mitigate the COVID-19 pandemic impacts including severance, location closures and office consolidation costs.

24. Net loss per share

	2020	2019
Numerator:		
Net loss per share	(5,698)	(11,314)
Denominator:		
Weighted average shares outstanding - basic & diluted	91,253,115	91,253,115
Loss per share - basic and diluted	(0.06)	(0.12)

In calculating the loss per share for the year ended December 31, 2020, the Company excluded 3,760,000 options (2019 - 2,197,206 warrants, 4,850,000 options and 2,160,009 contingent shares) as their impact was anti-dilutive. The warrants and contingent shares both expired during the year. Their impact for the year, prior to their expiry, was excluded from the loss per share calculation as their impact was anti-dilutive.

25. Related party transactions

All related party transactions are in the normal course of business materially under the same commercial terms and conditions as transactions with unrelated companies and are recorded at the exchange amount. Related party transactions include transactions with other private companies that are controlled by a director or officer.

Lease liabilities includes \$5.2 million (2019 - \$5.8 million) of liabilities relating to the leases with a related party. Principal payments of unsecured lease liabilities and associated interest accretion for the year ended December 31, 2020 were \$0.9 million (2019 - \$0.9 million).

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2020, remuneration of \$1,533 (2019 - \$1,672) included \$1,402 of salaries and short-term benefits and \$131 of share-based compensation (2019 - \$1,536 and \$136, respectively), which were paid to key management. Directors and key management own 47.3% of the Company.

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26. Supplemental cash flow information

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

	2020	2019
<i>Changes in non-cash working capital:</i>		
Accounts receivable and accrued receivables	390	7,484
Contract assets	1,698	415
Inventories	(368)	296
Prepaid expenses and deposits	(577)	591
Accounts payable and accrued liabilities	2,959	(1,255)
Contract liabilities	1,114	(1,060)
Income taxes payable	(185)	141
	5,031	6,612
<i>Net cash paid during the year for:</i>		
Interest	4,660	4,252
Income taxes	102	72

Refer to notes 10, 14 and 15 for disclosure of the reconciliation of movements related to the Company's lease liabilities, promissory notes and loans and borrowings.

27. 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 carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and sellers' notes approximate their estimated fair value due to their short terms to maturity.

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 other liabilities has been discounted to reduce the provision to fair value.

Under IFRS 9, the Company is required to review impairment of its trade and other receivables at each reporting period and to review its loss allowance for expected future credit losses. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. Any provisions recorded by the Company are reviewed regularly to determine if any of the balances provided for should be written off. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company's customers.

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. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize a loss allowance on all outstanding trade and other receivables.

As at December 31, 2020, 4.3% (2019 - 9.4%) of the Company's trade 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 behaviour and an analysis of the underlying customers' ability to pay.

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Financial risk management

The significant financial risks to which the Company is exposed are credit 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, 2020 and 2019.

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 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, 2020, the Company had no customers that accounted for more than 10% of the consolidated sales (2019 - one customer - 10.9%). The aging analysis of accounts receivables is as follows:

	2020	2019
0 to 30 days	18,180	15,085
31 to 60 days	7,436	9,405
61 to 90 days	1,638	2,883
Over 90 days	1,952	2,818
Holdbacks	164	7
Trade accounts receivable	29,370	30,198
Allowance for expected credit losses	(688)	(317)
Trade receivables, net of allowance	28,682	29,881
Accrued receivables	3,701	1,154
Other receivables	46	1,784
	32,429	32,819

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

	2020	2019
Balance, beginning of the year	(317)	(254)
Receivables written off during the year	836	159
Recovery of previously written off balances	9	236
Additional allowance for expected credit losses	(1,216)	(458)
Balance, end of the year	(688)	(317)

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b) 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 3.00% to 4.50%. The co-lend term loan and the subordinate working capital loan bear interest at the bank's prime lending rate plus 4.50% and BDC's floating base rate less 1.75% 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, 2020, with other variables unchanged, an increase or decrease of 1% in interest rates would impact income before income taxes by approximately \$0.7 million (2019 - \$0.8 million).

c) 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 foreign currency purchases and sales transactions and has assets and liabilities that are denominated in foreign currencies and thus is exposed to financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

d) 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.

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

As at December 31, 2020, 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, 2020, the Company had access to \$18.4 million of undrawn borrowing facilities, which expire on May 31, 2022.

As at December 31, 2020, significant liabilities of the Company include the operating loan, trade accounts payable and accrued liabilities, other liabilities, lease liabilities, revolving loan, equipment loans, syndicate term loan, co-lend loan and working capital loan. Contractual maturities for financial liabilities on an undiscounted basis, including interest and principal as at December 31, 2020 were as follows:

	Operating loan ¹	Loans and borrowings	Other liabilities	Lease liabilities	Total
2021	19,138	10,061	669	6,509	36,377
2022	-	47,182	320	6,158	53,660
2023	-	3,616	179	4,305	8,100
2024	-	1,526	-	2,877	4,403
2025	-	1,337	-	1,120	2,457
Thereafter	-	637	-	2,190	2,827
	19,138	64,359	1,168	23,159	107,824

(1) Operating loan and accounts payable and accrued liabilities

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28. 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 and loans and borrowings 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 and bank indebtedness 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).

29. Segmented information

The Company has two reportable segments described as Engineering and Environmental Consulting ("Environmental Consulting") and Environmental Services. The accounting policies and practices for each of the segments are the same as those described in Note 3. There are no significant inter-segment transactions. Segment capital expenditures are the total costs incurred during the year to acquire property and equipment and intangible assets.

- a) Environmental Consulting consists of a variety of services related to assisting its clients to meet internal environmental standards, environmental legislation and related environmental compliance requirements. These services span multiple industries including energy, mining, utilities, forestry, private development, public infrastructure, telecommunications and government. More specifically, these services include advisory services related to new capital expenditure and asset development, environmental consulting and monitoring on existing assets, emission management solutions, sub-surface engineering, facility engineering, asset retirement and land reclamation services.
- b) Environmental Services consists of a variety of services related to transportation; removal, storage 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.

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.

Vertex Resource Group Ltd.

Notes to the consolidated financial statements

December 31, 2020 and 2019

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

For the year ended December 31, 2020				
	Environmental Consulting	Environmental Services	Other	Total
Revenue	43,549	88,352	4,224	136,125
Operating profit (loss) before depreciation and amortization	9,599	20,951	(6,086)	24,464
Depreciation and amortization	1,713	12,383	3,841	17,937
Operating profit (loss)	7,886	8,568	(9,927)	6,527
Other information				
Expenditures for additions to :				
Property and equipment	983	3,313	148	4,444
As as December 31, 2020				
Goodwill and intangible assets	20,760	4,066	586	25,412
Total assets	52,658	86,068	12,475	151,201
Total liabilities	17,389	25,369	60,401	103,159
For the year ended ended December 31, 2019				
	Environmental Consulting	Environmental Services	Other	Total
Revenue	45,860	113,885	8,325	168,070
Operating profit (loss) before depreciation and amortization	6,995	20,618	(5,307)	22,306
Depreciation and amortization	2,099	16,242	4,505	22,846
Operating profit (loss)	4,896	4,376	(9,812)	(540)
Other information				
Expenditures for additions to :				
Property and equipment	492	6,310	843	7,645
Intangibles	-	-	801	801
As as December 31, 2019				
Goodwill and intangible assets	21,191	7,757	747	29,695
Total assets	51,031	106,367	14,520	171,918
Total liabilities	13,011	30,620	74,734	118,365

Vertex Resource Group Ltd.

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December 31, 2020 and 2019

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

30. Subsequent event

On February 26, 2021 the Company entered into an agreement to purchase 100% of the outstanding shares of MAD Oilfield Solutions Inc. (MAD). MAD is an environmental service company, providing industrial cleaning, waste management and hydro-excavating, based out of northern Alberta. The total consideration of \$7.2 million was comprised of cash of \$3.6 million, unsecured, non-interest bearing promissory notes with a face value of \$3.6 million and the assumption of \$9.1 million in equipment loans and leases. Consideration paid was subject to normal working capital and other closing adjustments. The acquisition will be accounted for using the acquisition method, whereby the purchase consideration will be allocated to the net assets acquired. The initial accounting for the business combination is incomplete at the time the consolidated financial statements were authorized for issue.