

Condensed Consolidated Interim Financial Statements of

Vertex Resource Group Ltd.

For the three and six month periods ended June 30, 2019
(Unaudited)

Notice to Reader: As required by National Instrument 51-102, Part 4, subsection 4.3(3)(a), readers are advised that the Company's independent auditors have not performed a review of these condensed consolidated interim financial statements.

Vertex Resource Group Ltd.

June 30, 2019

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Vertex Resource Group Ltd.

Condensed consolidated interim statements of financial position

(in thousands of Canadian dollars)

(unaudited)

As at	Notes	June 30, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		1,197	2,347
Accounts receivables		32,763	40,303
Contract assets		5,050	2,325
Inventories		3,364	3,204
Prepaid expenses and deposits		3,226	2,906
		45,600	51,085
Property and equipment	4	85,780	91,591
Right of use assets	5	26,970	-
Intangible assets		1,333	1,854
Goodwill		34,081	34,081
Deferred income taxes		6,210	6,210
		199,974	184,821
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		16,349	17,188
Contract liabilities		341	1,135
Income taxes payable		92	44
Current portion of loans and borrowings	6	11,052	10,600
Current portion of provisions	7	3,255	3,058
Current portion of right of use lease liabilities	5	5,816	-
		36,905	32,025
Loans and borrowings	6	70,526	77,005
Provisions	7	100	2,360
Right of use lease liabilities	5	23,331	-
Deferred income taxes		6,929	7,736
		137,791	119,126
Shareholders' Equity			
Common shares		83,231	83,231
Deficit		(22,244)	(18,622)
Contributed surplus		1,196	1,086
		62,183	65,695
		199,974	184,821

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

Vertex Resource Group Ltd.

Condensed consolidated interim statements of net loss and comprehensive loss

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

(unaudited)

	Notes	Three months ended		Six months ended	
		June 30, 2019	2018	June 30, 2019	2018
Revenue		41,123	27,692	83,751	62,378
Direct costs		31,036	18,965	63,041	44,850
Gross profit		10,087	8,727	20,710	17,528
General and administrative expenses		3,834	4,469	8,150	8,933
Share-based compensation	8	56	46	110	91
Amortization		4,632	3,269	9,296	6,497
Amortization right of use assets	5	1,665	-	2,706	-
Finance costs	9	1,708	5,081	3,097	6,612
Loss before income taxes		(1,808)	(4,138)	(2,649)	(4,605)
Income tax (recovery) expense		(488)	40	(715)	40
Loss and comprehensive loss for the period		(1,320)	(4,178)	(1,934)	(4,645)
Net loss and comprehensive loss for the period per share					
Basic and diluted	10	(0.01)	(0.05)	(0.02)	(0.05)

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Vertex Resource Group Ltd.

Condensed consolidated interim statements of changes in shareholders' equity

(in thousands of Canadian dollars)

(unaudited)

		Six months ended	
		June 30,	
	Notes	2019	2018
Common Shares			
Balance, beginning of the period		83,231	79,794
Shares issued in settlement of seller's note		-	1,773
Balance, end of the period		83,231	81,567
Contributed Surplus			
Balance, beginning of the period		1,086	892
Share-based compensation		110	91
Balance, end of the period		1,196	983
Deficit			
Balance, beginning of the period		(18,622)	(20,913)
Adoption of IFRS 16	14	(1,688)	-
Balance, beginning of the period as adjusted		(20,310)	(20,913)
Net loss and comprehensive loss		(1,934)	(4,645)
Balance, end of the period		(22,244)	(25,558)
Total shareholders' equity		62,183	56,992

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Vertex Resource Group Ltd.

Condensed consolidated interim statements of cash flows

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

(unaudited)

		Six months ended	
		June 30,	
	Notes	2019	2018
Operating activities			
Net loss		(1,934)	(4,645)
Items not affecting cash			
Amortization		12,002	6,498
Interest accretion		882	40
Share-based compensation		110	91
Deferred financing charges		64	2,321
Gain on disposal of property and equipment		(425)	(143)
Deferred income taxes		(812)	40
Gain on acquisitions		-	(65)
		9,887	4,137
Change in non-cash operating working capital items	12	2,113	1,693
Cash provided by operating activities		12,000	5,830
Investing activities			
Purchase of property and equipment		(2,929)	(3,659)
Proceeds from disposal of property and equipment		1,146	2,017
Acquisition of subsidiaries, net of cash acquired		-	(636)
Cash used in investing activities		(1,783)	(2,278)
Financing activities			
Proceeds from (repayment of) operating and revolving loans	6	(2,600)	636
Repayment of term loan	6	(3,125)	-
Repayment of equipment loans	6	(938)	(1,368)
Repayment of finance leases	6	(1,105)	(474)
Repayment of right of use lease liabilities	5	(3,518)	-
Repayment of provisions	7	(1,645)	(637)
Proceeds from finance leases	6	1,564	-
Financing charges - deferred		-	(275)
Proceeds from equipment loans		-	3,545
Proceeds from term loan		-	40,000
Repayment of senior debt and subordinated debt		-	(44,500)
Cash used in financing activities		(11,367)	(3,073)
(Decrease) increase in cash and cash equivalents		(1,150)	479
Cash and cash equivalents, beginning of period		2,347	296
Cash and cash equivalents, end of period		1,197	775

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

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Notes to the condensed consolidated interim financial statements

June 30, 2019

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

(unaudited)

1. Description of business

Vertex is a publicly listed company on the TSX Venture Exchange ("TSXV") trading under the symbol VTX. The Company provides environmental and industrial services to a diverse clientele across Western Canada.

Activity levels in both the environmental services segment and industrial services segment are affected by seasonality as well as industry trends in the industries in which its customers operate.

In Canada, the level of activity in the environmental services segment is influenced by seasonal weather patterns. On a quarterly basis, activity can vary greatly. In typical years, the first calendar quarter is the most active in the oil and gas services industry, the second quarter is the least active, and the third and fourth quarters typically reflect increasing activity over the preceding quarter. Environmental and industrial services are 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 environmental service activity across western Canada.

2. Basis of preparation

The Company prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (IAS 34). Certain information has been reclassified to conform with the financial statement presentation adopted in the current year.

The condensed consolidated interim financial statements were approved by the Board of Directors (the "Directors") on August 9, 2019. These condensed consolidated interim financial statements should be read in conjunction with the Company's most recent annual financial statements. These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of application as the most recent annual financial statement, except for those policies disclosed in Note 3. The effects of the adoption of new IFRS pronouncements is disclosed in Note 14.

3. Summary of significant accounting policies

The following significant accounting policy was amended as a result of the adoption of IFRS 16, Leases (Note 14). All other significant accounting policies are consistent with those reported in the Company's 2018 annual consolidated financial statements.

Leases

The following leases accounting policies have been applied as of January 1, 2019 on adoption of IFRS 16. For comparative periods prior to 2019, we applied leases policies in accordance with IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. Note 14 outlines the effect of adopting IFRS 16 requirements on January 1, 2019.

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 right of use ("ROU") lease liability at the commencement date of a lease. The ROU asset is initially measured at cost, which is comprised of

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the initial amount of the ROU lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received.

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 ROU lease liability.

A ROU 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, including in-substance 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 lease term reflects the lessee exercising an option to terminate the lease.

The ROU lease liability is measured at amortized cost using the effective interest method. 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 ROU lease liability are charged directly to profit.

The Company has elected not to recognize ROU assets and ROU lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term.

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4. Property and equipment

	Land, Buildings, and improvements	Machinery and equipment	Office furniture and equipment	Rolling stock	Total
Cost					
As at December 31, 2018	11,305	64,570	5,005	63,406	144,286
Additions	118	491	199	2,877	3,685
Disposals	-	(642)	(54)	(3,208)	(3,904)
As at June 30, 2019	11,423	64,419	5,150	63,075	144,067
Accumulated amortization					
As at December 31, 2018	5,969	33,240	2,632	10,854	52,695
Amortization	457	2,885	429	5,004	8,775
Disposals	-	(270)	(54)	(2,859)	(3,183)
As at June 30, 2019	6,426	35,855	3,007	12,999	58,287
Carrying value					
As at December 31, 2018	5,336	31,330	2,373	52,552	91,591
As at June 30, 2019	4,997	28,564	2,143	50,076	85,780
Carrying value of assets under finance leases and equipment loans					
As at December 31, 2018	-	-	-	16,293	16,293
As at June 30, 2019	-	-	-	15,559	15,559

Rolling stock acquired under capital leases during the six month period ended June 30, 2019 totaled \$0.8 million (six month period ended June 30, 2018 - \$4.1 million) and have been treated as non-cash transactions for purposes of the consolidated statement of cash flows.

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5. Right-of-Use Assets and Liabilities

a) Right of Use Assets

The Company's significant lease arrangements include contracts for leasing office, shop and yard premises, and operating equipment.

	Real Property	Operating Equipment	Total
Cost			
As at December 31, 2018	-	-	-
IFRS 16 adoption (Note 14)	25,008	-	25,008
Additions	98	4,570	4,668
As at June 30, 2019	25,106	4,570	29,676
Accumulated amortization			
As at December 31, 2018	-	-	-
Amortization	2,095	611	2,706
As at June 30, 2019	2,095	611	2,706
Carrying value			
As at June 30, 2019	23,011	3,959	26,970

b) Right of Use Lease Liabilities Continuity

As at December 31, 2018	-	-	-
IFRS 16 adoption (Note 14)	27,203	-	27,203
Additions	98	4,570	4,668
Interest accretion during the period	736	58	794
Payments	(2,872)	(646)	(3,518)
As at June 30, 2019	25,165	3,982	29,147

c) Right of Use Lease Liabilities

Minimum lease payments in respect of right-of-use lease liabilities and the effect of discounting are as follows:

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	Total
Not later than one year	7,593
Later than one year and not later than five years	21,689
Later than five years	7,381
Total minimum lease payments	36,663
Less: amounts representing interest at rates ranging from 6.0% to 7.4%	7,516
Present value of minimum lease payments	29,147
Less: current portion	5,816
As at June 30, 2019	23,331

6. Loans and borrowings

	June 30, 2019			December 31, 2018		
	Current	Non-current	Total	Current	Non-current	Total
Secured						
Revolving loan (a)	-	26,400	26,400	-	29,000	29,000
Term loan (b)	7,500	35,990	43,490	6,875	39,676	46,551
Equipment loans	1,670	1,886	3,556	1,800	2,777	4,577
Finance leases	1,882	6,250	8,132	1,925	5,552	7,477
Total borrowings	11,052	70,526	81,578	10,600	77,005	87,605

a) *Revolving loan*

The revolving loan is authorized to a maximum of \$30.0 million and can be drawn by a mix of account overdraft with interest at rates ranging from HSBC's CAD prime rate or USD base rate plus 0.75%-2.00%, CAD Bankers' Acceptance rate and USD LIBOR loans plus stamping fees of 1.75%-3.00%. 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 0.35%-0.60%. The interest rate ranges are based on the funded debt to EBITDA ratio for the preceding quarter.

b) *Term loan*

The term loan, when originally drawn, was \$50.0 million and can be a mix of account overdraft with interest at rates ranging from HSBC's CAD prime rate or USD base rate plus 0.75%-2.00%, CAD Bankers' Acceptance rate and USD LIBOR loans plus stamping fees of 1.75%-3.00%. The interest rate ranges are based on the funded debt to EBITDA ratio for the preceding quarter. The term loan is repayable in four quarterly principal payments of \$1,563, followed by eight quarterly principal payments of \$1,875 with a final payment of \$28.8 million due on maturity of May 10, 2021. In addition to the scheduled principal payments the term loan includes an additional principal payment based on an annual excess cash flow. The excess cash flow calculation is applicable if the funded debt to EBITDA ratio at December 31, 2019 exceeds 2.75:1.00.

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c) Operating loan

The syndicate facilities include a secured operating facility authorized to a maximum of \$5.0 million to be used for general corporate purposes. The operating loan may be borrowed, repaid and re-borrowed on a revolving basis from the Closing Date until the Maturity Date. To the extent funds are drawn on the operating facility they will bear interest at rates ranging from HSBC's CAD prime rate or USD base rate plus 0.75%-2.00%. There was no amount drawn on this facility at June 30, 2019.

d) Transaction costs

The Company incurred \$0.4 million of transaction costs in 2018 which were capitalized and are being amortized on a straight-line basis over the three year term of the credit facility.

	June 30, 2019	December 31, 2018
Term loan - face value	43,750	46,875
Transaction costs	(260)	(324)
Carrying amount	43,490	46,551

e) Borrowing covenants – Senior Credit Facility

All loans are being provided in Canadian dollars and are subject to the following financial covenants:

- The ratio of consolidated senior indebtedness to trailing EBITDA, calculated on a trailing twelve month basis, must not exceed:
 - 3.75 to 1.00 for all quarters ending in fiscal 2019;
 - 3.00 to 1.00 thereafter.
- The ratio of net cash flow to fixed charges, the Fixed Charge Coverage ratio, must be more than 1.20 to 1.00 calculated on a rolling four-quarter basis.

The relevant definitions of key ratio terms set forth in senior secured credit facility is as follows:

- Consolidated senior indebtedness is defined as the outstanding balance of the revolving loan, plus the outstanding principal balance of the senior term loan, plus principal portions of any equipment loans and finance leases.
- 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 twelve month EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA.
- Net cash flow is defined as EBITDA reduced by net capital expenditures and cash taxes.
- Fixed charges is calculated as interest expense plus scheduled principal payments of indebtedness during the twelve month trailing period.

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At June 30, 2019 the Company was in compliance with the terms and covenants of its lending agreements which are as follows:

	Target	June 30, 2019	December 31, 2018
<i>Credit facilities</i>			
Funded debt to EBITDA	< 3.75 : 1	3.63	3.37
Fixed charge coverage ratio	> 1.20 : 1	1.31	1.98

7. Provisions

	Onerous lease	Contingent deferred payment	Sellers' notes	Total
As at December 31, 2018	506	1,175	3,737	5,418
IFRS 16 adoption (Note 14)	(506)	-	-	(506)
Interest accretion during the period	-	-	88	88
Payments	-	-	(1,645)	(1,645)
As at June 30, 2019	-	1,175	2,180	3,355

Provisions are presented on the consolidated interim statements of financial position as follows:

	June 30, 2019	December 31, 2018
Current portion of provisions	3,255	3,058
Non-current portion of provisions	100	2,360
	3,355	5,418

8. Share-based compensation

Stock Option Plan

The Company grants stock options to directors, officers, employees and consultants of the Company affiliates 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.

A summary of the status of the Company's stock options is as follows:

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	June 30, 2019		December 31, 2018	
	Outstanding options	Weighted average exercise price (\$)	Outstanding options	Weighted average exercise price (\$)
Balance - beginning of period	4,875,000	1.00	4,428,155	1.00
Granted	-	1.00	750,000	1.00
Expired	-	-	(78,155)	1.00
Forfeited	(25,000)	1.00	(225,000)	1.00
Balance - end of period	4,850,000	1.00	4,875,000	1.00
Exercisable - end of period	1,375,000	1.00	1,375,000	1.00

9. Finance costs

	Three months ended		Six months ended	
	June 30, 2019	2018	June 30, 2019	2018
Interest on long-term debt	1,030	1,419	1,923	2,582
Interest accretion on right of use lease liabilities	494	-	794	-
Interest on finance leases	94	22	189	47
Financing and bank charges	51	3,623	103	3,943
Interest accretion on sellers' notes	38	-	88	-
Interest accretion on onerous lease	-	17	-	40
	1,708	5,081	3,097	6,612

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10. Net loss per share

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Numerator:				
Loss and comprehensive loss for the period	(1,320)	(4,178)	(1,934)	(4,645)
Denominator:				
Weighted average shares outstanding - basic & diluted	91,253,115	88,653,115	91,253,115	88,546,799
Loss per share				
Basic & diluted	(0.01)	(0.05)	(0.02)	(0.05)

In calculating the loss per share for the three and six month periods ended June 30, 2019, the Company excluded 2,197,206 warrants, 4,850,000 options, and 2,160,009 contingent shares (three and six months ended June 30, 2018 – 2,197,206 warrants, 4,203,155 options, and 2,160,009 contingent shares) as their impact was anti-dilutive.

11. Related party transactions

All related party transactions are provided 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 owned or controlled by a director or officer.

	Nature of relationship	Three months ended		Six months ended	
		June 30,		June 30,	
		2019	2018	2019	2018
<i>Transactions:</i>					
Amortization right of use assets	(i)	148	-	296	-
Interest accretion on right of use lease liabilities	(i)	112	-	187	-
General and administrative expenses - rent	(i)	-	225	-	450
Property and equipment additions	(i)	-	367	-	856

(i) Related by common director, officer

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12. Supplemental cash flow information

	Six months ended	
	June 30,	
	2019	2018
<i>Changes in non-cash working capital:</i>		
Accounts receivables	7,540	8,126
Contract assets	(2,725)	(1,214)
Inventories	(160)	(473)
Prepaid expenses and deposits	(320)	(1,479)
Accounts payable and accrued liabilities	(1,476)	(5,165)
Contract liabilities	(794)	1,964
Income taxes payable	48	(66)
	2,113	1,693
<i>Net cash paid during the period for:</i>		
Interest	1,945	2,974
Income taxes	48	67

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13. Segmented information

The Company operates as an environmental and industrial services provider which form its two reporting segments. The accounting policies and practices for each of the segments are the same as those described in Note 2. Segment capital expenditures are the total costs incurred during the year to acquire property and equipment and intangible assets.

- a) *Environmental* – the Company provides a variety of services related to assisting their clients meet internal environmental standards, regulatory environmental standards and related environmental compliance needs. These services span multiple industries including infrastructure, mining, oil and gas, telecommunications and utility.
- b) *Industrial* - the Company offers services related to infrastructure or facility construction, as well as, the maintenance of those same assets. These services span a range of industries including agriculture, forestry, governments, midstream companies, public infrastructure, oil and gas production companies, potash and utilities.

For the three month period ended June 30,								
	Environmental		Industrial		Corporate		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	37,868	20,818	3,248	6,867	7	6	41,123	27,691
Net Income (loss) before tax	1,064	1,723	80	836	(2,952)	(6,697)	(1,808)	(4,138)
Amortization	5,883	2,862	288	407	126	-	6,297	3,269
Capital expenditures	2,285	2,032	11	111	-	-	2,296	2,143

For the six month period ended June 30, 2019								
	Environmental		Industrial		Corporate		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	78,585	44,049	5,146	18,315	20	14	83,751	62,378
Net Income (loss) before tax	3,146	2,819	211	1,986	(6,006)	(9,410)	(2,649)	(4,605)
Amortization	11,201	5,689	550	808	251	-	12,002	6,497
Capital expenditures	3,661	4,202	24	428	-	-	3,685	4,630

	Environmental	Industrial	Corporate	Total
As as June 30, 2019				
Total assets	177,118	12,833	10,023	199,974
Goodwill and Intangible assets	35,414	-	-	35,414
Total liabilities	50,129	2,396	85,266	137,791
As as December 31, 2018				
Total assets	159,726	16,968	8,127	184,821
Goodwill and Intangible assets	35,935	-	-	35,935
Total liabilities	27,761	4,329	87,036	119,126

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14 Adoption of IFRS 16 IFRS Pronouncement

The Company adopted IFRS 16 as at January 1, 2019 in accordance with the transitional provisions outlined in the standard, using the modified retrospective method. Under the modified retrospective method, comparative financial information is not restated and continues to be reported under the accounting standards in effect for those periods. We have recorded ROU assets of \$25.0 million and ROU lease liabilities of \$27.2 million. The amount recorded for ROU assets includes the reclassification of an onerous lease liability recorded on the balance sheet at December 31, 2018 of \$0.5 million. As noted below, the Company used the practical expedient for the impairment assessment of ROU assets related to onerous contracts. An adjustment against opening deficit of \$1.7 million for the net difference between the opening values of the ROU assets and ROU lease liabilities.

As part of the initial application of IFRS 16 the Company has elected to apply the following practical expedients permitted under the standard:

- (i) Leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term lease;
- (ii) Leases of low dollar value will continue to be expensed as incurred;
- (iii) Grandfathering IFRIC 4 assessment to conclude no leases are contained in service agreement;
- (iv) Apply a single discount rate to a portfolio of leases with similar characteristics;
- (v) Use the Company's previous assessment of impairment under IAS 37 for onerous contracts instead of re-assessing the ROU asset for impairment on January 1, 2019.

The weighted average incremental borrowing rate for ROU lease liabilities recognized as of January 1, 2019 was 6.0% for a portfolio of leases designated as operating equipment, 6.0% for a portfolio of leases designated as low value, and 7.4% for a portfolio of leases designated as high value. The designation of high and low value leases for the purpose of allocating them to portfolios was based a variety of factors including: the location of the lease, the term of the lease, the weighted average cash flow of the lease payments and the rate of the lease.