



**VERTEX RESOURCE  
GROUP LTD.  
INVESTOR PRESENTATION**

**AUGUST 2020**

**VERSATILITY. EXPERTISE.**

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# Corporate Profile

## Market Summary

Current Stock Price \$0.35 (August 21, 2020)

Common Shares Outstanding 91.3 Million

Market Capitalization: \$31.9 Million  
Debt \$66.9 Million  
Enterprise Value: \$98.8 Million

2020 Backlog <sup>1</sup> \$91.6 Million

### EBITDA:

2018 \$20.6 Million

2019 \$24.0 Million

2020 (6 Months) 12.0 Million

2020 EV/EBITDA<sup>2</sup> 4.2x

Price to Net Book Value 0.4x

CAGR (EBITDA) 31.41%

### Insider Ownership

Senior Management 18%

Board of Directors 28%

Total Insider Ownership 46%

## Highlights

- Became a publicly traded entity on the TSX Venture Exchange on Oct. 16, 2017
- 9 complementary acquisitions since 2017
- Vertex has established itself as a diversified company with 45% of revenue coming from outside the oil-and-gas industry.



1. Backlog remaining for 2020 after Q2  
2. Per Analysts' Consensus

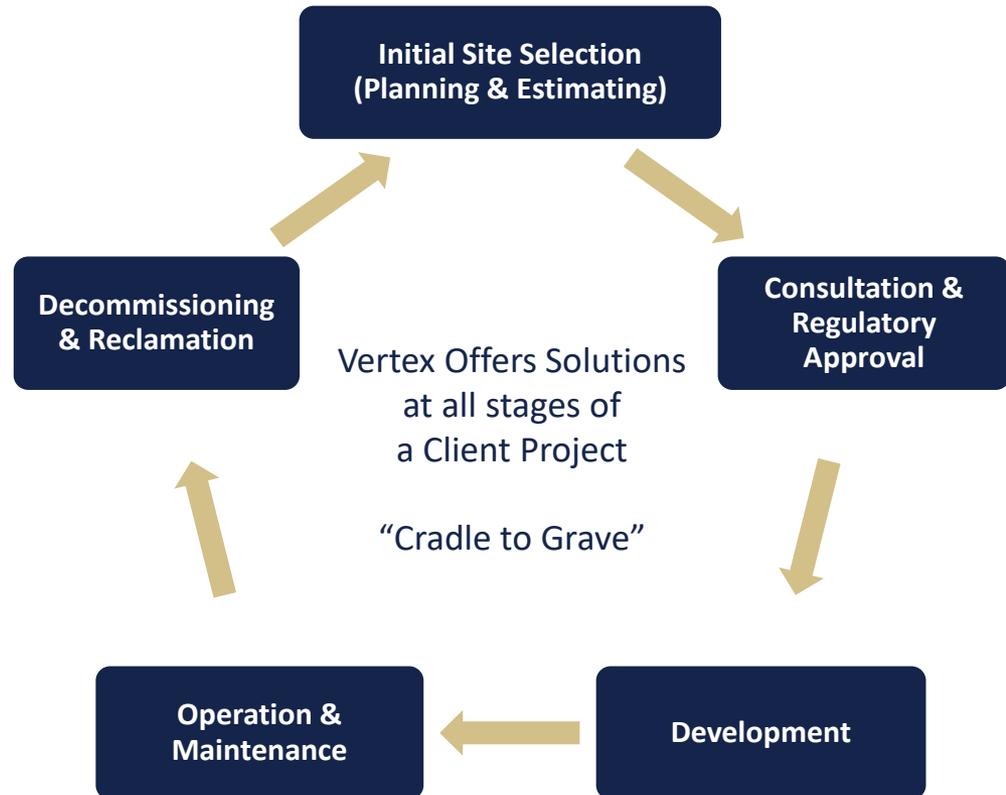
# A Leading Environmental Service Company

## BEST-IN-CLASS INTEGRATED ENVIRONMENTAL SOLUTIONS

Since 1962, Vertex has been a leading North American environmental service company

We proudly serve clients in the renewable energy, utilities, petrochemical, agriculture, forestry, municipal, oil & gas, oil sands, midstream, mining and aggregate sector

Vertex employs a staff of approximately 550 employees and lease operators



## Proven Strategy

We assemble, integrate and develop businesses that address the environmental needs of clients through organic growth and strategic acquisitions, with the goal of capturing efficiencies and enhancing service offerings that best anticipate customer needs.

# Solutions At All Stages of a Project Life Cycle



Vertex Provides an Integrated Service Offering That Supports Project Development Throughout the Life Cycle of our Clients' Projects Across All Industries

“Cradle to Grave Service Offering”

# Revenue Earned at Each Stage of a Project's Life Cycle

Service Line	Initial Site Selection (Planning & Engineering)	Consultation & Regulatory Approval	Development	Operation & Maintenance	Decommissioning & Reclamation
Environmental Consulting & Engineering	✓	✓	✓	✓	✓
Environmental Services & Industrial Cleaning			✓	✓	✓
Fluid Management & Logistics			✓	✓	✓
Rental Equipment			✓	✓	✓
Environmental & Industrial Products		✓	✓	✓	✓

## % of Vertex's Revenue Earned by Project Stage



- 79% of 2019 (86% of 2020; 6 Months) revenue was from consistent customer spending on recurring operating and maintenance projects and increased customer spending on environmental liabilities.

# Diversified Environmental Service Offering

Vertex continues to focus on growing across multiple industries.

This strategy has resulted in several project awards enabling us to continue to expand our geographic footprint outside of Western Canada while increasing the utilization of our two primary assets: People & Equipment.

## Growth Opportunities

### Pipelines, Utilities, Telecommunication & Government:

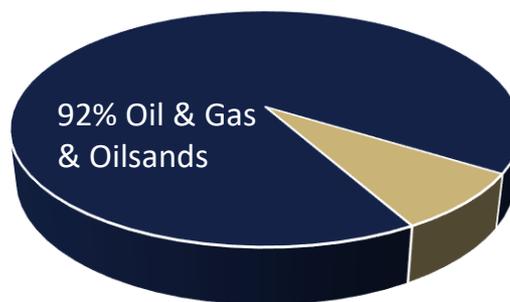
Vertex continues to provide services to these sectors and is working to grow/adapt our service offering to attract new project awards. Vertex is active in obtaining contracts associated with the expanding Canadian 5G network.

**Mining:** Vertex continues to be involved in coal and potash mining, processing, and power plant shut-downs including the management of peat, vegetation and wildlife throughout the life of these projects.

**Oil & Gas and Mining Abandonment:** AB and BC are developing regulations to impose a timeline on the clean-up of dormant well sites while other jurisdictions are imposing higher security deposits to achieve clean up efforts. Vertex continues to be involved in oil and gas abandonments, coal and potash mine abandonments and reclamation projects.

**Operation & Maintenance Projects:** Continual maintenance is required to ensure optimal production capabilities. This is a more stable stream of revenue and typically represents a greater proportion of E&P companies' spending than capital expenditure.

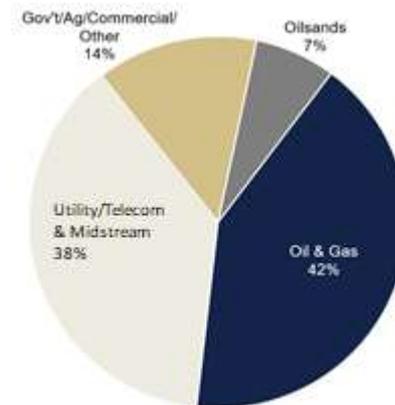
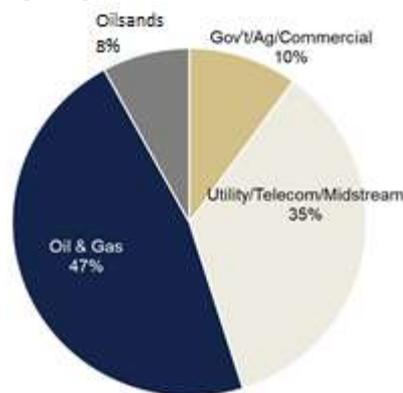
## % of Revenue by Industry



2014

8% utilities, agriculture, municipalities, government and telecommunications industries

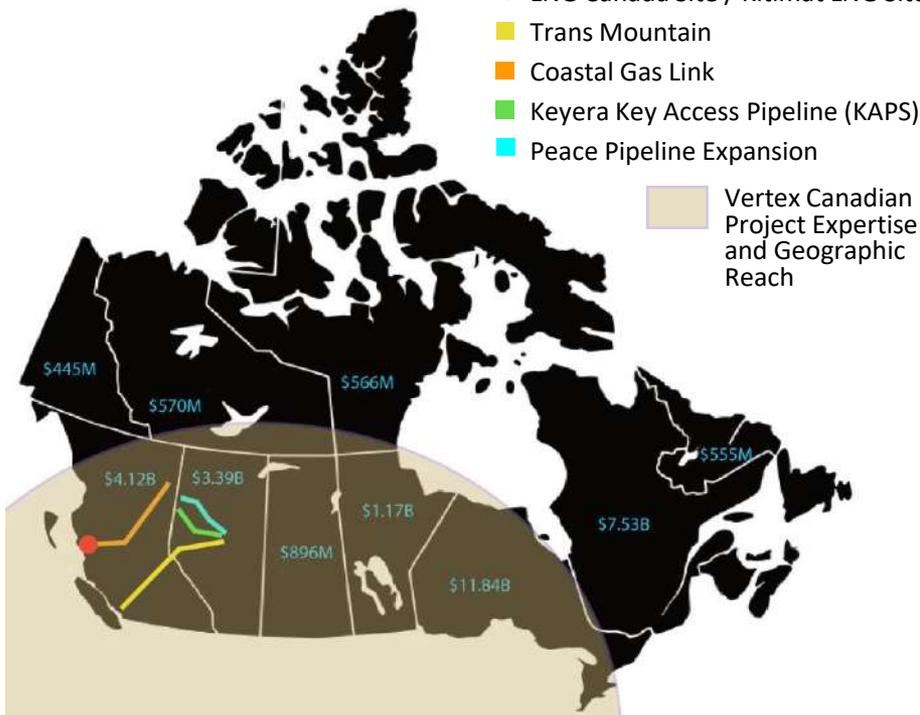
2019



2020F

# Infrastructure Project Development

- Canada's Infrastructure Plan
- LNG Canada Site / Kitimat LNG Site
- Trans Mountain
- Coastal Gas Link
- Keyera Key Access Pipeline (KAPS)
- Peace Pipeline Expansion



## Industry Details <sup>1</sup>

- **Telecomm 5G Network Upgrade** – the deployment of 5G will require numerous small-cell hubs as the network utilizes frequencies with limited travelling ability. This network will need to be constructed and is estimated to cost roughly **\$20 billion** in Canada. Overall telecom infrastructure upgrades are expected to cost approximately **\$100 billion**. Vertex's customers will be poised to capitalize on our environmental consulting expertise.
- **Keyera Pipeline and Pembina Pipeline** – a **\$1.3-billion** project, the Keyera Key Access Pipeline System (KAPS) has been approved and is expected to be in service in 2023 with construction starting next year. Another \$500 million project, **Phase VIII of the Peace Pipeline Expansion** announced by Pembina Pipeline is expected to be built and in service in 2022. These are both examples of relatively smaller pipeline projects that have been announced to improve egress in Canada. Vertex is very prominent in the area where both pipeline systems are to be constructed.
- **Trans Mountain, Coastal Gas Link and Keystone XL** – a **\$7.4-billion** project, Trans Mountain proceeded with shovels in the ground starting past September and is currently done 50% of Spread 1. Trans Mountain includes approximately 980 km of new pipeline carrying heavy oils, 12 new pump stations and 19 new tanks. **Coastal Gas Link** is a **\$6.2 billion** project and Vertex has secured significant contracts for 2019 and beyond. Coastal Gas Link currently has many of the necessary approvals to proceed and has been ruled to remain in provincial regulatory jurisdiction. **Keystone XL** is 1,947km pipeline connecting AB to US Gulf Coast with 259km in Alberta construction started April 2020, with AB Gov't investing \$1.5B and guaranteeing another \$6B in loans total estimated cost to complete is \$10B.
- **BC LNG Projects** – Following the first three months of construction, **LNG Canada** approved over \$937 million in contracts and subcontracts including \$330 million to First Nation businesses. The project has the support of over 20 First Nation communities and includes the construction of 670 km of pipeline and a **\$40-billion** LNG facility in Kitimat. This project has Federal Government support as they have now allocated funds towards the project. Vertex has a long-standing JV with the Haisla Nation and is actively working with the aboriginal band to secure additional work. **Kitimat LNG is expected to be a \$23-billion project once completed.**
- **Canada's Infrastructure Plan** – a **\$180 billion** Infrastructure Plan over 12 years which will continue to be a predictable source of funding for municipal and provincial infrastructure projects which Vertex currently services.
- **Petro Chemical Plant at Inter Pipeline, Pembina and Dow Chemicals** will provide some additional opportunities over the next several years.

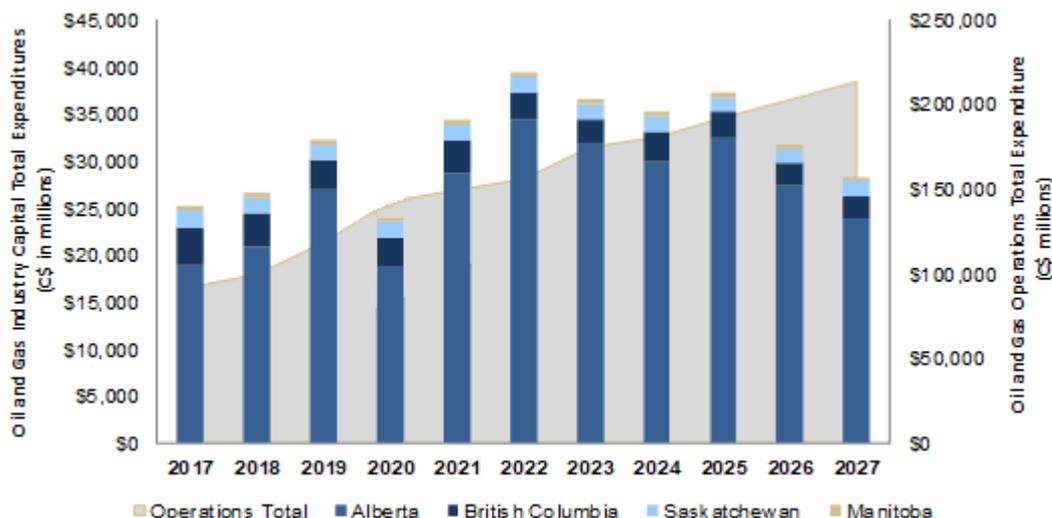
## Opportunity for Vertex

Large capital projects are progressing through regulatory processes, relatively smaller projects have been granted approval and Government infrastructure projects are proceeding. This presents current and future opportunity for Vertex's service offerings through the development and maintenance of these assets.

<sup>1</sup> [https://calgaryherald.com/cba-amp-project.org/vs/calgaryherald.com/business/energy/lng-canadas-planned-40b-kitimat-project-moving-toward-approval/amp?amp\\_js\\_v=0.1&source=ms31A0CC&origUrl=https%3A%2F%2Fwww.google.ca&referrer=Size&visibility=State=pre-render&paddingTop=54&qzr=0&horizontalScrolling=0&csi=1&soh=15355737163665&viewerUrl=https%3A%2F%2Fwww.google.ca%2Famp%2F%2Fcalgaryherald.com%2Fbusiness%2Fenergy%2Flng-canadas-planned-40b-kitimat-project-moving-toward-approval%2F&history=1&storage=1&cid=1&cap=swipe%2CnavigateTo%2Ccid%2Cfragment%2CreplaceUrl](https://calgaryherald.com/cba-amp-project.org/vs/calgaryherald.com/business/energy/lng-canadas-planned-40b-kitimat-project-moving-toward-approval/amp?amp_js_v=0.1&source=ms31A0CC&origUrl=https%3A%2F%2Fwww.google.ca&referrer=Size&visibility=State=pre-render&paddingTop=54&qzr=0&horizontalScrolling=0&csi=1&soh=15355737163665&viewerUrl=https%3A%2F%2Fwww.google.ca%2Famp%2F%2Fcalgaryherald.com%2Fbusiness%2Fenergy%2Flng-canadas-planned-40b-kitimat-project-moving-toward-approval%2F&history=1&storage=1&cid=1&cap=swipe%2CnavigateTo%2Ccid%2Cfragment%2CreplaceUrl)  
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<https://www.cbc.com/news/Canada-1.5103230>

# E&P Operation & Maintenance Spending

## E&P CAPEX and Maintenance Spending Trends in Canada <sup>1</sup>



### Industry Details <sup>1,2</sup>

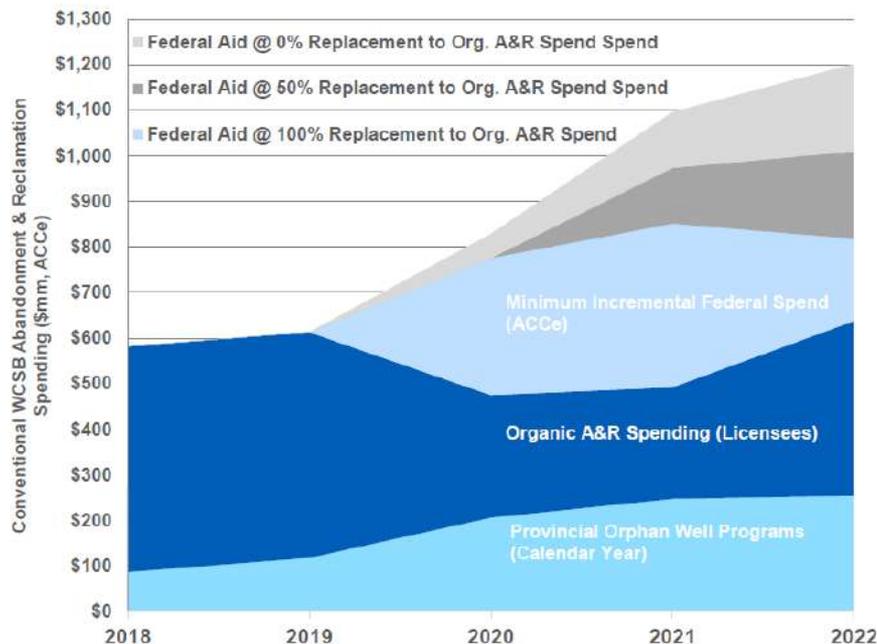
- Operating expenditures by upstream and midstream companies are a continued requirement to support production and processing volumes.
- Oil & Gas industry capital spending is expected to increase in a recovering and less volatile commodity environment.
- Increased M&A activity is expected to result in increased upstream activity overall as active firms have acquired assets from inactive owners restarting exploration and production.
- Alberta has committed \$1.4 billion in innovation funding for clean technologies and energy efficiency initiatives to reduce emissions and eliminate coal emissions by 2030. The province plans to spend \$70 million to cut oil sands emissions and this will require monitoring.

## Opportunity For Vertex

- Inactive assets, turned active require significant spend on maintenance and operating activities to restart exploration and production. Continual maintenance is required to ensure optimal production capabilities. This presents a more stable and consistent stream of revenue for Vertex as the company continues to pursue maintenance, turnaround and industrial cleaning opportunities.
- Extensive environmental monitoring, which Vertex provides to clients, will be required to ensure emission standards are met due to new regulations being adopted and implemented by the Alberta government.
- 79% of Vertex's 2019 (86% of 2020; 6 Months) revenue was derived from stable operating, maintenance and reclamation budgets of clients

# New Funds for Abandonment & Reclamation

## Total Conventional A&R Spending in the WCSB - Est. Historical and Forecasted <sup>1</sup>



### Market Details <sup>1</sup>

- Total conventional A&R spending is estimated to be \$615mm in 2019e to abandon and reclaim wells, facilities and pipelines.
- AltaCorp estimates for 2020 assume the full allocation of Phases 1&2 in Alberta and Phase 1 in Saskatchewan, which are at 100% funding and thus provide at least **\$300mm** in fully incremental funds to WCSB A&R market.
- Under the Liability Management Program, licensees are incentivized to reduce their decommissioning liability through abandonments and reclamation to maintain their LMR above 1.0x and avoid having to post security with the provincial government.
- Abandonment and reclamation spending is estimated to double to roughly \$1.2bn by 2022 based on a range of outcomes depending largely on the amount of federal spending replacing organic A&R spending by E&P's.

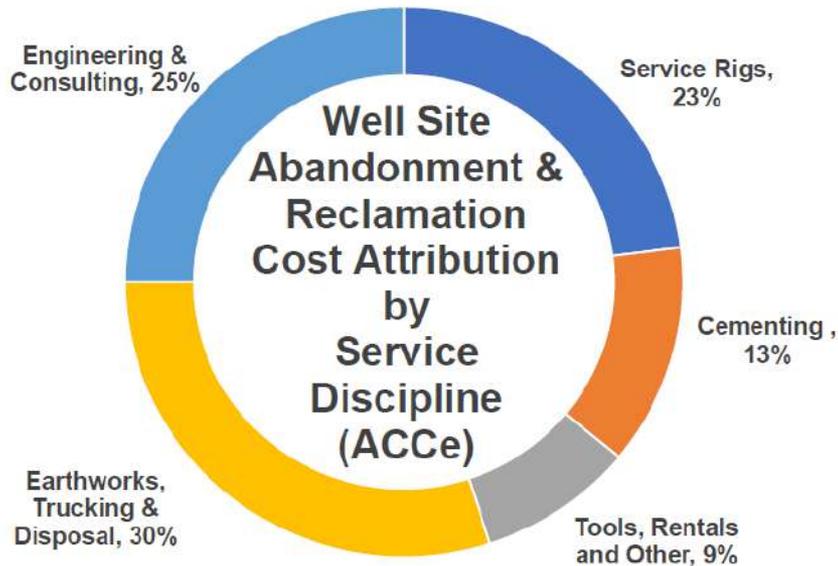
## Opportunity For Vertex

- Vertex has established themselves as a market share leader in abandonment and reclamation and therefore should have an incremental increase in revenues from these government programs.

1. Source: AltaCorp Capital Inc.

# New Funds for Abandonment & Reclamation

## Average Well Site A&R Cost Attribution by Service Discipline (% ACCE)<sup>1</sup>



Vertex provides services in all segments except service rigs and cementing.

## New Government Programs for 2020 & 2021<sup>1</sup>

- Federal Government announced \$1.7B for clean up of old oil and gas wells and \$750M funding aimed at reducing methane emissions
- The above was \$1B for AB Gov't, \$200M for Alberta Orphan Well, \$400M for SK Gov't, and \$120M for BC Gov't
- AB Gov't put an additional \$100M into Alberta Orphan Well



1. Source: AltaCorp Capital Inc.

# Financials

## Financial Summary

Year ending December 31 (C\$ 000's)					
	2016	2017	2018	2019	Q2 2020
<b>Revenue</b>	<b>86,153</b>	<b>118,419</b>	<b>150,385</b>	<b>168,070</b>	<b>66,727</b>
Cost of sales	61,869	86,116	109,892	129,449	48,487
<b>Gross Profit</b>	<b>24,284</b>	<b>32,303</b>	<b>40,493</b>	<b>38,621</b>	<b>18,240</b>
Gross profit margin	28%	27%	27%	23%	27%
SG&A	14,678	16,771	19,884	16,986	6,216
Other <sup>(1)</sup>	-4,027	-	-194	-1,700	-
<b>Adjusted EBITDA (before other expenses)</b>	<b>13,633</b>	<b>15,527</b>	<b>20,803</b>	<b>24,006</b>	<b>12,025</b>
Margin	16%	13%	14%	14%	18%
<b>Assets</b>	<b>122,371</b>	<b>144,156</b>	<b>184,821</b>	<b>171,502</b>	<b>157,493</b>
<b>Total Debt</b>	<b>57,676</b>	<b>62,160</b>	<b>87,605</b>	<b>73,725</b>	<b>67,239</b>
<b>Total Equity</b>	<b>40,834</b>	<b>59,773</b>	<b>65,695</b>	<b>53,552</b>	<b>47,331</b>
<b>Net Capex</b>	<b>4,239</b>	<b>2,401</b>	<b>3,994</b>	<b>5,846</b>	<b>378</b>

## Backlog

**2020<sup>2</sup>**      \$82 Million

**2021**          \$43 Million

**2022**          \$22 Million

- Adjustments relate to items that are not ongoing, are non-recurring, are exceptions to our normal operations and do not form part of our principal business. Overall adjustments relate to non-recurring bonus interest, losses or gains on disposal of assets, acquisition costs, impairments, onerous leases and severance costs, share based compensation.
- Backlog remaining for 2020 after Q2 2020

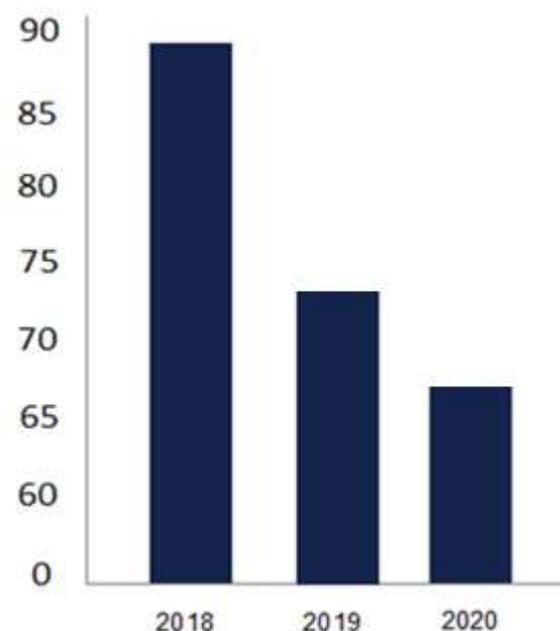
# Debt Repayment & Financials

## Overview

- Free cash flow to reduce outstanding debt – planned debt reduction in 2020 of \$7.0M - \$10.0M (10-12%)
- Capital budget reduced to maintenance only budget for 2020
- Amended Credit Facilities (June 2020)
  - Extended the maturity of our credit facilities to November 2021
  - Amended Funded Debt to EBITDA and Fixed Coverage Ratio covenants to provide increased financial flexibility
- Added \$6.25 BDC Co-Lend Loan – 6 year amortization, interest only in first year
- Added \$2.0M BDC Working Capital Loan with no principal payments in the first 12 months then \$0.4M/Yr with \$1.2M principal due in 36 months
- At closing, Vertex will have approximately \$25M undrawn on revolver

Company is in compliance with all covenants

## Net Debt Overview <sup>1</sup>



1. Net debt is senior debt less cash

# 2020 (Six Months) Financial Highlights

- **Adjusted EBITDA** of \$12.0 million compared to \$11.4 million for the first half of 2019.
- Reduction of **net debt** by \$5 million since December 31, 2019 (\$15 million since June 30, 2019).
- Banking agreements providing additional **working capital capacity** of \$8.3 million.
- **Free Cash flow** of \$7.7 million compared to \$8.4 million for the first half of 2019 (free cash flow is defined as cash flow from operations less maintenance capital expenditures).
- Initial success under the **federal government \$1.7 billion abandonment and reclamations funding program** with expectations for significant future wins.

# 2020 Current Landscape

- Oil prices had crashed in early March due to Saudi & Russia price and market share war
- Oil and Gas customers started pulling back drilling and completion plans after a very robust start to 2020 industry activity in January
- COVID spread caused government imposed business shutdowns however Vertex was deemed an essential service and allowed to continue operating albeit at reduced activity levels
- Capital programs reduced by customers in all sectors
- Several companies reduced worksite access for new construction and some services which could be deferred in the short-term
- Consulting division is able to work remotely and is experiencing some new opportunities with some clients awarding Vertex additional work to manage their staff and sites remotely through our IT infrastructure
- Environmental Services division generates 10 – 15% of annual revenues from hauling oil, there have been some production shut ins but have been able to shift equipment to other locations and clients, Vertex works mostly for energy marketers and we have experienced more, week-to-week decisions on where to haul the oil as marketers attempt to get best short term prices and access to pipelines so demand for trucking actually increases to give them this extra flexibility to market their products
- We have been able to get out additional rental equipment to support COVID compliance (CN Rail & City of Edmonton) and oil storage solutions (currently have 130,000 barrels of oil storage on rent)

# Investment Attributes



**GROWTH**



**OPPORTUNITY**



**DIVERSIFICATION**

- Recognize we are working in a changed environment
- We are diversified across and beyond the oil and gas industry and have been expanding our geographic footprint across Western Canada, Ontario and select USA states
- Vertex service offering is not as directly exposed to reductions in E&P capex as others, 2019 saw 79% (86% of 2020; 6 months) of our services were to operations, maintenance, and abandonment/reclamation
- Operational flexibility to redeploy people and equipment
- Day-to-day monitoring of opportunities and underperforming areas
- Strong Management Team, which has weathered other crisis like the 2009 global financial crisis, energy crash in 2015/2016 and the 2016 Fort McMurray fire

# Vertex Strategic & Management Strengths

## Strategic Strengths

- Disciplined Capital Allocation & Cost Reduction Practices
- Geographic & Service Offering Footprint Expansion into Attractive Growth Markets across North America (including BC, ON & USA)
- Continue to Provide a Diverse Integrated Service Offering Throughout All Stages of a Client's Project
- Continue to Cross-Sell & Increase Utilization (people & equipment)



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# VERTEX

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