EVERGEN Infrastructure Corp.

# Management's Discussion and Analysis

For the three months and year ended December 31, 2022

Dated April 12, 2023

## FINANCIAL AND OPERATIONAL HIGHLIGHTS SUMMARY

Core Renewable Natural Gas ("RNG") expansion and development projects: EverGen Infrastructure Corp. ("EverGen", "the Company", "we", "our", "us" or "its") continues to progress on its core RNG expansion and development projects and regional expansion across Canada.

*Fraser Valley Biogas*

Construction at the Fraser Valley Biogas core RNG expansion project commenced in late-Q3 2022, with the initial construction focused on an additional anaerobic digestor and improvements to the feedstock processing system, followed by replacement of the RNG upgrader in order to double the expected production capacity of the facility to ~160,000 gigajoules of RNG per year. As at December 31, 2022, EverGen has invested approximately $3 million into this project. Completion is scheduled for Q2 2023 for a total anticipated cost of $11-$12 million. Upon completion, EverGen will assess the need for investment into additional digestate storage for an anticipated cost of $2-$3 million, which if required, would be constructed during 2024.

*Pacific Coast Renewables (formerly known as Net Zero Waste Abbotsford)*

The core RNG expansion project at Pacific Coast Renewables (formerly known as Net Zero Waste Abbotsford – see company Overview section below) is expected to increase the facility's inbound organic feedstock to ~135,000 tonnes per year, from 40,000 tonnes per year, and add RNG production of ~180,000 gigajoules per year. As at December 31, 2022, EverGen has invested approximately $5 million into equipment and upgrades for this project. The project is expected to cost a total of $32-$35 million and is anticipated to commence construction in 2024, following the receipt of regulatory approvals.

*GrowTEC*

In July 2022, EverGen completed the acquisition of a 67% interest in GrowTEC and subsequently entered into construction on the first phase of a core RNG expansion project in Alberta designed to produce ~80,000 gigajoules of RNG per year. Construction and commissioning on this project was completed by EverGen in Q1 2023. Following the production of RNG into FortisBC's network, which is expected during Q2 2023, the facility will then move into the second phase of the project, which is expected to produce a total of ~140,000 gigajoules of RNG per year.

*Project Radius*

In May 2022, EverGen acquired a 50% interest in Project Radius, which is a late-development-stage portfolio of three high-quality, on-farm RNG projects in Ontario, collectively capable of producing ~1.7 million gigajoules of RNG per year and are expected to be constructed throughout 2023 and 2024.

Financing: In January 2023, EverGen announced that it had signed a definitive agreement with its existing lender, Roynat Capital (a subsidiary of The Bank of Nova Scotia) ("Roynat") and Export Development Canada ("EDC") for a $31 million syndicated senior term loan (the "Term Loan Facility"). Roynat and EDC are each providing for 50% of the proceeds from the Term Loan Facility. The Term Loan Facility will be used to support the upgrade and construction of the Company's RNG facilities and provides for $15 million for refinancing of existing debt and construction at Fraser Valley Biogas and $16 million at Pacific Coast Renewables.

Insurance: In December 2022, EverGen was successful in settling certain outstanding insurance claims relating to the flooding events in the Abbotsford and Sumas Prairie regions in late-2021. As at December 31, 2022, EverGen had $1,754 of insurance proceeds recorded in accounts receivable, of which $1,546 was received during the first quarter of 2023.

Cash and cash equivalents: Cash and cash equivalents received from EverGen's initial public offering ("IPO") have been invested into the Company's core RNG expansion and development projects, resulting in a balance of $8.9 million as at December 31, 2022, compared to $19.6 million as at December 31, 2021.

*All amounts in Canadian $000s, unless otherwise indicated*

The remaining cash and cash equivalents, combined with the $31 million Term Loan Facility and expected future operating cash flows, fully-funds EverGen's core RNG expansion projects.

| | Three months ended | | | | Year ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | $ Change | % Change | Dec 31, 2022 | Dec 31, 2021 | $ Change | % Change |
| FINANCIAL | | | | | | | | |
| Revenue | 1,716 | 2,693 | (977) | (36) | 7,459 | 9,564 | (2,105) | (22) |
| Net loss | (1,526) | (1,113) | (413) | 37 | (4,110) | (1,953) | (2,157) | 110 |
| Net loss per share ($), basic and diluted | (0.11) | (0.08) | (0.03) | 38 | (0.30) | (0.18) | (0.12) | 67 |
| EBITDA [(1)] | (914) | (512) | (402) | 79 | (1,067) | 836 | (1,903) | (228) |
| Adjusted EBITDA [(1)] | 274 | (18) | 292 | (1,622) | 1,986 | 2,839 | (853) | (30) |
| Capital expenditures [(2)] | 3,723 | 1,004 | 2,719 | 271 | 10,973 | 12,234 | (1,261) | (10) |
| Total assets | 85,956 | 80,610 | 5,346 | 7 | 85,956 | 80,610 | 5,346 | 7 |
| Total long-term liabilities | 17,463 | 14,764 | 2,699 | 18 | 17,463 | 14,764 | 2,699 | 18 |
| Cash and cash equivalents | 8,852 | 19,597 | (10,745) | (55) | 8,852 | 19,597 | (10,745) | (55) |
| Working capital surplus [(1)] | 6,125 | 20,545 | (14,420) | (70) | 6,125 | 20,545 | (14,420) | (70) |
| COMMON SHARES (thousands) | | | | | | | | |
| Outstanding, end of period | 13,809 | 13,367 | 442 | 3 | 13,809 | 13,367 | 442 | 3 |
| Weighted average – basic & diluted | 13,847 | 13,367 | 480 | 4 | 13,593 | 11,029 | 2,564 | 23 |
| OPERATING | | | | | | | | |
| Incoming organic feedstock (tonnes) | 16,972 | 26,110 | (9,138) | (35) | 76,730 | 94,206 | (17,476) | (19) |
| Organic compost and soil sales (yards) | 6,575 | 5,119 | 1,456 | (28) | 33,972 | 61,790 | (27,818) | (45) |
| RNG (gigajoules) | 10,847 | 12,682 | (1,835) | (14) | 51,848 | 55,380 | (3,532) | (6) |
| Electricity (MWh) | 572 | - | 572 | 100 | 1,270 | - | 1,270 | 100 |

[(1)] *Non-GAAP measure as defined in the Non-GAAP measures section of this MD&A.*
[(2)] *Capital expenditures for the year ended December 31, 2022 includes a $2,054 investment in GrowTEC and $1,250 investment in an equity-accounted investment (Project Radius).*

Revenue: For the three months ended December 31, 2022, revenues of $1,716 decreased, compared to the same period last year primarily due to lower volumes of incoming organic feedstock, as a result of unseasonably high volumes incoming organic feedstock during the fourth quarter of 2021 due to post-flood processing of organic waste at both of EverGen's organic waste and composting facilities.

For the year ended December 31, 2022, revenues of $7,459 decreased, compared to the same period last year, primarily due to lower volumes of incoming organic feedstock, as described above, and seasonal impacts on organic compost and soil sales.

Net loss: For the three months and year ended December 31, 2022, net loss of $1,526 and $4,110 increased $413 and $2,157, compared to the same periods last year, mainly due to a decrease in revenues, as described above, an increase in non-recurring flood-related direct operating costs and the absence of a contingent consideration gain, partially offset by a decrease in general and administrative expenses and the recognition of insurance proceeds.

During 2022, the Federal Government of Canada enacted tax legislation reducing the corporate income tax rate for qualifying zero-emission technology manufacturers by 7.5% and allowed for the accelerated recognition of the capital cost allowance for eligible equipment. EverGen expects both initiatives will apply to its core RNG expansion and development projects.

Adjusted EBITDA: For the three months ended December 31, 2022, EverGen recorded adjusted EBITDA of $274. The increase in adjusted EBITDA was primarily due to insurance proceeds from previously incurred flood-related costs recognized during the three months ended December 31, 2022, and a decrease in direct operating and in general and administrative costs, partially offset by a decrease in revenues, as described above.

For the year ended December 31, 2022, EverGen recorded adjusted EBITDA of $1,986. The decrease in adjusted EBITDA was primarily due to a decrease in revenues, as described above, and an increase in non-recurring flood-related direct operating costs, partially offset by a decrease in general and administrative costs and insurance proceeds recognized.

RNG Volumes: RNG volumes commenced on April 16, 2021, upon the acquisition of FVB. RNG volumes were impacted as a direct result of flooding events in the Abbotsford and Sumas Prairie regions, which resulted in the shut down of the FVB facility on November 15, 2021, until operations were restored on March 2, 2022. Since March 2, 2022, FVB has been operating and producing daily volumes of up to 334 GJ/d. RNG production volumes have been fluctuating from intermittent flood-related issues, which are being remediated as part of the core RNG expansion project at FVB. Pro-forma RNG volumes, taking into account insurance proceeds received from lost revenue at FVB, was 86,285GJ in 2022.

## BASIS OF PRESENTATION

EverGen has prepared this Management's Discussion and Analysis ("MD&A") for the three months and year ended December 31, 2022, in accordance with National Instrument 51-102F1, and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). All references to "$" are references to Canadian dollars and all amounts are presented in thousands of dollars, unless otherwise indicated. This MD&A and the audited consolidated financial statements of EverGen have been prepared by management and approved by the Audit Committee of the Board of Directors as of April 12, 2023.

Additional information relating to the Company, including our Annual Information Form dated April 12, 2023 ("AIF"), is available on SEDAR at www.sedar.com. The Company's common shares trade on the TSX Venture Exchange ("TSXV") under the symbol "EVGN" and the OTCQX Market ("OTCQX") under the symbol "EVGIF".

## READER ADVISORIES

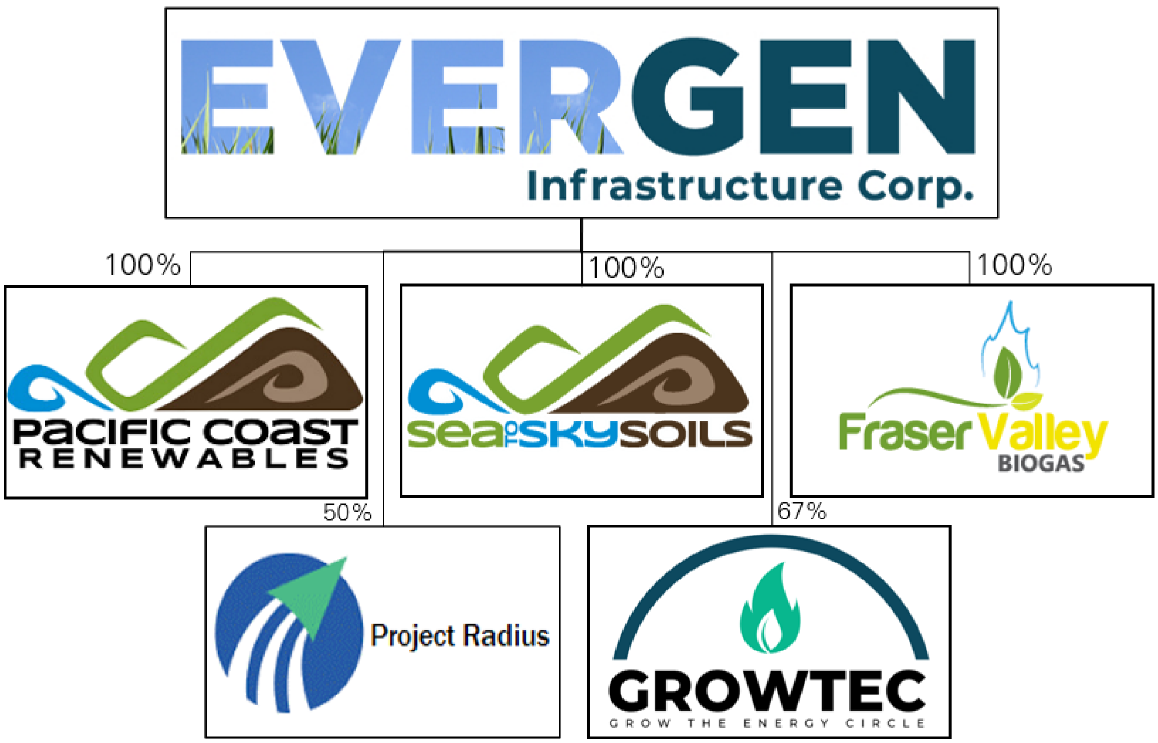
This MD&A contains certain "forward-looking statements" within the meaning of Canadian securities legislation and introduces financial measures which are not defined under IFRS aimed at helping the reader in making comparisons to metrics similarly disclosed by industry peers. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-GAAP Measures" and "Forward-Looking Information" included at the end of this MD&A.

## COMPANY OVERVIEW

EverGen, headquartered in Vancouver, British Columbia is a sustainable infrastructure platform established to acquire, develop, build, own, operate, and consolidate a portfolio of renewable natural gas ("RNG"), waste to energy, and related infrastructure projects in Canada and other regions of North America.

EverGen commenced operations upon incorporation under the laws of British Columbia, Canada, on May 13, 2020.

The Company currently owns and operates four facilities through its subsidiaries: Pacific Coast Renewables Corp. ("PCR") (renamed from Net Zero Waste Abbotsford Inc. in March 2023), Sea to Sky Soils and Composting Inc. ("SSS"), Fraser Valley Biogas Ltd. ("FVB") and Grow the Energy Circle Ltd. ("GrowTEC"), and holds a 50% interest in Project Radius, an entity that holds a portfolio of three RNG projects under development in Ontario, Canada.

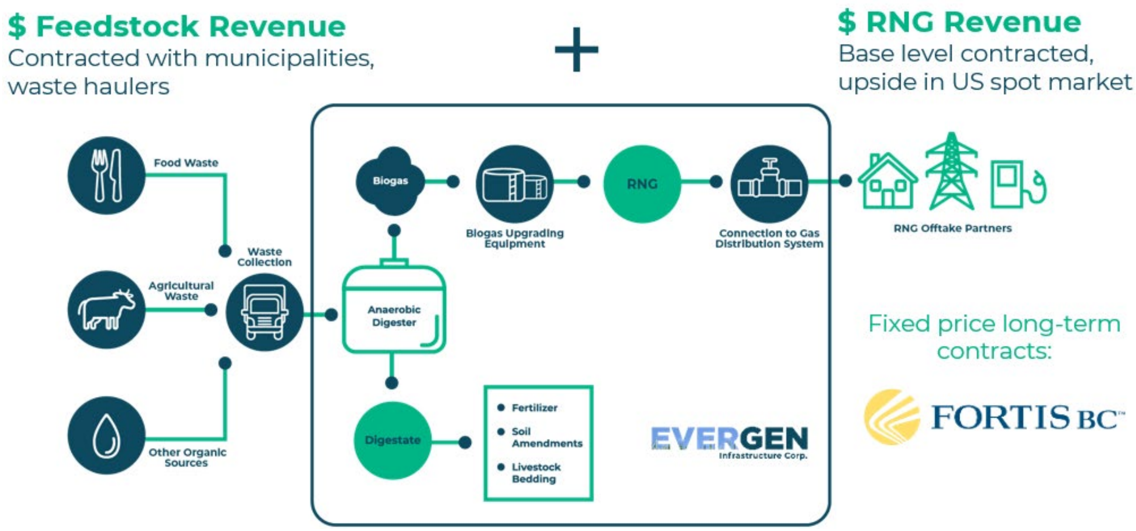



FVB is British Columbia's original RNG facility, which has historically sold its RNG under a long-term offtake contract with FortisBC and combines anaerobic digestion and biogas upgrading to produce RNG, primarily by converting agricultural waste from local dairy farms. In advance of finalizing the terms under a new long-term offtake agreement with FortisBC, the facility is currently operating under an interim offtake contract. The FVB RNG facility is currently undergoing a core RNG expansion project to add additional RNG production that is expected to double the facility's existing capacity and increase RNG production to ~160,000 gigajoules per year.

PCR and SSS are currently organic waste conversion facilities in British Columbia, owned and operated by EverGen, which primarily processes inbound organics, yard waste and biosolids for a contracted tipping fee and produces high-quality organic compost and soils for farmers, gardeners and developers. PCR is undergoing a planned core RNG expansion project, which will add anaerobic digestion capabilities to produce biogas and will then be upgraded to RNG to feed into FortisBC's gas network under an existing 20-year off-take agreement. The expansion is expected to increase the facility's inbound organics throughput to ~135,000 tonnes of feedstock per year and is designed to produce ~180,000 gigajoules of RNG per year. Construction of the upgrade will begin upon receipt of building and regulatory approvals, for which applications were submitted during 2022. Construction on the project is expected to begin in 2024. During the fourth quarter of 2022, EverGen commenced construction on improving the existing infrastructure to ensure the readiness of the facility for increased volumes of inbound organics. The majority of the revenue currently earned by the composting operations is sourced under long-term contracts with local municipalities.

In July 2022, EverGen completed the acquisition of a 67% interest in GrowTEC, for cash consideration of $2.1 million, subject to working capital adjustments, a commitment for a future contribution of assets to GrowTEC of $0.3 million, and the issuance of 600,000 common shares of EverGen, with a fair value of $1,560. Additional cash consideration of up to $4.0 million may be made upon achievement of certain operational milestones, including the commissioning of the second phase of expansion to 140,000 gigajoules. EverGen is overseeing the installation of an RNG upgrader, and related equipment, to upgrade biogas to produce RNG, which will then be delivered to FortisBC under an existing off-take agreement. The first phase of development is expected to produce 80,000 gigajoules of RNG annually and is anticipated to be complete and producing gas into FortisBC's network in April 2023. The second phase of expansion is then expected to increase the RNG production capacity of the facility to 140,000 gigajoules per year.

In May 2022, EverGen acquired a 50% interest in Project Radius, a late-development stage portfolio of three high-quality, on-farm RNG projects, each capable of producing approximately 550,000 gigajoules of RNG per year and are expected to be constructed throughout 2023 and 2024. EverGen is currently working with its partner on developing Project Radius to advance the projects to the notice-to-proceed phase of development.




## COMMERCIAL STRATEGY

EverGen was formed to acquire and develop existing underutilized RNG infrastructure, convert existing organic waste facilities into RNG infrastructure and build and operate new RNG infrastructure. From its existing platform, EverGen plans to further grow and develop RNG projects in its growth pipeline and provide RNG under long-term offtake contracts to FortisBC and other creditworthy customers.

EverGen's purpose is to contribute to the circular economy, promoting socially conscious business models for waste recycling while providing sustainable returns for the planet by using its platform of investments and operational excellence to drive rapid RNG penetration and grid conversion in addition to:

- Completing the development and construction of EverGen's existing portfolio of core RNG expansion projects;
- Optimizing, diversifying and expanding existing organic waste processing capabilities;
- Continuing the growth of EverGen's project portfolio via strategic acquisitions and consolidation opportunities; and
- Developing strategic partnerships and advancing RNG project pipeline.

## OUTLOOK

EverGen has established itself as a pioneer in the RNG infrastructure space and has generated a competitive advantage in the industry. During 2022, we successfully continued the expansion of our portfolio through the acquisitions of a 67% interest in GrowTEC and a 50% interest in Project Radius, which demonstrates EverGen's ability to drive the consolidation and the growth of the RNG industry, as well as expand its geographical base. EverGen plans to continue to grow through the pursuit of RNG consolidation opportunities across North America and the further development of projects within its pipeline. This is driven by underlying investments in truly sustainable operations that contribute to carbon-negative energy production, and positively impacting climate change initiatives.

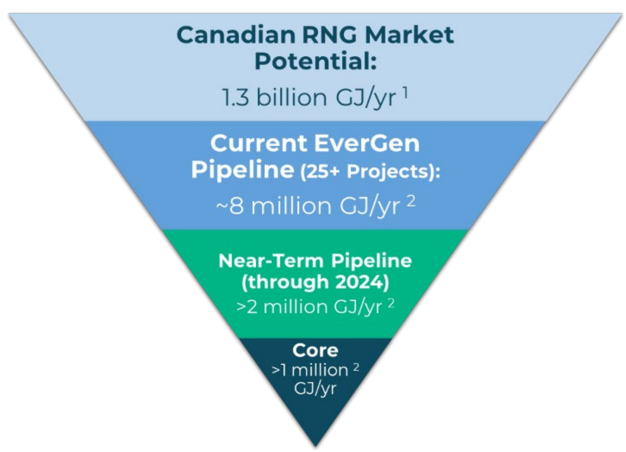
EverGen's growth, and increased financial performance, relies on the execution of its strategy to acquire, develop, build, own, operate and consolidate a portfolio of RNG, waste to energy and related sustainable infrastructure projects, including:

- Completing the development and construction of EverGen's existing portfolio of core RNG expansion projects;
- Optimizing and expanding existing organic waste processing facilities and RNG feedstock;
- Securing and optimizing long-term contracts for RNG offtake and feedstock to provide stable long-term low-risk cash flows;
- Securing municipal feedstock agreements through developed partnerships and vertically integrated operations;
- Diversifying feedstock suppliers to de-risk inbound revenue streams;
- Integrating talent, systems and processes across our projects to create efficiencies and best-in-class operations; and
- Continuing the growth of the project portfolio via the development of our project pipeline through strategic acquisitions and consolidation opportunities.

We believe that EverGen is uniquely positioned to capitalize on expansion prospects in the RNG market and that the RNG industry is set to grow rapidly over the next several decades based on increased availability of feedstock, through population growth and landfill diversion measures, and increased customer demand for lower carbon energy alternatives. We believe that there is growing societal expectations of carbon neutral and circular economy solutions and increasing government support for these initiatives.

### *Executing strategic and accretive acquisitions*

EverGen's ability to identify and develop projects in our project pipeline, and then execute and integrate these projects as accretive acquisitions into EverGen's platform is a key driver of our growth. Our growth is focused on realizing consolidation opportunities and achieving synergies in cost and margins through the operation and expansion of facilities under a unified business platform. The identification and development of projects, followed by the execution of acquisitions and consolidation opportunities, as well as their integration into a common operating platform with shared services and efficiency optimizations, is a key factor to our success. The successful execution and integration of acquisitions creates further opportunities within the market to EverGen, provides us with additional growth opportunities and drives further procurement and cost synergies across our operations.




[1] Source: Biogas World
[2] Net to EverGen

### *Driving cost efficiencies*

Our high-value services and high-quality products through strategically located facilities provide a foundation to continue to identify and develop projects in our pipeline, consolidate growth and realize operational and capital efficiencies. To do so, we have been investing in a scalable platform and capabilities. This investment is the basis to realize future operational and capital efficiencies and further enhance our competitive position on top of our existing strong competitive position currently supported by asset management discipline, investment in sustainable infrastructure and collaborative stakeholder relationships. EverGen's continued success depends upon our ability to leverage our scalable network and platform to build relationships with municipal, commercial and utility customers, realize operational and capital efficiencies, and extract procurement and cost synergies.

### *Building collaborations*

EverGen's collaborative approach accelerates growth and extends our execution capabilities across our value chain and supply chain. Key relationships with local developers, First Nations and other stakeholders provide access to projects and leverages our capabilities in sourcing new organic waste streams and extending our business model to fulfill societal and customer expectations of waste recycling and waste to energy production combined with reduced greenhouse gas emissions.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our strategy is intertwined with our commitment to deliver on societal expectations of a circular economy and fulfilling ESG values. EverGen was established for the purpose of contributing to a circular economy in waste recycling and waste to energy production through sourcing, operating and developing sustainable infrastructure and fulfilling our ESG values.

EverGen delivers on its ESG values as follows:

| | |
|---|---|
| **Environmental** | Recycle waste products and reduce greenhouse gas emissions in the production of renewable energy, which replaces higher-carbon sources. |
| **Social** | EverGen operates as a community-focused business, receiving and recycling organic waste from local municipalities and businesses. EverGen is focused on partnering with First Nations communities who host its operations and provide a vital workforce. |
| **Governance** | Committed to strong governance in its operations and in planned growth and development of RNG. |

EverGen is proactively engaged with local businesses, such as restaurants and food and beverage producers and distributors, to advance socially conscious commerce and creates mutually beneficial and socially responsible alternatives to traditional waste disposal to achieve a reduced carbon footprint. These potential new relationships represent a significant area of growth and diversification from EverGen's existing customer base and provides the opportunity for market expansion while fulfilling society's expectations of directing organic waste for recycling and the production of renewable energy.

For full details on EverGen's ESG values and reporting, please refer to the Company's AIF dated April 12, 2023 (see section entitled "Social/Environmental Policies"), which is available on SEDAR at www.sedar.com.

*All amounts in Canadian $000s, unless otherwise indicated*

## RESULTS OF OPERATIONS

### *Revenue*

Revenue by source:

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Tipping fees | 1,204 | 2,204 | (45) | 5,389 | 6,979 | (23) |
| Organic compost and soil sales | 85 | 99 | (14) | 699 | 1,230 | (43) |
| RNG sales | 198 | 186 | 6 | 818 | 825 | (1) |
| Electricity sales | 225 | - | 100 | 460 | - | 100 |
| Trucking services and other | 4 | 204 | (98) | 93 | 530 | (82) |
| Total | 1,716 | 2,693 | (36) | 7,459 | 9,564 | (22) |

Revenue is generated primarily through contracted tipping fees charged to municipalities and other customers for the disposal of organic waste at EverGen's facilities. EverGen also generates revenue from the sale of high-quality organic compost and soils, and from hauling services associated with delivering organic waste. From April 16, 2021, revenue includes RNG sales by FVB under contract with FortisBC and from July 13, 2022, revenue includes electricity sales by GrowTEC to Alberta Electric System Operator ("AESO").

Revenue by segment:

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| RNG production | 491 | 241 | 104 | 1,570 | 1,041 | 51 |
| Organic waste and composting | 1,225 | 2,452 | (50) | 5,889 | 8,523 | (31) |
| Total | 1,716 | 2,693 | (36) | 7,459 | 9,564 | (22) |

The majority of tipping fees are recorded in EverGen's organic waste and composting operating segment, with only approximately 5% of tipping fees recorded in EverGen's RNG production operating segment. Organic compost sales and soil sales, as well as trucking services and other are all attributable to EverGen's organic waste and composting operating segment. RNG and electricity sales are all attributable to EverGen's RNG production operating segment. The Company's revenue is exposed to fluctuations because of the inherent seasonality of organic waste processing and the sale of organic compost and soil.

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Incoming organic feedstock (tonnes) | 16,972 | 26,110 | (35) | 76,730 | 94,206 | (19) |
| Organic compost and soil sales (yards) | 6,575 | 5,119 | 28 | 33,972 | 61,790 | (45) |
| RNG (gigajoules) | 10,847 | 12,682 | (14) | 51,848 | 55,380 | (6) |
| Electricity (MWh) | 572 | - | 100 | 1,270 | - | 100 |

Tipping fees are typically lower in the fourth quarter of the year as a result of seasonal fluctuations, however, incoming organic feedstock tonnes were higher than average in the fourth quarter of 2021, as a result of post-flood processing at both of EverGen's organic waste and composting facilities, and therefore, tipping fees decreased for the three months and year ended December 31, 2022, compared to the same periods last year.

Organic compost and soil sales are exposed to fluctuations due to inherent seasonal demand, which is dependant upon weather conditions. Revenues for the sale of organic compost and soil were generally consistent for the three months ended December 31, 2022, compared to the same period last year. During the first half of 2022, temperatures in the Lower Mainland were generally lower than the same period in 2021, and precipitation was significantly higher. During the third quarter of 2022, temperatures were generally higher than the same period in 2021, and precipitation was significantly lower[1] with many regions experiencing drought-like conditions. This impacted the demand for our compost and soil and, as a result, organic compost and soil sales decreased by $531, or 43%, for the year ended December 31, 2022, compared to last year.

*All amounts in Canadian $000s, unless otherwise indicated*

Revenue includes RNG sales from FVB from April 16, 2021. RNG production at FVB was halted in November 2021 due to the 100-year flooding event which occurred in the Abbotsford and Sumas Prairie regions. The disaster resulted in 108 days of downtime at FVB until production resumed on March 2, 2022. During the fourth quarter of 2022, FVB experienced lower levels of RNG production due to post-flood related equipment failure, which is currently being addressed as part of the FVB core RNG expansion project. As a result, RNG revenue was relatively consistent for the three months and year ended December 31, 2022, compared to the same periods last year. The lost revenues at FVB were insurable under the Company's insurance policy until the anniversary of the flooding event in mid-November 2022. Refer to Other income (expense) - net below for additional information on insurance proceeds.

Revenue includes electricity sales from GrowTEC following the acquisition of a 67% interest of the company on July 13, 2022.

### *Direct operating costs*

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Direct operating costs | 2,350 | 2,841 | (17) | 9,952 | 7,985 | 25 |

Direct operating costs are costs incurred to earn revenue and includes all attributable expenses, including labour, fuel charges, disposal costs, freight costs, hauling costs, the preparation and the processing of screening, blending and curing organic waste for conversion into saleable organic compost and soil, repairs and maintenance, equipment rental, insurance, utilities, licenses, permits and depreciation and amortization expenses. EverGen's direct operating costs are exposed to fluctuations because of seasonal weather and the related fluctuations in volumes processed.

Direct operating costs decreased by $491, or 17%, for the three months ended December 31, 2022, compared to the same period last year, primarily due to a decrease freight and disposal costs at PCR from fewer volumes processed and a decrease in repairs and maintenance expenses primarily related to flood-related repair and maintenance costs incurred during the three months ended December 31, 2021, partially offset by the acquisition of GrowTEC in July 2022 and the acquisition of property, plant and equipment and right-of-use assets during 2022.

Direct operating costs increase by $1,987, or 25%, for the year ended December 31, 2022, compared to the same period last year, primarily due increased freight and disposal costs related to the post-flood cleanup and processing at PCR, increased flood-related repair and maintenance costs at FVB and PCR specifically related to third-party restorative costs and equipment rental, the acquisition of property, plant and equipment and right-of-use assets during 2022 and 2021, as well as the absence of any direct operating costs relating to FVB during the three months ended March 31, 2021, due to the acquisition of FVB in April 2021, and the acquisition of GrowTEC in July 2022.

EverGen has received partial insurance proceeds for the flood-related expenditures and further proceeds are expected throughout 2023. Refer to Other income - net below for additional information on insurance proceeds.

[1] Source: https://vancouver.weatherstats.ca/charts/

*All amounts in Canadian $000s, unless otherwise indicated*

*General and administrative expenses*

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| General and administrative expenses | 1,397 | 1,959 | (29) | 4,629 | 5,162 | (10) |

General and administrative expenses consist primarily of head office personnel costs, share-based compensation, professional and consulting fees and other general and administrative expenses.

General and administrative expenses decreased by $562, or 29%, for the three months ended December 31, 2022, compared to the same period last year primarily due to a decrease in legal and professional fees.

General and administrative expenses decreased by $533, or 10%, for the year ended December 31, 2022, compared to the same period last year, primarily due to the forfeiture of certain equity incentives during the three months ended March 31, 2022, and one-time professional, legal and consulting fees associated with the integration of acquisitions, implementation of processes and the preparation of readying EverGen as a reporting issuer and public filer incurred during 2021, partially offset by costs incurred during 2022 associated with supporting EverGen's growth and additional platform costs to realize efficiencies for future scale up including an increase in head office headcount and consulting fees, in addition to costs incurred relating to the acquisition of GrowTEC.

During the year ended December 31, 2022, EverGen granted 198,351 RSU awards to certain directors, officers and employees of the Company and 15,000 options to a consultant of the Company.

Subsequent to December 31, 2022, the Company granted 27,650 DSUs to directors of EverGen, which vest upon granting, and 77,869 RSUs to an officer and certain employees of the Company, which vest over a three-year period.

*Finance costs*

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Interest expense on loans | 113 | 64 | 77 | 346 | 197 | 76 |
| Interest expense on lease liabilities | 82 | 48 | 71 | 266 | 195 | 36 |
| Other | (11) | 3 | (467) | (16) | 66 | (124) |
| **Total** | **184** | **115** | **60** | **596** | **458** | **30** |

EverGen's finance costs primarily relate to interest expense recognized on loans payable, which consists of the Company's credit facility entered into during the first quarter of 2021, for which funds were used to finance growth in the Company's asset base through the acquisition of FVB and the associated interest expense on lease liabilities.

Finance costs increased by $69, or 60%, and $138, or 30%, for the three months and year ended December 31, 2022, respectively, compared to the same periods last year, primarily due to the increase in interest rates during 2022 and the interest expense on a land lease included in the acquisition of GrowTEC on July 13, 2022.

*Contingent consideration (loss) gain*

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Contingent consideration (loss) gain | (310) | 854 | (136) | (400) | 1,487 | (127) |

*All amounts in Canadian $000s, unless otherwise indicated*

A contingent consideration loss of $310 and $400 was recognized during the three months and year ended December 31, 2022, respectively, as a result of the accretion of a liability relating to amounts payable in connection with the acquisition of GrowTEC, compared to the same periods in 2021, where EverGen recognized a $854 and $1,487 contingent consideration gain in the re-measurement of a liability as at December 31, 2021, taking into account changes in estimated holdbacks, performance obligations and working capital changes.

### *Other income - net*

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Insurance proceeds | 655 | - | 100 | 3,120 | - | 100 |
| Sale of carbon credits and other | (14) | 8 | (275) | 286 | 172 | 66 |
| **Total** | **641** | **8** | **7,913** | **3,406** | **172** | **1,880** |

During the three months and year ended December 31, 2022, other income - net includes the recognition of $655 and $3,120, respectively, of insurance proceeds relating to lost revenues and additional flood-related expenditures incurred as a result of the nearly 100-year flooding events which occurred in the Abbotsford and Sumas Prairie regions during late-2021. As at December 31, 2022, EverGen had $1,754 of insurance proceeds recorded in accounts receivable, of which $1,546 was received during the first quarter of 2023. Further proceeds are expected during 2023, which will be recorded to Other income to the extent they offset lost revenues and expenses incurred, or alternatively, will be netted against capital expenditures previously incurred.

During the year ended December 31, 2022, EverGen recognized $286 of other income, which primarily related to carbon credit sales.

### *Income taxes*

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Current tax (recovery) expense | - | (6) | (100) | 4 | (17) | (125) |
| Deferred tax (recovery) expense | (442) | (241) | 83 | (744) | (412) | 81 |
| **Total** | **(442)** | **(247)** | **79** | **(740)** | **(429)** | **72** |

Income taxes consist of current and deferred income taxes.

During 2022, the Federal Government of Canada enacted a reduction in the corporate income tax rate for qualifying zero-emission technology manufacturers, which applies to FVB and GrowTEC. The increase in income tax recovery for the year ended December 31, 2022, compared to same periods in the prior year, is primarily due to the decrease in corporate tax rates for FVB.

*All amounts in Canadian $000s, unless otherwise indicated*

### *EBITDA and Adjusted EBITDA (1)*

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Net loss | (1,526) | (1,113) | 37 | (4,110) | (1,953) | 110 |
| Tax (recovery) expense | (442) | (247) | 79 | (740) | (429) | 72 |
| Depreciation and amortization | 870 | 733 | 19 | 3,187 | 2,760 | 15 |
| Finance costs | 184 | 115 | 65 | 596 | 458 | 30 |
| **EBITDA (1)** | **(914)** | **(512)** | **77** | **(1,067)** | **836** | **(228)** |
| Share-based payment expense | 121 | 207 | (42) | 433 | 1,389 | (69) |
| Loss on sale of equipment | 51 | - | 100 | 96 | - | 100 |
| Non-recurring general and administrative expenses and other | 597 | 1,141 | (48) | 2,012 | 2,101 | (4) |
| Contingent consideration loss (gain) | 310 | (854) | (136) | 400 | (1,487) | (127) |
| Non-recurring general and administrative expenses and other related to equity-accounted investment | 46 | - | 100 | 85 | - | 100 |
| Adjusted EBITDA attributable to non-controlling interest | 63 | - | 100 | 27 | - | 100 |
| **Adjusted EBITDA (1)** | **274** | **(18)** | **(1,652)** | **1,986** | **2,839** | **(30)** |

*(1) Non-GAAP measure as defined in the Non-GAAP measures section of this MD&A.*

Management considers EBITDA and adjusted EBITDA key metrics in analyzing operational performance and the Company's ability to generate cash flow. EBITDA is measured as net income (loss) before interest, tax, depreciation and amortization ("EBITDA"). Adjusted EBITDA is measured as EBITDA adjusted for share-based payment expense, certain non-cash items and unusual or non-recurring items. EBITDA and adjusted EBITDA are non-GAAP measures as defined in the non-GAAP measures section of this MD&A.

EverGen's EBITDA of ($914) for the three months ended December 31, 2022, decreased compared to ($512) during the same period last year, primarily due to a decrease in revenues, as described above, and the contingent consideration gain recognized during the three months ended December 31, 2021, partially offset by a decrease in operating and general and administrative expenses, as described above, and the recognition of insurance proceeds during the three months ended December 31, 2022.

EverGen's Adjusted EBITDA of $274 for the three months ended December 31, 2022, increased compared to ($18) during the same period last year, primarily due to an adjustment for a contingent loss during the three months ended December 31, 2022, compared to a gain in the same period in 2022, partially offset by the decrease in EBITDA, as described above.

EverGen's EBITDA of ($1,067) for the year ended December 31, 2022, decreased compared to $836 during the same period last year, primarily due to a decrease in revenues and an increase in flood-related expenditures and general and administrative expenses supporting the growth of the Company, as described above, and the contingent consideration gain recognized during the year ended December 31, 2021, partially offset by the recognition of insurance proceeds during the year ended December 31, 2022 and a decrease in share-based compensation expenses.

EverGen's Adjusted EBITDA of $1,986 for the year ended December 31, 2022, decreased compared to $2,839 during the same period last year, primarily due to a decrease in revenues, an increase in flood-related expenses and an increase in adjusted general and administrative expenses related to costs associated with supporting EverGen's growth, partially offset by the recognition of other income related to insurance proceeds during the year ended December 31, 2022.

*All amounts in Canadian $000s, unless otherwise indicated*

## CAPITAL EXPENDITURES

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Capital expenditures – property plant and equipment | 3,473 | 1,004 | 246 | 7,669 | 1,590 | 382 |
| Capital expenditures – acquisitions and investments | 250 | - | 100 | 3,304 | 10,644 | (69) |
| **Total** | **3,723** | **1,004** | **271** | **10,973** | **12,234** | **(10)** |

Capital expenditures include purchases of property, plant and equipment used for operations as well as acquisitions.

Capital expenditures – property plant and equipment during the three months and year ended December 31, 2022, related primarily to the Company's core RNG expansion projects at FVB and PCR, as well as capital improvements at PCR. Capital expenditures during the three months and year ended December 31, 2021, related primarily to the Company's core RNG expansion projects at FVB and PCR.

Capital expenditures - acquisitions and investments during the three months ended December 31, 2022, includes a capital contribution in Project Radius. Capital acquisitions for the year ended December 31, 2022, includes the Company's acquisition of a 67% interest in GrowTEC and $1,250 of capital investment into Project Radius. Capital acquisitions for the year ended December 31, 2021, related to the Company's acquisition of FVB.

## SELECTED ANNUAL FINANCIAL INFORMATION

| | Year ended Dec 31, 2022 | Year ended Dec 31, 2021 | Period ended Dec 31, 2020 |
|---|---|---|---|
| FINANCIAL | | | |
| Revenue | 7,459 | 9,564 | - |
| Net loss | (4,110) | (1,953) | (2,233) |
| Net loss per share ($), basic and diluted | (0.30) | (0.18) | (17.05) |
| EBITDA (1) | (1,067) | 836 | (2,521) |
| Adjusted EBITDA (1) | 1,986 | 2,839 | - |
| Capital expenditures (2) | 10,973 | 12,234 | 24,498 |
| Total assets | 85,956 | 80,610 | 50,510 |
| Total long-term liabilities | 17,463 | 14,764 | 8,780 |
| Cash and cash equivalents | 8,852 | 19,597 | 4,684 |
| Working capital surplus (deficit) | 6,125 | 20,545 | (2,842) |
| COMMON SHARES (thousands) | | | |
| Outstanding, end of period | 13,809 | 13,367 | 8,203 |
| Weighted average – basic & diluted | 13,593 | 11,029 | 131 |
| OPERATING | | | |
| Incoming organic feedstock (tonnes) | 76,760 | 94,206 | - |
| Organic compost and soil sales (yards) | 33,972 | 61,790 | - |
| RNG (gigajoules) | 51,484 | 55,380 | - |
| Electricity (MWh) | 1,270 | - | - |

*(1) Non-GAAP measure as defined in the Non-GAAP measures section of this MD&A.*
*(2) Reduced as a result of flooding events that occurred in Q4 2021.*

Following the formation of EverGen in 2020, EverGen has been executing on its corporate strategy to acquire and develop existing underutilized RNG infrastructure, convert existing organic waste facilities into RNG infrastructure and build and operate new RNG infrastructure. On December 31, 2020, EverGen acquired PCR and SSS. On April 16, 2021, EverGen acquired FVB and on July 13, 2022, EverGen acquired GrowTEC. Revenues were impacted in 2022 as a result of the flooding events that occurred in late-2021. EverGen's total assets have increased as a result of these acquisitions. Following EverGen's IPO in 2021, the Company has been investing capital into the Company's core RNG expansion and development projects and as a result, cash and cash equivalents, as well as working capital, have decreased while these projects are under construction.

*All amounts in Canadian $000s, unless otherwise indicated*

## SUPPLEMENTAL QUARTERLY INFORMATION

| | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 31 Q4 | Sep 30 Q3 | June 30 Q2 | Mar 31 Q1 | Dec 31 Q4 | Sep 30 Q3 | June 30 Q2 | Mar 31 Q1 |
| **FINANCIAL** | | | | | | | | |
| Revenue | 1,716 | 1,957 | 2,359 | 1,427 | 2,693 | 1,937 | 3,349 | 1,585 |
| Net (loss) income | (1,526) | (1,819) | (546) | (219) | (1,113) | 493 | (175) | (1,158) |
| Net (loss) income per share ($), basic and diluted | (0.11) | (0.13) | (0.04) | (0.02) | (0.08) | 0.04 | (0.02) | (0.13) |
| EBITDA[1] | (914) | (486) | (154) | 481 | (512) | 1,854 | 454 | (960) |
| Adjusted EBITDA[1] | 274 | 650 | 426 | 631 | (18) | 791 | 1,863 | 203 |
| Capital expenditures – property, plant and equipment | 3,473 | 1,492 | 1,349 | 1,355 | 1,004 | 318 | 122 | 146 |
| Capital expenditures – acquisitions | 250 | 2,054 | 1,000 | - | - | - | 10,690 | - |
| Total assets | 85,956 | 85,692 | 78,581 | 79,771 | 80,610 | 80,933 | 64,961 | 61,912 |
| Total long-term liabilities | 17,463 | 17,462 | 14,453 | 14,522 | 14,764 | 15,142 | 15,460 | 14,347 |
| Working capital surplus[1] | 6,125 | 10,079 | 16,524 | 19,196 | 20,545 | 21,751 | 2,310 | 11,579 |
| **COMMON SHARES (thousands)** | | | - | | | | | |
| Outstanding, end of period | 13,809 | 13,872 | 13,307 | 13,367 | 13,367 | 13,367 | 10,287 | 9,589 |
| Weighted average – basic | 13,847 | 13,794 | 13,357 | 13,367 | 13,367 | 12,229 | 9,819 | 8,623 |
| Weighted average –diluted | 13,847 | 13,794 | 13,357 | 13,367 | 13,367 | 12,344 | 9,819 | 8,623 |
| **OPERATING** | | | | | | | | |
| Incoming organic feedstock (tonnes) | 16,972 | 19,375 | 24,336 | 16,047 | 26,110 | 20,465 | 30,647 | 17,164 |
| Organic compost and soil sales (yards) | 6,575 | 8,219 | 13,778 | 5,400 | 5,119 | 12,532 | 37,053 | 7,087 |
| RNG sales (gigajoules) | 10,847 | 14,975 | 20,254 | 5,772[2] | 12,682[2] | 23,854 | 18,845 | - |
| Electricity (MWh) | 572 | 698 | - | - | - | - | - | - |

(3) *Non-GAAP measure as defined in the Non-GAAP measures section of this MD&A.*
(4) *Reduced as a result of flooding events that occurred in Q4 2021.*

The Company's revenue is exposed to fluctuations as a result of the inherent seasonality of organic waste processing and the sale of organic compost and soil. As a result, the Company typically sees higher revenues, net (loss) income, EBITDA and Adjusted EBITDA during Q2 and Q3 of a given year, when compared to Q1 and Q4, due to higher incoming organic feedstock and organic compost and soil sales during these periods. During Q4 of 2021, certain of EverGen's operating facilities were impacted by severe flooding, which resulted in higher than seasonal incoming organic feedstock, but had an impact on the FVB RNG facility, which was not operational during periods in Q4 2021 and Q1 2022. During Q2 and Q3 2022, the regions where the Company's assets operate experienced unseasonable weather that impacted the demand for our compost and soil, and there was a decrease in organic compost and soil sales during these periods. During Q4 of 2022, EverGen's FVB facility experienced downtime associated with equipment failure, which is being remediated as part of the Company's core RNG expansion and development projects.

EverGen is committed to the expansion of its operations through the development of its existing portfolio and the optimization and development of existing organic waste processing facilities and RNG feedstock. The Company has been investing in its core RNG expansion projects since mid-2021.

*All amounts in Canadian $000s, unless otherwise indicated*

## LIQUIDITY AND CAPITAL RESOURCES

| | December 31, 2022 | December 31, 2021 | % Change |
|---|---|---|---|
| Cash and cash equivalents | 8,852 | 19,597 | (55) |
| Working capital surplus (1) | 6,125 | 20,545 | (70) |

(1) *Non-GAAP measure as defined in the Non-GAAP measures section of this MD&A.*

We consider our capital to consist of shareholders' equity, debt, including lease liabilities, less cash and cash equivalents. The Company's objective when managing capital is to maintain adequate levels of funding to support the growth and development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. The Company actively monitors its capital and operational spending activities to ensure that it can meet its future anticipated obligations incurred from normal ongoing operations, which may require the Company to adjust its capital structure. To maintain or adjust its capital structure, the Company may issue additional common shares, repay existing debt, seek additional debt financing or adjust its spending or capital expenditures. There is no assurance that any of these will be on acceptable terms to EverGen.

EverGen assesses its ability to meet its on-going obligations using the non-GAAP measures of EBITDA and adjusted EBITDA. These metrics are key measures of liquidity and the management of capital resources.

Primarily due to investment in property, plant and equipment relating to the Company's core RNG expansion projects at PCR and FVB, capital improvements at PCR, EverGen's initial investment in Project Radius and the acquisition of GrowTEC on July 13, 2022, EverGen's cash and cash equivalents and working capital surplus decreased as at December 31, 2022, compared to December 31, 2021. As at December 31, 2022, EverGen was committed to $10.2 million of future capital expenditure, primarily related to the core RNG expansion project at FVB and the final payments under the existing RNG construction contract at GrowTEC. These commitments will be funded by existing liquidity and the liquidity being made available under EverGen's $31 million syndicated senior term loan (see below).

In January 2023, EverGen announced that it had entered into a definitive agreement for a $31 million syndicated senior term loan, which is sufficient to fund the Company's planned core RNG expansion projects when combined with the Company's existing liquidity and expected future operating cash flows.

### *Share capital*

The Company had the following outstanding common shares and equity instruments as at December 31, 2022, and December 31, 2021:

| (thousands) | December 31, 2022 | December 31, 2021 | % Change |
|---|---|---|---|
| Common shares | 13,809 | 13,367 | 3 |
| Share warrants | 1,772 | 2,682 | (34) |
| Options | 142 | 172 | (17) |
| Performance share units | 430 | 600 | (28) |
| Restricted share units | 209 | 120 | 74 |
| Deferred share units | 28 | 28 | - |
| **Total outstanding securities** | **16,390** | **16,969** | **(3)** |

A description of EverGen's equity instruments can be found in note 15 to the consolidated financial statements for the year ended December 31, 2022.

*All amounts in Canadian $000s, unless otherwise indicated*

As of the date of this MD&A, the following equity instruments were outstanding:

| (thousands) | |
|---|---|
| Common shares | 13,845 |
| Share warrants | 1,772 |
| Options | 142 |
| Performance share units | 430 |
| Restricted share units | 162 |
| Deferred share units | 28 |
| **Total outstanding securities** | **16,379** |

On June 8, 2022, EverGen announced the approval of a Normal Course Issuer Bid ("NCIB") which allows EverGen to purchase issued and outstanding shares of the Company through the facilities of the TSXV during a 12-month period. Under the NCIB, EverGen may acquire up to an aggregate of 668,370 common shares over the 12-month period, representing approximately 5% of the 13,367,392 issued and outstanding common shares as of June 8, 2022. Shareholders can obtain a copy of the Notice of Intention to make a NCIB, without charge, by contacting EverGen. As of the date of this MD&A the Company had repurchased the following common shares under the NCIB:

| | Common shares (thousands) | Weighted average price per share $ | Total $ |
|---|---|---|---|
| June 2022 | 60 | 3.63 | 218 |
| July 2022 | 26 | 2.88 | 75 |
| August 2022 | 10 | 2.97 | 30 |
| September 2022 | 4 | 2.93 | 12 |
| October 2022 | 11 | 2.07 | 22 |
| November 2022 | 20 | 2.12 | 42 |
| December 2022 | 32 | 2.01 | 65 |
| **Total** | **163** | **2.85** | **464** |

### *Use of proceeds*

On August 4, 2021, EverGen completed an initial public offering. As at December 31, 2022, the Company has used the proceeds from the offering, compared to the intended use of the proceeds, as follows:

| | Intended use of net proceeds | Use of net proceeds as at December 31, 2022 | % Change |
|---|---|---|---|
| Project development, construction and expansion | 10,750 | 7,114 | (34) |
| Further development and acquisition activities | 6,569 | 3,304 | (50) |
| **Total** | **17,319** | **10,418** | **(40)** |

The Company intends to use the remaining proceeds to partially fund its core RNG expansion projects and apply to future accretive projects.

*All amounts in Canadian $000s, unless otherwise indicated*

*Summary of Cash Flows*

| | Year ended | | % |
|---|---|---|---|
| | December 31, 2022 | December 31, 2021 | Change |
| Net operating cash flow | (1,347) | (1,919) | (30) |
| Net investing cash flow | (7,475) | (17,357) | (57) |
| Net financing cash flow | (1,923) | 34,189 | (106) |
| **Total** | **(10,745)** | **14,913** | **(172)** |

The decrease in the Company's net operating cash outflows for the year ended December 31, 2022, compared to the prior year, was primarily as a result of insurance proceeds received relating to lost revenues and additional flood-related costs incurred at FVB and PCR, partially offset by a decrease in revenues and an increase in flood related expenditures, as described above. The Company generates sufficient amounts of cash and cash equivalents from operating activities to maintain its current level of operations.

Cash used in investing activities for the year ended December 31, 2022, relates to property, plant and equipment expenditures relating to the Company's core RNG expansion projects at PCR and FVB. Pursuant to its core RNG expansion projects at both its PCR and FVB facilities, which upon completion are intended to significantly increase EverGen's RNG production, the Company is in the process of purchasing capital assets. In addition, during the year ended December 31, 2022, EverGen made capital investments of $1,250 into Project Radius, and completed the acquisition of a 67% interest in GrowTEC for cash consideration of $2,054. These were offset by insurance proceeds received for property, plant and equipment, as well as the release of cash held in escrow relating to the PCR and SSS share purchase agreements.

Cash used in investing activities for the year ended December 31, 2021, relates primarily to the acquisition of the FVB facility and contingent consideration payments, and amounts held in escrow, made pursuant to the PCR and SSS share purchase agreements.

Cash provided by financing activities during the year ended December 31, 2022, decreased compared to same period last year, primarily as a result of the drawdown of a credit facility for a senior secured term loan of $7,000, net proceeds from private placements and the IPO of the Company's common shares and Special Warrant Financing during the year ended December 31, 2021.

## ACCOUNTING STANDARDS, CHANGES AND PRONOUNCEMENTS

The Company's material accounting policies are included in Note 3 to the Company's annual financial statements for the year ended December 31, 2022.

Effective January 1, 2022, EverGen early-adopted Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2, which was effective for annual reporting periods beginning on or after January 1, 2023. The effect of applying the amendment did not have a material impact on our financial statements. The Company has reviewed future accounting pronouncements and determined that there are no accounting pronouncements which are anticipated to impact the Company's financial reporting.

During the year ended December 31, 2022, the Company adopted new accounting policies for non-controlling interests as a result of new circumstances or transactions, as described in note 3 to the consolidated financial statements for the year ended December 31, 2022

## CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of financial statements requires management to make certain judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant in the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

*All amounts in Canadian $000s, unless otherwise indicated*

The Company's uses of estimates, judgements and assumptions are included in Note 2 to the Company's financial statements for the year ended December 31, 2022. There have been no significant changes to the Company's critical accounting estimates, judgments and assumptions during the year ended December 31, 2022.

## MANAGEMENTS REPORT ON INTERNAL CONTROLS

Management is responsible for the preparation and integrity of the Company's financial statements, including the maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. Disclosure controls and procedures should be designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under the Canadian securities law.

We have designed disclosure controls and procedures, as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), to provide reasonable assurance that material information is identified and communicated to management, including the Chief Executive Officer and Chief Financial Officer, in a timely manner to allow decisions regarding required disclosures.

We have also designed internal controls over financial reporting ("ICFR"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

A control system, including EverGen's disclosure controls and procedures and ICFR, no matter how well designed, has inherent limitations and can only provide reasonable, not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the disclosure controls and procedures and ICFR will prevent all misstatements and instances of fraud, if any.

During the year ended December 31, 2022, the Company implemented new internal controls over financial reporting as a form of continuous improvements over internal controls, however there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

EverGen is not required to certify the design and evaluation of the issuer's DC&P and ICFR and has not completed such an evaluation and inherent limitations on the ability of the certifying officers to design and implement on a cost-effective basis DC&P and ICFR for the issuer may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## RELATED PARTY TRANSACTIONS

### *Key management compensation*

The value of compensation and other fees paid to board of directors and members of executive management of EverGen is as follows:

| | Three months ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2022 | Dec 31, 2021 | % Change | Dec 31, 2022 | Dec 31, 2021 | % Change |
| Salaries and benefits | 174 | 197 | (12) | 534 | 1,306 | (59) |
| Share-based payment expense | 108 | 194 | (44) | 348 | 767 | (55) |
| **Total** | **282** | **391** | **(28)** | **882** | **2,073** | **(57)** |

### *Other related party transactions*

In July 2022, GrowTEC entered into a lease agreement with a related party to lease the land on which the GrowTEC facility is located for a term of ten years, with the option to extend for an additional two five-year periods, at the option of the EverGen. The lease agreement is with entities which the minority shareholders of GrowTEC control. The lease payments for the initial term are $270 for the first year of the lease and $120 per year for the remaining nine years. During the year ended December 31, 2022, the Company incurred lease expenses of $135 relating to this lease (year ended December 31, 2021 - $nil).

## OFF BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements.

## FINANCIAL INSTRUMENTS

As at December 31, 2022, the Company's financial instruments consists of cash and cash equivalents, restricted cash, accounts receivable, carbon emission credits, accounts payable and accrued liabilities, contingent consideration, lease liabilities and loans.

## RISKS AND UNCERTAINTIES

Risk is inherent in all business activities and cannot be entirely eliminated. EverGen's business and financial performance, which includes our results of operations and cash flows, are impacted by a number of risks. We are also subject to the risks arising from adverse changes in global economic and political conditions. Political conditions such as government commitments and policies towards environmental protection and renewable energy may change over time. Economic conditions in leading and emerging economies have been, and remain, unpredictable.

EverGen's management is committed to proactively monitoring, and where possible, mitigating risk. Issues affecting, or with the potential to affect, the Company's assets, operations and/or reputation, are generally of a strategic nature or are emerging issues that can be identified early and then managed, but occasionally include unforeseen issues that arise unexpectedly and must be managed on an urgent basis. EverGen takes a proactive approach to the identification and management of issues that may affect the Company's assets, operations and/or reputation and has established consistent and clear policies, procedures, guidelines and responsibilities for issue identification, management and mitigation.

### *Financial risk management*

The Company is exposed to market risk (i.e., interest rate risk, foreign currency risk and commodity risk), credit risk and liquidity risk. The following is a description of these risks and how they are managed:

#### *Market risk*

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, foreign currency exchange rates and changes in market prices due to factors other than interest rates or foreign currency exchange rates, such as changes in commodity prices or credit spreads.

*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 Company is exposed to the impact of interest rate changes, primarily through its floating-rate borrowings that require it to make interest payments based on the Canadian Variable Rate. Significant increases in interest rates could adversely affect operating margins, results of operations and the Company's ability to service its debt.

At December 31, 2022, the Company is exposed to interest rate risk with respect to its loans payable. A 50 basis points increase or decrease, respectively, in the Company's interest rates is expected to increase or decrease finance costs in net loss for the year ended December 31, 2022, by $31 or $30, respectively.

*Foreign exchange risk*

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company has very few transactions denominated in foreign currencies thereby minimizing risk associated with fluctuations in exchange rates.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk on customer accounts receivable is influenced mainly by the individual characteristics of each debtor and is concentrated with a few customers, primarily municipal governments and the Company is therefore able to monitor credit risk on an individual account basis and apply lifetime expected loss provisions where any uncertainty on collectability is identified.

The Company's historical bad debt expense has not been significant and is usually limited to specific customer circumstances. The Company considers the credit worthiness of counterparties and past payment history as well as amounts past due.

The Company regularly monitors customers' payments and considers all amounts greater than 60 days to be past due. As at December 31, 2022, the Company had $133 of contractual payments, included in accounts receivable, which are greater than 60 days past due. The maximum exposure to credit risk related to trade receivables is their carrying value as disclosed in these financial statements. Based on only insignificant amounts of historical bad debts, as well as minimal expectation of future losses as a result of default, the Company has determined its credit risk to be low.

The Company held cash and cash equivalents of $8,852 and restricted cash of $20 as at December 31, 2022, which represents its maximum credit exposure on these assets (December 31, 2021 - $19,597 cash and cash equivalents and $2,688 restricted cash). The cash is held with major financial institution counterparties and management believes credit risk is minimal.

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company maintains sufficient financial liquidity to be able to meet its ongoing operating requirements. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. As at December 31, 2022, the Company had working capital surplus, being current assets less current liabilities, of $6,111.

The Company believes that its existing capital resources will be adequate to satisfy its liquidity requirements over the next 12 months. The Company's commitments are included in note 22 of the consolidated financial statements for the year ended December 31, 2022.

### *Other risks*

The Company is also exposed to a number of other risks and uncertainties. For full details on the risks and uncertainties affecting EverGen, please refer to the Company's AIF dated April 12, 2023 (see section entitled "Risk Factors"), which is available on SEDAR at www.sedar.com. The risks and uncertainties described in our AIF are not the only ones that we face. Additional risks and uncertainties, including those that we do not currently know of or that we deem immaterial, could materially and adversely affect the Company's investments, prospects, cash flows, results of operations or financial condition.

## NON-GAAP MEASUREMENTS

EverGen uses certain financial measures referred to in this MD&A to quantify its results that are not prescribed by IFRS. The following terms: "EBITDA", "adjusted EBITDA", and "working capital surplus (deficit)" are not recognized measures under IFRS and may not be comparable to that reported by other companies. EverGen believes that, in addition to measures prepared in accordance with IFRS, the non-GAAP measurements provide useful information to evaluate the Company's performance and ability to generate cash, profitability and meet financial commitments.

*All amounts in Canadian $000s, unless otherwise indicated*

These non-GAAP measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

### *EBITDA and Adjusted EBITDA*

Management considers EBITDA, adjusted EBITDA and operating profit key metrics in analyzing operational performance and the Company's ability to generate cash flow. EBITDA is measured as net income (loss) before interest, tax, depreciation and amortization. Adjusted EBITDA is measured as EBITDA adjusted for share-based payment expense, unusual or non-recurring items, contingent consideration gains and losses, and non-controlling interests in adjusted EBITDA. A reconciliation of the non-GAAP measures, EBITDA and adjusted EBITDA to the applicable IFRS measure can be found under the Results of Operations section of this MD&A.

### *Working capital surplus (deficit)*

Working capital for EverGen is calculated as current assets less current liabilities. The following table provides a reconciliation of working capital, a non-GAAP measure to the applicable IFRS measurements for the Company:

| (thousands) | December 31, 2022 | December 31, 2021 | % Change |
|---|---|---|---|
| Current assets | 13,236 | 25,019 | (47) |
| Current liabilities | (7,111) | (4,474) | 59 |
| **Working capital surplus** | **6,125** | **20,545** | **(70)** |

## FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively "forward-looking statements") within the meaning of applicable Canadian securities laws that involve risks, uncertainties and assumptions and relate to the Company's current expectations and views of future events. All statements other than statements of present or historical fact are forward-looking statements.

Forward-looking statements can often, but not always, be identified by the use of words such as "forecast", "target", "goal", "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "project", "predict", or "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. In particular, this MD&A contains forward-looking statements including, but not limited to:

- The timing of the completion of the Company's core RNG expansion projects, as well as the expected capital costs, RNG production and inbound organic feedstock capacity;
- EverGen's plans to grow and develop RNG facilities and construct a platform of sustainable infrastructure and reduce carbon emissions;
- Optimization, diversification and expansion of organic waste processing facilities and RNG feedstock;
- Continued growth through strategic acquisitions and consolidation opportunities;
- Developing strategic partnerships and advancing RNG project pipelines;
- EverGen's expectation to continue to pursue opportunities within its core markets and across North America;
- The ability to secure and optimize long-term contracts for RNG offtake and feedstock inputs;
- Continued growth of the feedstock opportunity from municipal and commercial sources and our ability to build relationships with municipal, commercial and utility customers;

- The ability to create efficiencies through the integration of talent, systems and processes across acquired capital;
- The growth of the RNG industry;
- The growth and success of EverGen focussed on realizing consolidation opportunities and achieving synergies in cost and margin;
- That successful acquisitions provide EverGen with additional growth opportunities;
- The ability of EverGen to meet its future anticipated obligations incurred from normal ongoing operations;
- That funds received under the $31 million debt term loan facility will be sufficient to fund the core RNG expansion projects; and
- That EverGen generates sufficient amounts of cash and cash equivalents from operating activities to maintain the current level of operations.

Such statements are based on certain assumptions of future events and actual results could vary from these assumptions. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties and other factors, many of which are beyond the control of EverGen. These include, but are not limited to, risks associated with renewable energy sources, such as market competition, volatility of prices, currency fluctuations, environmental risk, and competition from other producers and ability to access sufficient capital from internal and external sources.

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be accurate, as results and future events could differ materially from those expected or estimated in such statements. Forward-looking-statements, by their nature, involve risks and uncertainties. Certain of these risks are included in "Risks and Uncertainties" in this MD&A and "Risk Factors" in the Company's AIF dated April 12, 2023, which factors should not be considered exhaustive and should be read together with the other cautionary statements in this MD&A. Given these risks, uncertainties and assumptions, readers are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements contained in this MD&A are made as of the date hereof, and the Company undertakes no obligation to update or revise these forward-looking statements or information as a result of new information or future events, other than as required by applicable securities laws. The forward-looking statements and information contained in this MD&A may not be appropriate for other purposes. In the event that subsequent events are reasonably likely to cause actual results to differ materially from forward-looking statements previously disclosed by the Company for a period that is not yet complete, EverGen will provide disclosure on such events and the anticipated impact of such events.

# Consolidated Financial Statements

For the year ended December 31, 2022

# Independent auditor's report

To the Shareholders of EverGen Infrastructure Corp.

## Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of EverGen Infrastructure Corp. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

**What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of net 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.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of consideration paid and intangible assets acquired for Grow the Energy Circle Ltd. (GrowTEC)**<br><br>*Refer to note 2 – Basis of preparation, note 3 – Material accounting policies and note 4 – Business combination to the consolidated financial statements.*<br><br>On July 13, 2022, the Company completed the acquisition of a 67% interest in a renewable natural gas (RNG) facility under construction, GrowTEC, in exchange for cash consideration of \$2.05 million, a commitment for a future contribution of assets to GrowTEC of \$0.30 million, the issuance of 600,000 common shares of the Company with a fair value of \$1.56 million and additional cash consideration of up to \$4.00 million upon the achievement of certain operational milestones. The contingent consideration has been valued at \$2.89 million at the time of acquisition and was initially measured at fair value on the date of acquisition using a probability weighted average of payouts associated with each possible outcome, discounted using the estimated weighted average cost of capital for the Company.<br><br>Management accounted for the business combination using the acquisition method, where the identifiable assets acquired and liabilities assumed were recognized and measured at their fair value at the date of acquisition. The fair value of the assets assumed included the | Our approach to addressing the matter included the following procedures, among others:<br><br>• Assessed the appropriateness of the accounting treatment for the transaction in the context of the purchase agreement.<br><br>• Tested how management estimated the fair value of the contingent consideration, which included the following:<br>– Tested the appropriateness of the method used and the mathematical accuracy of the probability weighted average of payouts.<br>– Evaluated the reasonableness of the probability of possible outcomes by considering management's strategic plans approved by the board of directors and performance subsequent to the date of the transaction.<br>– Professionals with specialized skill and knowledge in the field of valuations assisted in evaluating the reasonableness of the discount rate.<br><br>• Tested how management estimated the fair value of the customer contract intangible assets, which included the following:<br>– Evaluated the appropriateness of the method used and the mathematical accuracy of the discounted cash flow model. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| intangible assets for customer contracts valued at $3.50 million. Management applied significant judgment in estimating the fair value of the intangible assets. To estimate the fair value of the intangible assets, management used the multi-period excess earnings method using a discounted cash flow model to value customer contracts. Management developed significant assumptions related to revenue and operating margin forecasts and discount rate.<br><br>We considered this a key audit matter due to the significant judgment by management in estimating the fair value of the contingent consideration and the intangible assets acquired, including the development of significant assumptions. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation. | – Tested the underlying data used in the discounted cash flow model.<br>– Evaluated the reasonableness of significant assumptions used by management related to revenue and operating margin forecasts in the discounted cash flow model by comparing them to the current performance of the business, the budgeted future performance and available third party published economic data.<br>– Professionals with specialized skill and knowledge in the field of valuations assisted in evaluating the appropriateness of management's multi-period excess earnings method, as well as the reasonableness of the discount rate used within the model. |
| **Impairment assessments of goodwill**<br><br>*Refer to note 2 – Basis of preparation, note 3 – Material accounting policies and note 9 – Goodwill to the consolidated financial statements.*<br><br>The Company had goodwill of $15.94 million as at December 31, 2022. Goodwill is tested for impairment at least annually, or more frequently if an event occurs or circumstances change that would indicate that the recoverable amount of a reporting unit was below its carrying value. An impairment loss is recognized if the carrying amount of a cash generating unit (CGU) to | Our approach to addressing the matter included the following procedures, among others:<br><br>• Evaluated how management determined the recoverable amount of the CGUs, which included the following:<br>– Tested the appropriateness of the method used and the mathematical accuracy of the discounted cash flow model.<br>– Tested the underlying data used in the discounted cash flow model.<br>– Tested the reasonableness of the assumptions related to uncontracted cash |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| which the goodwill relates exceeds its recoverable amount. The recoverable amount of each CGU was based on a fair value less cost of disposal method estimated using a discounted cash flow model. Significant assumptions used by management in the discounted cash flow model included estimates of uncontracted cash flows, increases in production levels following capital expenditure, capital expenditure cost and discount rate for each CGU. No impairment was recognized as a result of the 2022 impairment assessments.<br><br>We considered this a key audit matter due to the significance of the goodwill balance and the significant judgment by management in determining the recoverable amount of the CGUs, including the use of significant assumptions. This in turn led to a high degree of subjectivity and audit effort in performing procedures to test the significant assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures. | flows, increases in production levels following capital expenditure and capital expenditures cost estimated by management in the discounted cash flow models by comparing them to the budget, historical actuals, management's strategic plans approved by the board of directors and available third party published economic data.<br><br>– Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonableness of the discount rates applied by management based on available data of comparable companies. |

## Other information

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

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia
April 12, 2023

*All amounts in Canadian $000s, unless otherwise indicated*

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at December 31 | Notes | 2022 | 2021 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 8,852 | 19,597 |
| Restricted cash | 5 | 20 | 2,688 |
| Accounts receivable | 6 | 3,325 | 2,122 |
| Prepaid expenses and other assets | | 1,039 | 612 |
| | | **13,236** | **25,019** |
| Property, plant and equipment | 7 | 29,789 | 17,007 |
| Intangible assets | 8 | 25,881 | 24,376 |
| Goodwill | 4, 9 | 15,938 | 14,208 |
| Equity-accounted investment | 10 | 1,112 | - |
| **Total assets** | | **85,956** | **80,610** |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 11 | 3,547 | 3,197 |
| Loans payable | 12 | 700 | 700 |
| Lease liabilities | 13 | 543 | 298 |
| Deferred revenue | | 142 | - |
| Contingent consideration | 14 | 2,179 | 279 |
| | | **7,111** | **4,474** |
| Loans payable | 12 | 5,059 | 5,758 |
| Lease liabilities | 13 | 5,238 | 2,999 |
| Contingent consideration | 14 | 1,390 | - |
| Deferred tax | | 5,776 | 6,007 |
| **Total liabilities** | | **24,574** | **19,238** |
| **Shareholders' equity** | | | |
| Share capital | 15b, 15c | 61,393 | 60,597 |
| Share warrants | 15d | 1,069 | 3,484 |
| Contributed surplus | 15a, 15d | 4,410 | 1,477 |
| Accumulated deficit | 15b | (7,956) | (4,186) |
| Non-controlling interest | 4 | 2,466 | - |
| **Total shareholders' equity** | | **61,382** | **61,372** |
| **Total liabilities and shareholders' equity** | | **85,956** | **80,610** |

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

Commitments 23
Subsequent events 27

On behalf of the board of directors:

Signed: *"Chase Edgelow"*

Chase Edgelow, Director

Signed: *"Mary Hemmingsen"*

Mary Hemmingsen, Director

*All amounts in Canadian $000s, unless otherwise indicated*

## CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

*(Thousands of Canadian Dollars and shares, except per share amounts)*

| For the year ended December 31 | Notes | 2022 | 2021 |
|---|---|---|---|
| Revenue | 16 | 7,459 | 9,564 |
| Direct operating costs | 2d, 7, 8, 17 | (9,952) | (7,985) |
| General and administrative expenses | 2d, 15e, 18 | (4,629) | (5,162) |
| Finance costs | 19 | (596) | (458) |
| Equity-accounted loss | 10 | (138) | - |
| Contingent consideration (loss) gain | 14 | (400) | 1,487 |
| Other income – net | 20 | 3,406 | 172 |
| Net loss before income tax (expense) recovery | | (4,850) | (2,382) |
| Income tax (expense) recovery | 21 | | |
| Current | | (4) | 17 |
| Deferred | | 744 | 412 |
| Net loss and comprehensive loss | | (4,110) | (1,953) |
| Non-controlling interest in net loss and comprehensive loss | | 11 | - |
| Net loss and comprehensive loss attributable to shareholders | | (4,099) | (1,953) |
| Loss per share attributable to shareholders – basic and diluted | | ($0.30) | ($0.18) |
| Weighted average number of common shares outstanding – basic and diluted | 22 | 13,593 | 11,029 |

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

*All amounts in Canadian $000s, unless otherwise indicated*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*(Thousands of Canadian Dollars and shares)*

| | Notes | Share capital # | Share capital $ | Share warrants # | Share warrants $ | Share rights # | Share rights $ | Contributed surplus $ | Accumulated deficit $ | Non-controlling Interest $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2021 | | 13,367 | 60,597 | 2,682 | 3,484 | - | - | 1,477 | (4,186) | - | 61,372 |
| Net loss for the period | | - | - | - | - | - | - | - | (4,099) | (11) | (4,110) |
| Repurchase of common shares | 15f | (163) | (795) | - | - | - | - | - | 329 | - | (466) |
| Share-based payment expense | 15e | - | - | - | - | - | - | 433 | - | - | 433 |
| Capitalized share-based expense | 7 | - | - | - | - | - | - | 114 | - | - | 114 |
| Acquisition of subsidiary | 4 | 600 | 1,560 | - | - | - | - | - | - | 2,477 | 4,037 |
| Expiration of share warrants | 15d | - | - | (910) | (2,415) | - | - | 2,415 | - | - | - |
| Common shares issued upon vesting of RSUs and other | 15e | 5 | 31 | - | - | - | - | (29) | - | - | 2 |
| Balance, December 31, 2022 | | 13,809 | 61,393 | 1,772 | 1,069 | - | - | 4,410 | (7,956) | 2,466 | 61,382 |

*All amounts in Canadian $000s, unless otherwise indicated*

*(Thousands of Canadian Dollars and shares)*

| | Notes | Share capital # | Share capital $ | Share warrants # | Share warrants $ | Share rights # | Share rights $ | Contributed surplus $ | Accumulated deficit $ | Non-controlling Interest $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2020 | | 8,203 | 32,790 | 340 | 1,068 | 462 | 32 | 252 | (2,233) | - | 31,909 |
| Net loss for the period | | - | - | - | - | - | - | - | (1,953) | - | (1,953) |
| Share-based payment expenses | 15e | - | - | - | - | - | - | 1,389 | - | - | 1,389 |
| Capitalized share-based expenses | | - | - | - | - | - | - | 86 | - | - | 86 |
| Common shares issued on private placements | 15b | 375 | 2,320 | - | - | - | - | - | - | - | 2,320 |
| Common shares issued in exchange for consulting services relating to acquisitions | 15b | 50 | 250 | - | - | - | - | (250) | - | - | - |
| Special Warrant Financing | 15 | 1,059 | 7,225 | 530 | 1,250 | - | - | - | - | - | 8,475 |
| Issuance in exchange for advisor services in connection with Special Warrant Financing | 15b | 13 | 95 | - | - | - | - | - | - | - | 95 |
| Broker Options issued for broker services in connection with Special Warrant Financing | 15d | - | - | 23 | 41 | - | - | - | - | - | 41 |
| Broker Unit Warrants issued for broker services in connection with Special Warrant Financing brokered private placement | 15d | - | - | 11 | 44 | - | - | - | - | - | 44 |
| Common shares issued as consideration for acquisitions | 15b | 125 | 1,000 | - | - | - | - | - | - | - | 1,000 |
| Common shares issued on satisfaction of share rights | | 462 | 32 | - | - | (462) | (32) | - | - | - | - |
| Finder Warrants issued for services in connection with Special Warrant Financing non-brokered private placement | | - | - | 7 | 12 | - | - | - | - | - | 12 |
| Initial Public Offering | 15b | 3,080 | 19,034 | 1,540 | 986 | - | - | - | - | - | 20,020 |
| Over-allotment Share Warrant Units issued | | - | - | 231 | 83 | - | - | - | - | - | 83 |
| Share issue cost, net of tax | 15c | - | (2,149) | - | - | - | - | - | - | - | (2,149) |
| Balance, December 31, 2021 | | 13,367 | 60,597 | 2,682 | 3,484 | - | - | 1,477 | (4,186) | - | 61,372 |

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

*All amounts in Canadian $000s, unless otherwise indicated*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the year ended December 31 | Notes | 2022 | 2021 |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss | | (4,110) | (1,953) |
| Items not affecting cash: | | | |
| Depreciation and amortization | 7, 8 | 3,187 | 2,760 |
| Loss on sale of property, plant and equipment | 7 | 96 | - |
| Share-based payment expense | 15e | 433 | 1,389 |
| Equity-accounted loss | 10 | 138 | - |
| Contingent consideration loss (gain) | 14 | 400 | (1,487) |
| Deferred income tax recovery | | (744) | (412) |
| Changes in non-cash working capital | 24 | (747) | (2,216) |
| **Net cash flow used in operating activities** | | **(1,347)** | **(1,919)** |
| **Investing activities** | | | |
| Consideration paid in business combination | 4 | (2,054) | (10,644) |
| Cash and cash equivalents acquired in business combination | 4 | 59 | 119 |
| Expenditures on property, plant and equipment | 7 | (7,669) | (1,590) |
| Insurance proceeds for property, plant and equipment | 7 | 1,339 | - |
| Disposals of property, plant and equipment | 7 | 81 | 3 |
| Contingent consideration paid | | - | (3,889) |
| Investment in equity-accounted investments | 10 | (1,250) | - |
| Grant funds received | | - | 368 |
| Changes in restricted cash | 5 | 2,688 | (2,369) |
| Changes in non-cash working capital | 25 | (669) | 645 |
| **Net cash flow used in investing activities** | | **(7,475)** | **(17,357)** |
| **Financing activities** | | | |
| Advances of loans payable | 12 | 10 | 7,000 |
| Repayment of loans payable | 12 | (709) | (542) |
| Payment of lease liabilities | 12 | (470) | (267) |
| Proceeds from Special Warrant Financing | | - | 8,475 |
| Repurchase of common shares | 15f | (466) | - |
| Proceeds from private placements | | - | 2,320 |
| Proceeds from Initial Public Offering | | - | 20,020 |
| Proceeds from Over-Allotment Warrants | | - | 83 |
| Share issue costs | 15c | - | (2,681) |
| Changes in restricted cash | 5 | (20) | - |
| Changes in non-cash working capital | 24 | (268) | (219) |
| **Net cash flow (used in) from financing activities** | | **(1,923)** | **34,189** |
| **Net change in cash** | | (10,745) | 14,913 |
| Cash and cash equivalents at beginning of year | | 19,597 | 4,684 |
| **Cash and cash equivalents at end of year** | | **8,852** | **19,597** |

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

Supplemental cash flow information note 25

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. NATURE OF BUSINESS

As at December 31, 2022, EverGen Infrastructure Corp. ("EverGen" or the "Company") operates two organic waste management facilities and two biogas production facilities, both of which are currently under construction to increase the renewable natural gas ("RNG") production capacity.

EverGen was incorporated under the British Columbia Business Corporations Act on May 13, 2020, and trades on the TSX Venture Exchange under the symbol "EVGN" and the Over-The-Counter exchange ("OTCQX") under the symbol "EVGIF".

The Company's principal place of business is located at 390 – 1050 Homer Street, Vancouver, British Columbia and its registered office is located at 1200 Waterfront Centre, 200 Burrard Street Vancouver, British Columbia.

The Company's revenue and certain direct operating costs are impacted by seasonal weather and the related fluctuations in volumes processed.

## 2. BASIS OF PREPARATION

### a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

The policies applied in these consolidated financial statements are based on IFRS issued, effective and outstanding as of December 31, 2022 and the accounting policies in note 3 have been applied consistently to all years presented in these consolidated financial statements.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 12, 2023.

### b) Basis of measurement, functional and presentation currency

These consolidated financial statements have been prepared under the assumption that the Company operates on a going concern basis and have been presented in Canadian dollars, which is also the Company's functional currency.

### c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities which the Company has exposure to, or has rights to, variable returns from its involvement with the entity and has the ability to use power over the investee to affect its returns. The accounts of the Company's subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, transactions, revenues and expenses are eliminated in full in these consolidated financial statements and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

### d) Consolidated statements of net loss and comprehensive loss reclassification

During the fourth quarter of 2022, the Company reclassified $3,300 of costs of goods sold, $3,465 of operating costs and $3,187 of depreciation and amortization expenses, which were previously presented as separate line items, to a new line item, direct operating costs. Prior period amounts were also adjusted to reflect this change, which resulted in $2,776 of costs of goods sold, $2,449 of operating costs and $2,760 of depreciation and amortization expenses being reclassified to direct operating costs line item for year ended December 31, 2021, with equal and offsetting decreases to cost of goods sold, depreciation and amortization expense and operating expenses, respectively. This reclassification had no impact on revenues, net loss and comprehensive loss attributable to shareholders, or basic and diluted loss per share.

*All amounts in Canadian $000s, unless otherwise indicated*

During the fourth quarter of 2022, the Company reclassified $433 of share-based compensation expense, which were previously presented as a separate line item, to general and administrative expenses. Prior period amounts were also adjusted to reflect this change, which resulted in an increase to general and administrative expenses of $1,389, for the year ended December 31, 2021, with an equal and offsetting decrease to share-based payment expense. This reclassification had no impact on revenues, net loss and comprehensive loss attributable to shareholders, or basic and diluted loss per share.

### e) Subsidiaries

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtained control, and continue to be consolidated until the date when control is lost. The following provides information about the Company's wholly owned consolidated subsidiaries as at December 31, 2022:

| Name of subsidiary | Jurisdiction | Ownership percentage |
|---|---|---|
| Pacific Coast Renewables Corp. (1) | British Columbia, Canada | 100% |
| Sea to Sky Soils and Composting Inc. | British Columbia, Canada | 100% |
| Fraser Valley Biogas Ltd. | British Columbia, Canada | 100% |
| 1000208169 Ontario Inc. | Ontario, Canada | 100% |
| Grow the Energy Circle Ltd. | Alberta, Canada | 67% |

*(1) Formerly known as Net Zero Waste Abbotsford Inc. - the subsidiary was renamed to Pacific Coast Renewables Corp. on March 16, 2023.*

The Company has determined that Grow the Energy Circle Ltd. ("GrowTEC") is a non-wholly owned subsidiary of the Company based on its assessment of control. For non-wholly owned subsidiaries, control is achieved 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.

### f) Joint Ventures

The Company accounts for its interests in jointly controlled entities using the equity method (note 10). The investment is initially recognized at cost and subsequent to initial recognition, the carrying value of the Company's interest in a joint venture is adjusted for the Company's share of comprehensive income (loss) and equity transactions of the investee. Profit and losses resulting from transactions with a joint venture are recognized in the consolidated financial statements based on the interests of unrelated investors in the investee. The carrying value of joint ventures is assessed for impairment at each reporting date. Impairment losses on equity-accounted investments may be subsequently reversed in net loss.

### g) New standards, interpretations and amendments adopted by the Company

There are no new standards or interpretations, not yet adopted, that are expected to have a material impact on the Company's financial statements.

In February 2021, the International Accounting Standards Board issued Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements by requiring entities to disclose their material accounting policy information instead of their significant accounting policies. The Company early-adopted this standard, which was effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted, effective January 1, 2022, and this adoption did not have a material impact on the Company's financial statements.

### h) Critical accounting judgements

*Impairment*

At each reporting period, management applies judgment in assessing whether there are any indicators of impairment relating to property and equipment, intangible assets, goodwill and equity-accounted investments. Goodwill is tested for impairment at least annually (note 9). If any such indicator exists, then an impairment test is performed by management to determine whether carrying amounts exceed recoverable values. Such indicators include but are not limited to changes in the Company's business plans, economic performance of the assets, changes in activity levels, an increase in the discount rate or evidence of physical damage or obsolescence.

At December 31, 2022, the Company concluded that no impairment indicators existed for its property, plant and equipment, intangibles assets, goodwill and equity-accounted investments.

### i) Estimation uncertainty

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which estimates are revised and for any future years affected.

Critical estimates made by management and utilized in the normal course of preparing the Company's consolidated financial statements are outlined below.

*Fair value of assets acquired and liabilities assumed in a business combination*

The fair value of assets acquired and liabilities assumed in a business combination are estimated based on information available at the date of the acquisition. Estimates are used to determine the fair value of the acquired assets and assumed liabilities and include quoted market prices and widely accepted valuation techniques.

Contingent consideration is initially measured at fair value on the date of acquisition using a probability weighted average of payouts associated with each possible outcome, discounted using the estimated credit risk for the Company. A provision has been made for contingent consideration, which is revalued each reporting period using a consistent measurement as at acquisition.

Management applied significant judgment in estimating the fair value of the intangible assets acquired. The intangible assets acquired were valued using the multi-period excess earnings method using a discounted cash flow model. Significant assumptions within the valuation related to revenue, operating margin forecasts and discount rates.

*Impairment*

The recoverable amounts of each cash-generating unit ("CGU") is the higher of its fair value less cost of disposal ("FVLCD") and its value in use. The FVLCD calculation is based on the discounted cash flow model. Significant assumptions used by management in the discounted cash flow model included contracted cash flows, estimates of uncontracted cash flows, increases in production levels following capital expenditure, capital expenditure cost and discount rates for each CGU. Assumptions on uncontracted cash flows are based on several variables, such as comparing the specifications on a particular CGU with actual results of other CGUs and assumptions on rates to be achieved from external sources.

All impairment assessment calculations demand a high degree of estimation uncertainty. Management makes complex assessments of the expected cash flows arising from such assets and the selection of discount rates. Changes to these estimates could have a significant impact on the carrying value of CGUs.

*Depreciation and amortization*

The cost of the Company's property, plant and equipment are depreciated on a straight-line basis over each asset's estimated useful life to an estimated residual value. The estimated useful life of the Company's property, plant and equipment including individual components, takes into account design life, commercial considerations and regulatory restrictions. These estimates may change as more knowledge is obtained or as general market conditions change, or as technological advancements are made. The determination of the components, if any, of an asset and the estimated useful life of such asset or components involves judgment. The cost of the Company's Intangible assets are amortized on a straight-line basis over their estimated useful lives.

### j) Climate Change

Global climate issues continue to attract public and scientific attention. Numerous reports have been published with increasing concern over the impacts of climate issues and emissions of greenhouse gas into the environment. The Company's business model is built around a transition to reducing carbon emissions and the Company is committed to advancing the Environmental, Social and Governance ("ESG") platform to help address key climate-related risks. There have been recent developments in the ESG frameworks and regulatory initiatives, and these developments could impact the Company's accounting estimates and judgements. The Company monitors and will continue to monitor developments related to climate change as they affect its consolidated financial statements.

## 3. MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by EverGen for all periods presented in these financial statements.

### a) Business combinations

Business combinations are accounted for using the acquisition method, where the identifiable assets acquired and liabilities assumed are recognized and measured at their fair value at the date of acquisition, with the exception of income taxes, which is measured arising from the assets acquired and liabilities assumed in the business combination and lease liabilities, which are measured as if the lease contract were a new lease at the acquisition date. Any excess of the purchase price over the value of the net assets acquired is recognized as goodwill and any deficiency of the purchase price over the value of the net assets acquired is recorded as a gain in net earnings. The preliminary purchase price allocation is based on management's best estimate of the assets acquired and liabilities assumed, based on information available at that time. Amendments may be required to estimates used to value the net assets acquired once values subject to estimation are finalized. At acquisition, goodwill is allocated to each of the CGUs to which it relates. Subsequent measurement of goodwill is at cost less any accumulated impairment losses. Associated transaction costs are expensed when incurred.

Contingent consideration transferred in a business combination is measured at fair value on the date of acquisition and classified as a financial liability or equity, depending upon the underlying characteristics of the contingent consideration, including the form of settlement. Contingent consideration classified as a liability is re-measured at fair value at each reporting period, with changes in fair value recognized in the consolidated statement of loss. Payments are classified as cash used in investing activities until the cumulative payments exceed the acquisition date fair value of the liability. Cumulative payments in excess of the acquisition date fair value are classified as cash used in operating activities.

Non-controlling interests in the fair value of the net assets acquired are measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

### b) Revenue recognition

The Company generates revenue primarily from fees charged to customers upon receipt of organic waste at the Company's organic waste facilities, sale of RNG, sale of electricity, and through the sale of organic compost and soil. Revenues are influenced by various factors such as the type and weight or volume of waste materials disposed of at the Company's facilities and the volumes of RNG and electricity produced.

Revenue is recognized in profit or loss in accordance with the pattern of the Company satisfying its performance obligations under a contract with the customer. This occurs when control of a good is transferred, or service provided, to the customer, the customer has obtained the significant risks and rewards of ownership and the goods or service have been delivered to the customer. The Company's revenue transactions do not contain significant financing components and payments are typically due within 30 days of revenue recognition. The Company does not have contracts where the period between the transfer of the promised goods or services to the customer and payments by the customer exceeds one year.

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. Recognition of revenue from fees charged upon receipt of organic waste, RNG and electricity occurs based on individual contractual terms and when indicators of the transfer of control exist, which is generally satisfied when the services are completed, or goods are transferred, in accordance with the performance obligations under a contract at a point in time. This occurs when control of a good is transferred, or service provided, to the customer as follows:

i. Revenue from the sale of organic compost and soil is recognized when transfer of control exists, primarily at the transfer of finished goods inventory to the customer.
ii. Revenue from fees charged to customers upon the receipt of organic waste is recognized when transfer of control exists, primarily at the point of transfer of organic waste from the customer to the Company.
iii. Revenue from the sale of RNG and electricity is recognized when transfer of control exists, primarily at the transfer of the good to the customer, which is generally when the good leaves the Company's premise.

### c) Direct operating costs

Direct operating costs are costs incurred to earn revenue and includes all attributable expenses, including labour, fuel charges, disposal costs, freight costs, hauling costs, the preparation and the processing of screening, blending and curing organic waste for conversion into saleable organic compost and soil, repairs and maintenance, equipment rental, insurance, utilities, licenses, permits and depreciation and amortization expenses.

### d) General and administrative expenses

General and administrative expenses include head office personnel costs; share-based compensation; professional fees, which includes fees for consulting, legal, audit and tax services; and other general and administrative expenses.

### e) Insurance proceeds

Insurance proceeds are recognized when it is virtually certain that an inflow of economic benefits will arise. Proceeds related to assets are recorded as a reduction to those assets, or as a reversal of impairment if the underlying asset was impaired in a previous period. Proceeds related to recoveries of expenses or lost revenues are recorded in other income.

### f) Property, plant and equipment

*Recognition and measurement:*
Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset, including the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized net within other income.

*Depreciation:*
Depreciation on property, plant and equipment is calculated on a straight-line basis over its expected useful life to its estimated residual value. The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

| Asset class | |
|---|---|
| Buildings and leasehold improvements | 15 – 20 years |
| Equipment, vehicles and other | 5 – 15 years |
| Right-of-use assets | 2 – 20 years |
| Assets under construction [1] | N/A |

1) *Depreciation of an asset commences when it is available for use.*

Depreciation methods, expected useful lives and estimated residual values are reviewed at each financial year end, with the effect of any changes recognized on a prospective basis.

### g) Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease The Company recognizes a right-of-use asset and corresponding lease liability at the lease commencement date for contracts that are, or contain, a lease component, except for short-term leases and leases of low value.

The right-of-use assets are initially measured at cost, which includes the initial amount of the lease liability plus initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations. Subsequently, the right-of-use assets are measured at cost less accumulated depreciation and impairment losses, if any. The right-of-use assets are depreciated on a straight-line basis over the lease term or the end of the useful life of the underlying asset, depending on the lease terms.

The lease liabilities are initially measured at the present value of the expected lease payments over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there are changes in the following: i) the lease term; ii) the Company's assessment of whether it will exercise a purchase option; iii) a change in an index or a change in the rate used to determine the payments; and iv) amounts expected to be payable under residual value guarantees.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net loss over the lease term.

Leases that have a term of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in net loss over the lease term.

### h) Intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment losses. Cost includes the purchase price to acquire an asset or costs directly attributable to the internal generation of an asset.

Intangible assets acquired as part of a business combination are capitalized separately from goodwill if the asset is separable or arises from contractual or legal rights, and the fair value can be measured reliability on initial recognition. Expenditures on research activities undertaken with the prospect of gaining technical knowledge are expensed as incurred.

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Intangible assets with an indefinite useful life are not amortized. The following useful lives are utilized for each determining amortization:

| Asset class | |
|---|---|
| Brands | 20 years |
| Customer contracts and stakeholder relationships | 2 – 25 years |

### i) Impairment

At each reporting date the Company assesses whether there is any indication that assets or CGUs, relating specifically to its property, plant and equipment, intangible assets, goodwill and equity-accounted investments, are impaired. This assessment includes a review of internal and external factors which includes, but is not limited to, changes in the technological, political, economic or legal environments in which the Company operates, structural changes in the industry, changes in the level of demand, physical damage and obsolescence due to technological changes.

An impairment is recognized if the recoverable amount, determined as the higher of the estimated FVLCD or the value in use, is less than the carrying value of the asset or CGU In cases where an active second-hand sale and purchase market does not exist, the Company uses a discounted cash flow approach to estimate the FVLCD of its assets. The value in use is the present value of the future cash flows that the Company expects to derive from the asset or CGU. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail.

If the recoverable amount is less than the carrying value, an impairment loss is recognized immediately in the consolidated statements of loss.

Impairment losses, other than goodwill, recognized in prior periods are assessed at each reporting date for any indicators that the impairment losses may no longer exist or may have decreased. In the event that an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the carrying amount does not exceed the amount that would have been determined had no impairment loss been recognized on the asset in prior periods. The amount of the reversal is recognized in the consolidated statements of net loss and comprehensive loss.

Goodwill is evaluated for impairment on an annual basis or more frequently if an event occurs or circumstances change that would indicate that the recoverable amount of a reporting unit was below its carrying value. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated FVLCD or the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is charged to Impairment expense, net on the consolidated statements loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

### j) Goodwill

Goodwill represents the excess of the price paid for the acquisition of a business over the fair value of the net tangible and intangible assets and liabilities acquired. Goodwill is allocated to the CGU or CGUs to which it relates.

Goodwill is evaluated for impairment on an annual basis or more frequently if an event occurs or circumstances change that would indicate that the recoverable amount of a reporting unit was below its carrying value. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated FVLCD or the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Impairment losses on goodwill are not subsequently reversed.

### k) Income taxes

Income tax comprises current and deferred tax.

Current income assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the reporting date.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized and are measured using enacted, or substantively enacted, tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities, of a change in tax rates, is included in profit or loss in the period that includes the substantive enactment date. The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be realized.

Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases used in the computation of taxable income and carrying amounts of assets and liabilities in the consolidated financial statements.

### l) Loss per share

Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. As the Company has recorded a loss in all periods presented in these consolidated financial statements, the conversion of outstanding convertible securities has not been included in the diluted loss per share calculation, as their effect would be anti-dilutive.

### m) Financial instruments

*Recognition and measurement:*

The Company's financial assets consist of cash and cash equivalents, restricted cash, accounts receivable and carbon emission credits. The Company's financial liabilities consist of accounts payable and accrued liabilities, contingent consideration, lease liabilities and loans.

The classification of financial assets depends on the specific business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

At initial recognition, the Company measures a financial asset or liability at its fair value plus, in the case of a financial asset not at fair value through profit or loss (or "FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets are measured at amortized cost dependent on their contractual cash flow characteristics and the business model for which they are held. Financial assets classified as amortized cost are recorded initially at fair value, then subsequently measured at amortized cost using the effective interest rate method, less any impairment.

The table below summarizes the Company's classification and measurement of financial assets and liabilities:

| | Measurement Category | Consolidated Statement of Financial Position Account |
|---|---|---|
| **Financial assets:** | | |
| Cash and cash equivalents | Amortized Cost | Cash and cash equivalents |
| Restricted cash | Amortized Cost | Restricted cash |
| Accounts receivable | Amortized Cost | Accounts receivable |
| Carbon emission credits | FVOCI | Prepaid expenses and other assets |
| **Financial liabilities:** | | |
| Accounts payable and accrued liabilities | Amortized Cost | Accounts payable and accrued liabilities |
| Contingent consideration | FVTPL | Contingent consideration |
| Lease liabilities | Amortized Cost | Lease liabilities |
| Loans | Amortized Cost | Loans payable |

*Impairment*

An 'expected credit loss' ("ECL") model applies to the Company's financial assets measured at amortized cost. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of trade receivables. In applying the ECL model, loss allowances on trade receivables are measured based on lifetime ECLs, which are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has elected to measure loss allowances for trade receivables using a provision matrix which specifies fixed provision rates depending on the number of days that a trade receivable is past due, using reference to the past default experience of the debtor and an analysis of the debtors current financial position, which also forms a basis for the Company's future expectations for potential defaults of the debtor. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

### n) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value measurement is disaggregated into three hierarchical levels: Level 1, 2 or 3. Fair value hierarchical levels are based on the degree to which the inputs to the fair value measurement are observable. The levels are as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), through correlation with market data at the measurement date and for the duration of the asset or liability's anticipated life; and

*All amounts in Canadian $000s, unless otherwise indicated*

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs) and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs in determining the estimate.

## 4. BUSINESS COMBINATION

### a) Transaction overview

On July 13, 2022, the Company completed the acquisition of a 67% interest in an RNG facility under construction, GrowTEC, in exchange for cash consideration of $2,054, subject to working capital adjustments, a commitment for a future contribution of assets to GrowTEC of $300 and the issuance of 600,000 common shares of the Company, with fair value of $1,560. The common shares were valued at $2.60 per common share using the share price of the Company on the acquisition date. Additional cash consideration of up to $4.0 million will be paid upon the achievement of certain operational milestones.

The excess of the consideration over the fair value of the net assets acquired was recognized as goodwill of $1,730. The goodwill recognized on this acquisition was attributed to: the strategic benefits that consolidated operations are expected to bring; expected operational synergies with EverGen's existing projects; expected future cash flows generated from the ability to grow the development of anaerobic digestion infrastructure and eventual sale of RNG; and the recognition of a deferred tax liability generated by the recognition of the fair value of the net assets acquired.

### b) Net assets acquired and consideration paid

This transaction has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value are as follows:

| | Total |
|---|---|
| **Fair value of assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 59 |
| Accounts receivable | 67 |
| Property, plant and equipment | 6,234 |
| Intangible assets | 3,500 |
| Goodwill | 1,730 |
| Accounts payable and accrued liabilities | (228) |
| Lease liabilities | (1,507) |
| Deferred tax liabilities | (617) |
| **Fair value of net assets acquired** | **9,238** |
| **Non-controlling interest in fair value of net assets acquired** | **(2,477)** |
| **Shareholders interest in fair value of net assets acquired** | **6,761** |
| | |
| **Consideration paid** | |
| Cash | 2,054 |
| Working capital adjustment | (43) |
| Assets contributed to GrowTEC | 300 |
| Common shares | 1,560 |
| Contingent consideration | 2,890 |
| **Total consideration paid** | **6,761** |

*All amounts in Canadian $000s, unless otherwise indicated*

The contingent consideration is payable in two installments of $2 million each upon the successful completion of two separate phases of commissioning the GrowTEC RNG facility. The contingent consideration is initially measured at fair value on the date of acquisition using widely accepted valuation techniques (level 3), using the probability-weighted average of payouts associated with each possible outcome, discounted using the estimated weighted average cost of capital for the Company. The Company has assumed a virtually certain probability of the first phase of commissioning occurring and assigned a probable weighting to the second phase of commissioning occurring. Applying a virtually certain probability to the second phase of commissioning would have resulted in an increase of the contingent consideration of $290 at the acquisition date.

Intangible assets consist of customer contracts valued at $3,500.

The consolidated statement of loss and comprehensive loss includes the results of operations for the period following the close of the transaction on July 13, 2022, which for the year ended December 31, 2022 includes revenues of $464 and net loss of $36. If the closing of the acquisition had occurred on January 1, 2022, EverGen's consolidated revenue and net loss would have increased by $669 and by $95, respectively.

## 5. RESTRICTED CASH

The Company's restricted cash of $20 as at December 31, 2022 comprises amounts advanced to a third party in relation to share repurchases. The balance as at December 31, 2021 of $2,688 comprises acquisition holdbacks held in escrow.

## 6. ACCOUNTS RECEIVABLE

| At December 31 | 2022 | 2021 |
|---|---|---|
| Trade receivables | 1,328 | 2,045 |
| Insurance proceeds receivable [(1)] | 1,754 | - |
| Organic Infrastructure Program receivable | 79 | 77 |
| Other | 164 | - |
| | **3,325** | **2,122** |

*(1) The insurance proceeds receivable relate to lost revenues and additional expenditures incurred, which were recorded to Other income - net to the extent they offset lost revenues and direct operating expenses incurred, or alternatively, were netted against property, plant and equipment. Substantially all of the above balance has been received by the company post December 31, 2022.*

*All amounts in Canadian $000s, unless otherwise indicated*

## 7. PROPERTY, PLANT AND EQUIPMENT

| Cost | Land | Buildings and leasehold improvements | Equipment, vehicles and other | Right-of-use assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| At December 31, 2020 | - | 4,559 | 3,584 | 3,454 | - | 11,597 |
| Additions: | | | | | | |
| RNG production | - | - | 90 | - | 606 | 696 |
| Organic waste and composting | - | 363 | 112 | - | 408 | 883 |
| Corporate and other | - | - | 11 | 110 | - | 121 |
| Acquisitions through business combinations | 3,238 | 500 | 815 | - | - | 4,553 |
| Capitalized share-based expense | - | - | - | - | 86 | 86 |
| Disposals | - | - | (3) | - | - | (3) |
| At December 31, 2021 | 3,238 | 5,422 | 4,609 | 3,564 | 1,100 | 17,933 |
| Additions: | | | | | | |
| RNG production | - | - | 277 | 197 | 1,998 | 2,472 |
| Organic waste and composting | - | 299 | 1,029 | 1,420 | 3,902 | 6,650 |
| Corporate and other | - | - | 22 | - | - | 22 |
| Acquisition through business combinations (note 4) | - | 540 | 1,060 | 1,363 | 3,271 | 6,234 |
| Capitalized share-based expense | - | - | - | - | 114 | 114 |
| Insurance proceeds | - | (236) | (891) | (212) | - | (1,339) |
| Disposals | - | - | (165) | - | - | (165) |
| Other | - | - | - | (16) | - | (16) |
| At December 31, 2022 | **3,238** | **6,025** | **5,941** | **6,316** | **10,385** | **31,905** |
| **Accumulated depreciation** | | | | | | |
| At December 31, 2020 | - | - | - | - | - | - |
| Depreciation | - | 273 | 327 | 326 | - | 926 |
| At December 31, 2021 | - | 273 | 327 | 326 | - | 926 |
| Depreciation | - | 304 | 423 | 463 | - | 1,190 |
| At December 31, 2022 | **-** | **577** | **750** | **789** | **-** | **2,116** |

| Carrying value | Land | Buildings and leasehold improvements | Equipment, vehicles and other | Right-of-use assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| At December 31, 2021 | 3,238 | 5,149 | 4,282 | 3,238 | 1,100 | 17,007 |
| At December 31, 2022 | **3,238** | **5,448** | **5,191** | **5,527** | **10,385** | **29,789** |

As at December 31, 2022, the Company was committed to $10.2 million of future capital expenditure.

*All amounts in Canadian $000s, unless otherwise indicated*

## 8. INTANGIBLE ASSETS

| Cost | Brands | Customer contracts and stakeholder relationships | Total |
|---|---|---|---|
| At December 31, 2020 | 1,180 | 19,780 | 20,960 |
| Acquisition through business combination | - | 5,250 | 5,250 |
| At December 31, 2021 | 1,180 | 25,030 | 26,210 |
| Acquisition through business combination (note 4) | - | 3,500 | 3,500 |
| At December 31, 2022 | **1,180** | **28,530** | **29,710** |

| Accumulated amortization | | | |
|---|---|---|---|
| At December 31, 2020 | - | - | - |
| Amortization | 59 | 1,775 | 1,834 |
| At December 31, 2021 | 59 | 1,775 | 1,834 |
| Amortization | 59 | 1,936 | 1,994 |
| At December 31, 2022 | **118** | **3,711** | **3,828** |

| Carrying value | | | |
|---|---|---|---|
| At December 31, 2021 | 1,121 | 23,255 | 24,376 |
| At December 31, 2022 | **1,062** | **24,819** | **25,881** |

## 9. GOODWILL

The Company's goodwill is allocated to the following CGUs:

| At December 31 | 2022 | 2021 |
|---|---|---|
| Pacific Coast Renewables (1) | 3,420 | 3,420 |
| Sea to Sky Soils | 7,554 | 7,554 |
| Fraser Valley Biogas | 3,234 | 3,234 |
| GrowTEC (note 4) | 1,730 | - |
| | **15,938** | **14,208** |

*(1) Formerly known as Net Zero Waste Abbotsford Inc. - the subsidiary was renamed to Pacific Coast Renewables Corp. on March 16, 2023*

The Company conducted its annual goodwill impairment evaluation during 2022 and 2021 and concluded that no impairment had occurred as the recoverable amount, based on the FVLCD using a discounted cash flow model. The estimates regarding the expected future cash flows and discount rates are Level 3 fair value inputs based on various assumptions including the terms of existing contracts, expected production levels following the Company's anticipated investments into property, plant and equipment and historical information. The Company has not previously recorded any impairment expense related to the carrying amount of goodwill.

The significant assumptions used in the estimation of the recoverable amount include the utilization of discount rates ranging from 9.4% to 10.4%, cash flow periods for 20 years and future leverage assumptions for the Company. The cash flow projections include specific estimates for 20 years due to the long-term nature of the Company's contracts.

*All amounts in Canadian $000s, unless otherwise indicated*

The discount rate is a post-tax measure, with a possible debt leveraging of 40% for 2022 (2021 - 10%) estimated based on the long-term target leverage of the Company, at market interest rates of 7.7% for 2022 (2021 – 4.0%).

## 10.EQUITY-ACCOUNTED INVESTMENTS

In May 2022, the Company entered into an agreement to acquire a 50% interest in an entity that holds a portfolio of RNG development projects ("Project Radius") in Ontario, Canada, which provides the Company with the right to participate in funding its proportionate share of capital to construct RNG infrastructure. The following table presents the changes in the balance of the Company's equity-accounted investment in Project Radius:

| | Total |
|---|---|
| At December 31, 2021 | - |
| Capital contribution | 1,250 |
| Equity-accounted loss | (138) |
| **At December 31, 2022** | **1,112** |

The following tables present summarized financial information assuming a 100% ownership interest in the Company's equity-accounted investments.

| At December 31 | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | 402 | - |
| Other current assets | 185 | - |
| Non-current assets | 1,317 | - |
| Current liabilities | (180) | - |
| Non-current liabilities | - | - |

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Revenues | - | - |
| Loss and comprehensive loss | (276) | - |
| Ownership interest | 50% | - |
| **Equity-accounted loss** | **(138)** | **-** |

The Company's investment in equity-accounted investments and its interest in the net loss of its equity-accounted investments are included in the Company's RNG production segment.

## 11.ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| At December 31 | 2022 | 2021 |
|---|---|---|
| Trade payables and accrued liabilities | 3,247 | 3,197 |
| Other | 300 | - |
| | **3,547** | **3,197** |

*All amounts in Canadian $000s, unless otherwise indicated*

## 12.LOANS PAYABLE

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of year | 6,458 | - |
| Advances | 10 | 7,000 |
| Interest expense (note 18) | 346 | 197 |
| Loan payments | (1,055) | (739) |
| Balance, end of the year | **5,759** | **6,458** |
| Less current portion | (700) | (700) |
| Long-term portion | **5,059** | **5,758** |

On March 17, 2021, EverGen entered into a credit facility arrangement with a Canadian lender, providing for a senior secured term loan of up to $7,000, repayable over a term of three years bearing interest at a rate of Canadian Variable Rate plus 3.0% per annum. The credit facility is secured by the assets of the Company and certain of its subsidiaries.

As at December 31, 2022 and 2021 the Company was in compliance with all covenant requirements of its loans.

## 13.LEASE LIABILITIES

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of year | 3,297 | 3,454 |
| Additions | 1,474 | 110 |
| Acquisition through business combination (note 4) | 1,507 | - |
| Interest expense (note 18) | 266 | 195 |
| Lease payments | (736) | (462) |
| Other | (27) | - |
| Balance, end of the year | **5,781** | **3,297** |
| Less current portion | (543) | (298) |
| Long-term portion | **5,238** | **2,999** |

The Company's lease liabilities are calculated using discount rates ranging from 3.9% to 7.9% per annum.

## 14.CONTINGENT CONSIDERATION

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of year | 279 | 5,655 |
| Acquisition (note 4) | 2,890 | - |
| Payments | - | (3,889) |
| Loss (gain) on fair value adjustment of liability | 400 | (1,487) |
| Balance, end of the year | **3,569** | **279** |
| Less current portion | (2,179) | (279) |
| Long-term portion | **1,390** | **-** |

At December 31, 2020, the Company recognized $5,655 of contingent consideration related to the acquisitions of Pacific Coast Renewables Corp. ("PCR") (formerly known as Net Zero Waste Abbotsford Inc.) and Sea to Sky Soils and Composting Inc. ("SSS"). The contingent consideration included holdback amounts and working capital adjustments. During the year ended December 31, 2021, pursuant to the PCR and SSS share purchase agreements, the Company made contingent consideration payments of $3,889 consisting of standard indemnity holdbacks of $3,389 that were released to the vendors and performance driven holdbacks of $500 that were released to the vendors. The contingent consideration balance of $279 as at December 31, 2022, relating to the acquisition of SSS, is in dispute with the vendors. As at December 31, 2022, the Company has accrued its best estimate of the potential liability related to this dispute.

*All amounts in Canadian $000s, unless otherwise indicated*

During the year ended December 31, 2021, the Company recognized a $1,487 contingent consideration gain in re-measuring the liability at fair value, taking into account changes in estimated holdbacks, performance obligations and working capital changes.

During the year ended December 31, 2022, the Company recognized $2,890 of contingent consideration related to the acquisition of GrowTEC (see note 4). The contingent consideration is payable upon the achievement of certain operational milestones. The Company recognized a $400 contingent consideration loss in re-measuring the liability taking into account the passage of time since acquisition.

## 15.SHAREHOLDERS' EQUITY

### a) Authorized

The Company has authorized an unlimited number of common shares without par value and an unlimited number of preferred shares.

### b) Public and Private Offerings of Common Shares

The following table summarizes the issuances of common shares during the year ended December 31, 2022 and 2021:

| Date | Offering Type | Number of Common Shares Issued (thousands) # | Price $ | Gross Proceeds $ |
|---|---|---|---|---|
| January 2021 | Private | 254 | 5.00 | 1,270 |
| January 2021 | Private | 50 | 5.00 | (i) |
| March 2021 | Private | 13 | 7.00 | (i) |
| April 2021 | Private | 125 | 8.00 | (ii) |
| April 2021 | Private | 111 | 9.00 | 1,000 |
| August 2021 | Initial Public Offering | 3,080 | 6.50 | 20,020 |
| December 2021 | Private | 10 | 5.00 | 50 |
| July 2022 | Private | 600 | 2.60 | (ii) |

*i. Common shares issued for consulting or advisory services.*
*ii. Common shares issued upon the acquisition of a subsidiary (see note 4).*

### c) Share issuance costs

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Advisor services settled by common share issuance | - | 95 |
| Advisor/broker services settled by warrant issuance | - | 97 |
| Share issuance costs | - | 2,681 |
| Tax effect of share issuance costs | - | (724) |
| **Total** | **-** | **2,149** |

*All amounts in Canadian $000s, unless otherwise indicated*

### d) Share warrants

The Company has issued warrants that allow the holder to acquire additional common shares of the Company. Warrant transactions are summarized as follows:

| | Number of Warrants (thousands) # | Weighted average exercise price $ |
|---|---|---|
| Balance, December 31, 2020 | 340 | 5.00 |
| Granted | 2,342 | 10.49 |
| **Balance, December 31, 2021** | **2,682** | **9.79** |
| Expired | (910) | 8.41 |
| **Balance, December 31, 2022** | **1,772** | **10.50** |

As at December 31, 2021, warrants outstanding enabling holders to acquire common shares are as follows:

| Number of Warrants (thousands) # | Exercise Price $ | Expiry date |
|---|---|---|
| 1,772 | 10.50 | August 4, 2023 |

### e) Share-based incentive programs and payment plans

*Equity Incentive Plan*

On March 18, 2021, the Company adopted the Equity Incentive Plan, which provides for the grant of equity-based compensation awards including stock options ("Options"), restricted share units ("RSUs"), and deferred share units ("DSUs").

The purpose of the Equity Incentive Plan is to advance the interests of the Company by providing an incentive to the directors, officers, employees and consultants of the Company, and any of its subsidiaries and affiliates, to align growth objectives of the Company and participants, to associate a portion of the participants' compensation with the Company's long-term performance and to attract to and retain in the employment. The total number of PSUs, Options, RSUs and DSUs that can be granted pursuant to the Equity Incentive Plan is equal to 20% of the issued and outstanding Common Shares (on a non-diluted basis) calculated as of the date the Company was listed on the TSX Venture Exchange.

The Company classifies these share-based compensation instruments as equity-settled and follows the fair value method of valuing these instruments. Under this method, compensation cost is measured at the fair value of the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus.

*All amounts in Canadian $000s, unless otherwise indicated*

*Options*

The following table presents the changes in the balance of the outstanding stock options:

| | Number of Options (thousands) # | Weighted average exercise price $ |
|---|---|---|
| Balance, December 31, 2020 | - | - |
| Granted | 220 | 9.53 |
| Forfeited | (48) | 9.40 |
| Balance, December 31, 2021 | 172 | 9.56 |
| Granted | 15 | 2.75 |
| Forfeited | (45) | 9.40 |
| **Outstanding at December 31, 2022** | **142** | **8.89** |
| **Exercisable at December 31, 2022** | **63** | **9.44** |

As at December 31, 2022, 142,000 stock options were outstanding enabling holders to acquire common shares as follows:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of exercise price $ | Number outstanding (thousands) # | Weighted average remaining contractual life (years) | Weighted average exercise price $ | Number exercisable (thousands) # | Weighted average exercise price $ |
| 2.75 | 15 | 2.7 | 2.75 | 4 | 2.75 |
| 9.40 - 10.50 | 127 | 4.3 | 9.53 | 59 | 9.87 |

*Options granted to consultant*

In September 2022, the Company granted 15,000 stock options to a consultant of the Company at an exercise price of $2.75 each. These options vest quarterly over a one-year period and are exercisable for a period of three years from the grant date to purchase one common share for each Option held.

*PSUs, RSUs and DSUs*

The following table presents the changes in the balance of the outstanding PSUs, RSUs and DSUs:

| (thousands) | Number of PSUs # | Number of RSUs # | Number of DSUs # |
|---|---|---|---|
| Balance, December 31, 2020 | 600 | - | - |
| Granted | - | 130 | 28 |
| Forfeited | - | (10) | - |
| Balance, December 31, 2021 | 600 | 120 | 28 |
| Granted | - | 198 | - |
| Forfeited | (170) | (105) | - |
| Vested | - | (5) | - |
| **Outstanding at December 31, 2022** | **430** | **209** | **28** |

*Restricted share units*

During the year ended December 31, 2022, the Company granted 198,351 RSU awards to certain directors, officers and employees of the Company, which vest over a three-year period and had a weighted average grant date fair value of $3.43 per RSU.

*All amounts in Canadian $000s, unless otherwise indicated*

As at December 31, 2022, the Company had 208,716 RSUs outstanding, which vest over a remaining weighted average period of 0.9 years, with a weighted average grant date fair value of $3.58 per RSU.

*Share-based payment expenses*

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Options | 61 | 306 |
| PSUs | 354 | 814 |
| RSUs | 132 | 164 |
| DSUs | - | 192 |
| | 547 | 1,475 |
| Less: capitalized share-based payment expenses (note 7) | (114) | (86) |
| Total [(1)] | 433 | 1,389 |

[(1)] *Included in general and administrative expenses (see note 18).*

### f) Common Share Repurchase

As at December 31, 2022, the Company had repurchased 162,800 common shares for total consideration of $466 and the difference between the repurchase price and the weighted average cost of each share in share capital of $329has been included in accumulated deficit as at December 31, 2022.

## 16.REVENUE

The Company generates revenue primarily from fees charged to customers upon receipt of organic waste at the Company's organic waste facilities, sale of RNG, sale of electricity, and through the sale of organic compost and soil. The Company's revenue for the year ended December 31, 2022 and 2021 all relate to goods and services transferred at a point in time and all of the Company's revenues are revenues from contracts with customers. The following tables contain the Company's revenue for the years ended December 31, 2022 and 2021, by source and by segment:

| For the year ended December 31, 2022 | RNG production | Organic waste and composting | Total |
|---|---|---|---|
| Tipping fees | 292 | 5,097 | 5,389 |
| Organic compost and soil sales | - | 699 | 699 |
| RNG | 818 | - | 818 |
| Electricity sales | 460 | - | 460 |
| Trucking services and other | - | 93 | 93 |
| Total | 1,570 | 5,889 | 7,459 |

| For the year ended December 31, 2021 | RNG production | Organic waste and composting | Total |
|---|---|---|---|
| Tipping fees | 216 | 6,763 | 6,979 |
| Organic compost and soil sales | - | 1,230 | 1,230 |
| RNG | 825 | - | 825 |
| Trucking services and other | - | 530 | 530 |
| Total | 1,041 | 8,523 | 9,564 |

During the year ended December 31, 2022, the Company had five customers who provided for revenues of 18%, 15%, 14%, 11% and 11%, respectively, of the Company's consolidated revenues from contracts with customers (year ended December 31, 2021 – four customers providing for revenues of 22%, 15%, 13% and 11%, respectively of the Company's consolidated revenues from contracts with customers).

All of the Company's revenues are generated in Canada.

*All amounts in Canadian $000s, unless otherwise indicated*

## 17. DIRECT OPERATING COSTS

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Salaries and wages | 1,596 | 1,492 |
| Depreciation and amortization | 3,187 | 2,760 |
| Repairs and maintenance | 1,380 | 1,166 |
| Fuel and freight expense | 1,134 | 724 |
| Equipment rental | 425 | 215 |
| Other | 2,230 | 1,628 |
| Total | 9,952 | 7,985 |

## 18.GENERAL AND ADMINISTRATIVE EXPENSES

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Salaries and wages | 1,193 | 1,156 |
| Share-based compensation | 433 | 1,389 |
| Professional and consulting fees | 1,809 | 1,950 |
| Other | 1,194 | 667 |
| Total | 4,629 | 5,162 |

## 19. FINANCE COSTS

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Interest expense on loans payable (note 12) | 346 | 197 |
| Interest expense on lease liabilities (note 13) | 266 | 195 |
| Other | (16) | 66 |
| Total | 596 | 458 |

## 20. OTHER INCOME - NET

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Insurance proceeds [(1)] | 3,120 | - |
| Sale of carbon credits and other | 286 | 172 |
| Total | 3,406 | 172 |

[(1)] *The insurance proceeds relate to lost revenues and additional expenditures incurred, which were recorded to Other income - net to the extent they offset lost revenues and direct operating expenses incurred, or alternatively, were netted against property, plant and equipment (see note 7).*

*All amounts in Canadian $000s, unless otherwise indicated*

## 21. INCOME TAXES

The Company operates in provinces that have differing tax laws and rates. Consequently, a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses and changes in applicable tax rates. A reconciliation of income taxes at statutory rates for jurisdictions where the Company operates is as follows:

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Net loss before income tax | 4,850 | 2,382 |
| Statutory income tax rate (%) | 26.5 | 27.0 |
| Expected income tax recovery at statutory rate | 1,285 | 643 |
| Effect on taxes resulting from: | | |
| Non-deductible expenses and other | (545) | (214) |
| **Tax recovery** | **740** | **429** |

### *Deferred tax balances and tax losses carried forward*

The significant components of the Company's unrecognized tax effected temporary tax differences are as follows:

| | Balance at December 31, 2021 | Recognized in net loss | Recognized in equity | Recognized on acquisitions (note 4) | Balance at December 31, 2022 |
|---|---|---|---|---|---|
| Deferred income tax liabilities | | | | | |
| Property and equipment | 1,969 | 1,058 | - | 72 | 3,099 |
| Intangible assets | 6,581 | (257) | - | 543 | 6,867 |
| Carbon emission credits | 60 | - | - | - | 60 |
| | 8,610 | 801 | - | 615 | 10,026 |
| Deferred income tax assets | | | | | |
| Non-capital losses | (832) | (1,113) | - | - | (1,945) |
| Share issue costs | (881) | 7 | 102 | - | (771) |
| Lease liabilities | (890) | (644) | - | - | (1,534) |
| | (2,603) | (1,750) | 102 | - | (4,250) |
| Deferred income tax liabilities | 6,007 | (950) | 102 | 615 | 5,776 |

At December 31, 2022, the Company has approximately $27,455 (December 31, 2021 - $15,254) of tax pools that may be applied to reduce future taxable income. Of the tax pools that have an expiration date, the date at which they are set to expire is beyond three years after the reporting date.

## 22. LOSS PER SHARE

For all periods presented in these consolidated financial statements, no outstanding convertible securities were included in the computation of net loss per share attributable to shareholders - diluted, as their effect was anti-dilutive.

The weighted average number of common shares were as follows for the periods indicated:

| | 2022 | 2021 |
|---|---|---|
| Weighted average common shares outstanding | 13,593 | 11,029 |

## 23.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

*Financial instruments*

For all periods in these consolidated financial statements, the Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, carbon emission credits, accounts payable and accrued liabilities, contingent consideration, lease liabilities and loans.

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying values because of the short-term nature or the discount rates used in assessing the fair value of the instrument.

The fair value of carbon emission credits is initially measured at fair value using period end trading prices of same or similar carbon emission credits on the secondary market (level 2).

The fair value of lease liabilities approximates their carrying value due to the specific non-tradeable nature of these instruments, and given the discount rates used to recognize the liabilities and the market rates of interest.

The fair value of contingent consideration recognized in a business combination is initially measured at fair value on the date of acquisition using widely accepted valuation techniques (level 3) and is re-measured at fair value at each reporting period, with changes in fair value recognized in the consolidated statement of loss.

The fair value of loans approximates their carrying value due to the loans bearing interest at a rate of Canadian Variable Rate plus 3.0% per annum.

There were no transfers between the levels of the fair value hierarchy during the years ended December 31, 2022 and 2021. Additionally, there were no changes in the Company's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the year ended December 31, 2022 and 2021.

*Financial risk management*

The Company is exposed to the following risks: market risk (i.e. interest rate risk, foreign currency risk and commodity risk), credit risk and liquidity risk. The following is a description of these risks and how they are managed:

*Market risk*

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, foreign currency exchange rates and changes in market prices due to factors other than interest rates or foreign currency exchange rates, such as changes in commodity prices or credit spreads.

*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 Company is exposed to the impact of interest rate changes, primarily through its floating-rate borrowings that require it to make interest payments based on the Canadian Variable Rate. Significant increases in interest rates could adversely affect operating margins, results of operations and the Company's ability to service its debt.

At December 31, 2022, the Company is exposed to interest rate risk with respect to its loans payable. A 50 basis points increase or decrease, respectively, in the Company's interest rates is expected to increase or decrease finance costs for the year ended December 31, 2022 by $31 or $30, respectively.

*All amounts in Canadian $000s, unless otherwise indicated*

### *Foreign exchange risk*

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company has very few transactions denominated in foreign currencies thereby minimizing risk associated with fluctuations in exchange rates.

### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk on customer accounts receivable is influenced mainly by the individual characteristics of each debtor and is concentrated with a few customers, primarily municipal governments and the Company is therefore able to monitor credit risk on an individual account basis and apply lifetime expected loss provisions where any uncertainty on collectability is identified.

The Company's historical bad debt expense has not been significant and is usually limited to specific customer circumstances. The Company considers the credit worthiness of counterparties and past payment history as well as amounts past due.

The Company regularly monitors customers' payments and considers all amounts greater than 60 days to be past due. As at December 31, 2022, the Company had $133 of contractual payments, included in accounts receivable, which are greater than 60 days past due. The maximum exposure to credit risk related to trade receivables is their carrying value as disclosed in these financial statements. Based on only insignificant amounts of historical bad debts, as well as minimal expectation of future losses as a result of default, the Company has determined its credit risk to be low.

The Company held cash and cash equivalents of $8,852 and restricted cash of $20 at December 31, 2022, which represents its maximum credit exposure on these assets (December 31, 2021 - $19,597 cash and cash equivalents and $2,688 restricted cash). The cash is held with major financial institution counterparties and management believes credit risk is minimal.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company maintains sufficient financial liquidity to be able to meet its ongoing operating requirements. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. As at December 31, 2022, the Company had working capital, being current assets less current liabilities, of $6,111.

The Company believes that its existing capital resources will be adequate to satisfy its liquidity requirements over the next 12 months. The following contractual maturities of financial obligations exist as at December 31, 2022:

| | < 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 3,561 | - | - | - | - | - | 3,561 |
| Contingent consideration | 2,179 | 1,390 | - | - | - | - | 3,569 |
| Loan payments (1) | 1,128 | 5,188 | - | - | - | - | 6,316 |
| Lease payments (1) | 880 | 789 | 729 | 642 | 600 | 4,881 | 8,521 |
| **Total** | **7,748** | **7,367** | **729** | **642** | **600** | **4,881** | **21,967** |

(1) *Includes principal and interest.*

*All amounts in Canadian $000s, unless otherwise indicated*

In addition, as at December 31, 2022, the Company had committed to the following obligations that were not recognized as liabilities:

| | < 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 7,567 | - | 2,623 | - | - | - | 10,190 |
| **Total** | **7,567** | **-** | **2,623** | **-** | **-** | **-** | **10,190** |

*Capital management*

The Company considers its capital to be the components of shareholders' equity and debt, including lease liabilities, less cash on hand. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through debt and equity financing and is supplemented by applying for government grant programs where available. Future financings are dependent on market conditions and the ability to identify sources of investment. There can be no assurance the Company will be able to raise funds in the future. There were no changes to the Company's approach to capital management during the year ended December 31, 2022.

## 24. RELATED PARTY BALANCES AND TRANSACTIONS

*Key management compensation*

The total value of compensation expenses and other fees for the board of directors and members of executive management of the Company is as follows:

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Salaries and benefits | 534 | 767 |
| Share-based payment expense | 348 | 1,306 |
| **Total** | **882** | **2,073** |

In July 2022, a subsidiary of the Company entered into a lease agreement with a related party to lease the land on which the GrowTEC facility is located for a term of ten years, with the option to extend for an additional two five-year periods, at the option of the Company. The lease payments for the initial term are $270 for the first year of the lease and $120 per year for the remaining nine years. During the year ended December 31, 2022, the Company incurred lease expenses of $135 relating to this lease (year ended December 31, 2021 - $nil).

*All amounts in Canadian $000s, unless otherwise indicated*

## 25.SUPPLEMENTARY CASH FLOW INFORMATION

The following table reconciles the net changes in non-cash working capital, excluding the non-cash working capital acquired on acquisitions, from the statement of financial position to the statements of cash flows:

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| Net changes in non-cash working capital: | | |
| Accounts receivable | (1,093) | (798) |
| Prepaid expenses and other assets | (529) | (123) |
| Accounts payable and accrued liabilities | (190) | (869) |
| Deferred revenue | 142 | - |
| | **(1,670)** | **(1,790)** |
| Net changes in non-cash working capital related to: | | |
| Operating activities | (733) | (2,216) |
| Investing activities | (669) | 645 |
| Financing activities | (268) | (219) |
| | **(1,670)** | **(1,790)** |
| Interest paid | 346 | 413 |
| Taxes paid | 43 | 516 |

## 26. SEGMENTED INFORMATION

Operating segments are determined in a manner consistent with internal reporting provided to management for the purposes of allocating resources and assessing performance of the operating segments. For the year ended December 31, 2022 and December 31, 2021, the Company had two operating segments. The Company's segments are based on the type of operation and include RNG production and organic waste tipping and composting as follows:

| For the year ended December 31, 2022 | RNG production | Organic waste and composting | Corporate and other | Total |
|---|---|---|---|---|
| Revenue | 1,570 | 5,889 | - | 7,459 |
| Direct operating costs | (2,490) | (7,388) | (74) | (9,952) |
| General and administrative expenses(1) | (957) | (3,277) | (395) | (4,629) |
| Finance costs | (193) | (650) | 247 | (596) |
| Equity-accounted loss | (138) | - | - | (138) |
| Contingent consideration loss | - | - | (400) | (400) |
| Other income - net | 1,495 | 1,900 | 11 | 3,406 |
| **Net loss before income tax expense (recovery)** | **(713)** | **(3,526)** | **(611)** | **(4,850)** |

*All amounts in Canadian $000s, unless otherwise indicated*

| For the year ended December 31, 2021 | RNG production | Organic waste and composting | Corporate and other | Total |
|---|---|---|---|---|
| Revenue | 1,041 | 8,523 | - | 9,564 |
| Direct operating costs | (1,001) | (6,969) | (15) | (7,985) |
| General and administrative expenses[1] | (588) | (2,930) | (1,644) | (5,162) |
| Finance costs | (13) | (245) | (200) | (458) |
| Contingent consideration gain | - | - | 1,487 | 1,487 |
| Other income - net | 26 | 205 | (59) | 172 |
| **Net loss before income tax expense (recovery)** | **(535)** | **(1,416)** | **(431)** | **(2,382)** |

*(1) Allocated to each segment based on estimated use of corporate resources*

| As at December 31, 2022 | | | | |
|---|---|---|---|---|
| Total assets | 30,910 | 52,736 | 2,310 | 85,956 |

| As at December 31, 2021 | | | | |
|---|---|---|---|---|
| Total assets | 17,279 | 57,589 | 5,742 | 80,610 |

## 27.SUBSEQUENT EVENTS

a) In January 2023, the Company announced that it had signed an agreement with its existing lender, Roynat Capital (a subsidiary of The Bank of Nova Scotia) ("Roynat") and Export Development Canada ("EDC") for a $31 million syndicated senior term loan (the "Term Loan Facility"). Roynat and EDC are each providing for 50% of the proceeds from the Term Loan Facility. The Term Loan Facility will be used to support the upgrade and construction of the Company's RNG facilities and provides for $15 million for refinancing of existing debt and construction at Fraser Valley Biogas and $16 million at PCR.

b) Effective January 1, 2023, the Company exercised an option to extend a lease for the land at the PCR facility for an additional five-years at market rates.

c) In January 2023, the Company entered into a loan agreement to provide $500 to Project Radius, which was fully drawn at the time of filing this report. The loan is repayable on June 30, 2023 and accrues interest on the unpaid principal amount at a rate of 14.25% per annum, which is due and payable by Project Radius on June 30, 2023.

d) In early-2023, the Company received $1,546 of insurance proceeds, which was recorded in accounts receivable as at December 31, 2022.