




TERVITA NOW

2018 ANNUAL REPORT



Taking the very best from our heritage and combining it with our current strengths, we are a strong and resilient company. With a prudent strategy to prosper in today's environment while paving a path for future success and growth, we are steadfast in the present, while keeping our sights on the future. **This is Tervita Now.**

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TSX:TEV

Tervita is a leading waste management and environmental solutions provider offering waste processing, treating, recycling, and disposal services to customers in the oil and gas, mining, and industrial sectors. We serve our customers onsite and through a network of facilities in Canada and the United States.

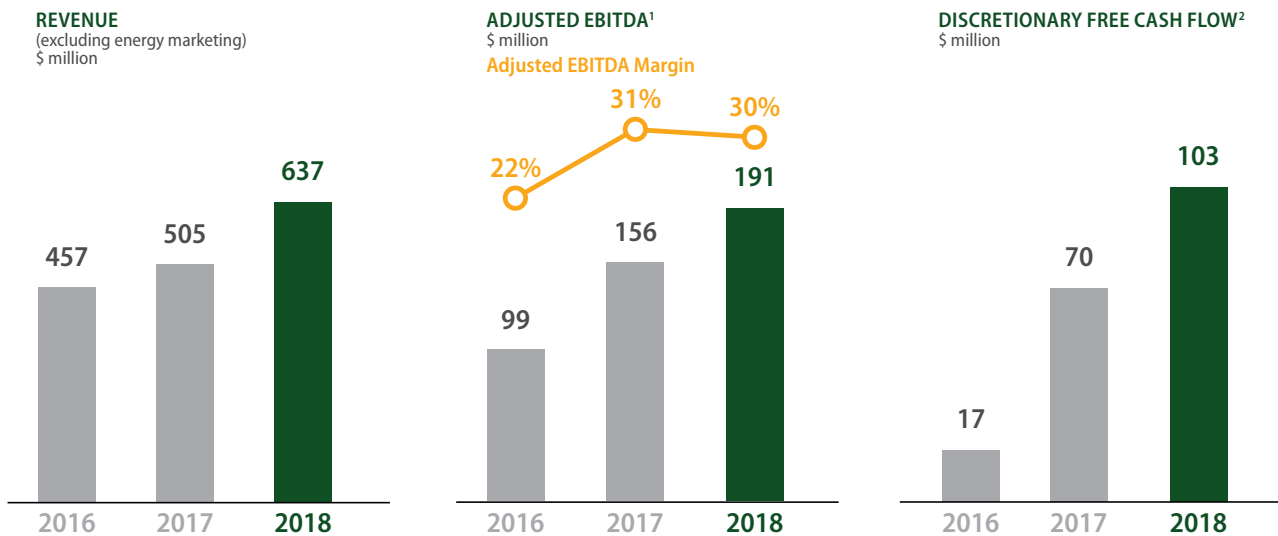
For 40 years, Tervita has been focused on delivering safe and efficient solutions through all phases of a project while minimizing impact, maximizing returns™. Our dedicated and experienced employees are trusted sustainability partners to our clients. Safety is our top priority, it influences our actions and shapes our culture. Tervita trades on the TSX as TEV. For more information, visit tervita.com.

2018 Highlights

In 2018, Tervita Generated Strong Growth in Revenue, Adjusted EBITDA and Discretionary Free Cash Flow.

Key Accomplishments

- Revenue (excluding energy marketing) of \$637 million increased 26% compared to 2017
- Adjusted EBITDA of \$191 million increased 22% and 16% per share compared to 2017, with Adjusted EBITDA margin of 30%¹
- Discretionary Free Cash Flow of \$103 million grew 47% compared to 2017^{1,2}
- Merged with Newalta Corporation in a transformative transaction and became publicly traded on July 24, 2018 under the ticker symbol TSX:TEV
- Achieved synergies from the Newalta transaction of \$32 million on an annualized basis; continue to expect to achieve \$40 - \$45 million in synergies by 2020
- Executed \$56 million in growth and expansion capital investments in 2018 focused on strong returns on invested capital and cash flow per share growth



(1) Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted EBITDA per share and Discretionary Free Cash Flow are Non-GAAP measures. Reconciliations to GAAP measures can be found in the "Non-GAAP Measures" section of the attached Management's Discussion & Analysis ("MD&A").

(2) Discretionary Free Cash Flow in 2018 is before transaction costs. 2016 Discretionary Free Cash Flow is calculated using 2017 interest paid and is before debt restructuring costs.

President's Message



JOHN COOPER
President and Chief Executive Officer

Fellow Shareholders:

Tervita is now in precisely the right position, with the proper focus and opportunities to achieve the next level of success.

2018 was a transformative year for Tervita. Financially, we generated strong growth in revenue, Adjusted EBITDA and Discretionary Free Cash Flow, while significantly strengthening our business and demonstrating resilience in a challenging environment.

We generated revenue (excluding energy marketing) of \$637 million in 2018, 26% higher than a year ago, and Adjusted EBITDA of \$191 million, 22% ahead of 2017, on stable Adjusted EBITDA margins of 30%. We continued our focus on efficiencies, improving our General and Administrative (G&A) costs to 8% compared to 10% of revenue (excluding energy marketing) in 2017. Operationally, Tervita made advancements in both reportable segments:

- Energy Services operations enjoyed strong contributions from our expanded footprint with the newly acquired Newalta operations, and higher throughput of oil volumes at our facilities supported by strategic growth investments.
- Industrial Services operations saw contributions from acquisitions, metals recycling growth and increases in project activity.

We generated revenue 26% higher than a year ago, and Adjusted EBITDA 22% ahead of 2017.

We continued our core focus and commitment to safety with Total Recordable Injury Frequency (TRIF) improving to 0.52 from 0.66 in 2017. Although only a few examples, these accomplishments are a clear reflection of our employees' dedication and hard work throughout a very busy 2018. I have great faith in our people and they continued to impress me in 2018 by improving operating efficiencies and productivity standards, augmenting service levels for our customers, and increasing return on investment. Strategically, we expanded infrastructure and services while also driving continuous improvement across all operations.

To that end, in July 2018, we completed one of the most significant and accretive transactions in our history: the acquisition of Newalta Corporation that established Tervita as a leading publicly traded energy-focused waste and environmental solutions provider in Canada.

We are extremely pleased with the results and the progress made with the Newalta transaction. The integration has proceeded on track and is delivering exactly the kind of incremental benefits we had envisioned.

With this transaction, we generated \$13 million of synergies in 2018, ahead of our plan, which translates to \$32 million annualized. This is just the start. We continue to expect \$40 - \$45 million in annualized synergies within two years from when we closed the merger.

We are encouraged by our results to date as a combined company, as they demonstrate the merger significantly enhances Tervita's ability to generate resilient Discretionary Free Cash Flow.

For our customers, the combined business strengthens our ability to provide even more solutions designed to lower their costs, improve operational sustainability

and efficiency and free up their capital to focus on their own growth initiatives through our safe, efficient and environmentally responsible solutions.

Tervita's new size and scope has the potential to deliver double-digit growth over the next two to three years supported by a strong, self-funded balance sheet.

On the growth side, in 2018 we invested \$56 million in growth and expansion capital investments aimed primarily at our ability to meet growing customer demand in the Montney and Duvernay regions in Alberta and British Columbia. Projects included the addition of new disposal wells at two of our Treatment Recovery and Disposal (TRD) facilities in the Montney to be completed and tied in during 2019; preliminary spending towards the growth of a third TRD facility; expanding capacity at key energy marketing locations, and the construction of new landfill cells.

A RESILIENT BUSINESS MODEL

Tervita is an industry pioneer, having provided oilfield waste management and disposal services to the energy sector for forty years.

We are very proud of where we are now as a public company, with a significant footprint built over decades. This network would be very difficult to replicate today and represents the core of Tervita's suite of services.

Our extensive infrastructure is strategically located in all the key higher activity plays in the Western Canadian Sedimentary Basin (WCSB).

Our facility network has a strong track record of delivering significant Adjusted EBITDA margins and resilient stable cash flows. This is underpinned by our exposure to oil and gas production-based customer waste streams which represents about 63% of Energy Services revenue, excluding energy marketing.

This stability is matched with our enviable positioning to benefit from key industry catalysts such as Liquefied Natural Gas (LNG) development in the Montney play. With our well-placed assets in these regions, we are already seeing increased activity with the building of infrastructure creating demand for our services. We are well positioned for significant upside potential from increased industry activity levels due to anticipated pipeline capacity that should be coming online over the next few years.

Tervita's balance sheet is well capitalized and we have a strong liquidity position. Coupled with our

stable Discretionary Free Cash Flow, we are able to internally fund our growth capital program while managing leverage.

We have taken steps over the past two years to reduce costs to be competitive while providing superior services to our customers. These steps have focused on creating a highly efficient structure that allows us to deliver high quality services and value for our customers through the full oilfield lifecycle.

Because of these efforts, we have seen significant improvements in all our key operating metrics, including increases in Adjusted EBITDA and Discretionary Free Cash Flow. Our reduced cost structure also bolsters our resiliency in challenging market conditions.

Finally, Tervita has a substantial pipeline of organic growth capital opportunities, predominantly targeted at our Energy Services business in high activity areas. In addition to accretive tuck-in acquisitions, we expect this will support future EBITDA and cash flow growth.

I am excited about the opportunities in front of us and believe that we've set the foundation for delivering value through continued optimization and further growth.

STRATEGIC AGENDA

With the acquisition of Newalta complete, we have substantial opportunities to further increase our operating efficiencies, add to the scale of our existing services and further expand our customer service offerings.

We are following through on our strategies and key objectives, including the most fundamental of all: enhance cash flow per share and return on capital by raising our performance standards for shareholders and customers. In support of this goal we will:

- Optimize our core business by leveraging our expanded infrastructure to enhance our already strong market position in waste sheds in our Energy Services segment; and improve profitability through operational efficiencies and process improvements across the organization.
- Execute on the full \$40 - \$45 million of annualized synergies from the Newalta transaction and

ensure that the integration is a success. We have already achieved 75% of the synergies on a run rate basis, and we are on track to achieve full synergies by 2020, if not sooner. We will also look at additional synergies such as supply chain opportunities.

- Invest in organic growth projects with a significant multi-year pipeline of identified opportunities. We will also look at select accretive tuck-in acquisitions and leverage our existing platform to capitalize on emerging opportunities such as LNG and water technologies.

We will remain judicious and disciplined with our growth initiatives in the current environment and we will target spending within our cash flow. We have identified several opportunities in the near term with attractive returns that we expect will generate strong returns and Discretionary Free Cash Flow.

2019 OUTLOOK

Toward the end of 2018, Canadian oil price differentials widened significantly compared to West Texas Intermediate (WTI) prices due to a continued lack of pipeline takeaway capacity in Western Canada, causing uncertainty in the market. In response, the Government of Alberta mandated production curtailments that have served to improve Canadian commodity pricing and reduce volatility. We expect Canadian price differentials to stabilize in 2019, providing opportunities to attract and optimize oil volumes throughout our expansive network of facilities while continuing to assist our customers to maximize the price they receive for their products. We are already seeing stability in our markets in 2019.

With 63% of Tervita's 2018 Energy Services' revenue (excluding energy marketing) coming from stable oil and gas production-related activities, our Energy Services business remains resilient even in a challenging environment.

We remain focused on evaluation of expansion and growth opportunities, and development of our capital plan is expected to be robust over the next several years. In this current environment, we continue to see customer demand for an attractive pipeline of organic

growth projects. With stable levels of market activity, and in addition to Newalta transaction synergies, we expect this pipeline (including tuck-in acquisitions) to support low double-digit growth in reported Adjusted EBITDA over the next two to three years.

As for our planned capital spend in 2019, we expect maintenance capital in the \$30 - \$35 million range, focused on providing high quality service to customers, while delivering stable Discretionary Free Cash Flow.

Our 2019 growth and expansion capital is focused primarily on building well disposal capacity in the Montney region, expansion at several facilities to add energy marketing capabilities, landfill cell expansion in Energy Services, and rail car and equipment purchases to service water management in Industrial Services. We expect this program to be funded from Discretionary Free Cash Flow generated by the business with any excess cash directed to the balance sheet to reduce net debt. We anticipate total 2019 capital spending, including maintenance, growth and expansion, to be in the range of \$90 - \$135 million.

Tervita's new size and scope has the potential to deliver double-digit growth over the next two to three years supported by a strong, self-funded balance sheet.

CONCLUSION

We are now well positioned to take advantage of our many opportunities. But opportunity alone does not guarantee success. We must perform at a higher level than in 2018 and have set new internal targets to do just that.

As always, we will do our utmost to exceed our previous performance standards on behalf of customers and shareholders. This is the meaning of continuous improvement and the driver of our vision. In closing, we are extremely happy about the progress made in making the combined company stronger.

I would like to thank our employees for their extraordinary efforts, energy and dedication over this past very busy year and all that they will do in 2019.

I also want to thank our Board for their guidance and wisdom, and our customers and stakeholders for their continued support.

Yours sincerely,

(Signed) John Cooper
President and Chief Executive Officer
March 13, 2019





Our Operations



BRAD DLOUHY
Chief Operating Officer

"2018 was a year of significant development for our operations and we intend to make the most of our expanded infrastructure. We have substantial opportunities to strengthen our operating efficiencies and enhance our customers' experience."



Tervita provides a broad range of services to natural resource and industrial clients. Our services are delivered through our strategically located network of facilities and specialized equipment and assets.

Energy Services

FACILITIES:

Treatment, Recovery & Disposal

Tervita operates a strategically situated network of treatment, recovery and disposal (TRD) facilities that can handle the complete spectrum of petroleum industry waste by-products—from initial drilling through to production. With our network of facilities across the Western Canadian Sedimentary Basin we are able to offer our clients the services they need, where they need them.

Engineered Landfills

Tervita's engineered landfills provide for the disposal of oilfield and industrial waste solids and contaminated soil.

Caverns & Disposal Wells

Our underground salt caverns provide an environmentally sound disposal option for oilfield liquid and solid wastes and our network of deep disposal wells are designed to provide safe, permanent disposal of the produced water and wastewater streams generated by oil and gas development activity.

ENERGY MARKETING

Tervita's Energy Marketing group markets and sells oil that is recovered or processed at its TRD facilities. Numerous Tervita facilities are pipeline connected.

ONSITE SERVICES

The Onsite Services team specializes in bringing custom-engineered solutions directly to our clients' sites in order to provide measurable realized value through product recovery. Tervita also offers a combination of solids control services and equipment rentals for oilfield drilling operations in Canada and the US.

Industrial Services

ENVIRONMENTAL SERVICES

Provides comprehensive environmental solutions, including site remediation, demolition, decommissioning, environmental construction and related services.

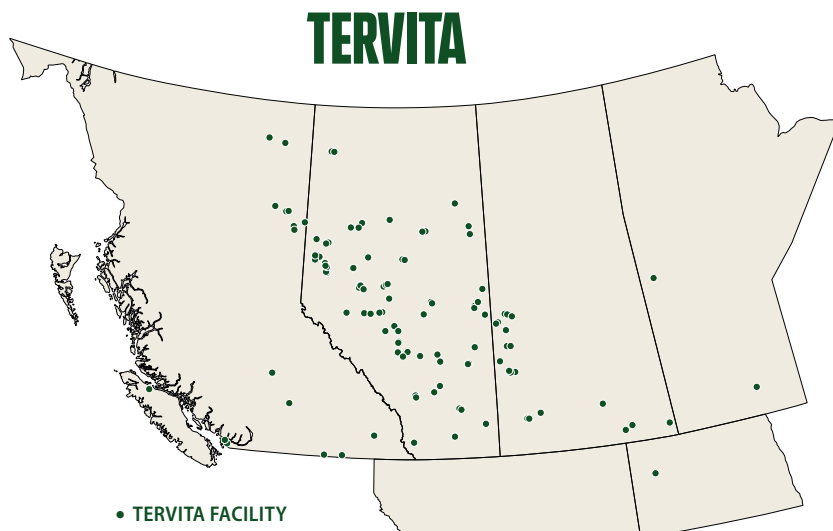
METALS RECYCLING & RAIL SERVICES

Tervita operates recycling facilities that purchase and process ferrous and non-ferrous metals recovered from commercial and industrial operations.

Tervita also provides full-service response to derailments including track clearing, asset recovery, reclamation and remediation, car scrapping and re-railing.

WASTE SERVICES

Provides waste container services for the collection and processing of hazardous and non-hazardous materials, waste products and recyclable products. Also provides cost-effective services for management and disposal of Naturally Occurring Radioactive Materials (NORMs). In addition, Tervita provides a full suite of field services for the management of turnarounds, and day-to-day operational requirements.



Safety Matters

For Tervita, safety is at the core of everything we do. Whether we are providing environmental remediation, operating treatment, recovery and disposal facilities or working in an office, safety influences our actions, and guides our decisions. We work hard every day to build a culture of safety at Tervita, where our people choose safe behaviours naturally and without hesitation to prevent harm to our people, and the communities where we work.

Our commitment to safety is simple:
No job is ever too important that we can't take the time to do it safely.

2019 Focus

In 2019, we will start our transition from a systems-based safety program to a values-driven one with a stronger focus on the parts of our program that are behavior based. These changes will ensure the sustainability of our safety performance.

Safety Culture and Standards

We are focused on communicating our safety expectations clearly and consistently across our operations and providing tools to our employees and contractors to help them make safe decisions.

One of our key tools is our Safety Absolutes. Tervita Safety Absolutes provide clarity about our standards and our expectations of how high-risk tasks will be completed.

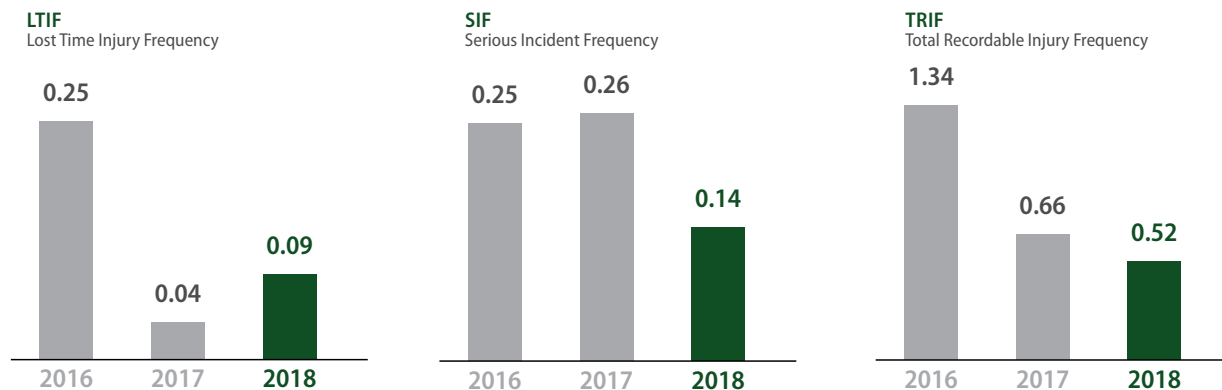
If these conditions cannot be achieved, we actively encourage and support our employees to STOP and refuse unsafe work until a safe work environment can be assured.



2018 Safety Performance

We are proud of the safety focus of our employees and the solid performance we achieved in 2018 through a dynamic and changing environment.

- **Lost-Time Injury Frequency (LTIF)** was 0.09, below our target of 0.30. LTIF refers to the number of people for every 100 employees whose injury precludes them from working for at least one day post injury.
- **Serious Incident Frequency (SIF)** was 0.14, below our target of 0.50. (SIF) measures the number of actual and potential serious incidents that occur per 100 employees working over a year.
- **Total Recordable Incident Frequency (TRIF)** was 0.52, below our target of 1.00. TRIF refers to the number of people injured per 100 employees to the extent they could not perform their regular work duties.





People Matters

We are proud of how our employees responded to the changes in 2018. From the merger with Newalta and becoming a public company, to implementing a new Enterprise Resource Planning system, Tervita employees showed their resiliency, loyalty and ability to adapt. Our culture emphasizes timely and transparent communication. Our leadership team hosted live Town Hall events to keep employees updated on the integration process. Frequent integration updates were also posted to the company intranet and a dedicated page was developed for those employees from Newalta who joined the Tervita team to help them transition.

As we move into 2019, the development of our culture will be a primary focus. We will be looking at our employee engagement processes to enhance our culture, values and leadership to provide a strategic advantage. In addition, we will be placing focus on continuous improvement of many of our Talent Management processes and building out our manager and leadership training programs.

Our people are the reason we are a leader in our industry and we will continue to build our company as a great place to work, learn and develop.

Community Matters

At Tervita, giving back to the communities where we live and work is part of our culture, and in 2018 we were proud to contribute in several ways.

Industry Education Opportunities

Tervita connects with local school divisions and youth organizations to provide information about the work we do and the career opportunities available in the industry. In 2018 the South Taylor Treatment, Recovery and Disposal (TRD) facility hosted more than 40 students as a part of the Northern Opportunities Energy Week Tour – an educational event aimed at providing students with hands-on learning experience to explore career opportunities in the energy sector.

In addition, for the fourth consecutive year, the Drayton Valley TRD facility in Alberta welcomed Grade 5 students from the Wild Rose School Division to tour their reclaimed Land Treatment Facility, learn about remediation, the ecosystems and the nearby wetlands. Tervita employees also had the opportunity to visit a local Calgary school to lead Grade 4 and 5 students' exploration of 'Waste in Our World' and how Tervita works to preserve and protect the environment.

Caring for the Environment

Tervita is proud to offer its support of community initiatives where we can provide for the safe disposal of potentially hazardous waste. On September 20, a group of 15 Tervita volunteers spent the day safely collecting, sorting and properly disposing of eight tonnes (100 cubic yards) of household and hazardous waste at the Doig River First Nation (DRFN) northeast of Fort St. John, BC.

In addition, Tervita provided professional and safe water and paint disposal for Canada's longest mural project. The initiative was an idea in one of Calgary's local communities as a way to celebrate the community's 25th anniversary and involved hundreds of volunteers coming together to paint approximately 18,000 square feet of wooden fence line.

South Taylor TRD facility hosted more than 40 students as part of an educational event aimed at providing students an experience to explore career opportunities.

Volunteer Hours

In addition to sponsoring local organizations and raising funds, our employees illustrated their commitment to our communities by volunteering several hundred hours of their time to make a difference.

United Way

2018 marked Tervita's 30th anniversary of its workplace giving partnership with the United Way of Calgary. Over the years we have invested more than \$1 million towards building a better and stronger community.

Our employees organize and run the annual United Way campaign, working side-by-side to plan fundraising activities and volunteer in their community. The company encourages their

efforts, knowing that these actions build personal connections within the company and inspire all of us to help further.

In 2018, our annual campaign raised more than \$52,000, and with the Tervita match, more than \$104,000 was donated directly to the United Way, making a difference to the lives of those in need in our communities.

Sponsorship

26TH ANNUAL CUPS/CALGARY STAMPEDERS KICKOFF BREAKFAST.

The event raised essential funds and awareness for Calgary Urban Project Society (CUPS), a non-profit that helps adults and families in Calgary living with the adversity of poverty and traumatic events to become self-sufficient through integrated healthcare, education and housing.

BOYS AND GIRLS CLUB OF CALGARY (BGCC) STAMPEDE CLEANUP CREW.

The BGCC is a charitable, community supported, organization that serves more than 10,000 vulnerable children and youth in Calgary, AB. As a part of their mission, BGCC provides over 350 youth with various employment assignments throughout the year. This is the first job for many of the kids, creating employability and transferable skills for the future.

Financials



ROB DAWSON
Chief Financial Officer

“We have taken steps over the past two years to create a highly efficient structure that allows us to deliver high quality services and value for our customers through the cycles while maintaining our strong Adjusted EBITDA margins.”

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TERVITA

MANAGEMENT'S DISCUSSION & ANALYSIS

March 13, 2019

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a summary of the financial position and results of operations of Tervita Corporation ("Tervita", the "Company", "we", "our", "us" and similar expressions) for the three months and twelve months ended December 31, 2018 and as compared to the three months and twelve months ended December 31, 2017. This MD&A, approved by Tervita's Board of Directors on March 13, 2019, includes information available up to that date.

This MD&A is a review of the financial results of Tervita, prepared in accordance with International Financial Reporting Standards ("IFRS"), which are also generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. This MD&A should be read in conjunction with our audited annual Consolidated Financial Statements and accompanying notes (the "Financial Statements") for the years ended December 31, 2018 and 2017 and our Annual Information Form for the year ended December 31, 2018.

On July 19, 2018 (the "Acquisition Date"), Tervita completed an acquisition of Newalta Corporation ("Newalta") through a Plan of Arrangement (the "Arrangement"). The Financial Statements and MD&A include financial results in respect of the former Newalta business since the Acquisition Date. Please refer to the section ***Newalta Acquisition*** for more information.

All financial information reflected herein is expressed in millions of Canadian dollars ("\$" or "C\$") unless otherwise stated. References to US\$ mean United States dollars. References to "n/m" indicates a percentage change is not meaningful. Throughout this MD&A, "Q4" means the three months ended December 31 and "full year" means the twelve months ended December 31.

Certain comparative information has been reclassified to conform to the MD&A presentation adopted for the current year. Comparative figures related to acquired entities pertain to the period after the Acquisition Date.

This MD&A contains references to the following measures not in accordance with IFRS ("non-GAAP measures"): Adjusted EBITDA, Adjusted EBITDA Margin, Divisional EBITDA, Divisional EBITDA Margin, Discretionary Free Cash Flow, Net Debt to Adjusted EBITDA (Pro Forma LTM), Covenant EBITDA, and Adjusted Working Capital. Please refer to the section ***Non-GAAP Measures*** for a full discussion on management's use of non-GAAP measures and their reconciliation to IFRS measures.

This MD&A contains forward-looking statements regarding Tervita and the industries in which we operate. Please refer to the section ***Forward-Looking Statements*** for more information.

ABOUT TERVITA

Tervita is a leading waste and environmental solutions provider offering waste processing, treatment, recycling, and disposal services to customers in the oil and gas, mining, and industrial sectors. We serve our customers onsite and through a network of facilities in Canada and the United States ("US").

Tervita provides a broad and integrated array of services and environmental management solutions for customers, including: treatment, recovery, and disposal of solids and fluids used in and generated by oil and gas drilling, completions, and production activity; landfill construction; specialized onsite services; waste management; oil terminalling; energy marketing; metals recycling; equipment rental; demolition; and decommissioning. Our network of facilities as at December 31, 2018 consisted of 117 active waste processing, disposal, and industrial facilities, including: 52 treatment, recovery, and disposal facilities ("TRDs"); eight stand-alone disposal wells; 25 engineered landfills (which included 20 owned sites, two sites operated under contract, and three sites that we market under contract for other landfill operators); three cavern disposal facilities; 11 onsite facilities; four transfer stations; one naturally occurring radioactive material ("NORM") facility; eight bioremediation facilities; and five metals recycling facilities.

Tervita's activities are carried out through five operating segments, which are aggregated in accordance with IFRS into two reporting segments: Energy Services and Industrial Services.

- **Energy Services** includes three service lines: facilities, energy marketing, and onsite. These service lines collectively provide many services to the oil and gas sector, including: treatment, recovery, and disposal of fluids; energy marketing; processing and disposal of solid materials used in, and generated by, natural resource and industrial production; disposal of oilfield-generated waste; providing specialized onsite services using centrifugation or other processes for heavy oil producers involved in mining and in situ production; and supplying and operating drill site processing equipment, including solids control and drill cuttings management.

- **Industrial Services** provides comprehensive environmental solutions through four operating segments: waste services, metals recycling, rail services, and environmental services. The services provided by these operating segments include site remediation, facility decommissioning, environmental construction and technologies, hazardous and non-hazardous waste management, emergency response, rail services, recycling services to oil and gas and other industrial companies, and waste transportation and classification. Recycling services include the purchase and processing of ferrous and non-ferrous metals recovered from demolition sites and other locations.

In addition to our two reporting segments, Tervita presents intersegment eliminations and general and administrative (“G&A”) and other non-operating expenses as Corporate. G&A includes expenses for executive leadership, human resources, information technology, finance, accounting, business development, communications, legal, and regulatory. Intersegment profit eliminations include those related to the construction and transfer of long-lived assets between reporting segments.

FINANCIAL AND OPERATING HIGHLIGHTS

CHANGE IN REPORTING

Tervita adopted IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”) prospectively effective January 1, 2018. This change did not affect reported net profit (loss), Divisional EBITDA, or Adjusted EBITDA, however, revenue and direct costs for energy marketing were impacted as certain pipeline transactions previously reported as gross under revenue and direct costs are now reported as net under direct costs. In accordance with our adoption of IFRS 15, comparative information for energy marketing in our Financial Statements has not been adjusted. If the comparative financial information had been restated, the Q4 2017 and YTD 2017 revenue and direct expenses for energy marketing, revenue, and revenue excluding energy marketing would have been as follows:

	Three Months Ended December 31				Year Ended December 31			
	2018	2017	IFRS 15 Impact	Adjusted 2017	2018	2017	IFRS 15 Impact	Adjusted 2017
Energy Services revenue								
Facilities revenue	110	77	-	77	370	295	-	295
Onsite revenue	21	-	-	-	41	-	-	-
Energy marketing revenue	208	474	(233)	241	1,337	1,824	(839)	985
	339	551	(233)	318	1,748	2,119	(839)	1,280
Industrial Services revenue	63	59	-	59	231	221	-	221
Intersegment elimination	-	(4)	-	(4)	(5)	(11)	-	(11)
Total revenue	402	606	(233)	373	1,974	2,329	(839)	1,490
Energy marketing direct expense	(208)	(474)	233	(241)	(1,337)	(1,824)	839	(985)
Revenue excluding energy marketing	194	132	-	132	637	505	-	505

For purposes of this MD&A, all energy marketing revenue and direct expenses for 2017 and earlier comparative periods have been adjusted for the IFRS 15 impact.

FINANCIAL HIGHLIGHTS

Fourth Quarter and Annual Financial Highlights

	Three Months Ended December 31				Year Ended December 31			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Energy Services revenue								
Facilities revenue	110	77	33	43%	370	295	75	25%
Onsite revenue	21	-	21	100%	41	-	41	100%
Energy marketing revenue	208	241	(33)	-14%	1,337	985	352	36%
	339	318	21	7%	1,748	1,280	468	37%
Industrial Services revenue	63	59	4	7%	231	221	10	5%
Intersegment eliminations	-	(4)	4	-100%	(5)	(11)	6	-55%
Revenue	402	373	29	8%	1,974	1,490	484	32%
Revenue excluding energy marketing	194	132	62	47%	637	505	132	26%
General and administrative expenses	(15)	(11)	4	36%	(50)	(52)	(2)	-4%
Profit (loss) from continuing operations	(75)	(65)	(10)	-15%	(74)	(82)	8	10%
- per share (\$), basic and diluted	(0.64)	(0.62)	(0.02)	-3%	(0.67)	(0.78)	0.11	14%
Net profit (loss)	(75)	(65)	(10)	-15%	(74)	(81)	7	9%
- per share (\$), basic and diluted	(0.64)	(0.62)	(0.02)	-3%	(0.67)	(0.77)	0.10	13%
Adjusted EBITDA ⁽¹⁾	50	40	10	25%	191	156	35	22%
- per share (\$), basic and diluted	0.43	0.38	0.05	13%	1.73	1.49	0.24	16%
Adjusted EBITDA margin ⁽¹⁾	26%	30%	-4%		30%	31%	-1%	
Energy Services Divisional EBITDA ⁽¹⁾	58	45	13	29%	212	170	42	25%
Industrial Services Divisional EBITDA ⁽¹⁾	7	5	2	40%	28	29	(1)	-3%
Divisional EBITDA ⁽¹⁾	65	50	15	30%	240	199	41	21%
Capital expenditures	36	39	(3)	-8%	84	75	9	12%
Discretionary free cash flow ⁽¹⁾	(1)	6	(7)	-117%	81	70	11	16%
Adjusted Working Capital ⁽¹⁾	78	49	29	59%	78	49	29	59%
Shares as at December 31 (000's of shares) ⁽²⁾								
Shares outstanding	117,557	104,626	12,931	12%	117,557	104,626	12,931	12%
Weighted average shares outstanding	117,557	104,626	12,931	12%	110,471	104,626	5,845	6%

⁽¹⁾ Please refer to the section **Non-GAAP Measures** for definitions and reconciliation.

⁽²⁾ As at March 13, 2019, the Company had 117,557,112 common shares, 2,702,649 common share purchase warrants, 2,249,127 options, and 241,824 Integration Incentive Units ("IUs") issued and outstanding. The IUs may be settled through issuance of shares.

Industry Benchmarks

	Three Months Ended December 31				Year Ended December 31			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Average WTI (USD / bbl) ⁽¹⁾	\$58.79	\$55.46	\$3.33	6%	\$64.86	\$50.92	\$13.94	27%
Edmonton Mixed Sweet (USD / bbl) ⁽¹⁾	\$36.27	\$52.58	(\$16.31)	-31%	\$53.41	\$48.31	\$5.10	11%
WCS (USD / bbl) ⁽¹⁾	\$25.48	\$38.60	(\$13.12)	-34%	\$38.53	\$38.20	\$0.33	1%
AECO (CAD / MMBtu) ⁽¹⁾	\$1.52	\$1.61	(\$0.09)	-6%	\$1.44	\$2.07	(\$0.63)	-30%
Average Oil Production (Mbbbl/d) ⁽²⁾	4,579	4,213	366	9%	4,762	4,419	343	8%
Average Gas Production (MMcf/d) ⁽²⁾	16,097	15,522	575	4%	15,852	16,125	(273)	-2%
Meters drilled (000's of meters drilled) ⁽³⁾	4,790	4,880	(90)	-2%	19,420	19,210	210	1%

⁽¹⁾ Information from Bloomberg.

⁽²⁾ Information from National Energy Board, Estimated Production of Canadian Crude Oil and Equivalent and Marketable Natural Gas Production in Canada.

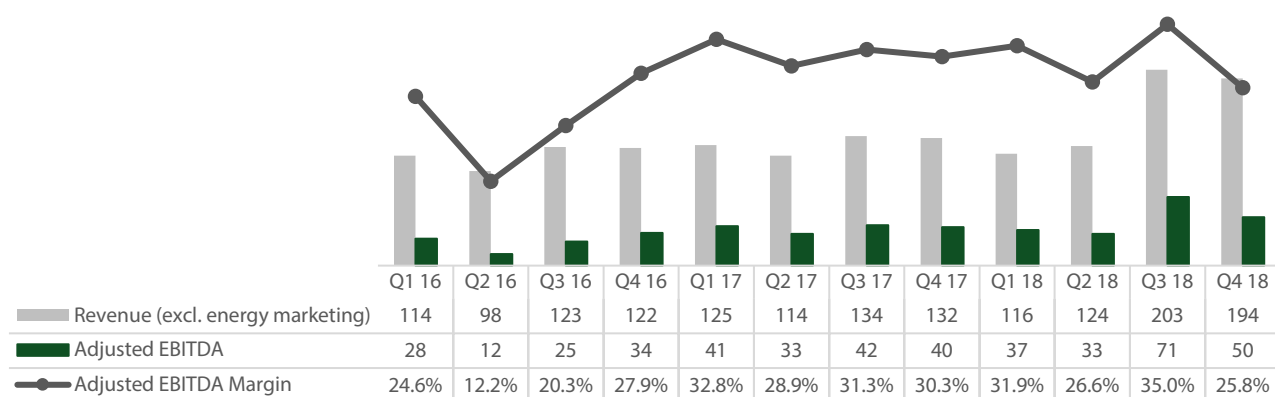
⁽³⁾ Information from JuneWarren-Nickle's Energy Group and pertains to Canada.

Select Three Year Comparative Information

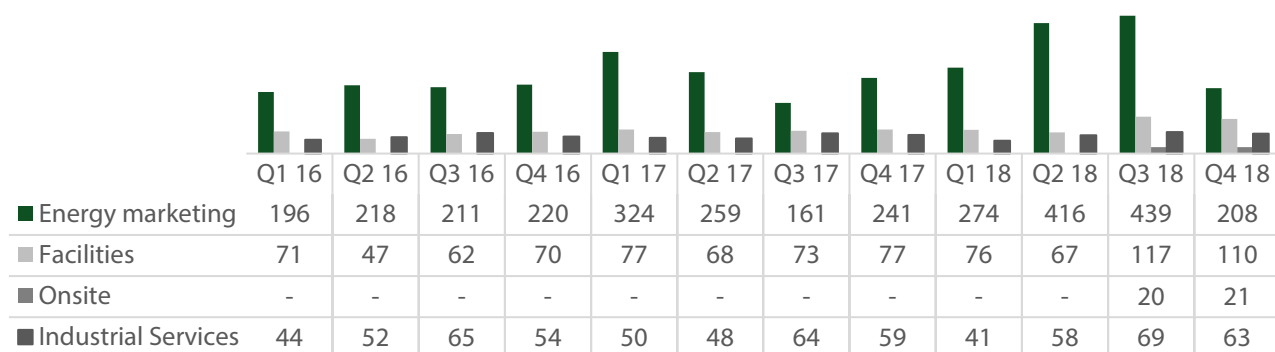
	Year ended December 31		
	2018	2017	2016
Revenue (excluding energy marketing)	637	505	457
Energy marketing revenue	1,337	985	845
Total revenue	1,974	1,490	1,302
Profit (loss) from continuing operations	(74)	(82)	675
- per share (\$), basic and diluted	(0.67)	(0.78)	0.38
Net profit (loss)	(74)	(81)	654
- per share (\$), basic and diluted	(0.67)	(0.77)	0.37
Adjusted EBITDA ⁽¹⁾	191	156	99
Total assets	1,809	1,226	1,245
Non-current financial liabilities	824	476	481
Shares as at December 31 (000's of shares)			
Shares outstanding	117,557	104,626	104,626
Weighted average shares outstanding - basic and diluted	110,471	104,626	1,759,875

⁽¹⁾ Please refer to the section **Non-GAAP Measures** for definitions and reconciliation.

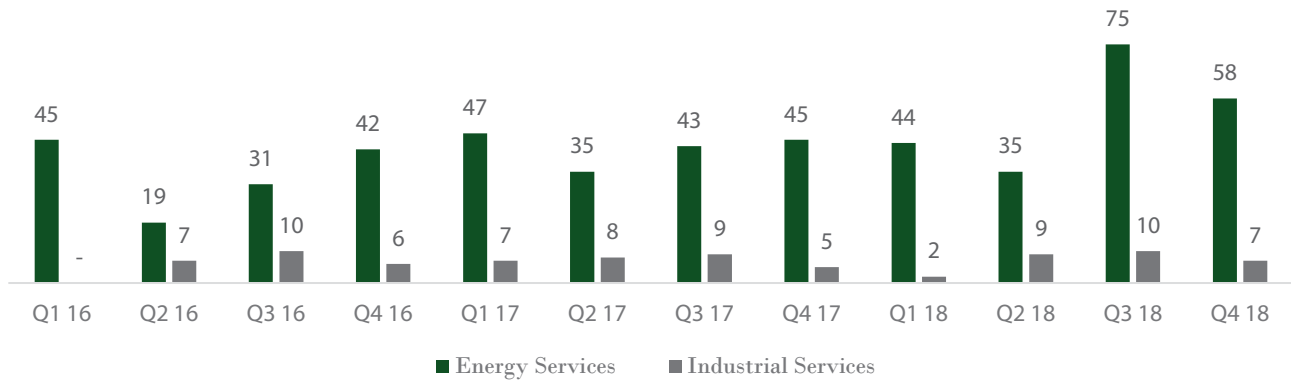
Quarterly Revenue and Adjusted EBITDA



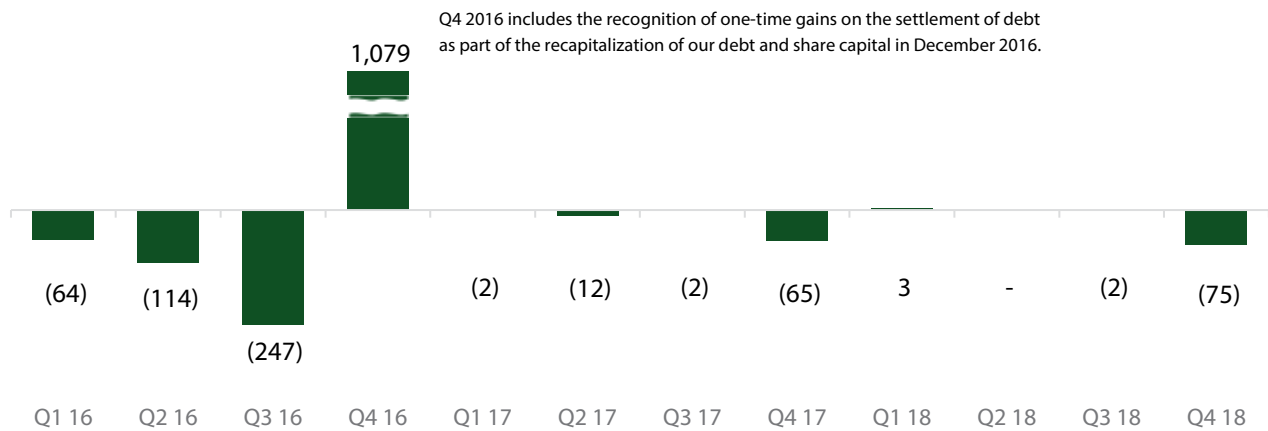
Revenue Before Intersegment Eliminations (\$ millions)



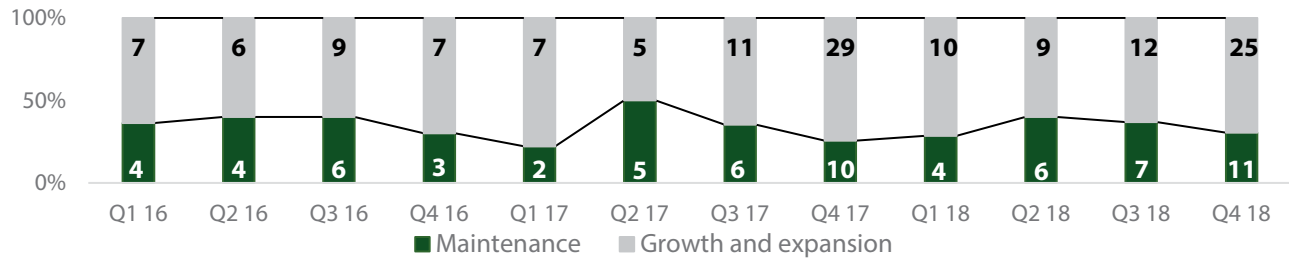
Divisional EBITDA (\$ millions)



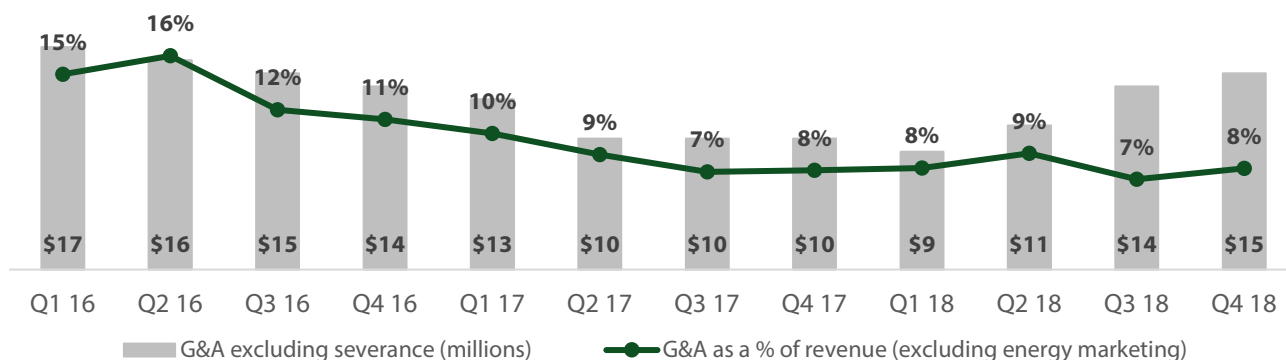
Net Profit (Loss) (\$ millions)



Capital Expenditure by Type as % of Total Spend (\$ millions)



G&A (Excluding Severance) as a % of Revenue (\$ millions)



Fourth Quarter Results

Overview and Highlights

- Tervita's Q4 2018 revenues, Adjusted EBITDA, and Adjusted EBITDA per share all grew over the same period in 2017, despite the macro environment. We believe these increases reflect the continued focus on our core strategies of consolidating capacity in the markets in which we operate to realize efficiencies, and executing our pipeline of growth projects to meet our customers' continued growth needs with a focus on containing overhead costs.
- During Q4, 2018, the Western Canadian Sedimentary Basin ("WCSB") experienced significant volatility:
 - Average West Texas Intermediate ("WTI") prices fell from US\$69.43 per barrel in Q3 2018 to US\$58.79 per barrel in Q4 2018.
 - Continued growth in oil production rose beyond the available egress capacity significantly impacting the price for Western Canadian heavy oil blends and, eventually, light oil and condensates.
 - Drilling programs were suspended and voluntary shut-ins began, with a decline of rig activity by 30% in Q4 2018 compared to Q4 2017. In response, the Government of Alberta implemented mandatory production curtailments.
- Production-related waste volumes through our Energy Services facilities rose 42% in Q4 2018 over Q4 2017. 63% of Q4 2018 facilities revenue (excluding revenue from oil volumes) was earned from production-related activities.
- Marketed-oil volumes rose 29% to 710 thousand m³ in Q4 2018 (excluding Newalta volumes marketed by a third party), due to continued success in attracting customer volumes to our facilities and the positive impact of growth capital investments to expand capacity at facilities during 2018.
- We have made excellent progress on the integration of Newalta operations and workforce in Q4 2018. Transaction synergies of \$9 million were realized in Q4 2018. At December 31, 2018, the annualized run-rate of achieved synergies was \$32 million, ahead of our targeted \$20 - \$22 million by the end of 2018. To date, we have incurred \$18 million to achieve these synergies.
- Tervita's Q4 2018 results were impacted by a decrease in Energy Services' Divisional EBITDA Margin, from 58% in Q4 2017 to 44% in Q4 2018, due to the following:
 - While volumes at our facilities in the high activity Montney region grew from the prior year, this region remains very competitive. Treatment and disposal prices at several of our facilities in this region principally, but also across our network, were lower in Q4 2018 compared to the same quarter of 2017.
 - A decrease in recovered oil volumes (down 8% from the prior year) and prices, which was due to the significant volatility in Canadian oil prices and volumes, also reduced margins by \$3 million (2% negative impact to Energy Services' Divisional EBITDA Margin).
 - Repairs and maintenance costs were \$5 million higher in Q4 2018 (4% negative impact to Energy Services' Divisional EBITDA Margin), primarily from work completed at acquired Newalta facilities.

- The newly added onsite facilities business from Newalta offers more stable long-term contracted revenue but at a lower margin. Full year 2018 Energy Services Divisional EBITDA margins were 52%. We anticipate annual divisional margins in the 45 - 50% range in 2019.

Q4 Revenue Increases 8% to \$402 Million

- Q4 2018 revenue of \$402 million increased by \$29 million and 8% over Q4 2017's revenue of \$373 million. This increase in revenue reflects the continued successful execution of our strategic plan to invest in targeted and accretive growth and expansion opportunities, enlarging our facility infrastructure in Energy Services and Industrial Services, and enhancing our service line offerings to our customers. Our acquisitions of Newalta in Q3 2018, 3K Oil Services Ltd. ("3K") in Q4 2017, and two metals operations in Q3 2017, resulted in higher revenue through increased waste and commodities volumes. Our acquisition of Newalta also added onsite services to our existing Energy Services offerings, which contributed \$21 million of incremental revenue in Q4 2018. Our increased network of Energy Services facilities also provided us with a larger geographic footprint into the US and expanded our reach in the WCSB, providing new sources of revenue.
- Production-related and drilling-related waste volumes through our Energy Services facilities increased by 42% and 8%, respectively, in Q4 2018 compared to Q4 2017, reflecting incremental volumes associated with our acquired facilities and our ability to capitalize on activity in the Montney region.
- Marketed oil volumes were 29% higher than Q4 2017 as our facilities in the Montney were at or near capacity. However, extreme volatility and weakness in differentials resulted in decreased energy marketing direct expenses and revenue and a reduction in recovered oil volumes of 8% in Q4 2018 compared to Q4 2017.

Q4 Divisional EBITDA Increases by \$15 Million and 30%

- Q4 2018 Divisional EBITDA of \$65 million was a \$15 million and 30% increase over Q4 2017 Divisional EBITDA of \$50 million, primarily driven by the \$29 million increase in revenues offset somewhat by higher direct expenses, particularly at Energy Services facilities.
- Energy Services' Q4 2018 Divisional EBITDA of \$58 million increased \$13 million over Q4 2017 Divisional EBITDA of \$45 million. Net Energy Services' revenue increased by \$54 million in Q4 2018 compared to Q4 2017, driven by our investment in growth and expansion opportunities in 2018 and 2017, including our acquisition of Newalta. Direct expenses increased by \$40 million in Q4 2018 compared to the same period in 2017, primarily due to operating costs associated with higher waste and oil volumes through our facilities and the addition of onsite services. Direct expenses were also impacted by some additional discretionary cost, including higher repairs and maintenance at some acquired facilities as they were transitioned to Tervita's maintenance program.
- Industrial Services' Q4 Divisional EBITDA of \$7 million was \$2 million and 40% higher than Q4 2017. This increase was driven by an improvement in revenue of \$4 million resulting from higher ferrous prices and incremental contributions from acquired waste services facilities (Newalta) and two metals recycling yards.

Q4 Adjusted EBITDA Increases by \$10 Million and 25%

- Q4 2018 Adjusted EBITDA was \$50 million, a \$10 million and 25% improvement over Q4 2017 Adjusted EBITDA of \$40 million. This improvement reflects increased Divisional EBITDA contributions of \$15 million offset by \$5 million of higher G&A expense in Q4 2018 compared to the same quarter in 2017, adjusted for \$1 million of severance included in Q4 2017 G&A expense. The increase in G&A expense was primarily a result of the integration of acquired Newalta corporate activities.
- Q4 2018 Adjusted EBITDA Margin was 26%, a decrease of 4% when compared to Q4 2017. This decrease was primarily a result of a decline in Energy Services' Divisional EBITDA Margin due to the acquisition of onsite services with Newalta, a lower margin service line, combined with somewhat higher direct operating expenses in other service lines.

Q4 2018 Net Loss of \$75 Million Primarily Due to Transaction Costs and Non-Cash Impairment

- The Q4 2018 net loss of \$75 million was a \$10 million increase over the net loss of \$65 million in Q4 2017. Included in the net loss for Q4 2018 was \$43 million of transaction costs associated with the acquisition of Newalta, comprised of \$5 million of one-time integration costs and \$38 million of impairment of assets for acquired inactive sites primarily due to a change in discount rate on related decommissioning obligations.

- Excluding the Newalta transaction costs, our Q4 2018 net loss was \$32 million, a \$33 million improvement from the Q4 2017 net loss of \$65 million. This improvement was primarily due to the \$10 million increase in Adjusted EBITDA and a \$49 million decrease in impairment expense. Q4 2018 impairment expense included \$23 million of goodwill impairment in Industrial Services. Q4 2017 included \$74 million of impairment expense in Energy Services, comprised of \$57 million of goodwill impairment, and \$17 million of asset impairment largely a result of waste slumps at two landfills.

Full Year Results

2018 Revenue Increases 32% to \$1.974 Billion

- Revenue increased by \$484 million, from \$1.490 billion in 2017 to \$1.974 billion in 2018. This 32% increase in revenue reflects our strategic investment in growth and expansion opportunities in 2017 and 2018, including: our acquisitions of Newalta, 3K, and two metals recycling yards; our investment in pipeline takeaway capacity; and other growth and expansion capital spend that provided additional waste disposal, storage and blending capacity in Energy Services. Our increased network of Energy Services facilities provided us with a larger geographic footprint in the WCSB and into the US. We also increased our service line offerings and customer base by adding onsite services to Energy Services, which provides specialized services for heavy oil producers involved in mining and in situ production, as well as drill site processing services for solids control and drill cutting management. This expansion into onsite services provided incremental revenue of \$41 million in 2018.
- These growth and expansion investments contributed to a 25% increase in production-related waste volumes through our facilities in 2018 when compared to 2017. The higher revenue earned by these increased volumes was somewhat offset by continued pricing pressure in the highly competitive Montney and a shift in product mix as certain customers continued their vertical integration of disposal capacity, particularly for produced water.
- Marketed oil volumes in 2018 were 18% higher than 2017 due to production market growth (24% improvement year-over-year) and wider differential pricing from a shortage of pipeline capacity to exit the WCSB.
- Industrial Services contributed an additional \$10 million of revenue in 2018 as compared to 2017 reflecting contributions from our strategic investments, higher ferrous pricing driven by strong global demand for steel, and an increase in rail services work.

2018 Divisional EBITDA Increases by \$41 Million and 21%

- 2018 Divisional EBITDA of \$240 million was a 21% increase over our 2017 Divisional EBITDA of \$199 million. This \$41 million increase in Divisional EBITDA was primarily a result of higher revenues earned in both Energy Services and Industrial Services, somewhat offset by increased operating expenses in both segments.
- Energy Services' 2018 Divisional EBITDA of \$212 million was a \$42 million and 25% increase over 2017's Divisional EBITDA of \$170 million. This increase reflects the positive contributions from our investment in growth and expansion, higher throughput of oil volumes, and contributions from our expanded service offering with onsite, offset somewhat by higher expenses, particularly some repairs and maintenance at acquired facilities, and lower WCSB pricing.
- Industrial Services' Divisional EBITDA of \$28 million was a \$1 million decrease from the 2017 Divisional EBITDA of \$29 million. Higher revenues for ferrous sales and project-based work, including rail services, was more than offset by lower contributions from facility-based services, particularly in the first half of 2018. Facility-based services revenue declined 13% year-over-year due to a highly competitive market and the impact of the loss of a significant contract at end of Q4 2017. However, direct expenses in the first half of the year remained higher, reflecting the time needed to adjust the fixed-cost component of the business.

2018 Adjusted EBITDA Increases by \$35 Million

- 2018 Adjusted EBITDA of \$191 million was a \$35 million and 22% improvement compared to 2017's Adjusted EBITDA of \$156 million. This improvement was a result of increased contribution from Divisional EBITDA of \$41 million offset by higher G&A expense (excluding severance) of \$6 million. The increase in G&A expense was primarily due to the acquisition of Newalta.

- Our Newalta integration activities in 2018 resulted in realized pro forma synergies of \$13 million (\$7 million in operations and \$6 million in corporate G&A expense) with an annualized synergy run rate of approximately \$32 million.

2018 Net Loss of \$74 Million Primarily Due to Transaction Costs and Non-Cash Impairment

- The 2018 net loss of \$74 million was an improvement of \$7 million over the 2017 net loss of \$81 million. Included in the 2018 net loss was \$69 million of transaction costs associated with the acquisition of Newalta, comprised of \$13 million of costs incurred to complete the Arrangement, \$18 million of integration costs, and \$38 million of non-cash impairment of assets for inactive sites related to a change in discount rate on associated decommissioning obligations. Not including these transaction costs, our 2018 net loss would have been \$5 million, an improvement of \$76 million compared to the 2017 net loss of \$81 million.
- Compared to the prior year, the 2018 net loss included the \$35 million increase in Adjusted EBITDA, a \$51 million decrease in impairment expense, and a reduction in changes to onerous and legal provision of \$13 million. These reductions were somewhat offset by transaction costs of \$69 million, higher depreciation and amortization expense on new assets of \$16 million, and increased finance costs of \$14 million associated with the issuance of new debt.

2018 Capital Spend

- During 2018, our Board of Directors approved \$140 million in projects aimed primarily at growing our ability to meet customer demands in the Montney and Duvernay regions of Alberta and British Columbia. Cash spend towards these growth and expansion projects (excluding the Newalta acquisition) was \$56 million, \$4 million higher than 2017, and consistent with our focus on identifying, planning, and executing a growth capital portfolio. The acquisition and integration of the Newalta facilities, as well as the subsequent review of the incremental growth capital opportunities, resulted in a modest deferral of planned capital spending in the second half of 2018. Growth and expansion capital spend during 2018 included:
 - growth at two of our TRD facilities in the Montney region, including the addition of two new disposal wells to be completed and tied-in during 2019;
 - preliminary spending towards the growth of a third TRD facility;
 - the completion of projects at key energy marketing facility locations to expand capacity; and
 - the construction of new waste cells at three of our landfills.
- 2018 cash spend on maintenance capital was \$28 million, \$5 million higher than the \$23 million spent in 2017 and reflective of the acquisition of additional facilities into our infrastructure. Maintenance capital of \$28 million was below our original estimate of \$35 - \$40 million reflecting the deferral of certain, non-critical discretionary projects including heavy equipment replacements.

Discretionary and Free Cash Flow

- Tervita generated \$81 million of Discretionary Free Cash Flow in 2018, a 16% increase from the \$70 million generated in 2017. Excluding the cash transaction costs incurred as part of the Newalta acquisition, 2018 Discretionary Free Cash Flow was \$103 million or 47% higher than 2017. Discretionary Free Cash Flow was more than sufficient to fund the \$56 million of growth and expansion capital spend in 2018.
- Tervita's Discretionary Free Cash Flow reduced by \$7 million in Q4 2018 compared to Q4 2017 primarily due to the additional interest expense on the US\$250 million senior secured notes and the cash transaction costs incurred as part of the Newalta acquisition.
- Tervita's existing facility network, underpinned by a significant exposure to production-based revenues, generates stable Discretionary Free Cash Flows, providing confidence in Tervita's ability to fund its ongoing growth and expansion capital programs.

Full Year 2017 Versus Full Year 2016 Comparative Highlights

- Revenue in 2017 was higher than 2016 due to increased activity in our core WCSB markets reflecting an improvement in WTI prices and higher volumes and prices for ferrous metal.
- The loss from continuing operations in 2017 was primarily a result of non-cash expenses. Most significantly, impairment expense of \$76 million primarily related to our landfill operations for goodwill and capacity reductions associated with waste movement at two facilities, and a provision of \$13 million for onerous contracts for vacated floors in our head office. Excluding these items, the 2017 profit from continuing operations reflects improved business results and significantly lower interest costs compared to 2016.
- In 2016, profit from continuing operations included \$286 million of realized foreign exchange gains on the settlement of debt and debt-related swaps and the effects of a recapitalization transaction under section 192 of the Canada Business Corporations Act (the “Recapitalization Transaction”), for which a \$670 million gain on debt restructuring was recognized. These gains more than offset a \$270 million impairment expense, primarily related to goodwill for our TRD and landfill service lines.
- The results of discontinued operations are added to profit (loss) from continuing operations to arrive at net profit (loss). 2016’s net profit incorporated \$21 million of loss from discontinued operations, primarily comprised of the loss on the disposal of our production services operating segment.
- The increase in 2017 Adjusted EBITDA as compared to 2016 reflects increased operating results from better market activity and reduced costs for both operating segments and general and administrative from the full year impact of cost containment initiatives begun in 2016 and the transfer of additional office space to onerous contracts in both 2016 and 2017.
- The decrease in total assets in 2017 compared to 2016 reflects an increase in cash from improved working capital more than offset by impairments of goodwill and property, plant and equipment.
- Our non-current financial liabilities and outstanding share capital for 2017 and 2016 reflect the Recapitalization Transaction in December 2016, which significantly reduced our debt and changed our equity structure.

OUTLOOK

MARKET OUTLOOK

- With 63% of Tervita’s 2018 Energy Services revenue excluding energy marketing coming from anticipated stable oil and gas production-related activities, we believe that Tervita’s Energy Services business remains resilient even during the current challenging environment. While reduced drilling activity is expected to result in partially lower drilling and completions related revenues, particularly in the first half of 2019, we remain focused on what is under our control. We believe that the contribution from a full year of results from the acquired Newalta operations, the continued successful execution of Newalta integration synergies, additional contributions from growth capital spending, and steady improvements from our Industrial Services businesses, will result in continued sustained growth in Tervita’s Adjusted EBITDA in 2019 vs 2018.
- Following the early 2019 recovery of WTI to US\$50 - \$55 per barrel and the return of Canadian oil price differentials to fundamental ranges, we anticipate relatively stable oil and gas prices in 2019.
- While egress challenges persist, Western Canadian oil and gas production is anticipated to remain at levels matching takeaway capacity in 2019. We anticipate the continued increase in crude by rail capacity will likely be sufficient to support higher industry drilling activity in the second half of the year assuming a stable price environment.
- We continue to expect to find opportunities to attract and optimize crude oil volumes throughout our expansive network of facilities, while continuing to assist our customers to maximize the price they receive for their products in this challenging environment. This includes the internalization of oil marketing activities at the newly added Newalta facilities. These volumes were marketed by a third party until December 31, 2018.
- For Industrial Services, we expect moderate market growth in-line with GDP growth across Western Canada. Our metals recycling business is expected to continue to grow with our investment in additional rail cars to increase our capacity to ship metal to end markets. Business lines with higher exposure to energy activity will fluctuate with those

activity levels and capital spending by our customers. Although environmental project opportunities increased in 2018, the average revenue available on those projects decreased compared to prior years, particularly in Alberta, and we do not anticipate this will change in 2019. Since the close of the Newalta acquisition, we have identified several field-based service lines that are common in a variety of geographies. During 2019, we intend to reorganize these field services and rationalize service offerings across a single-field organization. Overall, while revenues from these various service lines is expected to fall, we anticipate lower costs will more than compensate for this decrease in revenue, resulting in higher overall contributions to Industrial Services' Divisional EBITDA in 2019.

NEWALTA INTEGRATION

- We continue to expect that the integration of Newalta will realize annualized synergies of \$40 - \$45 million of Adjusted EBITDA. Due to identified repairs and maintenance required at certain facilities, we have increased the estimated one-time costs from \$20 million to \$21 - \$23 million, of which the remaining \$3 - \$5 million will be spent in 2019.
- We realized synergies of \$13 million in 2018 (\$7 million in operations and \$6 million in corporate) representing an annualized synergy run rate at December 31, 2018 of approximately \$32 million. In 2019, we expect to realize \$35 - \$40 million of synergies and to have almost fully realized the \$40 - \$45 million in annualized synergies by the end of 2019. Effective January 1, 2019, we have assumed the marketing of all oil volumes previously marketed on behalf of Newalta by a third party. As well, with the conversion of all legacy accounting, payroll and operating systems onto Tervita's systems effective January 1, 2019, the remainder of the corporate-based synergies are expected to be completed in the first half of 2019.

CAPITAL SPEND

- 2018 maintenance capital was \$28 million, in line with our Q3 2018 reported range of \$25 - \$30 million and below our original \$35 - \$40 million expectations set at the beginning of 2018. We anticipate maintenance capital in the \$30 - \$35 million range for 2019, reflecting the full-year impact of the added Newalta facilities. Our 2019 maintenance capital program is focused on delivering stable and significant Discretionary Free Cash Flow to the business appropriate to fully fund our pipeline of growth and expansion projects and continue to reduce balance sheet leverage.
- 2018 growth and expansion capital was \$56 million. During 2019 we anticipate spending approximately \$60 - \$100 million on expansion and growth projects. The capital program will depend on the success of our drilling programs and will be closely monitored against operating results and overall industry activity levels in the current environment. Spending will be largely focused in our Energy Services segment and includes:
 - the completion and tie-in of two new disposal wells drilled in 2018. This will expand our capacity to serve customers at two highly utilized existing facilities in the Montney oil and gas region;
 - drilling and completion of new disposal wells at two additional facilities (one existing and one greenfield), including the expansion of surface facilities to meet increasing customer demand for produced water treatment and disposal infrastructure;
 - expansions at four of our facilities to add to energy marketing capabilities;
 - the construction of new cells at three of our landfills and the continued washing of new caverns at our Lindbergh facility; and
 - growth capital in Industrial Services will include new rail cars to expand our metals delivery capacity and the purchase of equipment to continue growing our water management customer service lines.
- We remain focused on evaluation and planning of expansion and growth opportunities. In this current environment, we continue to see customer demand for an attractive pipeline of organic growth capital projects. Assuming stable levels of market activity, and in addition to Newalta transaction synergies, the pipeline of organic capital projects (including tuck-in acquisitions) continues to support low double-digit growth in Adjusted EBITDA over the next two to three years.
- Our expansion and growth capital program is expected to be funded from Discretionary Free Cash Flows generated by the business with any excess cash directed to the balance sheet to reduce net debt.
- We anticipate total 2019 capital spending, including maintenance, growth and expansion, to be in the range of \$90 - \$135 million.

NEWALTA ACQUISITION

PLAN OF ARRANGEMENT

On July 19, 2018, Tervita and Newalta completed the Arrangement, culminating in the amalgamation of the two companies into one publicly-traded company, Tervita Corporation. Tervita's common shares and common share purchase warrants ("warrants") trade on the Toronto Stock Exchange ("TSX") under the trading symbols "TEV" and "TEV.WT", respectively. Financial results for Q4 2018 and full year 2018 were materially impacted by the Arrangement. Refer to note 3 of the Financial Statements for details regarding the terms of the Arrangement.

Under the terms of the Arrangement, Tervita completed the acquisition of 100% of Newalta's issued and outstanding shares through the issuance of common shares and warrants valued at \$110 million and \$1 million, respectively, and the defeasance of Newalta's debt for cash of \$394 million, which was partially financed from the proceeds on issuance of the US\$250 million senior secured notes. Immediately after close of the Arrangement, Tervita Corporation had 117,557,112 common shares and 2,702,649 warrants issued and outstanding, and an additional US\$250 million of 7.625% senior secured notes due December 2021.

The waiting period under the Competition Act (Canada) ("the Act") expired prior to the closing of the Arrangement; however, the Act permits the Commissioner of Competition to make an application to the Competition Tribunal in respect of an acquisition transaction within a period of one year after its implementation. As of March 13, 2019, Tervita was not aware of any such application being filed.

PURCHASE PRICE ALLOCATION

The Arrangement has been accounted for as a business combination using the acquisition method under which the assets acquired and liabilities assumed are recorded at fair value. The fair value of the identifiable assets and liabilities acquired were:

Cash and cash equivalents	19
Trade and other receivables	45
Inventory	4
Other current assets	5
Property, plant and equipment	506
Intangible assets	16
Other assets	5
Trade and other payables	(52)
Capital leases	(13)
Provisions	(62)
Total identifiable net assets	473
Goodwill	32
Purchase consideration	505

PRO FORMA STATEMENT OF PROFIT (LOSS)

The following is an unaudited pro forma statement of profit (loss) for the year ended December 31, 2018 as if the Arrangement had been completed on January 1, 2018. This unaudited pro forma statement of profit (loss) is for illustrative purposes and is not necessarily indicative of the results of operations that would have resulted had the acquisition occurred on January 1, 2018, or of future results:

	Tervita ⁽¹⁾	Newalta ⁽²⁾	Pro Forma Adjustments ⁽³⁾	Pro Forma Consolidated
Revenue	1,974	132	-	2,106
Operating expenses				
Direct operating expenses	(1,734)	(93)	-	(1,827)
General and administrative	(50)	(14)	-	(64)
Depreciation and amortization	(96)	(33)	-	(129)
Impairment expense	(25)	-	-	(25)
Operating profit (loss)	69	(8)	-	61
Finance costs	(69)	(23)	9	(83)
Transaction costs	(69)	(19)	88	-
Other income (expense)	(4)	(1)	-	(5)
Profit (loss) before tax	(73)	(51)	97	(27)

⁽¹⁾ From our Consolidated Statements of Comprehensive Profit (Loss) ("Statements of Profit (Loss)") for the year ended December 31, 2018, and includes revenue of \$108 million and net loss of \$58 million in relation to Newalta's operations from the Acquisition Date to December 31, 2018.

⁽²⁾ Reflects financial results for Newalta's operations from January 1, 2018 to the Acquisition Date.

⁽³⁾ Proforma adjustments to finance costs reflect the finance costs that would have been incurred if the US\$250 million senior secured notes were issued on January 1, 2018 and exclude the finance costs that were incurred under Newalta's long-term debt.

The unaudited pro forma Adjusted EBITDA for the year ended December 31, 2018 was as follows:

	Pro Forma Consolidated 2018
Net profit (loss)	(27)
Add back:	
Severance costs	1
Depreciation and amortization	129
Impairment expense	25
Finance costs	83
Other expense (income)	5
Adjusted EBITDA ⁽¹⁾	216
Adjusted EBITDA Margin ⁽¹⁾	28%

⁽¹⁾ Please refer to the section **Non-GAAP Measures** for definitions and reconciliation.

NON-GAAP MEASURES

Tervita uses both IFRS measures and non-GAAP measures to assess performance. To supplement financial information presented in accordance with IFRS, non-GAAP measures referred to in this MD&A are provided to enhance the reader's understanding of Tervita's operational and financial performance. The non-GAAP measures presented in this MD&A are not measurements of financial performance under IFRS and should not be considered as an alternative to profit (loss), cash provided by (used in) operating activities, or other performance measures derived in accordance with IFRS. As non-GAAP measures do not have a standardized meaning prescribed by IFRS, Tervita's method of determining non-GAAP measures may vary from the methods used by other companies and may not be comparable to similarly titled measures, ratios, or credit statistics disclosed by other companies.

ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

We believe Adjusted EBITDA is useful in measuring Tervita's operating performance. Adjusted EBITDA is derived from the Statements of Profit (Loss) and is defined as net profit (loss) before tax, other income (expense), finance costs, impairment expense, depreciation and amortization, and certain items that are considered non-recurring in nature. For this MD&A, we have added back all severance and transaction costs, if any.

Management believes that Adjusted EBITDA provides improved comparability of our operating results from our principal business activities over time and is an important indicator of our ability to generate liquidity through cash flow from operating activities. Adjusted EBITDA allows us to evaluate the results of our business activities prior to consideration of how those activities are financed and the impacts of foreign exchange, taxation, depreciation and amortization, and other non-cash charges that add volatility to our financial results (such as impairment expenses, share-based compensation, and other transactions that are non-recurring in nature). Management utilizes Adjusted EBITDA to set objectives and as a key performance indicator of our Company's success.

The presentation of Adjusted EBITDA should not be construed as an inference that future results will be unaffected by unusual or non-recurring items. Adjusted EBITDA should not be considered a measure of discretionary cash available for the return of capital to debt and equity stakeholders and to invest in the business.

Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by revenue excluding energy marketing.

Adjusted EBITDA and Adjusted EBITDA Margin for the three months and year ended December 31, 2018 included financial results for Newalta from the Acquisition Date.

For the three months and year ended December 31, Tervita's net profit (loss) was reconciled to Adjusted EBITDA as follows:

	Three Months Ended December 31		Year Ended December 31	
	2018	2017	2018	2017
Net profit (loss)	(75)	(65)	(74)	(81)
Add back:				
Severance costs (excluding Newalta transaction costs)	-	2	1	10
Depreciation and amortization	32	19	96	80
Impairment expense	25	74	25	76
Finance costs	21	11	69	49
Other expense (income)	4	2	4	26
Transaction costs	43	-	69	-
Income taxes expense (recovery)	-	(3)	1	(3)
Loss (profit) from discontinued operations, net of tax	-	-	-	(1)
Adjusted EBITDA	50	40	191	156
Adjusted EBITDA Margin	26%	30%	30%	31%

DIVISIONAL EBITDA AND DIVISIONAL EBITDA MARGIN

We believe Divisional EBITDA is useful in measuring our reporting segments' performance. Divisional EBITDA is defined as Adjusted EBITDA excluding general and administrative expenses and severance costs. Divisional EBITDA provides an indication of the results generated by the reporting segments' principal business activities prior to how those activities are financed and assets are depreciated, amortized, or impaired. We believe Divisional EBITDA provides improved comparability of our reporting segments' results over time and, as such, is also an important indicator of Tervita's ability to generate future profitability.

Divisional EBITDA is calculated including directly attributable costs (such as those related to reporting segment leadership, business development, environmental health and safety, and sales and marketing) with no allocation of Corporate G&A expenses, other expenses (income), or income tax expense (recovery).

Divisional EBITDA Margin is defined as Divisional EBITDA divided by the respective segment's revenue (excluding energy marketing).

For the three months and year ended December 31, Divisional EBITDA was as follows:

	Three Months Ended December 31		Year Ended December 31	
	2018	2017	2018	2017
Net profit (loss)	(75)	(65)	(74)	(81)
Add back:				
Severance costs (excluding Newalta transaction costs)	-	2	1	10
Depreciation and amortization	32	19	96	80
Impairment expense	25	74	25	76
Finance costs	21	11	69	49
Other expense (income)	4	2	4	26
Transaction costs	43	-	69	-
Income taxes expense (recovery)	-	(3)	1	(3)
Loss (profit) from discontinued operations, net of tax	-	-	-	(1)
Adjusted EBITDA	50	40	191	156
Add back:				
General and administrative expenses	15	11	50	52
Severance costs in general and administrative expenses (excluding Newalta transaction costs)	-	(1)	(1)	(9)
Divisional EBITDA	65	50	240	199
Divisional EBITDA by reporting segment				
Energy Services	58	45	212	170
Industrial Services	7	5	28	29
Divisional EBITDA	65	50	240	199
Divisional EBITDA Margin				
Energy Services	44%	58%	52%	58%
Industrial Services	11%	8%	12%	13%

DISCRETIONARY FREE CASH FLOW

We use a calculation of Discretionary Free Cash Flow to determine how much cash generated from operating activities is available for growth and expansion, reducing debt, or other purposes. Discretionary Free Cash Flow is defined as funds from operations, less cash spent on maintenance capital, plus cash proceeds on the sale of long-lived assets.

For the three months and year ended December 31, Discretionary Free Cash Flow was as follows:

	Three Months Ended December 31		Year Ended December 31	
	2018	2017	2018	2017
Funds from (used in) operations	10	13	102	87
Less:				
Cash spend on maintenance capital	(11)	(10)	(28)	(23)
Add:				
Proceeds on disposition of long-lived assets	-	3	7	6
Discretionary Free Cash Flow	(1)	6	81	70
Add:				
Cash spend on transaction costs	3	-	22	-
Discretionary Free Cash Flow before transaction costs	2	6	103	70

NET DEBT TO ADJUSTED EBITDA (PRO FORMA LTM)

We monitor our Net Debt to Adjusted EBITDA (Pro Forma LTM) as a measure of Tervita's overall indebtedness and capital structure. We believe Net Debt to Adjusted EBITDA (Pro Forma LTM) is an appropriate measure of our debt capacity. Net Debt is calculated as debt and derivative liabilities associated with that debt less cash and cash equivalents. For purposes of this calculation, Adjusted EBITDA (Pro Forma LTM) is defined as Adjusted EBITDA calculated for the last twelve months, including Newalta Adjusted EBITDA for the same months.

Tervita's Net Debt to Adjusted EBITDA (Pro Forma LTM) at December 31, 2018 was as follows:

	Pro Forma LTM December 31, 2018
Net profit (loss)	(125)
Add back:	
Depreciation and amortization	129
Impairment expense	25
Finance costs	92
Other expense (income)	5
Transaction costs	88
Income taxes expense (recovery)	1
Eligible adjustments:	
Severance costs (excluding Newalta transaction costs)	1
Adjusted EBITDA (Pro Forma LTM)	216
	As at December 31, 2018
Current portion of capital leases	4
Long-term debt	814
Derivative liabilities	-
Less: unrestricted cash and cash equivalents	(46)
Net debt	772
<i>Net Debt to Adjusted EBITDA (Pro Forma LTM)</i>	<i>3.57</i>

COVENANT EBITDA

The terms of our revolving credit facility require the Company to comply with certain financial and non-financial covenants, as defined by its lenders. Covenant EBITDA is defined as Adjusted EBITDA (Pro Forma LTM) excluding the Adjusted EBITDA (Pro Forma LTM) of our unrestricted subsidiary.

Tervita's Covenant EBITDA at December 31, 2018 was as follows:

	Pro Forma LTM December 31, 2018
Net profit (loss)	(125)
Add back:	
Depreciation and amortization	129
Impairment expense	25
Finance costs	92
Other expense (income)	5
Transaction costs	88
Income taxes expense (recovery)	1
Eligible adjustments:	
Severance costs (excluding Newalta transaction costs)	1
Adjusted EBITDA of unrestricted subsidiaries	(1)
Covenant EBITDA	215

ADJUSTED WORKING CAPITAL

Adjusted Working Capital is defined as trade and other receivables, inventories, and other current assets less trade and other payables. We believe Adjusted Working Capital is a useful metric as it demonstrates our ability to most efficiently manage our resources and meet our short-term obligations, and is monitored internally for such purposes. Other companies may not disclose working capital on the same basis as Tervita, and as such, should not be considered comparable measures.

	As at December 31	
	2018	2017
Trade and other receivables	180	130
Inventory	12	9
Other current assets	8	4
Trade and other payables	(122)	(94)
Adjusted Working Capital	78	49

OPERATING RESULTS

ENERGY SERVICES

Facilities include our TRDs, caverns, disposal wells, and landfills, and represent activities related to the treatment, recovery, and disposal of fluids, the processing and disposal of solid materials used in and generated by natural resource and industrial production, and the disposal of oilfield waste.

Onsite represents specialized services provided on a customer's site including the use of centrifugation or other processes for heavy oil producers involved in mining and in situ production, as well as the supply and operation of drill site processing equipment, including equipment for solids control and drill cuttings management.

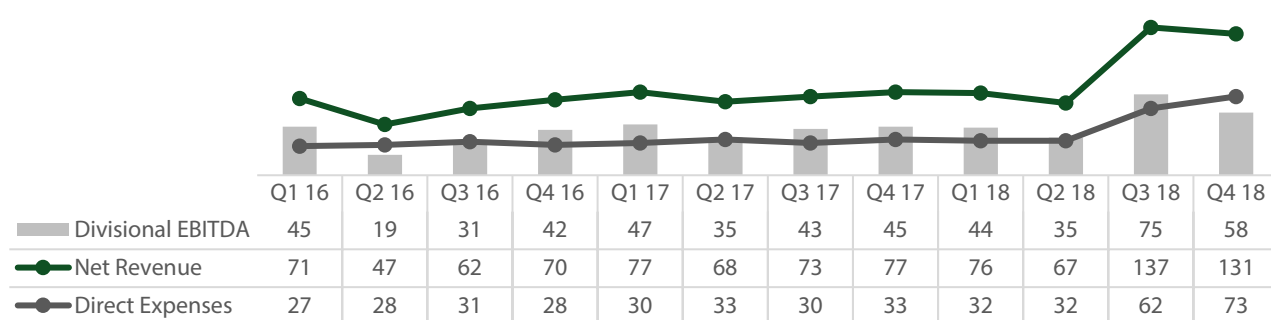
Energy marketing represents activities related to the purchase and resale of oil volumes associated with treatment, recovery, and disposal services. Revenue and direct expenses for energy marketing activities are recorded at the purchased cost of oil. Revenue related to services provided by TRD facilities to prepare the energy marketing oil volumes for entry to the pipeline, including treatment, blending, and terminalling, are reported with facilities revenue.

Energy Services Financial Highlights

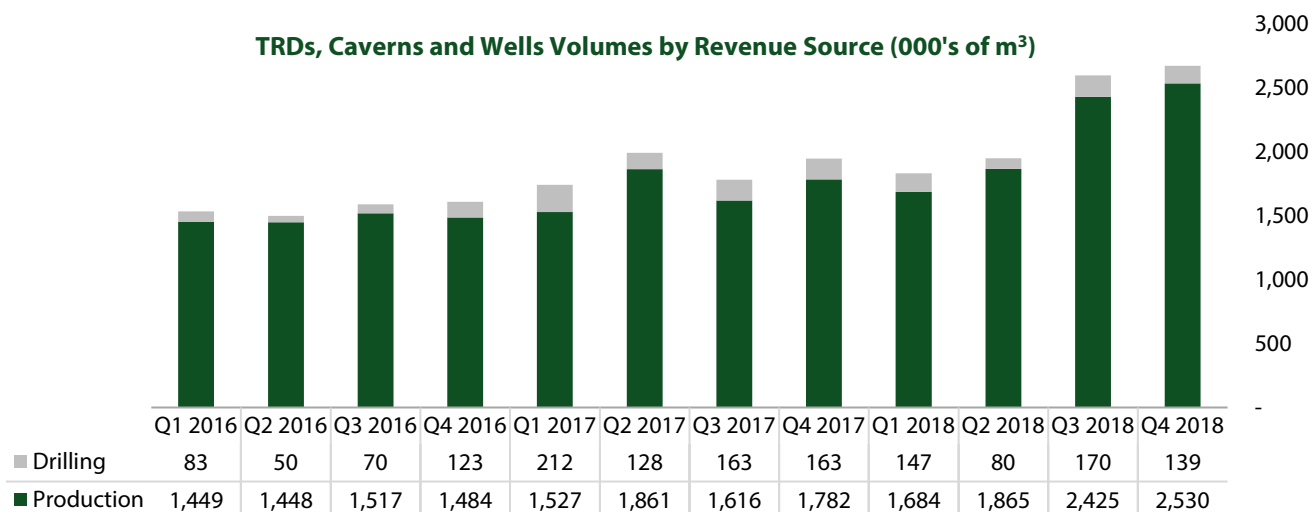
	Three Months Ended December 31				Year Ended December 31			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Facilities revenue	110	77	33	43%	370	295	75	25%
Onsite revenue	21	-	21	100%	41	-	41	100%
Energy marketing revenue	208	241	(33)	-14%	1,337	985	352	36%
Less: energy marketing direct expenses	(208)	(241)	33	14%	(1,337)	(985)	(352)	-36%
Net Energy Services revenue	131	77	54	70%	411	295	116	39%
Facilities and onsite direct expenses	(73)	(33)	40	121%	(199)	(126)	73	58%
Depreciation and amortization	(30)	(16)	14	88%	(82)	(69)	13	19%
Impairment expense	1	(74)	(75)	-101%	(1)	(76)	(75)	-99%
Operating profit (loss)	29	(46)	75	-163%	129	24	105	438%
Finance costs	(3)	(1)	2	200%	(10)	(6)	4	67%
Transaction costs	(12)	-	12	100%	(12)	-	12	100%
Other income (expense)	(2)	-	2	100%	1	(2)	(3)	-150%
Net profit (loss)	12	(47)	59	-126%	108	16	92	575%
Divisional EBITDA ⁽¹⁾	58	45	13	29%	212	170	42	25%
Divisional EBITDA Margin ⁽¹⁾	44%	58%	-14%	n/m	52%	58%	-6%	n/m
Maintenance capital expenditures	7	7	-	n/m	18	17	1	n/m
Growth and expansion capital expenditures	21	28	(7)	n/m	50	47	3	n/m

⁽¹⁾ Please refer to the section **Non-GAAP Measures** for definitions and reconciliations.

Energy Services Quarterly Results (\$millions)

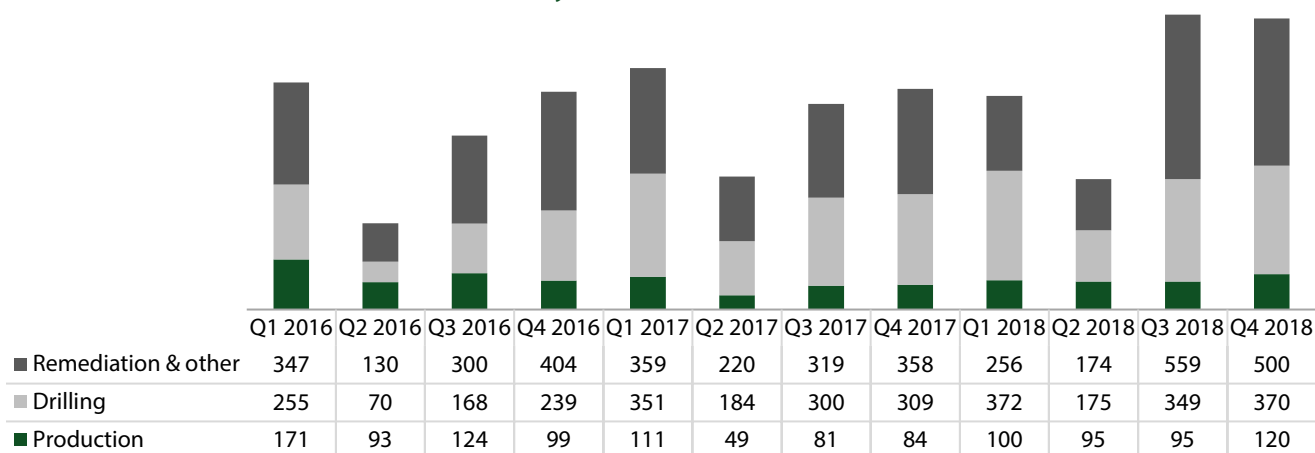


TRDs, Caverns and Wells Volumes by Revenue Source (000's of m³)



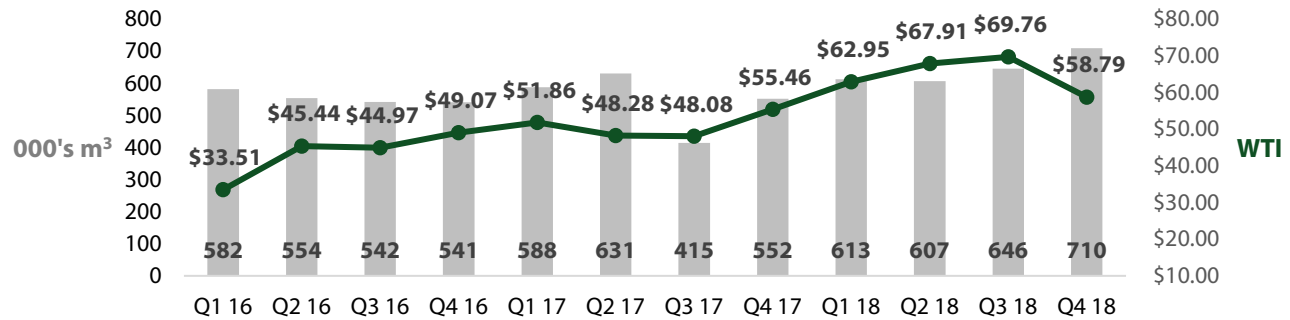
- Production volumes are related to oil and gas production operations and include volumes for treatment, terminalling, and disposal activities for emulsion and produced water.
- Drilling volumes are related to oil and gas drilling activities and include volumes for processing and disposal of waste and waste water.

Landfills Volumes by Revenue Source (000's of tonnes)



- Production volumes are related to oil and gas production operations and include volumes for disposal activities for emulsion.
- Drilling volumes are related to oil and gas drilling activities and include volumes for drill cuttings.
- Remediation & other volumes are related to the processing and disposal of solid waste from spill cleanup and remediation or reclamation activities, revenue earned on managed landfills, and other service-related activities.

Marketed Oil Volumes Compared to Average WTI Prices



- Q3 18 and Q4 18 marketed oil volumes exclude volumes marketed by a third party. Beginning January 1, 2019, these excluded volumes are marketed by Tervita.

Energy Services Fourth Quarter Results

Q4 Divisional EBITDA Increases By \$13 Million

- Energy Services' Divisional EBITDA increased by 29% to \$58 million in Q4 2018 compared to \$45 million in Q4 2017 primarily due to the execution of our strategic plan to invest in growth and expansion opportunities in the WCSB, expanding our facility infrastructure and enhancing our service line offerings to our customers. Our investments in Newalta in Q3 2018 and 3K in Q4 2017 contributed to higher revenue and waste volumes through our facilities, as production-related and drilling-related volumes increased 42% and 8%, respectively, in Q4 2018 compared to the same quarter in 2017. In addition to these volumes, our soil volumes at landfills, reflecting higher customer remediation and reclamation activities, increased by 40%.
- Our investment in Newalta introduced onsite services, a new complement of service offerings for our customers, particularly heavy oil producers. Onsite services contributed 16% of our total revenue for the quarter.
- Marketed oil volumes increased by 29% in Q4 2018 compared to Q4 2017, due to increased industry activity and higher takeaway capacity across our network, including pipeline connections added at two sites in 2018. However, revenue on those volumes decreased by 12% due to the exceptionally wide differentials in the WCSB experienced in Q4 2018. The decline in WCSB pricing resulted in 37% lower revenue for recovered oil, which was impacted by both lower price and 8% lower volume due to less development activity.
- Energy Services' Divisional EBITDA Margin for Q4 2018 was 44%, a 14% decrease from the 58% earned in Q4 2017. This decrease in margin reflects the impact of onsite services, a lower margin operation, as well as an increase in facilities direct expenses, particularly repairs and maintenance, as acquired facilities transitioned to Tervita's maintenance program.

Q4 Net Profit Improves By \$59 Million

- Energy Services' Q4 2018 net profit was \$12 million, an improvement of \$59 million over the net loss of \$47 million in Q4 2017. In addition to the \$13 million increased contribution from Divisional EBITDA, the increase in net profit was primarily due to lower impairment expense somewhat offset by higher depreciation and amortization expense for acquired assets, increased finance costs associated with letters of credit in our facilities and energy marketing operations, and transaction costs related to the Newalta acquisition.
- Q4 2017's net loss included \$57 million of goodwill impairment, and \$17 million of asset impairment largely a result of waste slumps at two landfills.
- Included in Energy Services' Q4 2018 net profit was \$12 million of transaction costs related to the Newalta acquisition, comprised of a non-cash impairment expense associated with a change in discount rate on decommissioning obligations for inactive sites. Excluding these transaction costs, Energy Services' Q4 2018 net profit was \$24 million, a \$71 million improvement over Q4 2017.

Q4 Net Revenue Increases \$54 Million to \$131 Million

- The 70% and \$54 million increase in Energy Services net revenue in Q4 2018 compared to Q4 2017 was primarily driven by our investments in new facility infrastructure and onsite services in 2018 and 2017, including our acquisition of Newalta and 3K, the completion of two new pipeline connections at existing TRD facilities, and other growth and expansion capital spend that provided additional waste disposal, storage and blending capacity.
- TRD facilities volumes increased by 37% or 724 thousand m³ in Q4 2018 versus Q4 2017, a result of our acquisitions in Newalta and 3K and higher production-related volumes at existing Tervita facilities driven by activity in the Montney. Revenue from these increased production-related volumes, however, was offset by lower realized prices due to a combination of downward pricing pressure from competitive activity and of product mix. Product mix was impacted by vertical integration of disposal capacity by some producers, particularly for produced water in key regions. Consistent with lower rig activity in the market, drilling volumes decreased, however, this was offset by increased revenue from better pricing in some regions and a change in product mix.
- Landfill volumes increased by 32% or 239 thousand tonnes in Q4 2018 compared to the same quarter in 2017. Soil volumes received from customer remediation projects increased 40%, contributing an additional 14% in revenue quarter-over-quarter. Both production and drilling related volumes increased in Q4 2018 compared to Q4 2017, particularly in the Montney. However, revenue from these volumes remained flat primarily due to product mix and lower pricing for drilling-related volumes.
- The acquisition of Newalta provided us an opportunity to expand our service offerings to heavy oil and other producers in the WCSB and US. Approximately 28% of onsite revenue in Q4 2018 was related to long-term service contracts.
- In Q4 2017, the market was still recovering after the completion of the Peace Pipeline Expansion in Q3 2017 and Tervita's energy marketing volumes continued to be impacted by the increased pipeline capacity in the Montney region and, we believe, increased producer direct pipeline access which resulted in lower available volumes on truck and increased competition for available oil. For most of Q4 2018, Tervita's Alberta facilities in these regions operated near capacity and volumes surpassed pre-Peace Pipeline Expansion levels, primarily due to production growth in the region and wide and volatile differentials, which supported the ability to improve producer netbacks and attract volumes to our network. Higher WTI prices and higher marketed volumes were more than offset by wider differentials, leading to decreased oil purchase costs compared with the same period in 2017, resulting in lower energy marketing direct expenses and revenue.
- Q4 2018 energy marketing volumes were also positively impacted by our completion of facility expansions which allowed for increased ability to gather volumes into these sites.
- Marketed oil volumes were negatively impacted by an 8% reduction in associated recovered oil volumes at TRDs driven by a 34% decline in average Canadian crude oil pricing and associated reduction in development activity.

Energy Services Full Year 2018 Results

2018 Divisional EBITDA Increases by \$42 Million

- Energy Services' 2018 Divisional EBITDA was \$212 million, a \$42 million and 25% increase over the \$170 million reported in 2017, reflecting the positive contributions from our strategic Newalta and 3K acquisitions, as well as increased earnings from higher throughput of oil volumes. Our investments in Newalta and 3K resulted in 25% higher production-related waste volumes through our facilities in 2018 when compared to 2017.
- Our investment in Newalta introduced onsite services, a new complement of service offerings for our customers, particularly heavy oil producers. This investment contributed 10% of our total revenue for the year.
- Marketed oil volumes were 18% higher in 2018 compared to 2017, due to increased industry activity and facilities expansions which increased takeaway capacity. Recovered oil volumes decreased as stable volumes received throughout the first three quarters of the year were offset by a decrease in volumes in Q4 2018 due to the decline in Canadian crude oil pricing.
- Energy Services' 2018 Divisional EBITDA Margin was 52%, a decrease of 6% when compared to 2017's Divisional EBITDA Margin of 58%. This decrease in margin reflects the impact of onsite services, a lower margin operation, as well as an increase in direct expenses at facilities, particularly repairs and maintenance at acquired facilities.

2018 Net Profit Increases by \$92 Million

- Energy Services' 2018 net profit was \$108 million, an improvement of \$92 million over the net profit of \$16 million in 2017. In addition to the \$42 million increased contribution from Divisional EBITDA, the increase in net profit was primarily due to lower impairment expense offset somewhat by higher depreciation and amortization for acquired assets, and transaction costs associated with the Newalta acquisition.
- 2017's net loss included \$57 million of goodwill impairment, and \$19 million of asset impairment largely a result of waste slumps at two landfills.
- Included in Energy Services' 2018 net profit was \$12 million of transaction costs associated with the Newalta acquisition, comprised of non-cash charges associated with a change in discount rates on decommissioning obligations for inactive sites. Excluding these transaction costs, Energy Services' 2018 net profit was \$120 million, a \$104 million improvement over 2017.

2018 Net Revenue Increases by 39% to \$411 Million

- Energy Services' 2018 net revenue was \$411 million, an increase of \$116 million and 39% compared to 2017's net revenue of \$295 million. This increase was driven by our investments in new facility infrastructure and onsite services in 2018 and 2017, including our acquisitions of Newalta and 3K, the completion of two new pipeline connections at existing TRD facilities, and other growth and expansion capital spend that provided additional waste disposal, storage and blending capacity.
- TRD facilities volumes increased by 21% or 1.587 million m³ in 2018 versus 2017, a result of our acquisitions in Newalta and 3K and higher production-related volumes at existing Tervita facilities driven by activity in the Montney. Consistent with lower rig activity in the market, drilling volumes decreased by 131 thousand m³.
- Landfill volumes increased by 16% or 440 thousand tonnes in 2018 compared to the same quarter in 2017. Soil volumes received from customer remediation projects increased 19%, contributing an additional 14% in revenue year-over-year. Both production and drilling related volumes increased by 86 thousand tonnes and 121 thousand tonnes, respectively, in 2018 compared to 2017, reflecting additional volumes from our acquisitions as well as higher activity in some existing Tervita facilities.
- Revenue from higher waste volumes received at facilities was somewhat offset by negative pricing impacts associated with downward pricing pressure in some key competitive regions as well as a shift in waste mix.
- The addition of onsite services through our acquisition of Newalta contributed \$41 million of incremental revenue, comprising approximately 10% of total Energy Services' revenue for the year.
- Strong Montney development and higher WTI prices and wider differential pricing due to a shortage of pipeline capacity to exit the WCSB led to strong energy marketing volumes in 2018, higher than volumes in the same period in 2017. These were positive results, particularly after the reduced volumes experienced in the second half of 2017 due to the Peace Pipeline Expansion. 2018 energy marketing volumes were also positively impacted by our completion of two new pipeline connections at existing TRD facilities in the first half of 2018, which allowed for increased ability to gather volumes into these sites. The decline in recovered oil volumes in Q4 2018 as compared to Q4 2017 also contributed to a 2% decline in recovered oil volumes for full year 2018 when compared to full year 2017. The negative impact of this decline in revenue, however, was more than offset by higher realized earnings on these volumes of 14%.
- Increasing WTI prices led to higher oil purchase costs, resulting in greater energy marketing direct expenses and, accordingly, direct revenue for 2018 when compared to 2017.

INDUSTRIAL SERVICES

Industrial Services is comprised of four operating segments: waste services, metals recycling, rail services, and environmental services. Revenue from these operating segments is derived from: commodity-based sales from ferrous and non-ferrous metals; facility-based services including hazardous and non-hazardous waste management, and waste transportation and classification; and project-based services including site remediation, facility decommissioning, environmental construction and technologies, emergency response, and rail services.

Industrial Services Financial Highlights

	Three Months Ended December 31				Year Ended December 31			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Commodity-based sales	14	11	3	27%	49	44	5	11%
Facility-based services	10	9	1	11%	33	38	(5)	-13%
Project-based services	39	39	-	0%	149	139	10	7%
Total revenue	63	59	4	7%	231	221	10	5%
Direct expenses	(56)	(54)	2	4%	(203)	(192)	11	6%
Depreciation and amortization	(2)	(2)	-	0%	(9)	(7)	2	29%
Impairment expense	(23)	-	23	100%	(23)	-	23	100%
Operating profit (loss)	(18)	3	(21)	-700%	(4)	22	(26)	-118%
Finance costs	-	1	1	-100%	-	-	-	0%
Other income (expense)	(1)	-	1	100%	(2)	(1)	1	100%
Net profit (loss)	(19)	4	(23)	-575%	(6)	21	(27)	-129%
Divisional EBITDA ⁽¹⁾	7	5	2	40%	28	29	(1)	-3%
Divisional EBITDA Margin ⁽¹⁾	11%	8%	3%	n/m	12%	13%	-1%	n/m
Maintenance capital expenditures	3	3	-	0%	6	6	-	0%
Growth and expansion capital expenditures	4	1	3	300%	6	5	1	20%

⁽¹⁾ Please refer to the section **Non-GAAP Measures** for definitions and reconciliations.

Industrial Services Fourth Quarter Results

Q4 Divisional EBITDA Contributes \$7 Million

- Industrial Services' Q4 2018 Divisional EBITDA of \$7 million was a \$2 million and 40% increase from the Q4 2017 Divisional EBITDA, driven by an improvement in revenue of \$4 million from higher ferrous prices and incremental contributions from acquired waste services facilities (Newalta) and two metals recycling yards.
- Industrial Services' Q4 2018 Divisional EBITDA Margin of 11% was a 3% increase over the 8% in Q4 2017. This primarily reflects higher margins earned on commodity sales.

Q4 Net Loss of \$19 Million Driven by Non-Cash Impairment Expense

- Industrial Services' Q4 2018 net loss of \$19 million was \$23 million lower than the \$4 million net profit in the same period in 2017, primarily due to goodwill impairment in our waste services operating segment due to ongoing challenges in a highly competitive market.

Q4 Revenue Increases 7%

- Industrial Services' Q4 2018 of \$63 million, a \$4 million and 7% increase when compared to the \$59 million of revenue in Q4 2017, due to contributions from our acquired Newalta operations and higher ferrous pricing consistent volumes. The impact of higher ferrous prices was primarily responsible for the increase in commodity-based sales revenue in Q4 2018 compared to Q4 2017 and reflects the strong global demand for steel. The 11% increase in facility-based revenue is primarily due to our new facilities from our acquisition of Newalta. Q4 2018 project-based service revenue was consistent with Q4 2017. Although project activity increased in Q4 2018 compared to Q4 2017, the average revenue per project decreased reflecting changes in the scope and complexity of the work, customer base, and the competitive environment.

Industrial Services Full Year 2018 Results

2018 Divisional EBITDA of \$28 Million

- Industrial Services' 2018 Divisional EBITDA of \$28 million was \$1 million less than 2017 and was primarily a result of lower facility-based service revenues with a trailing decrease in related direct expenses, in part due to the fixed cost nature of some facility expenses.

2018 Net Loss of \$6 Million

- Full year 2018 net loss was \$6 million, a decrease of \$27 million compared to the net profit of \$21 million in 2017. The net loss was primarily due to the \$23 million goodwill impairment in the waste services' operating segment.

2018 Revenue Increases by \$10 Million

- Industrial Services' 2018 revenue was \$231 million, \$10 million and 5% higher than 2017. This increase in revenue primarily reflects contributions from strategic growth investments, including operations acquired from Newalta in Q3 2018, and two metals operations acquired in Q3 2017.
- Commodity-based sales revenue increased 11% in 2018 compared to 2017. Ferrous sales volumes decreased 7% in 2018 compared to 2017, primarily due to rail logistical challenges in the first half of the year that limited our ability to move the metals to market. However, strong ferrous prices due to higher demand for steel led to an overall increase in commodity-based sales for the year.
- Facility-based services revenue decreased by 13% in 2018 compared to 2017, resulting from continued competitive activity, particularly in the first half of 2018, and the current year impact of a significant lost contract at the end of 2017.
- Higher project-based services revenue of 7% was primarily a result of increased rail services work for both emergency response for rail disruptions driven by increased rail traffic, as well as planned rail services work.

CORPORATE

	Three Months Ended December 31				Year Ended December 31			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Revenue - intersegment eliminations	-	(4)	(4)	-100%	(5)	(11)	(6)	-55%
Direct costs - intersegment eliminations	-	4	4	100%	5	11	6	55%
General and administrative expenses	(15)	(11)	4	36%	(50)	(52)	(2)	-4%
Depreciation and amortization	-	(1)	(1)	-100%	(5)	(4)	1	25%
Impairment expense	(3)	-	3	100%	(1)	-	1	100%
Finance costs	(18)	(11)	7	64%	(59)	(43)	16	37%
Transaction costs	(31)	-	31	100%	(57)	-	57	100%
Other income (expense)	(1)	(2)	(1)	-50%	(3)	(23)	(20)	-87%
Income tax recovery (expense)	-	3	3	100%	(1)	3	4	133%
Total corporate expenses	(68)	(22)	46	209%	(176)	(119)	57	48%
G&A as a % of revenue	8%	8%	-1%	n/m	8%	10%	-2%	n/m
Maintenance capital expenditures	1	-	1	100%	4	-	4	100%

General and Administrative Expenses

- Q4 2018 G&A expenses increased by \$4 million in Q4 2018 when compared to Q4 2017, primarily due to the Newalta acquisition.
- Full year 2018 G&A expense was \$50 million, a decrease of \$2 million or 4% when compared to full year 2017. Included in 2017 G&A was \$9 million of severance expense compared to \$1 million in 2018. Excluding 2017 severance costs, G&A in 2018 increased by \$6 million and was attributable to the acquired Newalta corporate operations.
- Since the acquisition of Newalta in Q3 2018, we have realized \$6 million of corporate synergies with an expected \$15 million of annualized savings.

Finance Costs

	Three Months Ended December 31				Year Ended December 31			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Interest expense	(16)	(10)	6	60%	(52)	(39)	13	33%
Amortization of debt issue costs	(2)	(1)	1	100%	(7)	(4)	3	75%
Finance costs	(18)	(11)	7	64%	(59)	(43)	16	37%

- The increase in finance costs in Q4 and YTD was due to the issuance of the additional US\$250 million senior secured notes in 2018 for the acquisition of Newalta.

Transaction Costs

- Q4 2018 transaction costs included \$1 million legal and advisory fees, \$4 million of integration costs, and \$26 million on non-cash impairment expense on inactive sites. Certain assets acquired with Newalta were non-operating as at the Acquisition Date. As these assets were and will continue to be inactive, Tervita has not assigned them to an operating segment. \$26 million of impairment expense, recorded under transaction costs, is associated with certain of these assets and is primarily related to the change in discount rate on related decommissioning obligations.
- Full year 2018 transactions costs included \$13 million of expenses incurred for the completion of the Arrangement and Joint Information Circular with Newalta, \$18 million of integration costs, including those related to severance, branding, site suspension, employee compensation, onerous contracts, and information technology, and \$26 million of non-cash impairment expense on related decommissioning obligations.

Other Income (Expense)

	Three Months Ended December 31				Year Ended December 31			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Gain (loss) on sale of assets	1	-	1	100%	5	-	5	100%
Share-based compensation	-	(1)	1	-100%	(4)	(3)	(1)	33%
Gain (loss) on provisions	(4)	(1)	(3)	300%	(5)	(19)	14	-74%
Foreign exchange gain (loss)	2	-	2	100%	1	(1)	2	-200%
Other	-	-	-	0%	-	-	-	0%
Other income (expense)	(1)	(2)	1	-50%	(3)	(23)	20	-87%

- The YTD 2017 loss on provisions included \$13 million for onerous contracts associated with vacated office space and legal claims that were settled in 2018. This settlement resulted in a \$2 million gain on provision in 2018, which was partially offset by a \$7 million loss for adjustments to existing onerous provisions.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY AND LIQUIDITY RISK

The term liquidity refers to the ability and speed with which a company's assets can be converted into cash. Liquidity risk refers to the risk encountered in meeting financial obligations settled by cash or another financial asset. Our liquidity risk may arise from general day-to-day cash requirements and in the management of our assets, liabilities, and capital resources. We manage our cash and credit facility balances to have sufficient capital to fund ongoing operations, capital programs, and growth initiatives. Our liquidity and operational cash requirements are managed through cash flow forecasts, monitoring of operational expenditures compared to budget, and monitoring of financial leverage ratios. Our liquidity needs and working capital requirements can be sourced through cash provided by operating activities, existing credit facilities, and access to debt and capital markets.

Our debt structure as at December 31, 2018 included: (i) an undrawn \$275 million revolving credit facility; and (ii) US\$610 million senior secured notes issued December 2016 (US\$360 million) and July 2018 (US\$250 million). The senior secured

notes bear a coupon rate of 7.625%, with interest payable semi-annually on June 1 and December 1, and mature on December 1, 2021.

On December 21, 2018, Tervita renewed and upsized its revolving credit facility from \$200 million to \$275 million. In addition, the maturity date of the credit facility was extended from December 2019 to June 2021.

On June 1, 2018, Tervita issued US\$250 million of escrow notes to partly finance the Newalta Acquisition. On the closing of the Newalta Acquisition, the escrow notes were exchanged for the July 2018 US\$250 million senior secured notes described above.

At December 31, 2018, Tervita had \$87 million in letters of credit ("LCs") issued against our revolving credit facility. The remaining \$188 million of capacity, combined with \$46 million of cash and cash equivalents, provided \$234 million in available liquidity. The credit facility has a scheduled termination date of June 1, 2021, with normal course extension provisions under the credit agreement.

For the year ended December 31, 2018, not including cash invested and related finance costs associated with the Newalta acquisition, Tervita generated \$96 million (2017 - \$104 million) from operations (net of working capital) and invested approximately \$77 million (net of dispositions) (2017 - \$68 million). Tervita did not require any additional liability to support continuing operations.

Adjusted Working Capital at December 31, 2018 was \$78 million (December 31, 2017 - \$49 million). The change in Adjusted Working Capital was a result of the Newalta acquisition, implementation of a new Enterprise Resource Planning system, and the integration of Newalta operations. Adjusted Working Capital is sufficient to meet our planned strategy and achieve intended results.

At current activity levels, we have ample liquidity to meet our ongoing commitments and operational requirements of the business.

For the year ended December 31, 2018, Discretionary Free Cash Flow (before transaction costs) was \$103 million compared to \$70 million in 2017. Discretionary Free Cash Flow represents Tervita's capacity to fund its ongoing growth capital spending and reduce net debt. For the year ended December 31, 2018, Discretionary Free Cash Flow was more than sufficient to fund the \$56 million of growth and expansion capital spend.

Net Debt to Adjusted EBITDA (Pro Forma LTM) at December 31, 2018 was 3.57.

SOURCES OF CASH

Our liquidity needs can be sourced in several ways, including: funds from operations, borrowings against or increases in our revolving credit facility, new debt instruments, return of letters of credit or replacement of letters of credit with other types of financial security, proceeds from the sale of long-term assets, and issuance of share capital.

At December 31, 2018, Tervita had cash and cash equivalents of \$46 million.

Revolving Credit Facility

At December 31, 2018, \$188 million was available and undrawn under our revolving credit facility for general corporate purposes, as well as to provide LCs to third parties. The maximum amount of LCs which can be issued under the LC program is \$200 million.

Under the terms of Tervita's revolving credit facility, we must comply with certain financial and non-financial covenants: 1) Total Leverage Ratio; 2) Secured Leverage Ratio; and 3) Interest Coverage Ratio.

Total Leverage Ratio

Total Leverage Ratio is calculated as the ratio of Total Indebtedness to Covenant EBITDA. Total Indebtedness consists of the outstanding principal value of the senior secured notes, reported in C\$ and reflecting the impact of cross currency swaps, plus the amount of capital lease obligations, and less cash balances up to a total of \$75 million.

Tervita's Total Leverage Ratio cannot exceed 5.00 to 1.00 in 2018 and 4.50 to 1.00 thereafter.

Secured Leverage Ratio

Secured Leverage Ratio is defined as Secured Indebtedness to Covenant EBITDA. Secured Indebtedness consists of the outstanding LC's (which reduce the borrowing availability under the revolving credit facility) less cash balances up to a total of \$75 million.

Tervita must maintain a Secured Leverage Ratio of less than 2.50 to 1.00.

Interest Coverage Ratio

Interest Coverage Ratio is defined as Covenant EBITDA to Interest Expense, where Interest Expense consists of interest payments on the senior secured notes for the last twelve months and interest due on LC's and standby fees.

Tervita must maintain an Interest Coverage Ratio greater than 1.75 to 1.00 for the year ended December 31, 2018 and 2.00 to 1.00 thereafter.

Covenant Compliance at December 31, 2018

The Company complied with its covenants at December 31, 2018, as follows:

	Required	Achieved
Total Leverage Ratio	Less than 5.00	3.56
Secured Leverage Ratio	Less than 2.50	0.20
Interest Coverage Ratio	Greater than 1.75	3.21

Proceeds from the Sale of Assets

Proceeds from the sale of assets for the three months and year ended December 31, 2018 were \$nil and \$7 million, respectively, and primarily relate to the sale of a non-core landfill and the disposal of miscellaneous equipment. For the three months and year ended December 31, 2017, we received proceeds of \$3 million and \$6 million, respectively, from the sales of a landfill and vacant land.

USES OF CASH

Our primary uses of cash include capital expenditures, operating and G&A expenses, and reduction of debt. Some of these cash outflows are contractually obligated into the future.

Capital Expenditures

Capital expenditures are classified as either growth and expansion capital or maintenance capital. Growth and expansion capital expenditures are cash spend to expand existing facilities, primarily cell expansion at our landfills and cavern development, or with the intent of expanding existing businesses, or entering into new locations or markets. Maintenance capital expenditures are cash spend on capital asset replacements or improvements required to maintain existing assets at their current level of service. The amount and timing of future maintenance capital is primarily dependant on the volume of waste that is received at our facilities.

Cash spend on capital, excluding the Newalta acquisition, for the three months and year ended December 31 was as follows:

	Three months ended December 31				Year Ended December 31			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Capital expenditures								
Growth and expansion	25	29	(4)	-14%	56	52	4	8%
Maintenance	11	10	1	10%	28	23	5	22%
	36	39	(3)	-8%	84	75	9	12%

Management evaluates capital projects based on their internal rate of return, timing of payback, fit with our corporate strategy, and the risk associated with the projects, among other factors. Capital spending is prioritized towards projects

that provide stable cash flows and where there is a high degree of certainty of completing the project on time and on budget.

In 2018, we continued our 2017 initiative of identifying, planning, and executing a growth capital portfolio. Please refer to **Outlook** section for a discussion of expected capital spend for 2019.

Commitments

As at December 31, 2018, commitments for 2019 and thereafter were as follows:

	2019	2020-21	2022-23	Thereafter	Total
Interest	64	127	-	-	191
Office and facility leases	10	19	17	42	88
Operating leases	1	1	-	-	2
Pipeline transportation commitment	22	7	-	-	29
Utility purchase commitments	2	2	-	-	4
Investment commitment	1	-	-	-	1
Total commitments	100	156	17	42	315

SUMMARY OF QUARTERLY RESULTS

SEASONALITY

Our quarterly results reflect how the oilfield services industry is influenced by seasonal weather patterns. During the spring thaw and at other times of the year, wet weather can make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of trucks, rigs, and other heavy equipment, reducing the activity levels and placing an increased importance on the location of the equipment prior to the imposition of the road bans. As a result, Energy Services tends to earn lower revenue (excluding energy marketing) and operating profit in the second fiscal quarter. If the spring weather or wet weather causes the ground to be unstable for longer than usual, operating results may be negatively impacted.

QUARTERLY REVIEW SUMMARY

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue (excluding energy marketing)	194	203	124	116	132	134	114	125
Energy marketing revenue	208	439	416	274	241	161	259	324
Revenue	402	642	540	390	373	295	373	449
Profit (loss) from continuing operations	(75)	(2)	-	3	(65)	(2)	(13)	(2)
- per share (\$), basic and diluted	(0.64)	(0.02)	-	0.03	(0.62)	(0.02)	(0.12)	(0.02)
Net profit (loss)	(75)	(2)	-	3	(65)	(2)	(12)	(2)
- per share (\$), basic and diluted	(0.64)	(0.02)	-	0.03	(0.62)	(0.02)	(0.11)	(0.02)

Q3 2018 to Q4 2018

- The decrease in revenue was primarily attributable to the decline in energy marketing revenue due to the extreme widening of differentials during Q4 2018.
- Net loss increased primarily due to transaction and finance costs incurred on the Arrangement, goodwill impairment in Industrial Services, and an impairment of assets associated with inactive sites in Energy Services.

Q2 2018 to Q3 2018

- Revenue increased primarily due to the acquisition of Newalta operations as well as higher WTI prices on greater than Q2 2018 marketed oil volumes.
- Net profit decreased primarily due to transaction and finance costs incurred on the Arrangement. The increase in these costs were largely offset by the increase in operating profit.

Q1 2018 to Q2 2018

- Revenue increased primarily from higher energy marketing volumes and WTI prices, and increased project-related revenue in Industrial Services.

	<ul style="list-style-type: none"> • Net profit decreased due to the interest expense incurred on the escrow notes.
Q4 2017 to Q1 2018	<ul style="list-style-type: none"> • Revenue increased primarily from higher energy marketing volumes and WTI prices, offset slightly by a decrease in project-related activity in Industrial Services. • Net profit increased due to the impairments of goodwill and certain landfill assets in Q4 2017.
Q3 2017 to Q4 2017	<ul style="list-style-type: none"> • Volumes recovered at facilities increased due to production growth and development in some key regions, which resulted in higher energy marketing revenue. • Net loss increased due to the impairments of goodwill and certain landfill assets in Q4 2017.
Q2 2017 to Q3 2017	<ul style="list-style-type: none"> • Revenue was negatively impacted by the Peace Pipeline Expansion, which increased pipeline capacity and intensified competition for trucked volumes. • Net loss decreased as Industrial Services saw higher project-related activity.
Q1 2017 to Q2 2017	<ul style="list-style-type: none"> • Revenue decreased due to a decline in WTI prices. • Net loss increased due to recognition of a provision for onerous contracts and legal claims.

OTHER ITEMS

FINANCIAL INSTRUMENTS

As at December 31, 2018, financial instruments included cash and cash equivalents, trade and other receivables, equity investments, trade and other payables, long-term debt, interest payable, derivative assets (liabilities) and contingent considerations. Excluding long-term debt, the fair values of the financial instruments approximated their carrying values due to the short-term maturities.

In December 2016, Tervita issued US\$360 million senior secured notes as part of the recapitalization of our debt and share capital. Our risk management strategy for the senior secured notes is to mitigate the foreign currency risk due to movements in the US\$ to C\$ exchange rates. As a result, at the same time as the issuance of the US\$ 360 million senior secured notes, Tervita entered into cross-currency swap agreements (“cross currency swaps”) and applied hedge accounting to the transactions to mitigate foreign exchange risk and variability in cash flows due to interest rate risk (“Designated Hedge”). All gains and losses related to these senior secured notes and the cross-currency swaps are recognized in accumulated other comprehensive profit (loss), except for gains or losses recognized in profit (loss) related to the portion of hedge deemed to be ineffective. During 2018, the Designated Hedge was deemed to be effective and \$39 million was recognized in accumulated other comprehensive profit (loss). The carrying value of the US\$360 million senior secured notes and the fair value of the cross-currency swaps were disclosed in the Financial Statements. The fair value of the cross-currency swaps is a Level 2 valuation based on observable inputs.

In May 2018, Tervita entered into swap agreements (the “swaps”) to provide a fixed US\$ to C\$ conversion rate on the US\$250 million proceeds from the June 1, 2018 issuance of the escrow notes. On July 19, 2018 the swaps were settled in conjunction with the close of the Arrangement. Tervita recognized a loss of \$8 million in the Statements of Profit (Loss) with the settlement of the swaps.

In May 2018, Tervita entered into forward contract swap agreements (“forward swaps”) to mitigate the foreign exchange risk on the escrow notes. The forward swaps have a maturity date of December 2019 with a fixed foreign exchange US\$ to C\$ rate at 0.7809. The forward swaps were not settled at the close of the Arrangement and continue to mitigate the foreign exchange risk on the repayment of principal related to the US\$250 million senior secured notes. All gains and losses associated with changes to the fair value of the forward swaps are included in profit (loss). The fair value of the forward swaps is a Level 2 valuation based on observable inputs. During 2018, \$18 million was recognized in the Statements of Profit (Loss) associated with unrealized changes in the fair value of the forward swaps.

Tervita is exposed to foreign currency risk with respect to its US\$ debt. Tervita manages this exposure through its cross-currency swaps, thereby fixing the exchange rate on certain US\$ debt. Absent the swap agreements, a \$0.01 change in the US\$ to C\$ exchange rate would result in a change to net profit (loss) of \$6 million (2017 - \$4 million).

Tervita’s cash and cash equivalents, trade and other receivables and derivative assets are associated with credit risk. The credit risk on cash and cash equivalents is presumed to be low since deposits are held with highly-rated financial

institutions. We are currently monitoring certain customers for risk of default, however, we believe that this risk is mitigated by the size, reputation and diversified nature and number of the customers to which Tervita extends credit, with no customer individually making up more than 10% of our credit exposure. Tervita is exposed to counterparty credit risk and internal credit risk on the US\$360 million senior secured notes issued and the Designated Hedge. We have not hedged the credit risk as part of the hedging relationship, however, changes in credit risk did not result in significant changes in the fair value of the derivative asset as at December 31, 2018.

For further information regarding our financial and other instruments as well as how we manage the risk associated with these instruments, refer to notes 2, 19, 20 and 23 of the Financial Statements and the *Liquidity and Liquidity Risk* section of this MD&A.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Tervita engages in a variety of transactions that, under IFRS, are either not recorded on our consolidated balance sheets or are recorded at amounts that differ from the full contract amounts. As at December 31, 2018 and December 31, 2017, the Company did not have any off-balance sheet arrangements, other than the commitments, contingencies and guarantees discussed in notes 27, 28 and 29, respectively, of the Financial Statements. These commitments include operating leases, agreements to pay interest on our long-term debt, and pipeline transportation commitments.

We do not reasonably expect any presently known trend or uncertainty to affect our ability to continue using these off-balance sheet arrangements. Tervita does not believe that it has any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the company's financial performance or financial condition, results of operations, liquidity, or capital expenditures.

RELATED PARTY TRANSACTIONS

As at December 31, 2018, Tervita identified its related parties as being its key management personnel ("KMP"), which comprise the Board members, majority equity owners, Tervita's executive leadership, and certain other individuals employed by Tervita, as well as their close family members.

Two of the equity owners can exert significant influence over Tervita through their investment in Tervita's share capital. During 2018, one of these equity owners, who also has representation on the Board of Directors, earned fees for issuance of the escrow notes of \$4 million (note 3).

Other material transactions with related parties included share-based compensation and payment of interest on their proportionate holdings in the US\$360 million senior secured notes and US\$250 million senior secured notes. During 2018, equity owners and certain members of the Board of Directors earned US\$2 million in interest income (2017 - US\$2 million). The share-based compensation expense regarding the KMP in 2018 was \$2 million (2017 - \$1 million).

All transactions with related parties were considered arm's length transactions with standard terms and conditions.

Other than the interest payable on the US\$610 million senior secured notes and settlements under the share-based compensation plans, there were no other ongoing commitments to the KMP.

For more information on Tervita's transactions with the KMP and a summary of compensation of KMP, refer to note 26 of the Financial Statements.

LEGAL AND ENVIRONMENTAL MATTERS

Refer to note 28 of the Consolidated Financial Statements for disclosure of legal and environmental matters.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make judgments and estimates that affect the application of accounting policies and the reported assets, liabilities, revenues, expenses and disclosures of contingencies. These estimates and assumptions are subject to change based on experience and available information. Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate is made. Critical accounting estimates are also those estimates which, where a different estimate could have

been used or where changes in the estimate that are reasonably likely to occur, would have a material impact on the company's financial condition, changes in financial condition, or financial performance.

Tervita uses critical estimates and judgments in arriving at the carrying values disclosed in the Financial Statements, in the following areas:

Fair Values

Tervita utilizes fair value measurements and disclosure for several items within the Financial Statements. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in either the principal market or the most advantageous market for the asset or liability. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Fair value estimates were used in arriving at the Purchase Price Allocation ("PPA") of the Arrangement. Tervita utilised the services of a third-party business valuator to estimate the fair values of a majority of the assets acquired that form part of the PPA.

The fair value of Tervita's cash generating units ("CGUs") is estimated for purposes of the annual goodwill impairment test using a Level 3 discounted cash flow valuation approach. Inherent in the valuation approach are key assumptions that are subjective and represent reasonable estimates with respect to factors affecting operations including economic, operational, and market conditions. These conditions are sensitive to change and could affect the fair value. The fair value of Tervita and each CGU is estimated using a discounted cash flow approach based on CGU specific weighted average costs of capital ranging from 10% to 11% (2017 – 13% to 14%) based on comparable companies using a cross-section of industry peers. The discounted cash flows assume average annual revenue and expense growth rates of two percent, and two per cent for terminal years. These conditions are sensitive to change and could affect the fair value.

Cash flows are based on Tervita's operating budget for the next fiscal year, which is approved by management and the Board of Directors. The budget is based on past performance as well as management's assessment of expected market trends, growth strategy, and economic conditions. For future years not included in the budget, assumptions are made, including growth rates implicit in the cash flow projections for each CGU to reflect their unique market characteristics, growth capital spending opportunities, and economic conditions.

The key assumptions in establishing fair value less costs of disposal for specific CGUs focus on revenue estimates which are driven primarily by forecast activity levels in the oil and gas sector. Budgeted growth rates are normally aligned with these forecast activity levels and peer group growth expectations. Historical margins are guidelines for budgeting future earnings, with adjustments made for anticipated one-time or non-recurring events. For CGUs that experienced significant growth in prior periods due to acquisitions, we consider the increased scale of operations, new markets entered, or services offered to estimate future revenue and earnings. For energy marketing, forecast commodity prices, the equalization density penalty applicable to crude oil densities, and heavy oil differentials are estimated market inputs impacting the revenue and earnings forecasts. Management considers the revenue estimates and margins reflected in the budget and strategic plan as achievable. Fair value less costs of disposal for specific assets or groups of assets is a Level 3 valuation, which contemplates the sale of similar assets in like markets and relies on third party offers and independent valuations and appraisals to value the assets. The key assumptions used relate to the comparability of similar assets used for valuation purposes, as well as the fact that historic market data is indicative of future market prices.

Revenue

Revenue is assessed for certain revenue streams on a portfolio basis, as the contracts in the portfolio have similar characteristics and performance obligations, and Tervita does not expect the effects of applying IFRS 15 to the portfolio of contracts would differ materially from applying it to the individual contracts. Judgment is required in the assessment of contract characteristics and performance obligations to determine if application of IFRS 15 on a portfolio basis appropriately presents the nature and timing of those contracts on an individual basis.

Timing of the satisfaction of the performance obligations associated with revenue recognition involves an understanding of the nature of the performance obligations and contracts. Judgment is required in determining the methods used to recognize revenue for the transfer of inventory and rendering of services. Transfer of inventory generally occurs when control of the inventory transfers to the buyer, and the Company must assess whether the indicators of a transfer of control are satisfied. Rendering of services generally occurs when Tervita has a right to invoice, and the Company must determine

the appropriate criteria to use to assess achievement of performance obligations and how performance obligations are to be allocated to the contract purchase price under fixed-pricing arrangements.

Determination of the transaction price and allocation of it to each performance obligation involves an understanding of the fair value of goods and services provided. Judgment is required in determining the stand-alone selling prices for contracts under which the transaction price is a lump-sum fixed-fee arrangement.

Tervita records revenue for certain services based on an estimate of the completion of the performance obligations for those services. The achievement of performance obligations and the total anticipated activity are subject to significant estimates by management.

Decommissioning Liabilities

Determination of decommissioning liabilities requires estimation of the nature, timing, and cost of the remediation process, the timing of cash outflows, and applicable discount rates. Tervita uses a risk-free rate for calculating decommissioning liabilities, which is assessed quarterly and updated when there is a material change in the rate. Estimates are based upon Tervita's best practices and current regulatory requirements. Changes in estimates reflect both revisions to the expected amount and timing of future expenses and the revision of the discount rates.

The risk-free rates used to estimate the decommissioning liabilities at December 31, 2018 ranged from 1.86% to 2.50% (December 31, 2017 – 1.68% to 2.26%) and an inflation rate of two per cent (December 31, 2017 – two per cent), and were specific to the timing of the cash flows and the jurisdiction of the obligations. The undiscounted cash flows associated with Tervita's liabilities at December 31, 2018 were estimated at \$837 million (December 31, 2017 – \$511 million). Payments to settle the decommissioning liabilities occur on an ongoing basis and will continue over the remaining lives of the operating assets, which are up to 106 years.

Onerous Contracts

The determination of an onerous contract provision often requires an estimation of the potential outcomes of different courses of action, the likelihood of these outcomes occurring, and the appropriate discount rate.

The risk-free rates used to estimate the onerous provisions at December 31, 2018 ranged from 1.86% to 1.96% (December 31, 2017 – 1.68% to 2.04%) and an inflation rate of five per cent to reflect the terms of the onerous contracts (December 31, 2017 – five per cent), and were specific to the timing of the cash flows. The undiscounted cash flows associated with Tervita's liabilities at December 31, 2018 were estimated at \$74 million (December 31, 2017 – \$38 million). Payments to settle the onerous contracts occur on an ongoing basis and will continue over the remaining lives of the operating assets, which are up to 14 years.

There were no material changes to our accounting estimates or judgments during 2018 other than those disclosed in note 2 of the Financial Statements related to the transition to IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers".

Tervita is not aware of any trends or uncertainties that is expected to reasonably impact the estimates used or the assumptions described.

IMPACT OF NEW ACCOUNTING STANDARDS

Revenue from Contracts with Customers

Tervita adopted IFRS 15 "Revenue from Contract with Customers" ("IFRS 15") on January 1, 2018, using the cumulative effect method and practical expedients, with any impact of initial application recognized in accumulated earnings (deficit) on January 1, 2018. Accordingly, the comparative financial results for 2017 were not restated and have been presented as previously reported under IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations.

The Company applied three practical expedients upon adoption of IFRS 15:

- Revenue was recognized for certain contracts when Tervita had the right to invoice, as the value provided to the customer under such contracts corresponded directly to the work billed to date;
- The transaction price allocated to remaining performance obligations and the timing of revenue recognition related to those unsatisfied performance obligations was not disclosed on contracts where Tervita recognized revenue using the right to invoice; and

- Revenue was assessed for certain revenue streams on a portfolio basis, as the contracts in the portfolio had similar characteristics and performance obligations and Tervita determined that the effects of applying this standard to the portfolio of contracts would not differ materially from applying it to the individual contracts.

The Company's accounting policies in relation to revenue recognition were not substantially impacted by the transition to IFRS 15. However, there were changes to the timing or recognition of revenue for certain energy marketing pipeline activities and lump-sum fixed price contracts.

The following table summarizes the impact of adopting IFRS 15 on the Company's Statements of Profit (Loss) for the year ended December 31, 2018 for each of the line items affected:

	Three Months Ended December 31			Year Ended December 31		
	Amounts Without IFRS 15 Adoption	Adjustments	December 31, 2018 Reported	Amounts Without IFRS 15 Adoption	Adjustments	December 31, 2018 Reported
Revenue	590	(188)	402	3,031	(1,057)	1,974
Direct expenses	(525)	188	(337)	(2,791)	1,057	(1,734)

There was no material impact to the Company's Consolidated Statements of Financial Position ("Statements of Financial Position") as at December 31, 2018 and its Consolidated Statements of Cash Flows ("Statements of Cash Flows") for the year then ended.

The transition to IFRS 15 resulted in a change to the timing of revenue recognition on these types of contracts, which is now recorded when control of performance obligations is transferred to the customer. Under IAS 18, the transfer of risks and rewards was used to determine the timing and amount of revenue to be recognized. The change in timing of revenue recognition may result in the recognition of contract assets and liabilities. As at December 31, 2018, contract assets and liabilities were \$nil.

There were no potential effects on Tervita's business from the adoption of IFRS 15.

Financial Instruments

Tervita adopted IFRS 9 "Financial Instruments" ("IFRS 9") using retrospective application on January 1, 2018, except for hedge accounting requirements, which were required to be adopted prospectively.

Tervita elected to exercise a transition exemption whereby prior periods were not restated for the classification and measurement requirements of IFRS 9 that were adopted and disclosed retrospectively. Except for changes in classification of certain financial instruments, the application of IFRS 9 did not have an impact on the Financial Statements.

IFRS 9 eliminated several financial asset categories under IAS 39: available for sale, held to maturity, and loans and receivables. Tervita's transition to IFRS 9 resulted in the reclassification of cash and cash equivalents and trade and other receivables from fair value through profit or loss ("FVTPL") and loans and receivables, respectively, to amortized cost. Financial assets measured at amortized cost under IFRS 9 are held within a business model whose objective is to collect contractual cash flows arising from payments of principal and interest. This did not result in any changes to carrying value of the financial assets at the date of initial application.

Impairment of financial assets changed from an incurred loss model under IAS 39 to an expected credit loss ("ECL") model under IFRS 9. ECLs are a probability-weighted estimate of credit losses over the expected life of the financial instrument. Credit losses are measured as the difference between the cash flows due to the Company under a contract and the cash flows that Tervita expects to receive. Tervita uses reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments are initially recognized. The Company assessed receivables for indicators of a significant increase in credit risk since initial recognition and noted no changes to the previous assessment.

Tervita elected to adopt the new general hedge accounting model in IFRS 9. This requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. Requirements for hedge effectiveness include the existence of an economic relationship between the hedging instrument and hedged item, that the effect of credit risk does not dominate the value changes that result from that economic relationship, and that the hedge ratio is maintained. IFRS 9 also requires that the unrecoverable amount of cash flow reserves held at a loss is recognized in profit (loss) at the

time of discontinuation. This compares to the hedging requirements of IAS 39, which required a retrospective analysis of hedge effectiveness, and assessed hedge effectiveness using quantitative limits. These changes had no material impact on the accounting for hedging relationships at Tervita, but require additional disclosure of qualitative assessments. Hedging relationships previously designated under IAS 39 were determined at the date of initial application to meet the criteria for hedge accounting under IFRS 9, and there was no change to the hedge ratio of 1:1.

Share-Based Compensation

The IASB issued amendments to IFRS 2 "Share-Based Payment" ("IFRS 2") in June 2016, which required prospective application effective for annual periods beginning on or after January 1, 2018.

The amendments provide clarification on the classification and measurement of share-based compensation transactions: accounting for cash-settled payments which include vesting requirements, classifying transactions with net settlement features, and accounting for transactions modified from cash-settled to equity-settled.

Tervita assessed there was no impact on the measurement and classification of share-based compensation from implementation of the amendments.

Leases

IFRS 16 "Leases" ("IFRS 16") was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 replaces IAS 17 "Leases" ("IAS 17"), IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases-Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, which requires lessees to account for operating leases on the Statements of Financial Position like accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset during the lease term.

Tervita has elected to adopt IFRS 16 using the modified retrospective transition approach, whereby the right-of-use asset is measured at the value of the lease liability upon the date of initial application. The modified retrospective approach does not require restatement of prior periods. Tervita has applied certain practical expedients that are available under this adopted approach and has elected to apply recognition exemptions for short-term and low-value leases. As a lessee, Tervita's most significant lease contracts relate to real estate, equipment, and surfaces. Tervita does not have any material lease agreements where Tervita acts as lessor.

IFRS 16 requires lessees and lessors to disclose additional key information regarding the lease arrangements. The complete impact of adopting IFRS 16 will be disclosed in the Financial Statements for the first quarter of 2019.

Tervita does not expect these changes to impact compliance with the financial covenants that form part of our long-term debt.

KEY RISKS

General economic conditions and dependency on exploration and production activity levels in the markets

Demand for Tervita's services in all our divisions depends, in large part, on the level of exploration and production of oil and gas and the oil and gas industry's willingness to purchase our services. This willingness depends on oil and gas prices, expectations about future prices, the cost of the services Tervita offers, the cost of the services our competitors offer, the cost of exploring for, producing and delivering oil and gas, regulatory charges and requirements, the discovery rate of new oil and gas reserves, the ability of oil and gas companies to raise capital and various other economic and industry factors beyond our control. Domestic and international political, regulatory, military and general economic conditions beyond our control also affect the oil and gas industry.

Prices for oil and gas have historically been volatile and have reacted to changes in the supply and demand for oil and gas, domestic and worldwide economic conditions and political instability in oil-producing countries. These changes have historically significantly affected Tervita's customers and, consequently, Tervita. Tervita expects the prices for oil and gas to continue to be volatile and affect the demand for Tervita's services. Either a material decline in general economic conditions or a material decline or continued volatility in the price of oil or gas could materially affect the demand for Tervita's services and have a material adverse effect on Tervita's business, financial condition, results of operations, and cash flows or Tervita's ability to make required payments on debt outstanding.

WCS prices and other Canadian crude oil grades have been declining relative to WTI prices due to limited pipeline capacity in Canada and rising production. Canadian oil producers are expected to experience a disconnect from benchmark North American crude prices (represented by the WTI benchmark) and their operating performance and cash flows. Low Canadian prices and their negative impact on cash flows will likely reduce producers' capital investments and their desire to ramp up production until transportation constraints ease and prices improve. Producers of heavy oil are most impacted by the low prices and, as a result, many Canadian oil producers are suspending or maintaining drilling programs, thereby negatively impacting Tervita's business. In addition, a higher WTI price promotes increased production in the United States, which in turn dampens demand for Canadian oil.

Limited pipeline capacity adversely affects the delivery of both oil and gas from Canada to other markets, severely impacts Canadian oil and gas producers and places them at a competitive disadvantage compared to producers in the United States or other countries. As a result, the Canadian oil and gas industry is facing significant challenges to remain competitive, as companies with operations in numerous countries determine their capital allocations and financial investors determine the companies and countries they intend to invest in.

Tervita is particularly reliant on oil and gas exploration and production in the WCSB. Any decline in oil and gas exploration and production in this region could have a material adverse effect on Tervita's business, financial condition, results of operations, and cash flows or our ability to make required payments on debt outstanding.

Changes in Environmental Regulations

Tervita's business is subject to extensive Canadian federal, provincial, territorial, state and local environmental laws and regulations, including those governing the use, discharge, management, transportation, treatment, processing, storage and disposal of non-hazardous, hazardous, toxic and other regulated materials, land use and reclamation, the establishment, operation, decommissioning, closure, abandonment and restoration of facilities or of natural resources, worker and public health and safety and the reporting, investigation and remediation of releases of, and exposure to, regulated substances. Tervita's failure to comply with such laws and regulations or to obtain or comply with environmental permits or our incurrence of environmental investigation or remediation costs or liabilities could result in the imposition of fines and penalties, some of which may be material, the suspension or revocation of regulatory permits, or otherwise have a material adverse effect on our business, financial condition, results of operations, and cash flows or our ability to make required payments on debt outstanding.

Environmental laws and regulations and their enforcement are subject to frequent change and have tended to become more stringent over time. Changes in environmental regulation can result in increased operating or capital expenditures that could have a material adverse effect on Tervita's ability to comply with such regulations, our financial position, results of operations, cash flows or ability to make required payments on debt outstanding, or affect Tervita's reputation or customer demand for our services. Tervita monitors and assesses the environmental impact of its operations as part of its internal environmental liability management program. The program also includes soil and groundwater management and remediation as required. Some environmental laws and regulations can impose liability for damages without regard to negligence or fault, and in some cases damages may be joint and several.

In addition, many of Tervita's customers are heavily reliant on hydraulic fracturing and other enhanced recovery techniques, a practice that involves the pressurized injection of water, chemicals, proppants and other substances into tight rock formations to stimulate hydrocarbon production by creating fractures extending from the well bore through the rock formation to enable natural gas or oil to move more easily through the rock pores to a production well. Various Canadian federal, provincial and territorial regulatory and legislative initiatives are underway to regulate, or further investigate, the environmental impacts of hydraulic fracturing. Hydraulic fracturing has also generated increased public interest in Canada regarding its potential environmental impacts.

The adoption of Canadian federal or provincial laws or regulations imposing or permitting disclosure or other regulatory obligations related to, or otherwise limiting, the hydraulic fracturing process could make it more difficult or expensive for Tervita's customers to complete oil and natural gas wells, which could result in adverse impacts on demand for Tervita's services.

Increase in Market Competition

There are many competitors of our businesses, including waste treatment, recovery and disposal, environmental site remediation, metals recycling and waste services businesses. In addition, many of Tervita's customers manage a portion of their own waste internally without the use of a third-party service providers. Many of Tervita's customer relationships can be short-term in nature as our customers are generally not bound by long-term contracts or service agreements, and many

of our relationships are subject to cancellation by our customers upon short notice with limited or no damages payable to Tervita. In addition, there is no certainty that the backlog of orders for Tervita's services will in fact result in actual sales at the times or in the amounts estimated at any time. Tervita's customers regularly evaluate the best combination of value and price from competing alternatives and/or emerging technologies and can move between alternatives or, in some cases, develop their own alternatives with relative ease. This competition influences the prices Tervita charges and requires Tervita to control our costs aggressively and maximize efficiency to maintain acceptable operating margins; however, Tervita may be unable to do so and remain competitive on a cost-for-service basis. In addition, existing and future competitors may develop or offer services and/or emerging technologies that have price, location or other advantages over the services we provide. If we are unable to retain our customers, develop new customers or maintain the prices we charge due to any of the foregoing factors, it could have a material adverse effect on Tervita's business, financial condition, results of operations, and cash flows or our ability to make required payments on debt outstanding.

Additionally, competitors of Tervita's energy marketing division include companies that own pipelines. These competitors could implement controls or tariffs which impede Tervita's ability to physically or economically access the pipelines they control, which could have a material adverse effect on Tervita's business, financial condition, results of operations, and cash flows or our ability to make required payments on debt outstanding.

Changes in Industry Practices

Tervita's energy marketing practices result in exposure to market price risk for crude oil and condensate, volume and basis exposure on marketing transactions and through upgrading of different product streams. Energy marketing transactions are also associated with counterparty credit risk of non-performance. Tervita's risk management policies for this division may not be effective in mitigating these risks. Our failure to effectively mitigate these risks could result in losses for Tervita, and any such losses could be material.

For information regarding risks pertaining to our liquidity and financial and other instruments as well as how we manage the risk associated with these instruments, refer to the ***Liquidity and Liquidity Risk*** and ***Financial Instruments*** sections of this MD&A.

Additional discussion regarding Tervita's risk factors is presented in our most recent Annual Information Form filed with the Canadian securities commissions at www.sedar.com.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

We have documented risks, controls, results of testing, and reporting procedures based on criterion established in the Internal Control – Integrated Framework (2013) (“COSO 2013”) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Chief Executive Officer and the Chief Financial Officer (collectively, the “Certifying Officers”) have evaluated the design and effectiveness of our disclosure controls and procedures, and the operational effectiveness of our internal controls over financial reporting using COSO 2013. As of December 31, 2018, the Certifying Officers have concluded that such disclosure controls and procedures and internal controls over financial reporting were effective.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information (collectively referred to herein as “forward-looking statements”) within the meaning of securities legislation. Such forward-looking statements include, without limitation, forecasts, estimates, expectations and objectives for future operations that are subject to assumptions, risks and uncertainties, many of which are beyond the control of Tervita. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words “expects”, “plans”, “anticipates”, “believes”, “intends”, “estimates”, “projects”, “potential” and similar expressions, or are events or conditions that “will”, “would”, “may”, “could” or “should” occur or be achieved. These statements are not guarantees of future performance and are subject to risks, uncertainties and other key factors that could cause actual results or events to be materially different from those anticipated in such forward-looking statements.

Specific forward-looking statements contained in this MD&A include, amongst others, statements and management’s beliefs, expectations or intentions regarding the following:

- the long-term oil and gas environmental services market outlook in Canada will generate sufficient demand for Tervita’s services;
- market outlook with respect to drilling activity, relatively stable oil and gas prices, Western Canadian oil and gas production levels, and moderate market growth and GDP growth across Western Canada;
- oil and gas producers will continue to outsource waste by-product treatment and disposal;
- it is difficult for third parties to replicate the extensive footprint of Tervita’s facilities;
- that Tervita’s strategy will be successful;
- cash generated from operations, asset sales and amounts available under the credit facilities will be adequate to permit Tervita to meet its debt service obligations, ongoing costs of operations, working capital needs, capital expenditure requirements and to fund acquisitions (other than material acquisitions) for the foreseeable future;
- the amount and nature of insurance coverage obtained will be adequate considering the potential hazards;
- timing of the completion of projects under development and their attendant costs;
- governmental regulation of the oil and gas industry, permits and other legal requirements, including Tervita’s expectations with respect to permits;
- expected continued benefits of the Arrangement;
- plans and objectives for future operations;
- anticipated operational and financial performance (including expected synergies and cost reductions) for each operating segment;
- ability to execute on our growth strategy; and
- expectations regarding future cash flow, liquidity and financial position, our maintenance capital spending, growth and expansion capital projects, and sources of funding for our capital program.

Forward-looking statements relating to our business contain uncertainties and assumptions, including the following:

- demand for services in our businesses can be adversely impacted by general economic conditions and we are dependent on exploration, drilling and production activity levels in the markets where we offer our services;
- the ability of management to execute its business plan;
- the ability of the Company to realize the expected synergies from the Arrangement;
- the risks of the environmental solutions industry, such as operational risks and market demand;
- risks inherent in Tervita’s marketing operations, including credit risk;
- the uncertainty of estimates and projections relating to revenues, costs, expenses, and capital expenditures;
- fluctuations in oil and natural gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- general economic conditions in Canada, the United States, and globally;
- industry conditions;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- governmental regulation of the environmental solutions industry, including environmental regulation;
- unanticipated operating events;
- failure to obtain third-party consents and approvals, when required;
- risks associated with existing and potential future lawsuits and regulatory actions against Tervita;
- the highly competitive nature of our markets, and competition that could adversely impact our financial position, results of operations, cash flows or our ability to make required payments on debt outstanding;

- global financial conditions are subject to increased volatility;
- legislative and regulatory initiatives related to hydraulic fracturing that could result in increased costs and additional operating restrictions or delays as well as adversely affect our support services;
- increasing concern regarding earthquake activity connected to oil/gas production and waste disposal wells could adversely affect our business;
- successful implementation of our investment and acquisition strategy;
- the difficulty of identifying and executing acquisitions on favorable terms, including successfully integrating businesses we acquire, and our significant exposure from unknown liabilities related to our acquisitions;
- susceptibility to seasonality due to adverse weather conditions;
- risks related to changes in industry practices related to crude oil equalization and declines in oil prices that may affect our energy marketing business;
- risk of implementation of controls or tariffs on competitor-owned pipelines which impede Tervita’s ability to physically or economically access the pipelines that may affect our energy marketing business;
- our operations being subject to numerous natural disasters and operating hazards and the lack of assurance that such events will be covered by insurance or whether any such insurance coverage would be adequate;
- potential impairment losses in respect of our physical assets from reduced industry activity and a sustained decline in demand for services involving such assets;
- our ability to attract and retain qualified workers;
- dependence on our senior management, the loss of which could materially harm our business;
- obligation to comply with health and safety regulations at our facilities and our operations, the failure of which could result in significant liability and/or fines and penalties;
- failure by our employees to follow applicable procedures and guidelines or on-site accidents;
- deterioration in our safety record would harm our relationships with customers, make it less likely for customers to contract for our services and subject us to penalties and fines, which could adversely affect our business, operating results and financial condition;
- fluctuations in exchange rates;
- the inability of counterparties or customers to fulfill their obligation to us;
- technology we use in our business is increasingly subject to protection by intellectual property rights; and
- our treatment, recovery and disposal facilities, cavern disposal facilities and engineered landfill operations could be adversely affected by more stringent closure and post-closure obligations and a variety of other risks.

For a more detailed discussion of risks relating to Tervita see our most recent Annual Information Form.

These factors should not be construed as exhaustive. The forward-looking statements included in this MD&A are made only as of the date hereof and Tervita does not undertake to publicly update these forward-looking statements for new information, future events or otherwise, except as required by applicable laws. Any forward-looking statements contained herein are expressly qualified by this cautionary statement.

The estimates regarding Tervita’s future financial performance, including estimates regarding Tervita’s expected realization of synergies from the Arrangement, are based on assumptions about future events, including economic conditions and proposed course of action, based on management’s assessment of the relevant information currently available. See “Outlook”. The estimates of certain of Tervita’s financial results for the year ended December 31, 2018, assuming the Arrangement had been completed as of January 1, 2018 may constitute financial outlook, but they are not a forecast or projection of future results, and are based on management’s assessment of the relevant information currently available. See “Newalta Acquisition”. The estimates are based on the same assumptions and risk factors set forth above and are based on Tervita’s historical results of operations. The financial outlook or potential financial outlook set forth in this MD&A were approved by management as of the date of this MD&A for the purpose of providing investors with an estimation of: (a) the outlook for Tervita for 2019 and onwards, where applicable; and (b) results for the year ended December 31, 2018, assuming the Arrangement had been completed at January 1, 2018. Readers are cautioned that any such financial outlook contained herein should not be used for purposes other than those for which it is disclosed herein. The prospective financial information set forth in this MD&A has been prepared by management. Tervita and management believe that the prospective financial information has been prepared on a reasonable basis, reflecting management’s best estimates and judgements, and represents, to the best of management’s knowledge and opinion, Tervita’s expected course of action in developing and executing its business strategy and growth opportunities relating to its business operations. However, actual results may vary from the prospective financial information set forth in this MD&A. See above for a discussion of the risks that could cause actual results to vary. The prospective financial information set forth in this MD&A should not be relied on as necessarily indicative of future results.

TERVITA

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tervita Corporation

Opinion

We have audited the consolidated financial statements of Tervita Corporation (Tervita), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of comprehensive profit or loss, equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tervita as at December 31, 2018 and 2017 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

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 are independent of Tervita in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

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, 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

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 IFRSs, and for such internal controls 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 Tervita'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 Tervita or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Tervita'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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

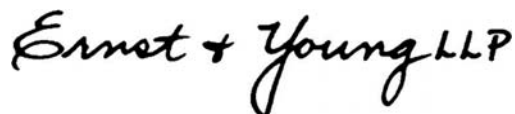
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 Tervita's internal controls.
- 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 Tervita'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 Tervita 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Ann-Marie Brockett.

The logo for Ernst & Young LLP is written in a black, cursive script font. The letters are fluid and connected, with a prominent 'E' and 'Y'.

Chartered Professional Accountants

Calgary, Canada

March 13, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (millions of dollars)

	Note	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	13	46	124
Trade and other receivables	23	180	130
Inventory	14	12	9
Current portion of derivative assets	20, 23	18	—
Other current assets		8	4
		264	267
Property, plant and equipment	3, 15	1,157	615
Intangible assets	16	42	20
Goodwill	3, 17	333	324
Derivative assets	20, 23	8	—
Other assets		5	—
TOTAL ASSETS		1,809	1,226
LIABILITIES			
Current liabilities			
Trade and other payables	23	122	94
Income taxes payable	5	14	14
Interest payable	23	6	4
Current portion of decommissioning liabilities	21	14	6
Current portion of long-term debt	19	4	—
Current portion of other provisions	12, 21	12	7
		172	125
Long-term debt	3, 19, 23	814	437
Decommissioning liabilities	3, 21	399	266
Other provisions	21	47	29
Derivative liabilities	20, 23	—	31
Other long-term liabilities		6	5
TOTAL LIABILITIES		1,438	893
EQUITY			
Share capital	3, 24	947	837
Contributed surplus	3	1	—
Share-based compensation reserve	22	5	2
Accumulated earnings (deficit)		(593)	(519)
Accumulated other comprehensive profit (loss)		11	13
TOTAL EQUITY		371	333
TOTAL LIABILITIES AND EQUITY		1,809	1,226

See accompanying notes

Approved by the Board of Directors:

(Signed) Grant Billing
Director

(Signed) John Cooper
Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE PROFIT (LOSS)

For the years ended December 31 (millions of dollars, except for per share amounts)

	Note	2018	2017
NET PROFIT (LOSS)			
Revenue	2, 6	1,974	2,329
Operating expenses			
Direct expenses	2	(1,734)	(2,131)
General and administrative expenses		(50)	(52)
Depreciation and amortization	15, 16	(96)	(80)
Impairment expense	18	(25)	(76)
Operating profit (loss)		69	(10)
Finance costs	3, 8	(69)	(49)
Transaction costs	3	(69)	—
Other income (expense)	9	(4)	(26)
Profit (loss) before tax		(73)	(85)
Current income taxes recovery (expense)	5	(1)	(1)
Deferred income taxes recovery (expense)	5	—	4
Profit (loss) from continuing operations		(74)	(82)
Profit (loss) from discontinued operations, net of tax		—	1
NET PROFIT (LOSS)		(74)	(81)
Items that are or may be subsequently reclassified to net profit (loss):			
Foreign operations - foreign currency translation differences		(1)	—
Net gain (loss) on cash flow hedges	20	(1)	6
OTHER COMPREHENSIVE PROFIT (LOSS), NET OF TAX		(2)	6
TOTAL COMPREHENSIVE PROFIT (LOSS)		(76)	(75)
Basic and diluted earnings per share	10	(0.67)	(0.77)
Weighted average shares outstanding - basic and diluted	10	110,471,450	104,625,779

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>For the years ended December 31 (millions of dollars)</i>	Note	2018	2017
OPERATING ACTIVITIES			
Profit (loss) from continuing operations		(74)	(82)
Adjustments for:			
Finance costs	8	69	49
Impairment expense	18	25	76
Depreciation and amortization	15, 16	96	80
Income taxes (recovery) expense	5	1	(3)
Cash interest paid	19	(52)	(39)
Cash settlement of provisions	21	(14)	(16)
Realized foreign exchange (gain) loss - debt and derivatives	9	8	—
Unrealized foreign exchange (gain) loss	9	(9)	2
Other adjustments	11	52	20
Funds from (used in) operations		102	87
Changes in non-cash working capital:			
Trade and other receivables		(10)	(1)
Inventory		1	(3)
Other current assets		1	1
Trade and other payables		2	20
Changes in total non-cash working capital		(6)	17
Cash provided by (used in) operating activities		96	104
FINANCING ACTIVITIES			
Issuance of long-term debt	3, 19	326	—
Settlement of debt-related derivatives	3, 20	(8)	—
Debt issue costs	3, 19	(20)	(1)
Contingent consideration payments		—	(1)
Capital leases	19	(2)	—
Cash provided by (used in) financing activities		296	(2)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	4, 15	(73)	(50)
Additions to intangible assets	4, 16	(11)	(3)
Acquisitions	3, 4	(395)	(22)
Investment income		1	1
Proceeds from sale of property, plant and equipment		7	6
Cash provided by (used in) investing activities		(471)	(68)
Effect of exchange rate changes on cash and cash equivalents		1	—
Increase (decrease) in cash and cash equivalents from continuing operations		(78)	34
Cash provided by (used in) discontinued operations		—	1
Cash and cash equivalents, beginning of period		124	89
CASH AND CASH EQUIVALENTS, END OF PERIOD		46	124

See accompanying notes

CONSOLIDATED STATEMENTS OF EQUITY

<i>(millions of dollars)</i>	<i>Note</i>	Share capital	Contributed surplus	Share-based compensation reserve	Accumulated earnings (deficit)	Foreign currency translation reserve	Cash flow hedge reserve	Accumulated other comprehensive profit (loss)	Total equity
As at January 1, 2018		837	—	2	(519)	6	7	13	333
Net profit (loss)		—	—	—	(74)	—	—	—	(74)
Cancellation of shares	3, 24	(837)	—	—	—	—	—	—	(837)
Issuance of shares	3, 24	947	—	—	—	—	—	—	947
Issuance of warrants	3	—	1	—	—	—	—	—	1
Effective portion of cash flow hedges		—	—	—	—	—	39	39	39
Reclassified to net profit (loss)	9	—	—	—	—	1	(40)	(39)	(39)
Foreign currency translation differences	9	—	—	—	—	(2)	—	(2)	(2)
Share-based compensation	9	—	—	3	—	—	—	—	3
As at December 31, 2018		947	1	5	(593)	5	6	11	371
As at January 1, 2017		837	—	—	(438)	6	1	7	406
Net profit (loss)		—	—	—	(81)	—	—	—	(81)
Effective portion of cash flow hedges		—	—	—	—	—	(25)	(25)	(25)
Reclassified to net profit (loss)	9	—	—	—	—	(1)	31	30	30
Foreign currency translation differences	9	—	—	—	—	1	—	1	1
Share-based compensation	9	—	—	2	—	—	—	—	2
As at December 31, 2017		837	—	2	(519)	6	7	13	333

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Tervita Corporation is incorporated under the laws of Canada. In these Consolidated Financial Statements (the "Financial Statements"), "we", "us", "our", "Company", and "Tervita" mean Tervita Corporation, its subsidiaries and joint arrangements. Tervita's common shares and warrants trade on the Toronto Stock Exchange ("TSX") under the symbols "TEV" and "TEV.WT", respectively. Tervita's registered office and head office is located at 1600, 140 - 10 Avenue S.E., Calgary, Alberta, Canada, T2G 0R1.

Tervita provides a comprehensive suite of environmental solutions covering every stage of our customers' project life cycle, from development to reclamation, helping to minimize environmental impact while maximizing recovery of valuable resources. Tervita is a leading waste and environmental solutions provider offering waste processing, treating, recycling, and disposal services to customers in the oil and gas, mining, and industrial sectors. Tervita serves customers onsite, and through a network of facilities in Canada and the United States ("US").

2. BASIS OF PRESENTATION

These Financial Statements for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies have been consistently applied throughout all periods presented, except where noted.

These Financial Statements provide comparative information in respect of the previous year and are presented in millions of Canadian ("C\$") dollars, unless otherwise stated. They are prepared on a historical cost basis, except for certain assets that are measured at fair value, as detailed in the accounting policies under the respective notes.

Certain prior period comparative figures have been reclassified to conform to current year's presentation. Comparative figures related to acquired entities are from the date after Tervita obtained control ("acquisition date").

These Financial Statements were approved by the Board of Directors on March 13, 2019.

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Consolidation These Financial Statements include the consolidated Financial Statements of Tervita, its subsidiaries, and joint arrangements.

Consolidated entities are controlled by Tervita. Control is achieved when Tervita has the power to direct the relevant activities of the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to affect its returns. When Tervita has less than a majority of the voting or similar rights of an entity, we consider all relevant facts and circumstances in assessing whether it has power over an entity, including the contractual arrangement with the other voting holders of the entity, rights arising from other contractual arrangements, and Tervita's voting rights and potential voting rights.

Tervita reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of an entity begins when Tervita obtains control over the entity and ceases when Tervita ceases to control the entity. Assets, liabilities, revenue, and expenses of an entity acquired or disposed of during the year are included in the Financial Statements from the date Tervita gains control until the date Tervita ceases to control the entity.

A change in the ownership interest of an entity without loss of control is accounted for as an equity transaction. If Tervita ceases to control an entity, it derecognizes the assets (including goodwill) and liabilities of the entity, derecognizes the foreign currency translation differences ("CTA") recorded in the Consolidated Statements of Equity ("Statements of Equity"), recognizes the fair value of the consideration received, recognizes the fair value of any investment retained, recognizes any surplus or deficit in the Consolidated Statements of Comprehensive Profit (Loss) ("Statements of Profit (Loss)"), and reclassifies Tervita's share of components previously recognized in Other Comprehensive Profit (Loss) ("OCI") to the Statements of Profit (Loss) or accumulated deficit, as appropriate, as would be required if Tervita had directly disposed of the related assets or liabilities.

Tervita's material subsidiary is Newalta Environmental Services Inc., which is incorporated in the US and is wholly owned and controlled by Tervita. All significant intergroup balances and transactions are

eliminated on consolidation. Tervita also has a Canadian subsidiary which acts as guarantor for its senior secured revolving credit facility (note 19).

Foreign currency translation The functional currency for each subsidiary is the currency of the primary economic environment in which the entity operates. Transactions not denominated in an entity's functional currency are translated to the functional currency using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the reporting date. All unrealized foreign currency re-measurement gains and losses are recognized in unrealized foreign exchange gain (loss) on the Statements of Profit (Loss). Non-monetary items are not re-measured at the reporting date and remain at the exchange rate as at the date of the transaction. Non-monetary items measured at fair value are translated using the exchange rate at the date when the fair value was determined.

The assets and liabilities for entities with a functional currency other than Canadian dollars are translated to presentation currency using the exchange rate at the reporting date. Revenue and expenses are translated at the average exchange rate for the month. Resulting translation differences are recognized in the CTA component of OCI.

On disposal of Tervita's entire interest in a foreign subsidiary, all the exchange differences accumulated in CTA in respect of that operation is reclassified to the Statements of Profit (Loss).

Current and non-current classification Tervita presents assets and liabilities in the Consolidated Statements of Financial Position ("Statements of Financial Position") based on current or non-current classification. An asset is deemed to be current when it is expected to be realized or sold in the normal operating cycle, expected to be realized within twelve months after the reporting period, held primarily for trading, or in the form of cash and cash equivalents that are not restricted from being exchanged or used to settle a liability within twelve months of the reporting period. All other assets are classified as non-current.

A liability is deemed to be current when it is expected to be settled in the normal operating cycle, held primarily for trading, due to be settled within twelve months after the reporting period, or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Fair values Tervita utilizes fair value measurements and disclosure for several items within the Financial Statements. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in either the principal market or the most advantageous market for the asset or liability. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

OTHER ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

The preparation of the Financial Statements requires management to make judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. Accordingly, actual results could differ significantly from those estimates. The Financial Statements have, in our opinion, been properly prepared within reasonable limits of materiality and within the framework of Tervita's significant accounting policies.

To enable increased understanding of the Financial Statements, a discussion of accounting policies, significant judgments, and sources of estimation uncertainty is included with the applicable financial disclosures throughout these notes to the Financial Statements:

		Accounting Policy	Judgments	Estimates
Note 3	Business acquisitions	Yes	Yes	Yes
Note 4	Segment information	Yes	N/A	N/A
Note 5	Income taxes	Yes	Yes	Yes
Note 6	Revenue	Yes	Yes	Yes
Note 7	Employee benefits	Yes	N/A	N/A
Note 12	Leases	Yes	Yes	N/A
Note 13	Cash and cash equivalents	Yes	N/A	N/A
Note 14	Inventory	Yes	N/A	N/A
Note 15	Property, plant and equipment	Yes	Yes	Yes
Note 16	Intangible assets	Yes	Yes	Yes
Note 17	Goodwill	Yes	N/A	N/A
Note 18	Impairment	Yes	Yes	Yes
Note 19	Long-term debt	Yes	N/A	N/A
Note 20	Derivatives and hedging	Yes	N/A	Yes
Note 21	Provisions	Yes	Yes	Yes
Note 22	Share-based compensation	Yes	N/A	Yes
Note 23	Financial instruments and risk management	Yes	Yes	Yes
Note 26	Related party transactions	Yes	N/A	N/A
Note 28	Contingencies	N/A	Yes	N/A

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The following new standards, interpretations, and amendments to existing standards were issued by the IASB and were mandatory for accounting periods beginning on or after January 1, 2018 (the "date of initial application").

Revenue from contracts with customers **Transition and Application**

The IASB issued IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") in April 2016 to replace IAS 11 "Construction Contracts" ("IAS 11"), IAS 18 "Revenue" ("IAS 18"), and any related interpretations. Tervita adopted IFRS 15 using the cumulative effect method and practical expedients, with any impact of initial application recognized in accumulated earnings (deficit) on January 1, 2018. Accordingly, the comparative financial results for 2017 were not restated and have been presented as previously reported under IAS 18, IAS 11, and related interpretations.

The Company applied three practical expedients upon adoption of IFRS 15:

- Revenue was recognized for certain contracts when Tervita had the right to invoice, as the value provided to the customer under such contracts corresponded directly to the work billed to date;
- The transaction price allocated to remaining performance obligations and the timing of revenue recognition related to those unsatisfied performance obligations was not disclosed on contracts where Tervita recognized revenue using the right to invoice; and
- Revenue was assessed for certain revenue streams on a portfolio basis, as the contracts in the portfolio had similar characteristics and performance obligations and Tervita determined that the effects of applying this standard to the portfolio of contracts would not materially differ from applying it to the individual contracts.

Changes to the Timing and Recognition of Revenue

The Company's accounting policies in relation to revenue recognition were not substantially impacted by the transition to IFRS 15. However, there were changes to the timing or recognition of revenue for certain energy marketing pipeline activities and lump-sum fixed price contracts.

Tervita determined that certain energy marketing pipeline activities do not qualify under IFRS 15 to be presented as gross revenue, and are now recorded on a net basis against direct expenses. This change did not result in any impact to operating profit (loss) or net profit (loss), as it decreased revenue and direct expenses by the same amount.

Tervita generates project revenue through the provision of a variety of environmental and decommissioning services. Certain projects have multiple performance obligations with lump-sum fixed pricing arrangements, which require allocation of the purchase price among the performance obligations. The transition to IFRS 15 resulted in a change to the timing of revenue recognition on these types of contracts, which is now recorded when control of performance obligations is transferred to the customer. Under IAS 18, the transfer of risks and rewards was used to determine the timing and amount of revenue to be recognized. The change in timing of revenue recognition may result in the recognition of contract assets and liabilities. As at December 31, 2018, contract assets and liabilities were \$nil.

Impact on the Financial Statements

The following table summarizes the impact of adopting IFRS 15 on the Company's Statements of Profit (Loss) for the year ended December 31, 2018 for each of the line items affected:

	Amounts Without IFRS 15 Adoption	Adjustments	December 31, 2018 Reported
Revenue	3,031	(1,057)	1,974
Direct expenses	(2,791)	1,057	(1,734)

There was no impact to the Company's Statements of Financial Position as at December 31, 2018 and its Consolidated Statements of Cash Flows ("Statements of Cash Flows") for the year then ended as a result of adopting IFRS 15.

Financial instruments

Transition and Application

The IASB issued IFRS 9 "Financial Instruments" ("IFRS 9") to replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and IFRIC 9 "Reassessment of Embedded Derivatives". Tervita adopted IFRS 9 using retrospective application on January 1, 2018, except for hedge accounting requirements, which were required to be adopted prospectively.

Tervita elected to exercise a transition exemption whereby prior periods were not restated for the classification and measurement requirements of IFRS 9 that were adopted and disclosed retrospectively. With the exception of changes in classification of certain financial instruments, the application of IFRS 9 did not have an impact on the Financial Statements.

Changes to the Classification and Measurement, Derecognition, Impairment, and Hedge Accounting for Financial Instruments

IFRS 9 eliminated several financial asset categories under IAS 39: available for sale, held to maturity, and loans and receivables. Tervita's transition to IFRS 9 resulted in the reclassification of cash and cash equivalents and trade and other receivables from fair value through profit or loss ("FVTPL") and loans and receivables, respectively, to amortized cost. Financial assets measured at amortized cost under IFRS 9 are held within a business model whose objective is to collect contractual cash flows arising from payments of principal and interest. This did not result in any changes to carrying value of the financial assets at the date of initial application.

Impairment of financial assets changed from an incurred loss model under IAS 39 to an expected credit loss ("ECL") model under IFRS 9. ECLs are a probability-weighted estimate of credit losses over the expected life of the financial instrument. Credit losses are measured as the difference between the cash flows due to the Company under a contract and the cash flows that Tervita expects to receive. Tervita uses reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments are initially recognized. The Company assessed receivables for indicators of a significant increase in credit risk since initial recognition and noted no changes from the previous assessment.

Tervita elected to adopt the new general hedge accounting model in IFRS 9. This requires the Company to ensure that hedge accounting relationships are aligned with risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. Requirements for hedge effectiveness include the existence of an economic relationship between the hedging instrument and hedged item, that credit risk does not dominate the value changes that result from that economic relationship, and that the hedge ratio is maintained. IFRS 9 also requires that the unrecoverable amount of cash flow reserves held at a loss is recognized in profit or loss at the time of

discontinuation. This compares to the hedging requirements of IAS 39, which required a retrospective analysis of hedge effectiveness, and assessed hedge effectiveness using quantitative limits. These changes had no material impact on the accounting for hedging relationships at Tervita, but required additional disclosure of qualitative assessments. Hedging relationships previously designated under IAS 39 were determined at the date of initial application to meet the criteria for hedge accounting under IFRS 9, and there was no change to the hedge ratio of 1:1.

Share-based compensation

The IASB issued amendments to IFRS 2 "Share-Based Payment" ("IFRS 2") in June 2016, which required prospective application effective for annual periods beginning on or after January 1, 2018. The amendments provide clarification on the classification and measurement of share-based compensation transactions: accounting for cash-settled payments which include vesting requirements, classifying transactions with net settlement features, and accounting for transactions modified from cash-settled to equity-settled. There was no impact on the measurement and classification of share-based compensation from implementation of the amendments.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The IASB and IFRS Interpretations Committee have issued the following standards and amendments or interpretations to existing standards that were not yet effective and not applied as at December 31, 2018. Tervita did not early adopt any of these standards.

Leases

IFRS 16 "Leases" ("IFRS 16") was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 replaces IAS 17 "Leases" ("IAS 17"), IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases-Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, which requires lessees to account for operating leases on the Statements of Financial Position, similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset during the lease term.

Tervita has elected to adopt IFRS 16 using the modified retrospective transition approach, whereby the right-of-use asset is measured at the value of the lease liability upon the date of initial application. The modified retrospective approach does not require restatement of prior periods. Tervita has applied certain practical expedients that are available under this adopted approach and has elected to apply recognition exemptions for short-term and low-value leases.

IFRS 16 requires lessees and lessors to disclose additional key information regarding the lease arrangements. The complete impact of adopting IFRS 16 will be disclosed in the financial statements for the first interim reporting period of 2019.

Tervita does not expect these changes to impact the covenants that apply to our long-term debt.

3. BUSINESS ACQUISITIONS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Business acquisitions ("acquisitions") are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate fair values of the assets given, liabilities incurred or assumed, and equity instruments issued by Tervita, in exchange for control of the acquired entity or business at the acquisition date. Acquisition-related costs, other than those associated with the issue of long-term debt or equity, are recognized as incurred in general and administrative expenses on the Statements of Profit (Loss), unless otherwise noted.

When Tervita acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as at the acquisition date.

Goodwill arising from acquisitions is recognized as the excess of the aggregate consideration transferred over the net identifiable assets acquired and liabilities assumed (note 17). Goodwill acquired in an acquisition is, from the acquisition date, allocated to each of Tervita's cash generating units ("CGUs") that

are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquired entity are assigned to the CGUs (note 18).

The measurement period is the period from the acquisition date to the date Tervita receives complete information about the facts and circumstances that existed as of the acquisition date, but cannot exceed one year from the acquisition date. If the initial accounting for an acquisition is incomplete by the end of a reporting period in which the acquisition occurs, provisional amounts are reported. Provisional amounts are adjusted retrospectively during the measurement period. Additional assets or liabilities are also recognized during the measurement period to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

Significant judgments

Tervita considers an acquired group of activities or assets to constitute a business when they are capable of being conducted and managed to provide a return, in the form of dividends, lower costs, or other economic benefits, directly to Tervita. Management uses its judgment in assessing whether the acquired group of activities or assets have inputs and processes that are capable of producing outputs. If management determines that the acquired group of activities or assets acquired constitute a business, the acquisition is accounted for as a business combination. If, in management's judgment, the acquired group of activities or assets does not constitute a business, the acquisition is accounted for as a purchase of assets.

Sources of estimation uncertainty

The allocation of the purchase price requires management to make assumptions to identify acquired intangible assets, property, plant and equipment, liabilities assumed, and contingent consideration. Estimates are made about the fair value of the acquired assets and liabilities based on quoted market prices and widely accepted valuation techniques. Tervita uses asset and liability specific discount rates to determine fair value.

SUPPORTING INFORMATION

Newalta Corporation

Arrangement Overview

On July 19, 2018 (the "Newalta Acquisition Date"), Tervita and Newalta Corporation ("Newalta") completed a plan of arrangement (the "Arrangement"), under which Tervita acquired 100% of Newalta's issued and outstanding common shares, and culminated in the amalgamation of Tervita and Newalta into one publicly-traded company, Tervita Corporation.

Prior to the Arrangement, Newalta was a full service environmental waste management company, focused primarily on adapting technologies to maximize the value inherent in oil and gas exploration and production waste streams through the processing, recovering and recycling of resources, with operations based in Canada and the US.

The completion of the Arrangement created a leading energy-focused environmental solutions provider in Canada, providing waste processing, treatment, recycling, and disposal services to customers in the oil and gas, mining, and industrial sectors. Anticipated benefits of the Arrangement include: an extensive infrastructure footprint; scale of operations and strong asset base; significantly improved operating results which provide flexibility to fund expansion and growth opportunities; considerable operational synergies between Newalta and Tervita; an attractive portfolio of growth opportunities; strong customer relationships and a diverse customer base; significant market presence; experienced and dedicated employees; and an experienced, results-driven management team.

Under the terms of the Arrangement, former shareholders of Newalta received 0.1467 of one common share of Tervita Corporation for each Newalta common share held and 0.03066 of one common share purchase warrant, exercisable for one Tervita common share at an exercise price of \$18.75 per share with an expiration date of July 19, 2020. Prior to the close of the Arrangement, Tervita shareholders exchanged their common and preferred shares for an equivalent amount of new common shares of Tervita. Immediately after close of the Arrangement, Tervita Corporation had 117,557,112 common shares and 2,702,649 warrants issued and outstanding (note 24).

On June 1, 2018, Tervita closed an offering through a wholly-owned subsidiary (the "Escrow Corporation") of 7.625% US \$250 million senior secured notes due 2021 (the "escrow notes") to fund the defeasance of Newalta's debt. On the Newalta Acquisition Date, pursuant to the Arrangement, the Escrow Corporation was wound-up into Tervita. Concurrently, the escrow notes were exchanged for the same principal value of additional notes (the "US\$250 million senior secured notes") issued by Tervita under the existing indenture governing Tervita's outstanding 7.625% US\$360 million senior secured notes due 2021, following which the escrow notes were deemed cancelled. See notes 19 and 20 for further details.

The waiting period under the Competition Act (*Canada*) (“the Act”) expired prior to the closing of the Arrangement; however, the Act permits the Commissioner of Competition to make an application to the Competition Tribunal in respect of an acquisition transaction within a period of one year after its implementation. As of March 13, 2019, Tervita was not aware of any such application being filed.

Purchase Price Allocation

The Arrangement was accounted for as a business combination. Tervita determined the purchase consideration for the Arrangement to be \$505 million, comprised of the following:

	Consideration Transferred
Common shares	110
Warrants	1
Cash and cash equivalents	394
Purchase consideration	505

Common shares issued represent the valuation of the exchange of 88,148,148 Newalta shares for 12,931,333 Tervita shares based on the volume weighted average trading price of the Newalta common shares on the TSX for the five trading days prior to the Newalta Acquisition Date (\$1.24/share).

The valuation of warrants issued as part of the Arrangement was performed using a Black-Scholes valuation model.

Cash and cash equivalents included the proceeds received from the US\$250 million escrow notes and additional cash and cash equivalents transferred from Tervita to Newalta to defease Newalta’s senior unsecured debentures and settle Newalta’s senior secured debt on the Newalta Acquisition Date, as well as settle any related interest and early repayment fees.

There was no contingent consideration under the terms of the Arrangement.

The fair values of the identifiable assets and liabilities acquired were:

	Previously Reported Provisional Values	Adjustments	Finalized Purchase Price Allocation
Assets			
Cash and cash equivalents	—	19	19
Trade and other receivables	46	(1)	45
Inventory	6	(2)	4
Other current assets	5	—	5
Property, plant and equipment	599	(93)	506
Intangible assets	16	—	16
Other assets	4	1	5
Liabilities			
Trade and other payables	(53)	1	(52)
Capital leases	(13)	—	(13)
Provisions	(136)	74	(62)
Total identifiable net assets	474	(1)	473
Goodwill	12	20	32
Purchase consideration	486	19	505

Provisional values previously reported on November 14, 2018 were based on facts and circumstances that existed at that date and have since been revised. Material adjustments pertain to fair value adjustments to property, plant and equipment, intangible assets, and the related decommissioning liabilities at the Newalta Acquisition Date, recognition of additional intangible assets and certain unfavorable contracts acquired, and assessment of the tax impacts of the acquisition. All adjustments were offset against goodwill. The \$32 million of goodwill (note 17) recognized reflects value of expected synergies that were identified within Newalta and those expected to be achieved as a result of combining Tervita's and Newalta's operations. None of the goodwill is expected to be deductible for tax purposes.

Acquisition-Related Costs

During the year ended December 31, 2018, costs incurred by Tervita to complete the Arrangement were:

- Unamortized debt costs of \$19 million of fees related to the issuance of the US\$250 million senior secured notes;
- Finance costs of \$3 million related to interest expense on the escrow notes; and
- Transaction costs comprised of:
 - \$13 million of legal and advisory fees incurred by Tervita for the completion of the Arrangement;
 - \$18 million of integration costs, including those related to severance, branding, site suspension, employee compensation, onerous contracts, and information technology; and
 - \$38 million of impairment expense as a result of the re-measurement of acquired decommissioning liabilities for certain inactive assets from the credit-adjusted discount rate required under IFRS 3 "Business Combinations" to a risk-free rate in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Any changes to the estimate of decommissioning liabilities are added to or deducted from the carrying value of the related asset. If the change in estimate results in an addition to the cost of the decommissioning liability that is associated with an inactive site, or if there is indication that the new carrying value of the related asset may not be recoverable, this addition is charged to profit and loss as an impairment expense.

Pro Forma Statement of Profit (Loss)

The following presents an unaudited Pro Forma Statement of Profit (Loss) for the year ended December 31, 2018 as if the Arrangement had been completed on January 1, 2018:

	Tervita	Newalta	Pro Forma Adjustments	Pro Forma Consolidated
Revenue	1,974	132	—	2,106
Operating expenses				
Direct expenses	(1,734)	(93)	—	(1,827)
General and administrative expenses	(50)	(14)	—	(64)
Depreciation and amortization	(96)	(33)	—	(129)
Impairment expense	(25)	—	—	(25)
Operating profit (loss)	69	(8)	—	61
Finance costs	(69)	(23)	9	(83)
Transaction costs	(69)	(19)	88	—
Other income (expense)	(4)	(1)	—	(5)
Profit (loss) before tax	(73)	(51)	97	(27)

Tervita information includes revenue of \$108 million and net loss of \$58 million in relation to Newalta's operations from the Newalta Acquisition Date to December 31, 2018. Newalta information reflects financial results for operations from January 1, 2018 to the Newalta Acquisition Date.

Pro Forma adjustments to finance costs reflect the finance costs that would have been incurred if the US\$250 million senior secured notes were issued on January 1, 2018 and exclude the finance costs that were incurred under Newalta's long-term debt.

Other Acquisitions

On November 1, 2017, Tervita acquired all the share capital of 3K Oilfield Services ("3K"), an oily by-product storage structure, landfill, and waste water well operation located in Saskatchewan, for proceeds of \$19 million, net of cash acquired, of which \$18 million was paid in 2017 and \$1 million was paid in 2018. The acquisition was made to complement and enhance Tervita's service offerings in the area.

The fair value of receivables acquired and the gross contractual amounts receivable were the same, and all amounts were collected. Upon acquisition, goodwill of \$5 million was recognized (note 18). From the acquisition date to December 31, 2017, 3K contributed \$2 million to revenue and \$1 million to operating profit (loss). If the acquisition had taken place at the beginning of 2017, total revenue and profit (loss) before tax for the year ended 2017 would have been \$11 million and \$5 million, respectively.

In July 2017 and September 2017, Tervita purchased assets related to metals recycling yards for a total cash consideration of \$4 million, which included \$2 million of property, plant and equipment and \$2 million of intangible assets. No goodwill was recognized as part of these purchases.

The fair values of the identifiable assets and liabilities acquired of these other acquisitions were:

	3K	Metals Recycling Yards	Total
Assets			
Trade and other receivables	2	—	2
Property, plant and equipment	7	2	9
Intangible assets	12	2	14
Liabilities			
Trade and other payables	(1)	—	(1)
Deferred tax liability	(4)	—	(4)
Decommissioning liabilities	(2)	—	(2)
Total identifiable net assets	14	4	18
Goodwill	5	—	5
Purchase consideration	19	4	23

4. SEGMENT INFORMATION

Our activities are carried out through five operating segments: Energy Services, waste services, metals recycling, rail services, and environmental services. Our executive leadership is responsible for strategic decision making, resource allocation, and assessing financial performance and, as a group, is identified as our chief operating decision maker for the purposes of reporting segment information under IFRS. Tervita's executive leadership is comprised of the following:

- President and Chief Executive Officer;
- Chief Financial Officer; and
- Chief Operating Officer.

The operating segments of waste services, metals recycling, rail services, and environmental services have been aggregated into one reportable segment named Industrial Services.

Energy Services

Energy Services is comprised of three service lines: energy marketing, facilities, and onsite. These service lines collectively provide many services to the oil and gas sector including: treatment, recovering, and disposal of fluids; energy marketing; processing and disposal of solid materials used in, and generated by, natural resource and industrial production; disposal of oilfield-generated waste; providing specialized onsite services using centrifugation or other processes for heavy oil producers involved in heavy oil mining and in situ production; and supplying and operating drill site processing equipment, including solids control and drill cuttings management.

Industrial Services

Industrial Services provides comprehensive environmental solutions through four operating segments: waste services, metals recycling, rail services, and environmental services. The services provided by these operating segments include: site remediation, facility decommissioning, environmental construction and technologies, hazardous and non-hazardous waste management, emergency response, rail services, recycling services to oil and gas and other industrial companies, and waste transportation and classification. Recycling services include the purchase and processing of ferrous and non-ferrous metals recovered from demolition sites and other locations.

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

The accounting policies of the operating segments are the same as those described in note 2 and other relevant notes and are measured in a manner consistent with that of the Financial Statements. Intersegment sales are made under terms that approximate market values.

SUPPORTING INFORMATION

Financial Information for Reportable Segments

<i>For the year ended and as at December 31, 2018</i>	Energy Services	Industrial Services	Total
External revenue	1,743	231	1,974
Intersegment revenue	5	—	5
Segment revenue	1,748	231	1,979
Depreciation and amortization	(82)	(9)	(91)
Impairment expense	(1)	(23)	(24)
Segment operating profit (loss) before tax	129	(4)	125
Finance costs	(10)	—	(10)
Transaction costs	(12)	—	(12)
Other income (expense)	1	(2)	(1)
Assets	1,530	157	1,687
Purchases of property, plant and equipment and intangible assets	(68)	(12)	(80)

<i>For the year ended and as at December 31, 2017</i>	Energy Services	Industrial Services	Total
External revenue	2,108	221	2,329
Intersegment revenue	11	—	11
Segment revenue	2,119	221	2,340
Depreciation and amortization	(69)	(7)	(76)
Impairment expense	(76)	—	(76)
Segment operating profit (loss) before tax	24	22	46
Finance costs	(6)	(1)	(7)
Other income (expense)	(3)	(1)	(4)
Assets	929	143	1,072
Purchases of property, plant and equipment and intangible assets	(46)	(6)	(52)

Reconciliation of Information on Operating Segments to IFRS Measures

<i>For the years ended December 31</i>	Note	2018	2017
Revenue			
Total revenue for operating segments	2, 6	1,979	2,340
Elimination of intersegment revenue	6	(5)	(11)
Consolidated revenue		1,974	2,329
Profit (loss) before tax			
Total segment operating profit (loss) before tax		125	46
Unallocated general and administrative expenses		(50)	(52)
Unallocated depreciation and amortization		(5)	(4)
Unallocated impairment expense	18	(1)	—
Operating profit (loss)		69	(10)
Operating segment finance costs	8	(10)	(7)
Unallocated finance costs	8	(59)	(42)
Operating segment transaction costs	3	(12)	—
Unallocated transaction costs	3	(57)	—
Operating segment other income (expense)	9	(1)	(4)
Unallocated other income (expense)	9	(3)	(22)
Profit (loss) before tax		(73)	(85)

Costs included in general and administrative expenses on the Statements of Profit (Loss) are considered shared services or corporate costs and are not allocated to the reporting segments.

<i>As at December 31</i>		2018	2017
Total assets			
Total assets for operating segments		1,687	1,072
Unallocated assets		122	154
Consolidated total assets		1,809	1,226
<i>For the years ended December 31</i>			
	Note	2018	2017
Total purchases of property, plant and equipment, intangible assets and acquisitions			
Total operating segment purchases		80	52
Total corporate purchases		4	1
Total acquisitions	3	395	22
Consolidated purchases of property, plant and equipment, intangible assets and acquisitions		479	75

Geographic Information

<i>For the years ended December 31</i>		2018	2017
Revenue by location of services			
Canada		1,953	2,329
US		21	—
Total revenue		1,974	2,329
<i>As at December 31</i>			
Non-current assets			
Canada		1,468	959
US		77	—
Total non-current assets		1,545	959

5. INCOME TAXES

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Tervita carries on business through entities that are taxable under the Income Tax Act (Canada) and certain other jurisdictions, including the US. Income taxes recovery (expense) is comprised of current and deferred taxes. Current and deferred taxes are recognized in the Statements of Profit (Loss) except to the extent they relate to amounts recognized directly in OCI or equity. An item reported in OCI or equity is disclosed net of any taxes associated with the item. Deferred taxes recognized in a business acquisition are reported on the Statements of Financial Position at the time of the acquisition.

Current tax is the expected tax payable or receivable calculated on the taxable profit (loss) for the period using tax rates enacted, or substantively enacted, at the reporting date. Current tax assets and liabilities are offset if there is a legally enforceable right to offset and the amounts are intended to be settled on a net basis.

Deferred tax is recognized using the liability method of accounting for temporary differences at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled based on the tax rates and tax laws that have been enacted, or substantively enacted, at the reporting date. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (loss);
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off tax assets against tax liabilities and the deferred taxes relate to the same taxation authority.

Significant judgments Deferred tax assets are recognized on the Statements of Financial Position based on the results from operating activities or due to the implementation of tax planning strategies which will create sufficient taxable profit to offset the deferred tax assets. Judgment is required in determining the amount of deferred tax assets to be recognized, based on the likely timing and the level of future taxable profits available for their utilization in conjunction with the execution of certain tax planning opportunities, and the likely timing of reversal. Management assesses the recognition of deferred tax assets each reporting period.

Sources of estimation uncertainty Uncertainty exists with respect to the interpretation of complex income tax regulations. Current and deferred income taxes include estimates of future earnings and reversals of timing differences. Actual results may differ from assumptions made, which would necessitate future adjustments to previously recorded income taxes recovery (expense). Tervita establishes provisions, based on reasonable estimates, for the impact or outcome of audits by the tax authorities of the respective jurisdictions in which Tervita operates.

SUPPORTING INFORMATION

Income taxes recovery (expense)

Income taxes recovery (expense) varies from the amounts that would be computed by applying the combined domestic statutory income tax rate to the profit (loss) before tax due to the following differences:

<i>For the years ended December 31</i>	2018	2017
Profit (loss) before tax	(73)	(85)
Domestic statutory tax rates	27%	27%
Statutory tax (expense) recovery	20	23
Adjustments to income taxes due to:		
(Non-recognition) recognition of operating losses and other assets	(11)	(4)
Non-deductible expenses	(10)	(16)
Total income taxes (expense) recovery	(1)	3

Income Tax Provision

<i>For the years ended December 31</i>	2018	2017
Total income taxes (expense) recovery	(1)	3
Effective income tax rate (%)	(1)%	4%

Deferred Income Taxes

In 2018 and 2017, no temporary differences related to an investment in a subsidiary were recognized as the Company does not believe the liability will be incurred in the foreseeable future.

At December 31, 2018, \$274 million of deferred tax assets were not recognized (December 31, 2017 - \$203 million).

Tervita had the following non-capital loss carry forwards as at December 31, 2018:

Year of Expiry	US	Canada
2025	—	42
2026	—	29
Thereafter	35	790
	35	861

As at December 31, 2018, Tervita had \$119 million of deductible temporary differences for which no deferred tax asset was recognized.

6. REVENUE

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Revenue is measured at the fair value of the consideration received or receivable. Payment terms are generally 30 days from invoice date, however, these terms may vary based on service line, customer, and contract requirements. Customer creditworthiness is assessed prior to signing a contract and throughout the contract period.

Revenue From the Sale of Inventory

Revenue from the sale of inventory ("commodity-based sales") is recognized on individual contractual terms when indicators of the transfer of control exist, including but not limited to the following: the significant risks and rewards of ownership are transferred to the buyer, Tervita has a present right to payment for the inventory, the customer has legal title to the inventory, Tervita has transferred physical possession of the inventory, the customer has accepted the inventory, and recoverability of consideration is probable. These conditions are generally satisfied when the goods are provided to the customer based on the shipping terms of the contract. Revenue earned from the sale of inventory includes the marketing of crude oil and the sale of recycled and recovered waste products, including scrap metal.

Service Revenue Recognized at a Point in Time

Recognition of revenue from the rendering of services performed ("facility-based services") occurs based on individual contractual terms when indicators of the transfer of control exist, which is generally satisfied when the services are completed in accordance with the contract specifications. Revenue earned from the rendering of services includes the treatment, recovering, and disposal of fluids and the processing, recovery, and disposal of solid materials used in, and generated by, natural resource and industrial production, the disposal of oilfield waste, and hazardous and non-hazardous waste management.

Service Revenue Recognized Over Time

Recognition of revenue for services performed over time ("project-based services") occurs when Tervita has a right to invoice, or the value provided to the customer corresponds directly to the services billed to date in accordance with the service contract, as this most closely represents the actual value provided to the customer at the time of invoicing. The transaction price typically results from fixed-fee arrangements over multiple performance obligations. Service revenue is earned from a variety of sources, including the provision of environmental solutions for waste management, environmental remediation, facility decommissioning and demolition, and rail services.

For customer contracts involving multiple deliverables over several reporting periods, management allocates the performance obligations to the transaction price and recognizes revenue as the control of performance obligations is transferred to the customer, or Tervita has the right to invoice. Transaction prices with lump-sum fixed-fee arrangements over multiple performance obligations are valued on a stand-alone basis and allocated to the total transaction price based on the stand-alone values. Criteria used to assess the performance obligations for such contracts include, but are not limited to, the number of hours worked, volume of materials handled, and project milestones achieved.

For certain contracts, the transaction price is based on specific units of measurement, such as rate per unit of labor or usage of equipment. Revenue is recognized when the services are provided, based on the rates specified in the contract.

Occasionally, such contracts include an option for a customer to purchase future goods or services. Management assesses these contracts to determine if a material right exists over this option, or if the customer would not receive such a discount or other right if not for the contract. If material rights are deemed to exist, they are assessed as part of the performance obligations in the contract, at contract inception, and an assessment of the probability of exercise is assessed by management. If the optional future goods and services are deemed likely to occur, a value is assigned to the performance obligation and the related revenue is deferred until the optional work is completed or the option expires.

Often, service contracts include mobilization costs or costs to fulfill the contract. Such costs are recognized as a contract asset if all the following criteria are achieved: costs relate directly to the contract and can be specifically identified, costs generate or enhance resources of Tervita that will be used in

satisfying performance obligations into the future, and the costs are expected to be recovered. Contract assets are amortized on a straight-line basis over the life of the contract.

As Tervita adopted IFRS 15 using the cumulative effect method, revenue in 2017 was recognized under IAS 18 as follows:

- Revenue was measured at the fair value of the consideration received or receivable.
- Revenue from the rendering of services was recognized after the service had been provided and in accordance with the service contract. Service revenue was earned from a variety of sources, including providing environmental solutions for waste management, environmental remediation, and facility decommissioning and demolition.
- For customer projects that involved multiple deliverables over several reporting periods, management estimated the percentage of completion for those services and the corresponding revenue was recognized in the respective reporting period based on several factors including the number of hours worked, volume of materials handled, and project milestones achieved.
- Revenue from the sale of inventory was recognized on individual contractual terms when all of the following criteria were met: the significant risks and rewards of ownership were transferred to the buyer; it was probable that the economic benefits associated with the transaction would flow to Tervita; the costs incurred in respect of the transaction could be reliably measured; and the amount of revenue could be reliably measured. These conditions were generally satisfied when the goods were provided to the customer. Revenue earned from the sale of goods included the marketing of crude oil and the sale of scrap metal.

Significant judgments

Revenue is assessed for certain revenue streams on a portfolio basis, as the contracts in the portfolio have similar characteristics and performance obligations, and Tervita does not expect that the effects of applying IFRS 15 to the portfolio of contracts would differ materially from applying it to the individual contracts. Judgment is required in the assessment of contract characteristics and performance obligations to determine if application of IFRS 15 on a portfolio basis appropriately presents the nature and timing of those contracts on an individual basis.

Timing of the satisfaction of the performance obligations associated with revenue recognition involves an understanding of the nature of the performance obligations and contracts. Judgment is required in determining the methods used to recognize revenue for the transfer of inventory and rendering of services. Transfer of inventory generally occurs when control of the inventory transfers to the buyer, and the Company must assess whether the indicators of a transfer of control are satisfied. Rendering of services generally occurs when Tervita has a right to invoice, and the Company must determine the appropriate criteria to assess achievement of performance obligations and how performance obligations are to be allocated to the contract purchase price under fixed-pricing arrangements.

Determination of the transaction price and allocation of it to each performance obligation involves an understanding of the fair value of goods and services provided. Judgment is required in determining the stand-alone selling prices for contracts under which the transaction price is a lump-sum fixed-fee arrangement.

Sources of estimation uncertainty

Tervita records revenue for certain services based on an estimate of the completion of the performance obligations for those services. The achievement of performance obligations and the total anticipated activity are subject to significant estimates by management.

SUPPORTING INFORMATION

Disaggregated Revenue

The reconciliation of disaggregated revenue with the Company's reportable segments was as follows:

<i>For the year ended December 31, 2018</i>	<i>Note</i>	Energy Services	Industrial Services	Intersegment Eliminations	Total
Commodity-based sales	2	1,337	49	—	1,386
Facility-based services		382	33	(5)	410
Project-based services		29	149	—	178
Disaggregated revenue		1,748	231	(5)	1,974

<i>For the year ended December 31, 2017</i>	Note	Energy Services	Industrial Services	Intersegment Eliminations	Total
Commodity-based sales	2	1,824	44	—	1,868
Facility-based services		295	38	(11)	322
Project-based services		—	139	—	139
Disaggregated revenue		2,119	221	(11)	2,329

7. EMPLOYEE BENEFITS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies Wages, salaries, bonuses, vacation pay, contributions to the Company's matched savings plan, and other short-term employee benefits are accrued on an undiscounted basis in the period in which the associated services are rendered by employees.

Termination benefits are recognized as an expense when Tervita has demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits. Termination benefits are recognized as an expense if Tervita has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, they are discounted to their present value.

SUPPORTING INFORMATION

Wages and employee benefits for the year ended December 31, 2018 totaled \$137 million, of which \$112 million was included in direct expenses and \$25 million was included in general and administrative expenses (December 31, 2017 - \$140 million, of which \$109 million was included in direct expenses and \$31 million was included in general and administrative expenses).

Termination benefits for the year ended December 31, 2018 totaled \$8 million, of which \$1 million was included in direct expenses and \$7 million was included in transaction costs (December 31, 2017 - \$10 million, of which \$9 million was included in direct expenses and \$1 million was included in general and administrative expenses).

In 2017, Tervita introduced an employee savings plan. For the year ended December 31, 2018, Tervita recognized \$2 million of expense related to the plan (December 31, 2017 - \$1 million).

8. FINANCE COSTS

<i>For the years ended December 31</i>	Note	2018	2017
Interest expense	19	55	41
Amortization of debt issue costs	19	7	4
Accretion of decommissioning liabilities	21	7	4
Finance costs		69	49

9. OTHER INCOME (EXPENSE)

<i>For the years ended December 31</i>	Note	2018	2017
Gain (loss) on sale of assets		7	(1)
Share-based compensation	22	(4)	(3)
Gain (loss) on provisions	21	(8)	(19)
Realized foreign exchange gain (loss) - debt and derivatives	20	(8)	—
Unrealized foreign exchange gain (loss) - debt and derivatives	20	6	—
Unrealized foreign exchange gain (loss) - other		3	(2)
Other		—	(1)
Other income (expense)		(4)	(26)

10. EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing earnings attributable to common shareholders by the weighted average number of common shares issued and outstanding. The number of shares included is computed using the treasury stock method. The number of shares and warrants issued pursuant to the Arrangement were pro-rated for the year ended December 31, 2018 to calculate weighted average common shares outstanding. As at December 31, 2018, Tervita had 2,702,649 warrants and 2,303,728 options outstanding, with a weighted average exercise price of \$18.75 per share and \$9.61 per share, respectively.

There was no difference in the basic and diluted EPS calculation as a net loss was incurred during both 2018 and 2017, due to which outstanding warrants and options were anti-dilutive.

11. SUPPLEMENTAL CASH FLOW

<i>For the years ended December 31</i>	Note	2018	2017
Loss (gain) on sale of assets	9	(7)	1
Share-based compensation	9	4	3
Non-cash change in provisions	21	8	17
Non-cash change in deferred revenue		(1)	(1)
Non-cash transaction costs	3	47	—
Other		1	—
Total other adjustments		52	20

12. LEASES

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Lessee

Leases in which Tervita assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is recorded at the lower of its fair value and the present value of the future minimum lease payments. After initial recognition, the asset is accounted for in accordance with accounting policies applicable to that asset type (note 15). Minimum lease payments are apportioned between finance costs and the outstanding financial liability.

Operating lease payments are recognized in direct expenses (for operating segments) or unallocated general and administrative expenses in the Statements of Profit (Loss) on a straight-line basis over the lease term, unless another systematic basis is more representative of the benefits of the leased asset. Operating leases are not recognized on the Statements of Financial Position.

Sale and leaseback transactions that meet the criteria of a finance lease are classified as such and any excess of sales proceeds over the carrying amount is deferred and amortized over the term of the lease. If the sale and leaseback transaction does not meet the criteria of a finance lease, it is accounted for as an operating lease. Any gain or loss on disposal of the leased asset is recognized in gain (loss) on sale of assets on the Statements of Profit (Loss) (note 9).

Lessor

When substantially all the risks and rewards of ownership of an asset are transferred to a third party, Tervita recognizes a financial asset at an amount equal to the net investment in the lease plus any initial direct costs. After initial recognition, the financial asset is carried at amortized cost and the asset is depreciated in a consistent manner for similar owned assets.

Rental income from operating leases is recognized on a straight-line basis over the lease term in direct expenses (for operating segments) or unallocated general and administrative expenses in the Statements of Profit (Loss) unless another systematic basis is more representative of the time pattern in which the benefit is derived from the leased asset.

Significant judgments

A transaction or a series of transactions may not take the legal form of a lease, however, may be a lease in substance if the arrangement conveys a right to use an asset in return for a payment or series

of payments. Judgment is required when identifying and determining the proper accounting treatment for lease transactions, including identifying whether substantially all the risks and rewards of ownership have been transferred.

13. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies Cash and cash equivalents consist of cash in financial institutions, cash on deposit, and short-term interest-bearing securities with original maturities of less than three months.

14. INVENTORY

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies Inventory consists of crude oil, scrap metal, oilfield equipment, consumables, and chemicals. Inventory is measured at the lower of cost and net realizable value. Inventory cost is determined using the weighted average method. Cost of finished goods includes the cost of purchase and conversion costs, such as direct labor and a systematic allocation of overhead expenses.

SUPPORTING INFORMATION

<i>As at December 31</i>	2018	2017
Crude oil	1	2
Scrap metal	9	7
Other	2	—
Inventory	12	9

In 2018, Tervita expensed \$1,356 million of inventory which was included in direct expenses (2017 - \$1,843 million).

15. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies Property, plant and equipment assets are recorded at cost less accumulated depreciation and impairment. Cost includes the purchase price to acquire an asset or for construction in progress ("CIP"), and all costs directly attributable to bringing the asset to the location and condition necessary for its intended use. If a legal or constructive obligation exists to decommission property, plant and equipment, the discounted value of the obligation is included in the carrying value of the asset when the obligation arises and is depreciated on the same basis as the related asset.

If the cost of an individual component of property, plant and equipment is significant relative to the total cost of the asset, the individual component is depreciated separately. When the cost of replacing a part of an item of property, plant and equipment is capitalized, the carrying amount of the replaced item is derecognized and included in either direct expenses (for operating segments) or general and administrative expenses on the Statements of Profit (Loss). The cost of major inspections or overhauls is capitalized and depreciated over the period until the next major inspection or overhaul. Repair and maintenance expenditures that do not improve or extend productive life are expensed as incurred to either direct expenses (for operating segments) or general and administrative expenses on the Statements of Profit (Loss).

If the construction of property, plant and equipment is of a sufficient size and duration, borrowing costs are added to the cost of those assets until the assets are substantially ready for their intended use. The capitalization rate is based on the weighted average cost of borrowing of all of Tervita's outstanding third-party debt during the reporting period.

An item of property, plant and equipment is derecognized on disposal and any resulting gain or loss is included in gain (loss) on sale of assets on the Statements of Profit (Loss) (note 9).

Significant judgments For CIP, determination of costs to be capitalized is a matter of judgment. Determining when an asset meets the criteria to be considered substantially ready for intended use is a matter of judgment,

particularly for projects where construction extends over a significant period. Judgment is also required in determining the appropriate level of componentization and whether a cost incurred meets the criteria of either major inspection or overhaul to be capitalized or routine repair and maintenance to be expensed. Determining the appropriate method of depreciation for an asset requires judgment. Property, plant and equipment assets are depreciated to reflect the pattern in which management believes the benefits associated with the asset will be consumed:

- Processing facilities – straight line over five to 25 years;
- Cavern and landfill facilities – units-of-production utilized in a period;
- Buildings – straight line over 25 years;
- Mobile equipment – straight line over 10 to 25 years; and
- Other (furniture, fixtures, information technology hardware) – straight line over three to 10 years.

Sources of estimation uncertainty

Determining the useful life and expected residual value of an asset requires the use of estimates. When it is determined that assigned asset lives do not reflect the expected remaining period of benefit, prospective changes are made to their useful lives. Useful lives of property, plant and equipment are subject to market conditions in the oil and gas, environmental remediation, and well servicing industries. The useful life of engineered landfills is impacted by the type of waste received, compaction, weather, and leachate factors. The useful life of disposal caverns is impacted by the type of waste received, the ability to recover and process waste oil in the caverns, and uncertainty about total cavern capacity available.

SUPPORTING INFORMATION

	Note	Land	Facilities	Buildings	Equipment	Other	CIP	Total
Cost								
Balance, January 1, 2018		44	1,164	127	129	33	45	1,542
Additions		1	57	4	9	2	(1)	72
Acquisitions	3	4	325	80	82	3	12	506
Disposals		(3)	(35)	(1)	(12)	(3)	—	(54)
Change in decommissioning cost		—	107	—	—	—	—	107
Reclassification		—	—	—	(1)	—	—	(1)
Foreign exchange		—	3	—	1	—	—	4
Balance, December 31, 2018		46	1,621	210	208	35	56	2,176
Accumulated depreciation								
Balance, January 1, 2018		1	740	63	92	31	—	927
Provision		—	62	9	17	2	—	90
Disposals		—	(28)	—	(11)	(2)	—	(41)
Impairment	3, 18	—	39	—	—	—	1	40
Foreign exchange		—	2	—	1	—	—	3
Balance, December 31, 2018		1	815	72	99	31	1	1,019
Net book value		45	806	138	109	4	55	1,157

Acquiring or constructing property, plant and equipment and the capitalization of decommissioning liabilities do not result in a cash outflow until the related liability is settled. Therefore, investing activities for the property, plant and equipment on the Statements of Cash Flows was adjusted for settlement of prior year's liabilities and the accrual of current year liabilities. For the year ended December 31, 2018, the non-cash adjustment to the Statements of Cash Flows was \$1 million.

	Note	Land	Facilities	Buildings	Equipment	Other	CIP	Total
Cost								
Balance, January 1, 2017		47	1,119	127	128	34	14	1,469
Additions		—	23	—	4	—	31	58
Acquisitions	3	1	4	1	3	—	—	9
Disposals		(4)	(10)	(1)	(6)	(1)	—	(22)
Change in decommissioning cost		—	28	—	—	—	—	28
Balance, December 31, 2017		44	1,164	127	129	33	45	1,542
Accumulated depreciation								
Balance, January 1, 2017		—	668	58	88	29	—	843
Provision		—	60	5	8	2	—	75
Disposals		—	(5)	(1)	(4)	—	—	(10)
Impairment	18	1	17	1	—	—	—	19
Balance, December 31, 2017		1	740	63	92	31	—	927
Net book value		43	424	64	37	2	45	615

For the year ended December 31, 2017, the non-cash adjustment to the Statements of Cash Flows was \$8 million.

Included in property, plant and equipment is equipment under finance lease arrangements with a net book value of \$11 million as at December 31, 2018 (December 31, 2017 - \$nil).

16. INTANGIBLE ASSETS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Purchased intangible assets are initially recognized at cost. Internally generated intangible assets arising from development activities involving a plan or design for new or substantially improved products and processes are capitalized only if the development costs can be reliably measured, the product or process is technically and commercially feasible, future economic benefits are probable, and Tervita has the intention and sufficient resources to complete development and use or sell the assets. Capitalized costs for internally generated intangible assets are comprised of material, labor, and overhead expenses directly attributable to preparing the asset for its intended use.

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 reliably on initial recognition.

Expenditures on research activities undertaken with the prospect of gaining technical knowledge are expensed as incurred in general and administrative expenses on the Statements of Profit (Loss).

Intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with finite useful lives include customer relationships, trade names, technology, certain permits, and other (including marketing contracts, supplier relationships, non-competition agreements, and leases).

Intangible assets with indefinite useful lives are measured at cost less accumulated impairment (note 18).

Significant judgment

Determining the appropriate method of amortization for an asset requires judgment. Intangible assets with finite lives are amortized on a straight-line basis to reflect the pattern in which management believes the benefits associated with the asset will be consumed:

- Customer relationships – three to five years;
- Trade names – eight years;
- Technology – four years;
- Permits – three to 10 years; and
- Other – two to 20 years.

Sources of estimation uncertainty

The useful life and expected residual value of an intangible asset are estimates, and are reviewed on an annual basis. When it is determined that assigned asset lives do not reflect the expected remaining period of benefit, prospective changes are made to their useful lives.

SUPPORTING INFORMATION

	Note	Customer Relationships	Trade Names	Technology	Permits	Other	Total
Cost							
Balance, January 1, 2018		266	47	59	14	30	416
Additions		—	—	3	—	8	11
Acquisitions	3	—	—	—	16	—	16
Disposals		(7)	(9)	—	—	(21)	(37)
Reclassification		—	—	—	—	1	1
Balance, December 31, 2018		259	38	62	30	18	407
Accumulated amortization							
Balance, January 1, 2018		265	47	55	1	28	396
Provision		—	—	3	1	2	6
Disposals		(7)	(9)	—	—	(21)	(37)
Balance, December 31, 2018		258	38	58	2	9	365
Net book value		1	—	4	28	9	42

Purchasing or internally generating intangible assets does not result in a cash outflow until the related liability is settled. Therefore, investing activities for the intangible assets on the Statements of Cash Flows was adjusted for settlement of prior year's liabilities and the accrual of current year liabilities. For the year ended December 31, 2018, the non-cash adjustment to the Statements of Cash Flows was \$nil.

	Note	Customer Relationships	Trade Names	Technology	Permits	Other	Total
Cost							
Balance, January 1, 2017		265	47	57	2	28	399
Additions		—	—	2	—	1	3
Acquisitions	3	1	—	—	12	1	14
Balance, December 31, 2017		266	47	59	14	30	416
Accumulated amortization							
Balance, January 1, 2017		265	47	51	1	27	391
Provision		—	—	4	—	1	5
Balance, December 31, 2017		265	47	55	1	28	396
Net book value		1	—	4	13	2	20

For the year ended December 31, 2017, the non-cash adjustment to the Statements of Cash Flows was \$nil.

17. GOODWILL

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies Goodwill represents the excess of consideration transferred in a business combination over the fair value of net identifiable assets of the acquired business at the acquisition date. Goodwill is initially determined based on provisional fair values. These values are finalized within one year of the acquisition date.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to a CGU or group of CGUs that is expected to benefit from the business combination. Goodwill is tested for impairment annually or where there is an indication of impairment (note 18).

SUPPORTING INFORMATION

	Note	2018	2017
Balance, January 1		324	376
Additions	3	32	5
Impairment	18	(23)	(57)
Balance, December 31		333	324

18. IMPAIRMENT

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Each reporting period, the carrying amounts of non-current assets are reviewed to determine if there are any indications of impairment. If an indication of impairment exists, the recoverable amount of the asset is estimated. For goodwill, indefinite-lived intangible assets, and intangible assets not yet available for use, the recoverable amount is estimated at least annually, as well as when indicators of impairment exist.

For goodwill impairment testing, assets are grouped together into CGUs. A CGU is the smallest identifiable asset or group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The estimated recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and its value-in-use. In assessing the fair value less costs of disposal, estimated future cash flows are discounted to their present value using a pre-tax discount rate. For impairment testing, the goodwill acquired in a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination, and reflects the lowest level at which goodwill is monitored by management. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses recognized at the CGU level are allocated first to reduce the carrying amount of any goodwill carried by the CGU and then to the carrying amounts of other assets in the CGU, on a pro rata basis. For CGUs and assets where impairments have been noted, these have been calculated based on fair value less costs of disposal.

An impairment loss with respect to goodwill may not be reversed. For other assets, impairment losses may be reversed when the conditions for impairment no longer exist and there is an increase in the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized. The reversal of an impairment loss is recognized in impairment expense on the Statements of Profit (Loss).

Assets held for sale are classified as current and are carried at the lower of carrying value and fair value less costs of disposal, with any adjustment to the carrying value recognized in either impairment expense on the Statements of Profit (Loss) or, for assets held for sale which meet the classification criteria of discontinued operations, in the results of discontinued operations.

Significant judgments

The identification of a CGU is a matter of judgment that requires a determination of how cash inflows are generated from an asset or group of assets and when those cash inflows are independent from other assets or groups of assets. Tervita identifies CGUs at a regional or product line level for each operating segment. For the purposes of goodwill impairment testing, management aggregates these CGUs to reflect how goodwill is monitored by management within the operating segments.

Sources of estimation uncertainty

The fair value of Tervita's CGUs is estimated for purposes of the annual goodwill impairment test using a Level 3 discounted cash flow valuation approach (note 23). Inherent in the valuation approach are key assumptions that are subjective and represent reasonable estimates with respect to factors affecting operations including economic, operational, and market conditions. These conditions are sensitive to change and could affect the fair value. The fair value of Tervita and each CGU is estimated using a discounted cash flow approach based on CGU specific weighted average costs of capital ("WACC") ranging from 10 per cent to 11 per cent (2017 – 13 per cent to 14 per cent) based on comparable companies using a cross-section of industry peers.

Cash flows for the next fiscal year are based on Tervita's operating budget, which is approved by management and the Board of Directors. The budget is based on past performance as well as management's assessment of expected market trends, growth strategy, and economic conditions. For future years not included in the budget, assumptions are made, including growth rates implicit in the cash flow projections for each CGU to reflect their unique market characteristics, growth capital spending opportunities, and economic conditions. Subsequent to the next fiscal year, the discounted cash flows assume average annual revenue and expense growth rates of two per cent, and two per cent for terminal years. These conditions are sensitive to change and could affect the fair value.

The key assumptions in establishing fair value less costs of disposal for specific CGUs focus on revenue estimates which are driven primarily by forecast activity levels in the oil and gas sector. Budgeted growth rates are normally aligned with these forecast activity levels and peer group growth expectations. Historical margins are guidelines for budgeting future earnings, with adjustments made for anticipated one-time or non-recurring events. For CGUs that experienced significant growth in prior periods due to acquisitions, management reviews the increased scale of operations, new markets entered, or services offered to estimate future revenue and earnings. For energy marketing, forecast commodity prices, the equalization density penalty applicable to crude oil densities, and heavy oil differentials are estimated market inputs impacting the revenue and earnings forecasts. Management considers the revenue estimates and margins reflected in the budget and strategic plan as achievable.

Fair value less costs of disposal for specific assets or groups of assets is a Level 3 valuation, which contemplates the sale of similar assets in like markets and relies on third party offers, independent valuations and appraisals to value the assets. The key assumptions used relate to the comparability of similar assets used for valuation purposes, as well as the fact that historic market data is indicative of future market prices.

SUPPORTING INFORMATION

Allocation of Goodwill

<i>As at December 31</i>	<i>Note</i>	2018	2017
TRDs	3	297	284
Landfills	3	12	12
Waste services	3	7	22
Energy marketing	3	16	6
Onsite	3	1	—
Total allocation to CGUs		333	324

Upon acquisition of Newalta in 2018, \$32 million of goodwill was recognized and allocated to CGUs as follows: \$13 million to TRDs, \$10 million to energy marketing, \$8 million to waste services, and \$1 million to onsite.

Upon acquisition of 3K in 2017, \$5 million of goodwill was recognized and allocated to the TRDs CGU.

Impairment Expense

<i>For the years ended December 31</i>	<i>Note</i>	2018	2017
Property, plant and equipment	15	2	19
Goodwill	17	23	57
Impairment expense		25	76

Property, Plant and Equipment

The 2017 impairment included \$16 million related to waste slumps at two landfill sites.

Goodwill

Goodwill impairment testing resulted in the following impairment expense (note 17):

<i>For the years ended December 31</i>	2018	2017
Landfills	—	57
Waste services	23	—
Goodwill impairment	23	57

In 2018, an impairment of \$23 million was recognized on the goodwill allocated to the waste services CGU, which is the waste services operating segment (note 4), due to ongoing challenges in a highly competitive market.

Financial information about the waste services operating segment is disclosed under Industrial Services (note 4). The estimated fair value for the assets tested are particularly sensitive to the following estimates:

- An increase of 1% in the WACC would have increased the impairment by \$3 million approximately; and
- A decrease in the terminal growth rate by 1% would have increased the impairment by approximately \$4 million.

In 2017, an impairment of \$57 million was recognized on the goodwill allocated to the landfills CGU due to reduced estimates of future cash flows in calculating the fair value. The estimated fair value for the assets tested are particularly sensitive to the following estimates:

- An increase of 1% in the WACC would have increased the impairment by \$1 million approximately; and
- A decrease in the terminal growth rate by 1% would have increased the impairment by approximately \$1 million.

19. LONG-TERM DEBT

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies Costs associated with the negotiation, extension, or amendment of Tervita's debt facilities ("debt costs") are capitalized and amortized to finance costs in the Statements of Profit (Loss) over the term of the related liability using the effective interest method.

SUPPORTING INFORMATION

Senior secured notes of US\$250 million due December 2021 were issued on the Newalta Acquisition Date (note 3). Refer to note 23 for timing and amount of interest and debt repayment.

<i>As at December 31</i>	Principal	Issuance	Maturity	2018	2017
Senior secured notes	US\$360	Dec 2016	Dec 2021	491	452
Senior secured notes	US\$250	Jul 2018	Dec 2021	341	—
Unsecured debt - capital leases				13	—
Long-term debt				845	452
Premium on senior secured notes (US\$250)				1	—
Unamortized debt costs				(28)	(15)
Total long-term debt				818	437
Less: current portion of capital leases				(4)	—
Long-term portion				814	437

Debt Covenants

Tervita has a senior secured revolving credit facility ("Revolver") with a syndicate of Canadian banks. Under the terms of the Revolver, Tervita must comply with certain financial and non-financial covenants as defined by its lenders. In December 2018, the Company amended and extended its Revolver from \$200 million to \$275 million. Refer to note 25 for a discussion of the impact of this amendment on covenants.

As at December 31, 2018, Tervita complied with all covenants (note 25).

Outstanding Letters of Credit

Outstanding letters of credit at December 31, 2018 totaled \$87 million (December 31, 2017 – \$73 million). The outstanding letters of credit reduce the borrowing available under the Revolver.

Guarantees

Tervita's obligations under the Revolver are guaranteed by one of our subsidiaries. The guarantees are secured by substantially all tangible and intangible assets owned by Tervita and the guarantor subsidiary.

Debt Costs

	Note	2018	2017
Balance, January 1		(15)	(18)
Costs associated with new debt	3	(20)	(1)
Amortization of debt costs	8	7	4
Balance, December 31		(28)	(15)

20. DERIVATIVES AND HEDGING

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Initial Recognition and Subsequent Measurement of Hedging Instruments

From time to time, the Company uses derivative financial instruments, including cross currency swaps, to hedge its foreign currency risk related to its US\$ debt. Such derivative financial instruments are initially recognized at fair value and any directly attributable transaction costs are recognized immediately in net profit (loss). Derivative financial instruments are subsequently re-measured at fair value, and are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For hedge accounting, Tervita designates its hedges as cash flow hedges as they hedge the exposure to variability in cash flows attributable to principal and interest of its US\$ debt.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they will continue to meet the requirements for hedge effectiveness. When hedges meet the strict criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognized in the cash flow hedge reserve in OCI, while any ineffective portion is recognized immediately in net profit (loss). Amounts recognized in OCI are transferred to net profit (loss) when interest is paid on the US\$ debt or the US\$ debt is revalued to C\$ at period end.

If the hedging instrument expires or is sold, terminated or exercised without being replaced or rolled over (as part of the hedging strategy), or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in OCI remains separately in equity until the forecasted transaction occurs. If the amount held within the cash flow hedge reserve is a loss and the entirety or a portion of it is not expected to be recovered in future periods, the unrecoverable amount is recognized in profit (loss) at the time of discontinuation.

Sources of estimation uncertainty

Tervita is required to determine the fair value of the swaps at the end of each reporting period. This requires the use of a Level 2 discounted cash flow valuation approach. All inputs are considered observable including contractual payments under the swaps, forward foreign exchange and forward interest rate swaps, and the credit ratings of Tervita and our counterparties. See note 23 for fair value disclosures.

SUPPORTING INFORMATION

Foreign Currency Risk

Tervita's risk management strategy for its senior secured notes is to mitigate the foreign currency risk due to movements in the US\$:C\$ exchange rates.

Tervita issued the US\$360 million senior secured notes (note 19) on December 13, 2016 (the "Designation Date"). On this date, it also designated five cross currency swaps (the "Designated Hedge") as hedges of the interest and principal repayment of these notes to hedge the changes in cash flows due to changes in the US\$:C\$ exchange rates (note 20). There is an economic relationship between the Designated Hedge and the US\$360 million senior secured notes as the fair value of the hedging instrument moves in the opposite direction of the change in the US\$:C\$ exchange rate. As a result, the hedge ratio is maintained at 1:1 for the hedged instrument. Tervita accounts for the Designated Hedge as a cash flow hedge. The debt includes fixed US\$ interest payments, which are payable semi-annually, and full principal repayment on maturity on December 1, 2021. The payment dates of the Designated Hedge match those of the US\$360 million senior secured notes.

In May 2018, Tervita entered into cross-currency swaps ("forward swaps") with a maturity date of December 2, 2019. The forward swaps mitigate the foreign currency risk associated with the variability in principal repayment of the US\$250 million senior secured notes (note 19), issued July 2018, due to changes in the US\$:C\$ exchange rates. The forward swaps were not designated as a hedge and have been classified and measured as financial liabilities at FVTPL (note 23).

Sources of Hedge Ineffectiveness

Credit Risk

The Company is exposed to counterparty credit risk on the Designated Hedge and internal credit risk on the US\$360 million senior secured notes issued. Hedge ineffectiveness could arise from changes to credit risk for either Tervita or any of the counterparties issuing the Designated Hedge, or differences between the credit risks on either side of the hedging relationships. Tervita is not hedging credit risk as part of the hedging relationship, and noted no changes in credit risk for any of the involved parties. The change in credit risk was not a significant driver of changes in the fair value of derivatives as at December 31, 2018, resulting in no hedge ineffectiveness from credit risk.

Timing of Derivative Designation

The Designated Hedge was not entered into at the same date at which the hedge was designated and, as such, at the Designation Date an unrealized loss of \$12 million was recorded to other income (expense). At the Designation Date, the cash flow hedge was assessed to be effective. The non-zero element of the derivative at initial designation will cause hedge ineffectiveness over the term of the hedge since the hypothetical derivative used to measure hedge ineffectiveness will have a fair value of zero at the date of designation. The amount of ineffectiveness recognized in each period depends on how future interest rates affect the cumulative fair value gains (losses) on the actual derivative from inception of the hedge as compared to the effect they will have on the hypothetical derivative.

Cross-Currency Swap Agreements

Cross-currency swap agreements associated with the US\$360 million senior secured notes and US\$250 million senior secured notes for the year-ended December 31, 2018 were:

Swap agreement	Inception Date	Maturity Date	Principal	Fixed Foreign Exchange Rate
Designated Hedge	Dec 2016	Dec 2021	476.6	0.7554
Swaps	May 2018	Aug 2018	321.6	0.7775
Forward swaps	May 2018	Dec 2019	320.1	0.7809

The fair value of cross-currency swaps were:

As at December 31	2018	2017
Forward swaps		
Unrealized exchange gain (loss) on forward swaps	18	—
Current portion	18	—
Designated Hedge		
US\$360 million senior secured notes	7	(36)
Designated Hedge credit risk adjustment	1	5
Long-term portion	8	(31)
Total derivative assets (liabilities)	26	(31)

The Designated Hedge mitigates the foreign exchange risk associated with the principal and interest amounts and the cash flow risk associated with the variability in the interest on the US\$360 million senior secured notes. In 2018, Tervita recognized a total gain in OCI of \$39 million (2017 - \$25 million loss). For the year ended December 31, 2018, \$40 million of OCI was reclassified to other income (expense) (2017 - \$31 million) to offset the \$40 million unrealized foreign exchange loss (2017 - \$31 million unrealized foreign exchange gain) on revaluation of the debt. There was no tax impact for this reclassification.

The swaps provided a fixed US\$ to C\$ conversion rate on cash of US\$250 million, which were settled on July 19, 2018 in conjunction with the close of the Arrangement and the exchange of the escrow notes. For the year ended December 31, 2018, a realized foreign exchange loss of \$8 million associated with the settlement of the swaps was included in other income (expense). See notes 3 and 9 for further details.

The forward swaps mitigate the foreign exchange risk on the principal amount of the US\$250 million senior secured notes, however these forward swaps are not designated as a hedging instrument. For the year ended December 31, 2018, an unrealized foreign exchange gain of \$18 million was included in other income (expense) due to changes to the fair value of the forward swaps.

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Decommissioning Liabilities

Tervita determines its decommissioning liabilities associated with the retirement of property, plant and equipment at all its facilities. Tervita recognizes a provision measured at the present value of the future costs of its decommissioning liabilities. The value of the decommissioning liabilities are determined through an annual review of engineering and environmental studies, industry guidelines, current regulations, and management's best estimates.

The liabilities accrete to the periods the obligations are expected to settle, with accretion of decommissioning liabilities recognized as a component of finance costs on the Statements of Profit (Loss). The liabilities are reviewed each reporting period for revisions in the estimated timing and amount of the future cash flows associated with the liabilities.

Contingent Consideration

When the consideration transferred by Tervita in a business combination or asset acquisition includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination or asset acquisition. Any adjustments to fair value are recognized in other income (expense) on the Statements of Profit (Loss).

Onerous Contracts

Where Tervita has identified that under certain contracts, the unavoidable costs of meeting the contractual obligations exceed the expected benefits to be received, the contract is considered onerous. Once a contract is identified as being onerous, a provision is recognized at the present value of the unavoidable costs under the contract. Any adjustments are recognized in other income (expense) on the Statements of Profit (Loss).

Significant judgments

Determining whether Tervita has a present obligation and should recognize a provision is a matter of judgment, and requires further judgment about outcomes of future events and interpretation of laws and regulations.

Sources of estimation uncertainty

Decommissioning Liabilities

Determination of the decommissioning liabilities requires estimation of the nature, timing, and cost of the remediation process, the timing of cash outflows, and applicable discount rates. Tervita uses a risk-free rate for calculating decommissioning liabilities, which is assessed quarterly and updated when there is a material change in the rate. Estimates are based upon Tervita's best practices and current regulatory requirements.

Contingent Consideration

The fair value of contingent consideration is measured as part of the allocation of consideration transferred in a business combination or asset acquisition at the acquisition date. Subsequent measurement of fair value is based on discounted cash flows using a discount rate applicable for an operating segment or business line. Estimates with respect to future commodity prices, cavern capacity, cash flows, and discount rates may impact the fair value of contingent consideration. The fair value of contingent consideration is based on Level 2 inputs under the fair value hierarchy (note 23).

Onerous Contracts

The determination of an onerous contract provision often requires an estimation of the potential outcomes of different courses of action, the likelihood of these outcomes occurring, and the appropriate discount rate.

SUPPORTING INFORMATION

	Note	Decommissioning Liabilities	Contingent Consideration	Onerous Contracts	Legal	Total
Balance, January 1, 2018		272	9	24	3	308
Acquisitions	3	44	—	18	—	62
Charged to profit (loss)						
New obligations	3	—	—	6	—	6
Change in discount rate		—	—	6	—	6
Change in other estimates		—	2	3	—	5
Unwinding of discount	8	7	—	—	—	7
Capitalized to property, plant and equipment						
Disposals		(12)	—	—	—	(12)
Change in discount rate	3	104	—	—	—	104
Change in other estimates		3	—	—	—	3
Settled during the year		(5)	—	(9)	(3)	(17)
Balance, December 31, 2018		413	11	48	—	472
Less: current portion		14	1	11	—	26
Long-term portion		399	10	37	—	446

Provisions were settled for \$14 million of cash, an exchange of \$1 million of accounts receivable, and discontinuance of a legal claim of \$2 million.

	Note	Decommissioning Liabilities	Contingent Consideration	Onerous Contracts	Legal	Total
Balance, January 1, 2017		250	10	15	8	283
Charged to profit (loss)						
New obligations		—	—	12	6	18
Change in other estimates		—	—	1	—	1
Unwinding of discount	8	4	—	—	—	4
Capitalized to property, plant and equipment						
New obligations		2	—	—	—	2
Disposals		(2)	—	—	—	(2)
Change in discount rate		2	—	—	—	2
Change in other estimates		24	—	—	—	24
Settled during the year		(8)	(1)	(4)	(11)	(24)
Balance, December 31, 2017		272	9	24	3	308
Less: current portion		6	1	3	3	13
Long-term portion		266	8	21	—	295

Provisions were settled for \$17 million of cash and an exchange of \$7 million of accounts receivable.

Decommissioning Liabilities

The risk-free rates used to estimate the decommissioning liabilities at December 31, 2018 ranged from 1.86 to 2.50 per cent (December 31, 2017 – 1.68 to 2.26 per cent) and an inflation rate of two per cent (December 31, 2017 – two per cent), and were specific to the timing of the cash flows and the jurisdiction of the obligations. The undiscounted cash flows associated with Tervita's liabilities at December 31, 2018 were estimated at \$837 million (December 31, 2017 – \$511 million). Payments to settle the decommissioning liabilities occur on an ongoing basis and will continue over the remaining lives of the operating assets, which are up to 106 years.

Decommissioning liabilities acquired through the Arrangement were valued at \$44 million through the purchase price allocation using a credit-adjusted discount rate, and were subsequently re-measured using the appropriate risk-free discount rate, resulting in an adjustment to the decommissioning obligation of \$99 million.

Included in decommissioning liabilities was \$13 million (December 31, 2017 – \$13 million) related to present obligations to remediate waste slumps at two landfill sites. In 2017, corresponding assets of \$13 million were capitalized upon recognition of the decommissioning liability and immediately impaired (note 18). The landfill assets at one of the sites were also impaired, as the site is not currently operational and remaining capacity in its current cell structure cannot be

utilized until repair work is completed. After the remediation work on the landfills has been completed, an assessment will be performed to identify whether asset impairments can be reversed.

Contingent Consideration

In 2000 and 2014, Tervita acquired caverns at its Unity facility. The purchase agreements included a provision whereby Tervita would be required to pay a fixed payment per cubic meter of by-products received for disposal in the caverns and related disposal wells. Fixed payment rates will increase annually based on the Consumer Price Index in accordance with the contractual arrangements. The terms of this provision extend for an unlimited time, until the caverns and disposal wells are at capacity. The total fair value of the obligations as at December 31, 2018 was \$11 million, using a discount rate of 10.2 per cent (December 31, 2017 – \$9 million, 11.6 per cent discount rate).

The discount rate used for these liabilities was calculated using the WACC of comparable companies from a cross-section of industry peers, which reflects the risks inherent in the liability. Volumes of waste collected and estimated cavern space remaining are considered each reporting period to determine the fair value of this obligation.

Onerous Contracts

The risk-free rates used to estimate the onerous provisions at December 31, 2018 ranged from 1.86 to 1.96 per cent (December 31, 2017 - 1.68 to 2.04 per cent) and an average operating cost increase of five per cent to reflect the terms of the onerous contracts (December 31, 2017 - five per cent), and were specific to the timing of the cash flows. The undiscounted cash flows associated with Tervita's liabilities at December 31, 2018 were estimated at \$74 million (December 31, 2017 - \$38 million). Payments to settle the onerous contracts occur on an ongoing basis and will continue over the remaining lives of the operating assets, which are up to 14 years.

Onerous contracts acquired through the Arrangement were valued at \$18 million through the purchase price allocation using a credit-adjusted discount rate, and were subsequently re-measured using the appropriate risk-free discount rate. This resulted in an adjustment to the onerous contracts liability of \$3 million.

New obligations primarily represent the value of Newalta's head office building, which was acquired as part of the Arrangement and included in transaction costs on the Statements of Profit (Loss).

22. SHARE-BASED COMPENSATION

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Option Plan

Tervita has an Option Plan, under which stock options ("options") are granted to members of the senior management. The Option Plan is accounted for as an equity-settled plan. The fair value of the options is estimated on the grant date using the Black-Scholes model.

Unless otherwise determined by the Board of Directors, options vest in equal amounts on the first three anniversaries of the grant date, which is recognized in other income (expense) in the Statements of Profit (Loss) and share-based compensation reserve in the Statements of Financial Position.

On the exercise of options, the consideration received and the amounts previously recognized in share-based compensation reserve are recorded as an increase to issued capital. The options expire five years after the grant date.

RSU Plan

Tervita has a Restricted Stock Units Plan ("RSU Plan"), under which RSUs are granted to certain eligible employees based on criteria as determined by Tervita's management. The RSU Plan is accounted for as a cash-settled plan.

Unless otherwise determined by Tervita's Board of Directors, RSUs vest in full 36 months after they are granted, whereby share-based compensation expense is recognized in other income (expense) in the Statements of Profit (Loss) and included in other long-term liabilities in the Statements of Financial Position.

The fair value of the RSUs are estimated on the grant date and at each reporting period using the Black-Scholes model, with any changes recognized in other income (expense) in the Statements of Profit (Loss).

The RSUs are settled in cash after they are vested, which reduces the outstanding liability. RSUs are fully cancelled if an employee resigns during the vesting period.

IU Plan

Tervita granted an Integration Incentive Units Plan ("IU Plan") to executive leadership and management ("Executives"), which is accounted for as a cash-settled plan. The IU Plan is an incentive based plan to award Tervita's Executives for achieving targeted synergies with respect to the Arrangement.

The IUs were granted on December 31, 2018 and vest in full 24 months after they are granted. The share-based compensation expense associated with the IUs is recognized in other income (expense) in the Statements of Profit (Loss) and included in other long-term liabilities in the Statements of Financial Position. The IUs are settled in cash after vesting.

Sources of estimation uncertainty

Determining the fair value of the options and RSUs requires the use of assumptions in applying valuation techniques. Significant changes to one or more of these assumptions could result in a material adjustment to the carrying value of the options and RSUs outstanding at the end of a reporting period. The following key assumptions were used by Tervita in arriving at the fair values:

- Expected annual volatility – as Tervita does not have sufficient traded market price history, the volatility was determined based on publicly available trading data of comparable companies;
- Expected life – options and RSUs can only be exercised or settled if certain liquidity events occur, as defined in the respective contracts. As a result, the expected life is estimated based on the contractual life of the options and RSUs since Tervita has limited experience with similar options and RSUs and is unable to predict the occurrence and timing of these liquidity events;
- Forfeiture rate – the actual forfeitures of the group of eligible employees and members of senior management who received the grants were used in estimating future forfeiture rates;
- Market price – as Tervita does not have sufficient trading history, the Company has determined the market price of the options based on available trading history and comparable peer companies. The market price of RSUs is determined based on the five-day volume weighted average price at each reporting date; and
- Dividend yield – Tervita has not historically paid dividends, and the dividend yield is assumed to be \$nil.

SUPPORTING INFORMATION

Option Plan

The inputs to determine the fair value of the options were:

	2018		2017
Market price per unit	\$6.54	\$9.35	\$10.00
Expected annual volatility	46%	40%	43%
Expected expiry period	5 years	5 years	5 years
Risk-free interest rate	1.9%	2.0%	1.1%
Expected annual dividend yield	—	—	—
Expected annual forfeitures	0% - 4%	0% - 4%	0% - 5%
Weighted average fair value per option granted during period	\$2.74	\$3.56	\$3.74

The changes in options granted were:

	2018	Weighted Average Exercise Price	2017	Weighted Average Exercise Price
Units outstanding, January 1	1,034,643	\$10.00	—	—
Granted	1,318,242	\$9.28	1,102,579	\$10.00
Cancelled or forfeited	(49,157)	\$9.35	(67,936)	\$10.00
Units outstanding, December 31	2,303,728	\$9.61	1,034,643	\$10.00

Exercise price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$6.54	57,288	4.99	\$6.54	—	—
\$9.35	1,211,797	4.26	\$9.35	—	—
\$10.00	1,034,643	3.16	\$10.00	344,881	\$10.00
\$6.54 - \$10.00	2,303,728	3.77	\$9.61	344,881	\$10.00

The total share-based compensation expense included in the Statements of Profit (Loss) for the options was \$3 million (December 31, 2017 – \$2 million).

RSU Plan

The inputs to the the Black-Scholes model to determine the fair value of the RSUs were:

	2018	2017
Market price per unit	\$6.54	\$10.00
Expected annual volatility	50%	43%
Expected expiry period	2 years	3 years
Risk-free interest rate	2.0%	1.1%
Expected annual dividend yield	—	—
Expected annual forfeitures	7%	5%

The changes in RSUs granted were:

	2018	2017
Units outstanding, January 1	588,362	—
Units issued	518,045	630,970
Units cancelled or forfeited	(105,904)	(42,608)
Units outstanding, December 31	1,000,503	588,362

Grant date market price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Price
\$8.04	3,732	2.91	\$8.04	—	—
\$9.35	462,270	2.26	\$9.35	—	—
\$10.00	534,501	1.03	\$10.00	—	—
\$8.04 - \$10.00	1,000,503	1.61	\$9.69	—	—

The total share-based compensation liability for RSUs included in other long-term liabilities on the Statements of Financial Position was \$2 million at December 31, 2018 (December 31, 2017 – \$1 million). The total share-based compensation expense included in the Statements of Profit (Loss) for the RSUs was \$1 million (December 31, 2017 – \$1 million).

IU Plan

The Company granted 251,147 IUs on December 31, 2018, as a result of which share-based compensation expense for the year ended December 31, 2018 was \$nil.

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Financial Assets and Liabilities

Financial assets and financial liabilities ("financial instruments") are initially recognized at fair value, which is normally equal to cost plus or minus directly attributable transaction costs, other than for those financial instruments that are designated at FVTPL. The transaction costs are subsequently amortized over the financial instruments' remaining expected life using the effective interest method and are included as part of finance costs on the Statements of Profit (Loss). Transaction costs related to financial instruments classified as FVTPL or as designated hedges are expensed as incurred.

Subsequent to initial recognition, financial instruments are classified and measured at each reporting date as follows:

- Financial assets at amortized cost - Financial assets are measured at amortized cost using the effective interest method when they are held within a business model whose objective is to collect contractual cash flows, with such cash flows arising from payments of principal and interest on the principal amount outstanding. Gains and losses are recognized when the asset is derecognized or impaired. Assets that are short-term in nature have a carrying value that approximates fair value.
- FVTPL - Financial instruments are classified as FVTPL when the financial instrument is either held for trading or is initially designated as FVTPL.
- Designated hedges - Derivative financial instruments that are designated as effective hedges are recognized in OCI with an amount reclassified to net profit (loss) when the hedged item affects net profit (loss).
- Other financial liabilities - Other financial liabilities are measured at amortized cost using the effective interest method. Liabilities that are short-term in nature have a carrying value that approximates fair value. Tervita has determined that all assets and liabilities measured at fair value are deemed to be recurring fair value measurements, other than assets held for sale and discontinued operations which are non-recurring fair value measurements.

Derivatives and Hedging

Derivative financial instruments are utilized by Tervita in the management of its exchange rate exposures, and not for trading or speculative purposes. Tervita has cross-currency swaps to manage the impact of foreign exchange rates on its foreign currency denominated debt and to manage the overall cost of borrowing on its total debt portfolio. The cross-currency swaps require periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

Derivative financial instruments not designated as hedges are recorded at fair value each reporting date, with any unrealized gains or losses recognized in net profit (loss).

Derivatives designated as hedges are recorded at fair value each reporting date. The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in net profit (loss). Amounts recognized in OCI are reclassified to net profit (loss) when interest is paid on the US\$ debt or the US\$ debt is revalued to C\$ at period end.

Contracts and agreements are assessed for embedded derivatives and, where necessary, Tervita separately recognizes the embedded derivative at fair value for each reporting period.

Derecognition of Financial Instruments

Financial assets are derecognized when the contractual rights to the cash flows expire, substantially all the risks and rewards related to ownership are transferred to a third party, or Tervita is required to extinguish all or part of the financial asset. Financial liabilities are derecognized when the contractual obligation expires, is discharged, or is canceled.

Gains or losses arising from settlement, repurchase, or cancellation of financial instruments are recognized in the Statements of Profit (Loss).

Offsetting Financial Assets and Liabilities

Financial instruments are offset with the net amount presented in the Statements of Financial Position if Tervita holds an enforceable legal right to offset and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously. In all other situations, financial instruments are presented on a gross basis.

Impairment

Tervita assesses all trade and other receivables for impairment under the simplified method, which requires only the consideration of the impact of lifetime ECLs, or the ECLs resulting from possible default events over the life of the financial instruments. ECLs are a probability-weighted estimate of credit losses over the expected life of the financial instrument. Credit losses are measured as the difference between the contractual cash flows due to the Company and the cash flows Tervita expects to receive. Probabilities based on historical experience and future expectations are applied to the aging categories of the Company's provision matrix.

The Company measures its impairment on cash and cash equivalents at an amount equal to 12-month ECLs, as the credit risk on these balances is presumed to be low since deposits are held with highly-rated financial institutions.

Tervita assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is credit-impaired. A financial asset is credit-impaired if one or more events have occurred since the initial recognition of the asset that has impacted the estimated future cash flows. Evidence of a financial asset that is credit-impaired may include evidence or indications of financial difficulty of the counterparty, failure to make scheduled payments, the probability that the counterparty will enter bankruptcy or a similar arrangement, or general economic conditions that correlate with increased risk of defaults.

Significant judgments

All assets and liabilities, including financial assets and liabilities that are carried at fair value, are categorized as one of the following levels in the IFRS fair value hierarchy depending on the valuation technique used:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Judgment is required to determine the hierarchy category in which the financial instruments should be included. Where the fair values of financial instruments cannot be derived from active markets, they are determined using valuation techniques, including a discounted cash flow model. Inputs are taken from observable markets whenever possible. However, multiple methods exist by which fair value can be determined, which can cause values to differ.

Sources of estimation uncertainty

Fair value estimates are made at a point in time and may not be reflective of future fair values. Estimated fair values are designed to approximate amounts at which the financial instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Assumptions underlying the valuations may require estimates of costs and prices over time, discount rates, inflation rates, defaults and other relevant variables.

ECLs are calculated using historical and future information regarding customer collectability. Uncertainty exists over the estimation of ECLs, as the historical and forward-looking information included in the calculation may not be representative of actual future cash flows.

SUPPORTING INFORMATION

Fair Value of Financial Instruments

<i>As at December 31, 2018</i>	<i>Note</i>	Classification	Level	Carrying Value	Estimated Fair Value
Cash and cash equivalents		Amortized cost	—	46	46
Trade and other receivables		Amortized cost	—	180	180
Equity investment	3	FVTPL	3	4	4
Trade and other payables		Other financial liabilities	—	(122)	(122)
Interest payable	19	Other financial liabilities	—	(6)	(6)
Long-term debt	19	Other financial liabilities	—	(818)	(806)
Derivative assets (liabilities)	20	Designated hedge	2	8	8
Derivative assets (liabilities)	20	FVTPL	2	18	18
Contingent consideration	21	FVTPL	2	(11)	(11)

<i>As at December 31, 2017</i>	<i>Note</i>	Classification	Level	Carrying Value	Estimated Fair Value
Cash and cash equivalents		FVTPL	—	124	124
Trade and other receivables		Loans and receivables	—	130	130
Trade and other payables		Other financial liabilities	—	(94)	(94)
Interest payable	19	Other financial liabilities	—	(4)	(4)
Long-term debt	19	Other financial liabilities	—	(437)	(454)
Derivative assets (liabilities)	20	Designated hedge	2	(31)	(31)
Contingent consideration	21	FVTPL	2	(9)	(9)

There were no transfers between levels of the fair value hierarchy in either 2018 or 2017. The fair value of debt is based on third party observable quotes and may not reflect actual amounts payable by Tervita.

Offsetting Financial Assets and Liabilities

The Company enters into various energy marketing arrangements that allow for offsetting and are presented on a net basis on the Statements of Financial Position. Tervita has determined that it has a legally enforceable right to set-off which is necessary to permit balance sheet offsetting. The following tables show the actual effect of netting arrangements on the Company's financial position:

<i>As at December 31, 2018</i>	Gross Asset	Gross Liability	Net Presentation
Trade and other receivables	29	(12)	17
Trade and other payables	29	(44)	(15)

<i>As at December 31, 2017</i>	Gross Asset	Gross Liability	Net Presentation
Trade and other receivables	86	(65)	21
Trade and other payables	101	(115)	(14)

Risk Management

Counterparty Credit Risk

Credit risk is the financial risk associated with the non-performance of contractual obligations by counterparties. Tervita's revenue is primarily earned in the oil and gas industry potentially resulting in a concentration of counterparty credit risk. Tervita generally extends unsecured credit to its customers and the collection of accounts receivable may be affected by changes in economic or other conditions which may impact Tervita's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which Tervita extends credit. Tervita reviews the financial strength of some of its customers and performs a detailed analysis of outstanding trade and other receivables on an ongoing basis. None of the counterparties individually make up more than 10 per cent of Tervita's credit exposure.

Loss Allowance

	2018	2017
Balance, January 1	(1)	(3)
Provision for bad debts	—	—
Write-offs, net of recoveries	—	2
Balance, December 31	(1)	(1)

Aging Analysis of Trade Accounts Receivable Past Due

As at December 31	2018	2017
91 - 120 days	6	4
Greater than 121 days	15	3
	21	7

The Company deems that the credit risk of a financial asset has increased significantly since initial recognition if it is more than 30 days past due. Tervita considers a financial asset to be in default when the financial asset is more than 90 days past due or there are indicators that payment from the borrower is unlikely. The Company's credit terms are customer specific and could range from 30 days to 90 days. Financial assets are grouped together based on credit status and aging when assessed for ECLs.

Tervita performs regular reviews of accounts that are past due and adjusts the credit-impaired status of related financial assets according to these reviews, following which any accounts deemed uncollectible are expensed.

Cash and cash equivalents are held at major financial institutions. Management believes the credit risk is mitigated by the high credit rating of these financial institutions.

Tervita's maximum counterparty credit exposure as at December 31, 2018 was the total carrying value of cash and cash equivalents and trade and other receivables.

Liquidity Risk

Liquidity risk is the risk that Tervita will encounter difficulties in meeting its financial obligations as they come due. Tervita mitigates this risk by forecasting cash flows from operating activities and managing the borrowings under the Revolver, as management expects to rely on these as primary sources of liquidity and to fund capital expenditures. At December 31, 2018, there was \$188 million of borrowing available under the Revolver (December 31, 2017 - \$127 million). There was \$46 million in cash available at December 31, 2018 (December 31, 2017 - \$124 million).

The timing of Tervita's cash outflows relating to financial liabilities on an undiscounted basis is:

	2019	2020-21	2022-23	Thereafter
Trade and other payables	122	—	—	—
Interest payable, net of related swaps agreements	64	127	—	—
Long-term debt (excludes foreign currency revaluation and unamortized debt costs)	10	848	3	—
Contingent consideration	1	3	3	15
Total	197	978	6	15

Foreign Exchange Risk

Tervita is exposed to foreign currency risk with respect to its US\$ debt. Tervita manages this exposure through its cross-currency swaps, thereby fixing the exchange rate on US\$ debt (note 20). Absent the swap agreements, a \$0.01 change in the US\$ to C\$ exchange rate would result in a change to net profit (loss) of \$6 million (2017 - \$4 million).

Changes in Liabilities Arising From Financing Activities

	Long-Term Debt	Derivative Liabilities (Assets)	Total
Balance, January 1, 2018	437	31	468
Cash flows	(20)	—	(20)
Foreign exchange movements	49	(1)	48
Fair value changes	—	(56)	(56)
Issuance of new debt	332	—	332
Acquisitions	13	—	13
Other	7	—	7
Balance, December 31, 2018	818	(26)	792

	Long-Term Debt	Derivative Liabilities (Assets)	Total
Balance, January 1, 2017	466	6	472
Cash flows	(1)	—	(1)
Foreign exchange movements	(32)	(1)	(33)
Fair value changes	—	26	26
Other	4	—	4
Balance, December 31, 2017	437	31	468

24. SHARE CAPITAL

	Note	Authorized	Issued (number of shares)	Value (millions of C\$)
Class A voting preferred shares with no par value		Unlimited number of preferred shares	102,010,181	816
Class A voting common shares with no par value		Unlimited number of common shares	2,615,598	21
Balance, December 31, 2017			104,625,779	837
Cancellation of shares under the Arrangement	3		(104,625,779)	(837)
Common shares with no par value	3	Unlimited number of common shares	117,557,112	947
Balance, December 31, 2018			117,557,112	947

As part of the Arrangement, the class A voting common shares and the class A voting preferred shares were cancelled and exchanged for common shares with no par value in Tervita (note 3).

The common shares have one vote per share, rank equally as to any dividends and distributions, and have an equal and rateable claim to the assets of Tervita upon liquidation.

25. CAPITAL MANAGEMENT

Tervita's capital management objectives are to enable ongoing access to capital to successfully implement its growth strategy, to provide adequate returns for shareholders and benefits for other stakeholders, and to mitigate risk through changing economic environments.

Tervita defines its capital as share capital, long-term debt including current portion but excluding debt costs, and cash and cash equivalents. Tervita generates forecasts on a regular basis, incorporating acquisitions, internal investing activities, and changes in economic conditions which may impact cash provided by operating activities. In the management of capital, Tervita may incur new debt, sell assets, adjust its capital spending program, and reduce operating and general and administrative expenses in accordance with changes in activity levels.

Liquidity Risk

Tervita had cash and cash equivalents of \$46 million and access to \$188 million under its Revolver (net of letters of credit of \$87 million) as at March 13, 2019.

Debt Covenants

In December 2018, the Company amended and extended its Revolver. Amendments included an extension of the termination date from December 14, 2019 to June 1, 2021, an increase in accessible funds from \$200 million to \$275 million, a reduction of the standby fee, an increase in sublimits for letters of credit and specified draws, an increase in the cash netting limit for financial covenants from \$50 million to \$75 million, and other specified changes to definitions and terms.

At December 31, 2018, the terms of Tervita's Revolver require the Company to comply with certain financial and non-financial covenants, as defined by its lenders. This includes a covenant ("Total Leverage Ratio") which limits the amount of total indebtedness, net of unrestricted cash and cash equivalents of up to \$75 million, that Tervita can incur relative to a defined measurement of earnings. Covenant EBITDA (referred to as Adjusted EBITDA in the credit agreement) is defined as Last Twelve Months ("LTM") net profit (loss) before tax, other income (expense), finance costs, impairment expense, depreciation and amortization, and any other items that are considered non-recurring in nature. Covenant EBITDA is calculated inclusive of Newalta Pro Forma LTM Adjusted EBITDA, excluding unrestricted subsidiaries. For purposes of this calculation, severance costs associated with headcount rationalization have been added back and the gain (loss) on debt restructuring, if any, has been deducted. Covenant EBITDA is used in the determination of compliance with debt covenants and is not a recognized measure under IFRS.

The Total Leverage Ratio cannot exceed 5.00 to 1.00 in 2018 and 4.50 to 1.00 thereafter. Tervita must also maintain a secured indebtedness to Covenant EBITDA ratio ("Secured Leverage Ratio") of less than 2.50 to 1.00, and a Covenant EBITDA to interest expense ratio ("Interest Coverage Ratio") of greater than 1.75 to 1.00 for the year ended December 31, 2018 and 2.00 to 1.00 thereafter.

Covenant EBITDA was calculated as:

<i>For the year ended December 31</i>	Note	2018
Net profit (loss)		(125)
Adjustments:		
Depreciation and amortization	15, 16	129
Impairment expense	18	25
Finance costs	8	92
Transaction costs	3	88
Other (income) expense	9	5
Income taxes (recovery) expense	5	1
(Profit) loss from discontinued operations, net of tax		—
Eligible adjustments:		
Severance costs, excluding Newalta transaction costs		1
Adjusted EBITDA of unrestricted subsidiaries		(1)
Covenant EBITDA		215

The financial covenants for the Revolver for the year ended December 31, 2018 were:

	Required	Achieved
Total Leverage Ratio	Less than 5.00	3.56
Secured Leverage Ratio	Less than 2.50	0.20
Interest Coverage Ratio	Greater than 1.75	3.21

26. RELATED PARTY TRANSACTIONS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Related parties include key management personnel, which comprise the Board members, executive leadership, and certain other individuals employed by Tervita, as well as their close family members. All related party transactions abide by Tervita's general terms and conditions for transactions.

SUPPORTING INFORMATION

Management Compensation

The remuneration of key management personnel included in direct expenses and general and administrative expenses on the Statements of Profit (Loss) were:

<i>For the years ended December 31</i>	2018	2017
Salaries and short-term benefits	1	1
Termination benefits	—	8
Share-based compensation	2	1
Bonuses	1	—
Total key management compensation	4	10

The following units were issued and outstanding to key management personnel under the Option and RSU Plans:

	Note	2018	2017
Options outstanding	22	1,828,653	880,073
RSUs outstanding	22	25,000	25,000

Other Related Party Transactions

Positions held in the US\$360 million senior secured notes and US\$250 million senior secured notes by certain equity owners and members of the Board of Directors were:

<i>(amounts in US\$)</i>	2018	2017
Balance, January 1	22	22
Issuance of US\$250 million senior secured notes	15	—
Balance, December 31	37	22

During 2018, equity owners and certain members of the Board of Directors earned US\$2 million in interest income (2017 - US\$2 million) related to their proportionate holdings in the US\$360 million senior secured notes and US\$250 million senior secured notes. During 2018, certain equity owners and members of the Board of Directors also earned fees for issuance of the escrow notes of \$4 million (note 3).

27. COMMITMENTS

	2019	2020-21	2022-23	Thereafter
Interest	64	127	—	—
Office and facility leases	10	19	17	42
Operating leases	1	1	—	—
Pipeline transportation commitment	22	7	—	—
Utility purchase commitments	2	2	—	—
Investment commitment	1	—	—	—
Total commitments	100	156	17	42

28. CONTINGENCIES

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Significant judgments

Tervita is exposed to possible losses and gains related to environmental and other legal matters in the ordinary course of business. Prediction of the outcome of such uncertain events (i.e., being virtually certain, probable, remote or undeterminable), determination of whether recognition in the Financial Statements is required, and estimation of potential financial effects are matters for judgment. Where no amounts are recognized, disclosure may be appropriate. While the amount disclosed may not be material, the potential for large liabilities exists and, therefore, these estimates could have a material impact on Tervita's Financial Statements.

During the normal course of business, the Company is involved in legal proceedings, with several unresolved claims currently outstanding. The legal process of these claims has not advanced sufficiently

to the point where it is practicable to assess the timing and financial effect of these claims, if any. The Company does not anticipate that the financial position, results of operations or cash flows of the Company will be materially affected by the resolution of these legal proceedings. Insurance coverage against certain types of claims, including hazards which result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental contamination, damage to property of others, and directors and officers liability claims, is maintained at a level determined by management to be prudent.

SUPPORTING INFORMATION

Legal and Environmental Matters

Secure Energy Services On December 21, 2007, Tervita commenced an action in the Alberta Court of Queen's Bench (the "Court") seeking alleged damages against Secure Energy Services ("Secure") and several of its personnel (former Tervita employees) in their individual capacities. Pembina Pipeline Corporation ("Pembina") and Triumph EPCM Ltd. ("Triumph") were also named as defendants. The claim alleges that, among other things, the former employees breached their employment contracts and fiduciary duties, and engaged in other unlawful conduct by improperly taking confidential Tervita information and using it to enable Secure, Pembina, and Triumph to continue Secure's business in direct competition with Tervita's business. Secure filed a defence and counterclaim in November 2008 claiming alleged damages for alleged conduct in contravention of the Act.

Tervita and Triumph have settled the claims against Triumph. The Court summarily dismissed portions of Tervita's claims against Pembina, and the balance of the claims were discontinued. As a result, Pembina no longer has any involvement in the lawsuit.

29. GUARANTEES

As at December 31, 2018, Tervita had \$111 million (December 31, 2017 – \$69 million) of surety bonds outstanding to secure work, provide for potential environmental liabilities, and for completion of work with respect to its operating segments. These outstanding bonds do not impact the amount of credit available under the Revolver.

For guarantees associated with Tervita's long-term debt, see note 19.

Tervita indemnifies its directors and officers who are, or were, providing guarantees on behalf of Tervita at Tervita's request. Historically, these costs have not been material to Tervita's financial position, results of operations, or cash flows.

Corporate Information

DIRECTORS

John Cooper, President and Chief Executive Officer

Grant Billing, Chair of the Board

Michael Colodner, Human Resources Compensation Committee | Governance Committee

Allen Hagerman, Audit Committee | Human Resources Compensation Committee

Cameron Kramer, Audit Committee | Health, Safety and Environment Committee

Gordon Pridham, Audit Committee

Doug Ramsay, Health, Safety and Environment Committee | Governance Committee

Susan Riddell Rose, Governance Committee

Jay Thornton, Human Resources Compensation Committee

Kevin Walbridge, Health, Safety and Environment Committee

SENIOR OFFICERS

John Cooper, President and Chief Executive Officer

Rob Dawson, Chief Financial Officer

Brad Dlouhy, Chief Operating Officer

AUDITORS

Ernst & Young LLP

LEGAL COUNSEL

Norton Rose Fulbright Canada LLP

TRANSFER AGENT AND REGISTRAR

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2019 ANNUAL GENERAL MEETING

May 2, 2019 at 2:00 p.m. MST
Telus Convention Centre
120 9 Ave SE, Calgary AB

EXCHANGE

Toronto Stock Exchange
Symbol: TEV

INVESTOR RELATIONS

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EARTH MATTERS