TERVITA WORKS

2019 ANNUAL REPORT

EARTH MATTERS

Tervita Works.

Through all conditions, with resiliency and perseverance, Tervita Works. We work to build value for our shareholders. We work to be a trusted long-term partner for our customers. We work to be a place where our people can learn, develop and grow; and we work to build positive relationships in the communities where we operate. We know that to thrive in an ever-changing environment, we need to keep our sights on working hard for all our stakeholders.

This is how Tervita Works.

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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 energy, 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

2019 HIGHLIGHTS

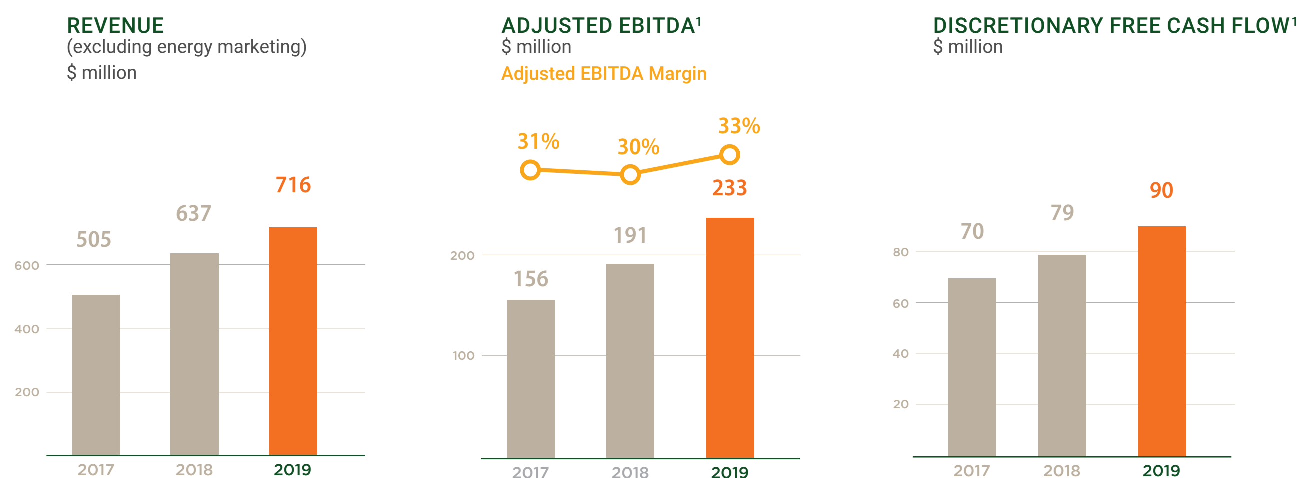
REVENUE
(excluding energy marketing) of $716 million, increased 12% over 2018

ADJUSTED EBITDA
of $233 million, increased 22% and 16% per share compared to 2018, with an Adjusted EBITDA margin of 33%[1]

DISCRETIONARY FREE CASH FLOW
of $90 million, a 14% increase over 2018[1]

ACHIEVED SYNERGIES
from the Newalta transaction of $45 million, ahead of schedule

EXECUTED
$106 million in growth and expansion capital investments in 2019, primarily 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).

PRESIDENT'S MESSAGE

We emerged from 2019 as a stronger more resilient company

JOHN COOPER
President and Chief Executive Officer

2019 was our first full year as a public company, and one of substantial achievement for Tervita. We came together as one company achieving our synergy targets ahead of schedule, emerging as a stronger, more resilient company. I am proud to say that we reached or exceeded many of our goals in 2019. We generated revenue (excluding energy marketing) of $716 million, 12% higher than last year, and Adjusted EBITDA of $233 million, 22% ahead of 2018. We generated $90 million of Discretionary Free Cash Flow, an increase of 14% over 2018 and a 7% increase on a per share basis. These strong results in a challenging market are reflective of the significant portion of our revenues derived from production-related volumes, our Industrial Services division, continued focus on cost control, and delivery of the Newalta acquisition synergies. Operationally, Tervita did well in both reporting segments:

- **Industrial Services** operations generated strong results due to increased volumes through our waste facilities and our continued focus on optimization and cost management in the business
- **Energy Services** operations benefited from synergies from the Newalta transaction and relatively stable volumes from the production-focused side of this business

In terms of capital, we invested $106 million in growth and expansion projects, primarily focused on increasing our water handling capacity in the Montney region and enhancing our clean oil energy marketing capabilities, the most notable being the significant long-term contract we secured with an energy producer in the Montney to develop a pipeline connected water disposal facility.

To illustrate our commitment to building long-term strategic partnerships with our customers and enhancing our return on capital in 2019 we created the new position of Executive Vice President, Strategy & Corporate Development. This position was filled by Rob Dawson, Tervita's former Chief Financial Officer (CFO). With this change we welcomed Linda Dietsche into the role of CFO. Linda brings a wealth of knowledge to our team with decades of experience in progressively senior financial roles including most recently as the former CFO of Newalta.

We continued our commitment to safety and in 2019 we had a Lost-Time Injury Frequency (LTIF) of 0.00, better than our target of 0.08 and a Serious Incident Frequency (SIF) of 0.00, better than our target of 0.15. Our Total Recordable Injury Frequency (TRIF) was 0.76 which slightly exceeded our target of 0.75; however, the severity of these injuries has been decreasing and we continue to focus on improving performance.

SUSTAINABILITY

In 2019 the attention to Environment, Social and Governance (ESG) factors grew and became a key focus to the investment world and our industry. We understand that an investment in sustainability is an investment in our future as a company and also for our industry. For 40 years Tervita has been in the sustainability business with our solutions contributing directly to the sustainability objectives of our customers and by the nature of our business, we are guided by responsible environmental stewardship. We use our industry expertise and technologies to reduce the environmental footprint of our customers. We see ESG as a continuing opportunity – an opportunity to better ourselves through ESG initiatives and targets, an opportunity to engage employees through incorporating best practices, and an opportunity to work with customers to assist in their ESG metrics. As a commitment to transparency and accountability, we will be releasing a sustainability scorecard in 2020 as well as building our roadmap for future ESG reporting.

2020 OUTLOOK

Through 2019 the Western Canadian Sedimentary Basin continued to be challenged by a lack of pipeline takeaway capacity and oil and gas prices, which in turn reduced drilling and completions activity and impacted producers' capital investment levels. Tervita's business remained robust through this challenging year, with Adjusted EBITDA increasing over 20% from 2018. Assuming upstream oil and gas production similar to 2019 levels and a reduction in drilling activity of approximately 10% from 2019 levels, we would expect Adjusted EBITDA growth in 2020 for the fourth consecutive year. This growth would be driven by contributions from our 2019 predominantly contracted investments in growth capital projects (which will be transitioning to service in 2020), continued optimization of our Industrial Services businesses and ongoing focus on cost control and incremental business improvements in our Energy Services segment.

We will continue to execute our strategy which has been designed for strength in today's environment while paving a path for future success and growth. We remain excited about the opportunities in front of us to leverage our infrastructure and create efficiencies for customers. We will continue to exercise capital discipline, balancing discretionary free cash flow between delivering projects within our growth capital pipeline of opportunities, de-levering our balance sheet, and creating value for shareholders. We will remain judicious and disciplined with our growth initiatives while being responsive to opportunities.

RECENT DEVELOPMENTS

Our 2020 outlook was predicated on $55/bbl oil. Recent developments in oil and gas markets related to production level decisions amongst OPEC+ members and the potential impact to demand from COVID-19 has caused a steep decline in commodity prices. Current commodity prices could greatly impact our customers' capital programs and activity levels. We will continue to work with our customers to meet their needs in a time of tight capital discipline and further assist them in maximizing the value they receive. In response to the market we are reviewing our capital budget and we expect this will temper our growth expectations for 2020. We are monitoring the situation and will update the market when we have better clarity.

CONCLUSION

We are well positioned and excited about the opportunities to leverage our infrastructure and create efficiencies for customers. 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 a key element in our strategy.

In closing, I would like to thank our employees for their extraordinary efforts and dedication in building the business we are today. I am extremely happy with the progress we have made in 2019 — our people are the reason we are a leader in our industry and why we are so successful at driving continuous improvement on behalf of our customers and shareholders.

Thank you also to our Board for their guidance and leadership, and our customers and stakeholders for their continued support. I look forward to continuing to deliver to shareholders in the year ahead.

Yours sincerely,

(Signed) John Cooper

President and Chief Executive Officer
March 18, 2020

STRATEGY & CORPORATE DEVELOPMENT

Working to identify innovative and strategic solutions and opportunities for our customers in all economic environments.

"We are committed to working alongside our customers and being a partner in finding the right solutions for their business needs. Identifying the best opportunities to help them succeed and looking for innovative ways to drive results is how we do business; it is more than a transaction, it is a partnership."

ROB DAWSON
Executive Vice President,
Strategy & Corporate Development

In 2019, we created the new position of Executive Vice President, Strategy & Corporate Development. This was a result of our commitment to working with our customers to identify innovative and strategic solutions and pursue opportunities that would create a positive return on capital in all economic environments.

This position was filled by Rob Dawson, former Chief Financial Officer with Tervita. Rob was selected for his extensive expertise and knowledge, as well as his commitment to building long-term strategic partnerships with our customers.

The Strategy & Corporate Development team works very closely with our operations to assist in identifying opportunities to consolidate and integrate our services, providing a more streamlined experience that optimizes solutions for our customers. An example of the success of this business model was the announcement in June 2019 of a long-term commercial agreement with a Senior E&P Producer to develop a pipeline-connected disposal facility. Under the agreement, we developed a water disposal network including multiple water disposal wells and a centralized water injection facility that have been pipeline connected to the producer's production facilities in the Alberta Montney.

Photo Opposite:
KAKWA WATER DISPOSAL FACILITY

OPERATIONS

Working to be the trusted long-term partner for our customers' waste management and environmental solutions needs; helping them minimize impacts, maximize returns.

Energy Services

Our Energy Services solutions are well positioned in every major play in the Western Canadian Sedimentary Basin. The solutions offered through our Energy Services business include; Facilities, Energy Marketing and Onsite Services.

FACILITIES:

Treatment, Recovery & Disposal (TRD) Facilities

We operate a network of strategically located treatment, recovery and disposal facilities that can handle the complete spectrum of petroleum industry waste by-product – from initial drilling through to production and reclamation. From contaminated drilling muds and completion fluids to tank-bottom sludge, our TRD facilities treat, recover and dispose of all upstream petroleum waste in the most cost-effective and environmentally responsible manner possible.

Engineered Landfills

With the largest number of Class II and secure landfills in Western Canada, we help our customers reduce the long-term liability and risk associated with oilfield and industrial solid waste disposal.

Caverns & Disposal Wells

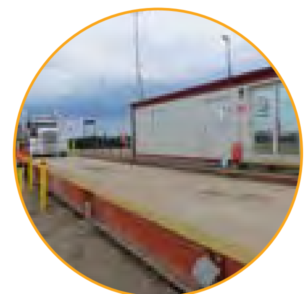
Our underground salt caverns provide an environmentally sound disposal option for oilfield liquid and solid wastes and our network of deep disposal wells are designed to provide safe, permanent disposal of the produced water and wastewater streams generated by oil and gas development activity.

ENERGY MARKETING:

Our Energy Marketing group markets and sells oil that is recovered or processed at our TRD facilities. Many of our facilities are pipeline connected.

ONSITE SERVICES:

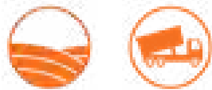
The Onsite Services team specializes in bringing custom-engineered solutions directly to our customers' sites to provide measurable realized value through product recovery. We also offer a combination of solids control services and equipment rentals for oilfield drilling operations in Canada and the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



Map does not include field offices or shops.

U.S. inset

Industrial Services



Our Industrial Services business provides comprehensive environmental solutions through the following service lines:

ENVIRONMENTAL SERVICES

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

In 2019, we integrated our Waste Services division with Environmental Services to create operational efficiencies and provide a more seamless experience for our customers. Our Waste Services business offers solutions such as waste container services for the collection and processing of hazardous and non-hazardous materials, waste products and recycling products. It also provides cost effective services for the management and disposal of Naturally Occurring Radioactive Materials. In addition, we provide a full suite of field services for the management of turnarounds, and day-to-day operational requirements.

METALS RECYCLING & RAIL SERVICES

Tervita operates recycling facilities that purchase, and process ferrous and non-ferrous metals recovered from commercial and industrial operations. All yards offer bin service for the collection of customers' scrap metal. Tervita also provides full-service response to derailments including track clearing, asset recovery, reclamation and remediation, car scrapping and re-railing.

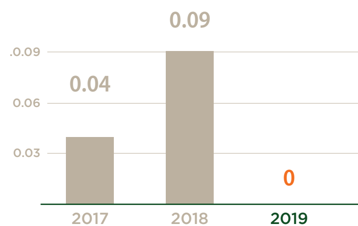
SAFETY MATTERS

Working to build a values-driven safety culture where all our people choose safe behaviours naturally and without hesitation, because it is the right thing to do.

2019 SAFETY PERFORMANCE:

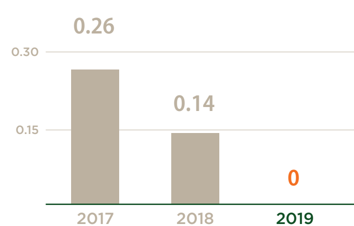
We are proud of the safety focus of our employees and the solid performance we achieved in 2019.

LTIF
Lost-Time Injury Frequency



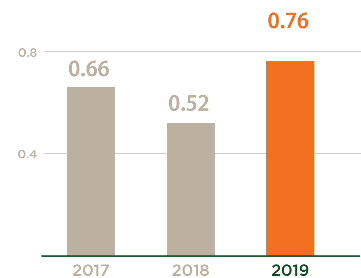
Our Lost-Time Injury Frequency (LTIF) was **0.00**, better than our target of 0.08. LTIF refers to the number of people for every 100 employees whose injury precludes them from working for at least one day post injury.

SIF
Serious Incident Frequency



Our Serious Incident Frequency (SIF) was **0.00**, better than our target of 0.15. SIF measures the number of actual and potential serious incidents that occur per 100 employees working over a year.

TRIF
Total Recordable Injury Frequency



Our Total Recordable Injury Frequency (TRIF) was **0.76** which was slightly higher than our target of 0.75. Although we did not reach our target, the severity of these types of injuries has been decreasing, and we continue to focus on improving performance.

TRIF refers to the number of people injured per 100 employees to the extent they could not perform their regular work duties.

VALUES-DRIVEN SAFETY CULTURE:

We made significant progress on our transition from a systems-based safety program to a values-driven safety culture, with a stronger focus on the parts of our program that are behaviour based. Key results included: improvements in using the tools available, reporting all incidents -no matter how small- in a timely manner, and ensuring employees are comfortable reporting so that it becomes the natural way of doing things. These actions will ensure the sustainability of our strong safety performance.

SAFETY REWARD PROGRAM:
Strengthens the foundation of our operations

We introduced an organization-wide safety recognition program for all field-based employees to reinforce our values-driven safety culture and build upon our current safety management system.

The program recognizes and rewards both teams and individuals for actions and behaviours that demonstrate accountability and "go above and beyond" to demonstrate commitment to protecting the health, safety and wellbeing of our people and our customers.

"There is solid evidence that reward and recognition programs positively influence engagement and have real benefits to safety performance," says Rhonda Rudnitski, Vice President of Health, Safety, Environment & Regulatory. "Rewarding proactive safety actions and behaviours helps to instill pride, foster caring and drives personal accountability, while allowing people to focus on continuous improvement and celebrating success on a day-to-day basis."

2020 FOCUS

As we move into a new decade, our focus will be on maintaining our health and safety program and using it as a foundation to continue building a values-driven safety culture.

Our company's roots go back to the late 1970s as a one-rig operation and this history shapes our culture today. It's a story about people who saw challenges as opportunities and solved them with innovation. It's a history of new ideas and perseverance. Today, Tervita is one company offering many solutions, and this diversity is our strength.

PEOPLE MATTERS

Our people are the reason we are a leader in our industry, and, in 2019, we made significant strides on our commitment to building a company that people want to work for and with. With the results of our engagement survey, we initiated several key actions, including:

- Developed and implemented a Management Training Program to provide our managers with the skills they need to be successful
- Established a Culture Advisory Committee comprised of employees from across the organization to provide feedback on our progress and give input into future plans
- Created new values to help employees understand what behaviors are expected of them and what they can expect from others

As we move into 2020, we will continue to build our programs around our culture including rolling out our new core competencies and developing a program to assist high potential employees to develop their careers. In addition, we will conduct another employee engagement survey and evaluate our progress and assess our future plans.

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COMMUNITY MATTERS

Working to make a positive impact in the communities where we live and operate.

Giving back to the communities where we live and work is part of our culture. In 2019 we reviewed our community investment program and selected the following pillars to focus on.

COMMUNITY VITALITY

Supporting the sustainability and quality of life in communities where we live and work.

United Way Campaign

Tervita's 30-plus years of partnership with the United Way has resulted in more than $1 million towards building a better and stronger community.

Tervita employees raised more than $70,000 during the 2019 Campaign and the company responded to this generosity in kind by matching these funds to provide United Way with a total donation of over $140,000. The contributions stay in the communities in which they are raised and will support the common goals of helping people overcome poverty, setting kids up for success, and building strong communities.

INDUSTRY ADVANCEMENT/EDUCATION

Supporting the responsible advancement of the energy and industrial sectors and those who work in them.

- Tervita was proud to be the presenting sponsor of the Calgary Chapter of the Young Professionals in Energy (YPE) Future Leaders Dinner. The YPE is a non-profit organization with more than 40,000 members worldwide that aims to facilitate the advancement of young professionals in the global energy industry by providing a forum for networking and career development through social, educational and civic service opportunities. John Cooper, Tervita's President and CEO, was a keynote speaker at the event and shared his experiences gained throughout his career.
- Tervita employees had the opportunity to educate Grade 11 and 12 students at the North Peace Secondary School in Fort St. John, BC about some of the services Tervita offers and potential careers in the energy industry. The presentation was given to students who were taking the H2S course to become properly trained in the hazards associated with hydrogen sulfide.

“Thank you Tervita for investing in the safety of communities where your employees, stakeholders and industry partners live and work. Your long-term support of STARS has helped us continue to be there when time is of the essence and the next patient is in need.”

(Wendy Beauchesne, Executive Vice President, STARS Foundation)

SAFETY

Preparing for emergencies, preventing injuries and keeping communities secure.

Celebrating a 25-year Partnership

2019 marked 25 years of partnership between Tervita and STARS Air Ambulance (STARS). STARS is a community-based, non-profit organization that receives over half its funding dollars through community donors. These donations allow STARS to provide vital transportation and medical care to patients in Western Canada who might not otherwise have access to these services.

Over the past 25 years, Tervita has donated more than $500,000 to STARS, including support of STARS community events and funding towards STARS mission operations and Vision Critical Campaign.

ENVIRONMENT

Supporting the conservation, protection and responsible use of land and water.

Tervita held two Household Hazardous Waste Round-up events with Indigenous communities this past year. Employees volunteered from nearby facilities to safely collect, sort and properly dispose of the collected waste items. Waste collected included items such as aerosols, batteries, plastic containers, grease, propane and other miscellaneous equipment for recycling. Over 400 kilograms of pails of waste, 1,600 kilograms of drums of waste, one self-standing bag of waste, and roll bins with over 10,000 kilograms of miscellaneous electronics were collected. Additionally, students from a local school came to visit the volunteers and First Nation partners to learn how Tervita disposes items and the importance of proper waste disposal.

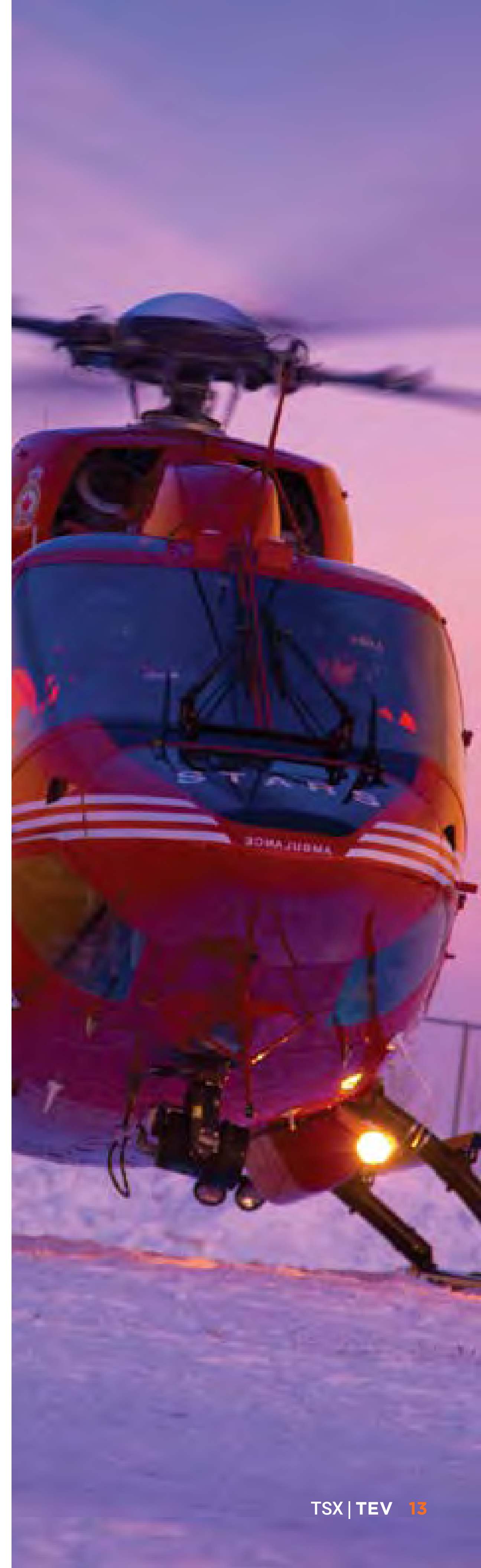

Photo attribute:
STARS AIR AMBULANCE

FINANCIALS

“Our 2019 results reflect the positive impact of our acquisition of Newalta, including both the contributions from the acquired network and the successful delivery of targeted synergies ahead of schedule. Results also demonstrated our sustained focus on continuous improvement and cost management throughout our business, particularly within our Industrial Services division.”

LINDA DIETSCHE
Chief Financial Officer

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TERVITA

MANAGEMENT'S DISCUSSION & ANALYSIS

March 8, 2020

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 and twelve months ended December 31, 2019 and as compared to the three and twelve months ended December 31, 2018. This MD&A was approved by Tervita's Board of Directors on March 8, 2020 and 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 "Annual Financial Statements") for the years ended December 31, 2019 and 2018 and our Annual Information Form ("AIF") for the year ended December 31, 2019.

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, unless otherwise stated.

All financial information reflected herein is expressed in millions of Canadian dollars ("$" or "C$") unless otherwise stated. References to US$ mean United States dollars. Throughout this MD&A, "Q4" means the three months ended December 31 and "YTD" means the twelve months ended December 31.

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 (LTM), Covenant EBITDA, and Adjusted Working Capital. Refer to the Non-GAAP Measures section 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. Refer to the Forward-Looking Statements section for more information.

CHANGES TO COMPARATIVE FIGURES

Certain comparative information have 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 their acquisition date. In addition, in accordance with IFRS 3 "Business Combinations", certain 2018 comparative figures pertaining to Tervita's acquisition of Newalta have been retrospectively adjusted to reflect the finalized measurement period adjustments. The MD&A for the three and twelve months ended December 31, 2018 included the finalized Purchase Price Allocation ("PPA") related to Tervita's acquisition of Newalta, however, the MD&A for the three and nine months ended September 30, 2018 included provisional amounts based on the Company's best estimate at that time. The three months ended December 31, 2018 have been adjusted to move the accounting impact of the finalized PPA from the three months ended December 31, 2018 to September 30, 2018. These adjustments did not affect reported Divisional EBITDA or Adjusted EBITDA, and are as follows:

	Three Months Ended December 31				Twelve Months Ended December 31			
	2019	2018 Reported	PPA Adjustment	2018 Revised	**2019**	2018 Reported	PPA Adjustment	2018 Revised
Revenue	**591**	402	—	402	**2,323**	1,974	—	1,974
Operating expenses								
Direct expenses	**(521)**	(337)	—	(337)	**(2,045)**	(1,734)	—	(1,734)
General and administrative expenses	**(11)**	(15)	—	(15)	**(48)**	(50)	—	(50)
Depreciation and amortization	**(35)**	(32)	(1)	(33)	**(138)**	(96)	—	(96)
Restructuring costs	**—**	—	—	—	**(3)**	—	—	—
Impairment reversal (expense)	**(126)**	(25)	2	(23)	**(120)**	(25)	—	(25)
Operating profit (loss)	**(102)**	(7)	1	(6)	**(31)**	69	—	69
Finance costs	**(24)**	(21)	—	(21)	**(92)**	(69)	—	(69)
Transaction costs	**(2)**	(43)	40	(3)	**(8)**	(69)	—	(69)
Other income (expense)	**2**	(4)	1	(3)	**1**	(4)	—	(4)
Profit (loss) before tax	**(126)**	(75)	42	(33)	**(130)**	(73)	—	(73)

ABOUT TERVITA

Tervita is one of the largest waste and environmentally focused energy service providers in Canada. We primarily serve companies in the oil and gas industry, as well as the industrial and natural resource sectors, predominantly in Western Canada.

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, production and reclamation/remediation activity; waste management; oil terminalling; energy marketing; metals recycling; equipment rental; demolition; and decommissioning. Our network of facilities as at December 31, 2019 consisted of 107 active waste processing, disposal, and industrial facilities, including: 47 treatment, recovery, and disposal facilities ("TRDs"); seven stand-alone disposal wells; three cavern disposal facilities; seven onsite facilities; 24 engineered landfills (which included 19 owned sites, two sites operated under contract, and three sites that we market under contract for other landfill operators); four transfer stations; one naturally occurring radioactive material facility; nine bio-remediation facilities; and five metals recycling facilities.

Tervita's activities are managed 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; oil terminalling; 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, water treatment, sludge and slurry management, bio-remediation and technologies, hazardous and non-hazardous waste management and disposal, 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, general and administrative ("G&A") expenses, 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.

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	Three Months Ended December 31				Twelve Months Ended December 31			
	2019	2018	Increase (Decrease)	% Change	**2019**	2018	Increase (Decrease)	% Change
Energy Services revenue								
Facilities revenue	**102**	109	(7)	*(6)%*	**399**	368	31	*8 %*
Onsite revenue	**15**	22	(7)	*(32)%*	**76**	43	33	*77 %*
Energy marketing revenue	**416**	208	208	*100 %*	**1,607**	1,337	270	*20 %*
	533	339	194	*57 %*	**2,082**	1,748	334	*19 %*
Industrial Services revenue	**60**	63	(3)	*(5)%*	**246**	231	15	*6 %*
Intersegment eliminations	**(2)**	—	(2)	*(100)%*	**(5)**	(5)	—	*— %*
Revenue	**591**	402	189	*47 %*	**2,323**	1,974	349	*18 %*
Revenue excluding energy marketing	**175**	194	(19)	*(10)%*	**716**	637	79	*12 %*
General and administrative expenses	**(11)**	(15)	(4)	*(27)%*	**(48)**	(50)	(2)	*(4)%*
Net profit (loss)	**(123)**	(33)	(90)	*(273)%*	**(116)**	(74)	(42)	*(57)%*
- per share ($), basic and diluted	**(1.07)**	(0.28)	(0.79)	*(282)%*	**(0.99)**	(0.67)	(0.32)	*(48)%*
Adjusted EBITDA [1]	**59**	50	9	*18 %*	**233**	191	42	*22 %*
- per share ($), basic and diluted	**0.51**	0.43	0.08	*19 %*	**2.00**	1.73	0.27	*16 %*
Adjusted EBITDA margin [1]	**34 %**	26 %	8 %		**33 %**	30 %	3 %	
Energy Services Divisional EBITDA[1]	**60**	58	2	*3 %*	**240**	212	28	*13 %*
Industrial Services Divisional EBITDA [1]	**10**	7	3	*43 %*	**39**	28	11	*39 %*
Divisional EBITDA [1]	**70**	65	5	*8 %*	**279**	240	39	*16 %*
Capital additions	**52**	32	20	*63 %*	**139**	83	56	*67 %*
Discretionary free cash flow [1]	**9**	(2)	11	*550 %*	**90**	79	11	*14 %*
Adjusted Working Capital [1]	**31**	78	(47)	*(60)%*	**31**	78	(47)	*(60)%*
Shares as at December 31 (000's of shares) [2]								
Shares outstanding	**114,355**	117,557	(3,202)	*(3)%*	**114,355**	117,557	(3,202)	*(3)%*
Weighted average shares - basic and diluted	**115,260**	117,557	(2,297)	*(2)%*	**116,732**	110,471	6,261	*6 %*

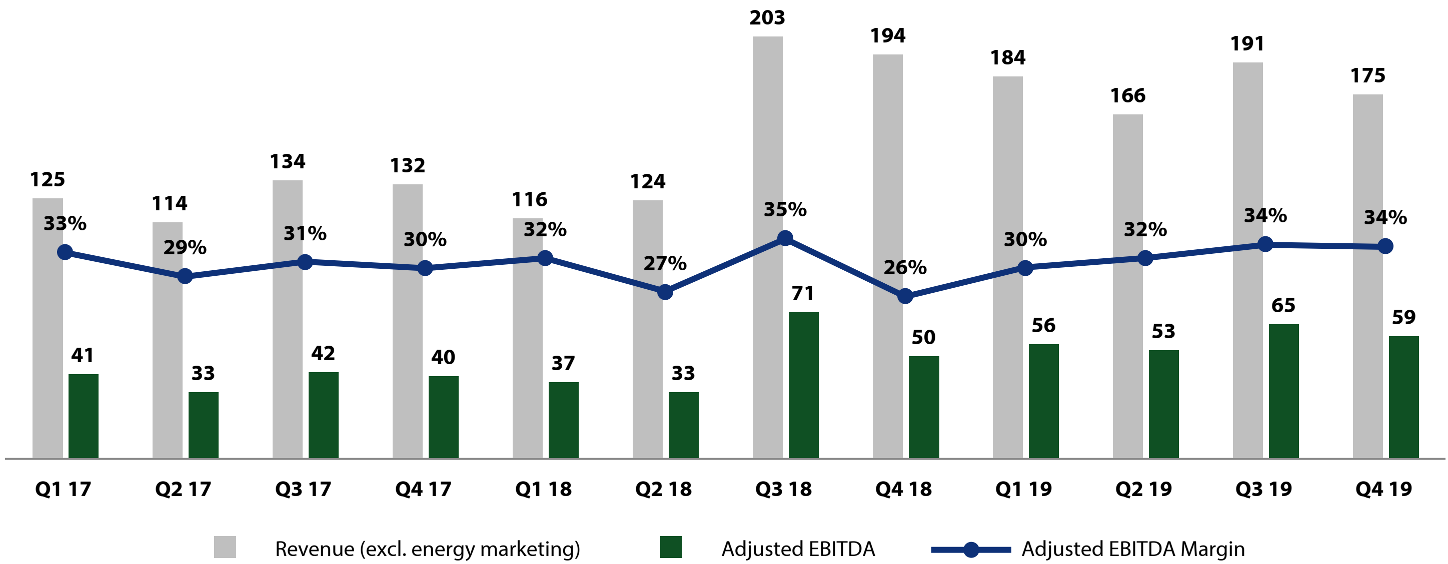
[1] Refer to the section Non-GAAP Measures for definitions and reconciliation.
[2] As at March 8, 2020, the Company had 113,276,432 common shares, 2,702,649 common share purchase warrants, and 2,471,730 stock options outstanding. Each common share purchase warrant and option outstanding is exercisable for a maximum of one common share.

INDUSTRY BENCHMARKS

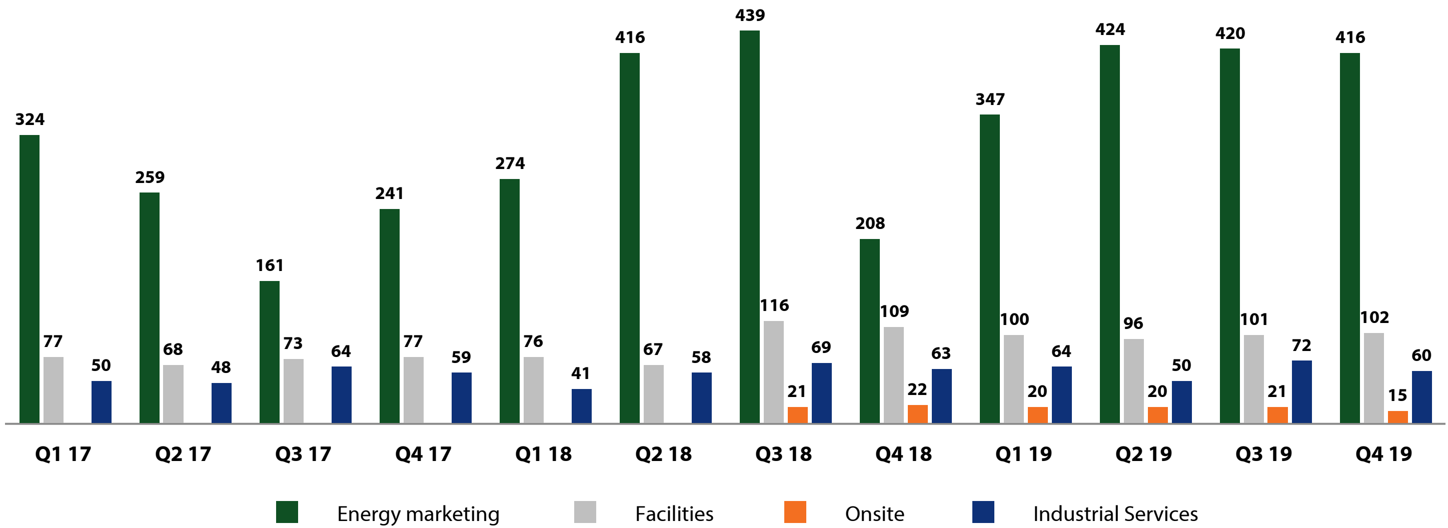
	Three Months Ended December 31				Twelve Months Ended December 31			
	2019	2018	Increase (Decrease)	% Change	**2019**	2018	Increase (Decrease)	% Change
Average WTI (US$/bbl)[1]	**$ 56.85**	$ 58.79	$ (1.94)	*(3)%*	**$ 57.02**	$ 64.86	$ (7.84)	*(12)%*
Average Edmonton Mixed Sweet (US$/bbl)[1]	**$ 50.67**	$ 36.27	$ 14.40	*40 %*	**$ 52.05**	$ 53.41	$ (1.36)	*(3)%*
Average WCS (US$/bbl)[1]	**$ 37.94**	$ 25.48	$ 12.46	*49 %*	**$ 43.39**	$ 38.53	$ 4.86	*13 %*
Average AECO (C$/MMbtu)[1]	**$ 2.37**	$ 1.52	$ 0.85	*56 %*	**$ 1.69**	$ 1.44	$ 0.25	*17 %*
Average Oil Production (Mbbl/d) [2]	**4,480**	4,579	(99)	*(2)%*	**4,402**	4,762	(360)	*(8)%*
Average Gas Production (MMcf/d) [2]	**16,147**	16,097	50	*— %*	**15,828**	15,852	(24)	*— %*
Meters Drilled (000's of meters drilled) [3]	**3,690**	4,790	(1,100)	*(23)%*	**14,820**	19,420	(4,600)	*(24)%*
Wells Drilled [4]	**1,181**	1,682	(501)	*(30)%*	**4,995**	6,939	(1,944)	*(28)%*
Foreign Exchange Rate (US$/C$) [5]								
Period End	**$ 0.77**	$ 0.73	$ 0.04	*5 %*	**$ 0.77**	$ 0.73	$ 0.04	*5 %*
Period Average	**$ 0.76**	$ 0.76	$ —	*— %*	**$ 0.75**	$ 0.77	$ (0.02)	*(3)%*

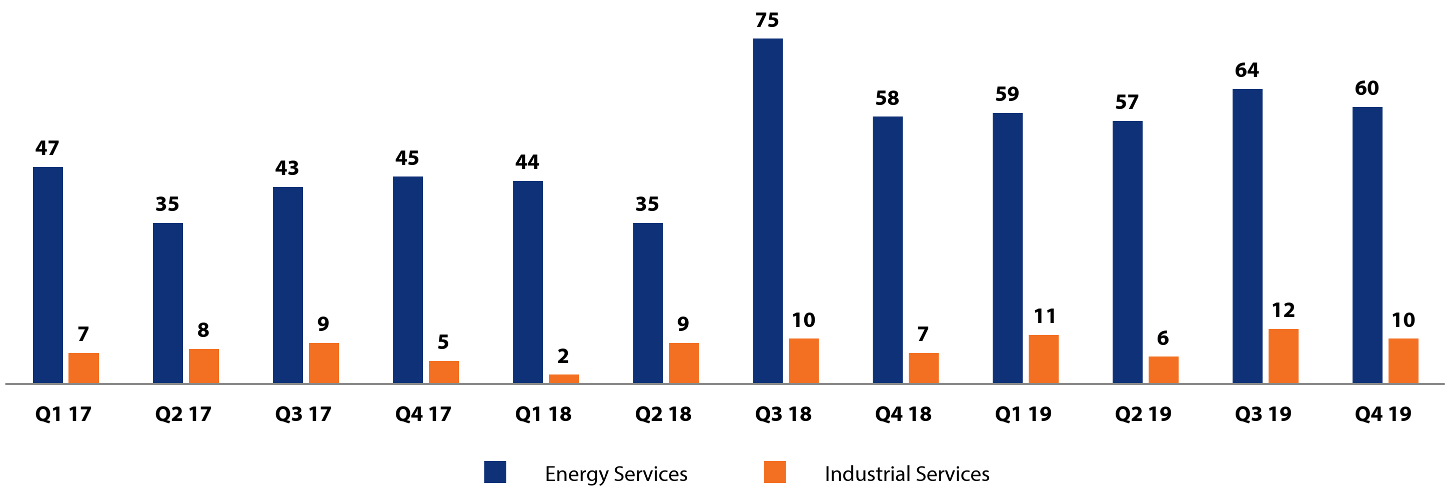
[1] Information from Bloomberg.
[2] Information from National Energy Board, Estimated Production of Canadian Crude Oil and Equivalent and Marketable Natural Gas Production in Canada.
[3] Information from JuneWarren-Nickle's Energy Group and pertains to Canada.
[4] Information for Daily Oil Bulletin and pertains to Canada
[5] Information from Bank of Canada.

Quarterly Revenue and Adjusted EBITDA

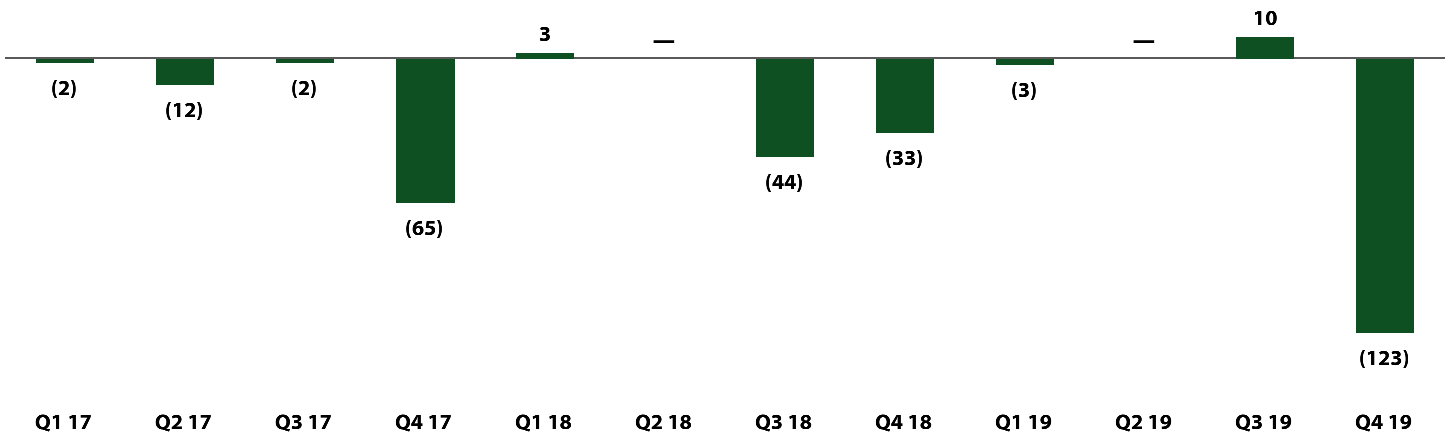


Revenue Before Intersegment Eliminations

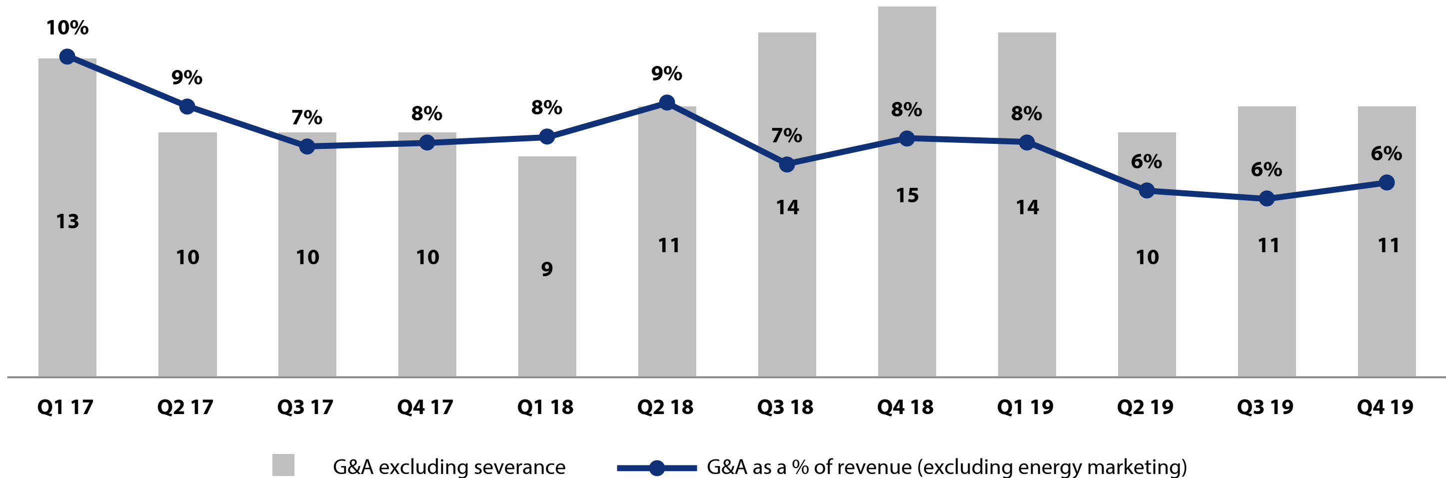




Divisional EBITDA
47
7
35
8
43
9
45
5
44
2
35
9
75
10
58
7
59
11
57
6
64
12
60
10
Q1 17
Q2 17
Q3 17
Q4 17
Q1 18
Q2 18
Q3 18
Q4 18
Q1 19
Q2 19
Q3 19
Q4 19
Energy Services
Industrial Services



Net Profit (Loss)
(2)
(12)
(2)
(65)
3
—
(44)
(33)
(3)
—
10
(123)
Q1 17
Q2 17
Q3 17
Q4 17
Q1 18
Q2 18
Q3 18
Q4 18
Q1 19
Q2 19
Q3 19
Q4 19



G&A (Excluding Severance) as a % of Revenue
10%
13
9%
10
7%
10
8%
10
8%
9
9%
11
7%
14
8%
15
8%
14
6%
10
6%
11
6%
11
Q1 17
Q2 17
Q3 17
Q4 17
Q1 18
Q2 18
Q3 18
Q4 18
Q1 19
Q2 19
Q3 19
Q4 19
G&A excluding severance
G&A as a % of revenue (excluding energy marketing)

FOURTH QUARTER RESULTS

Overview and Highlights

- Q4 2019 Adjusted EBITDA increased over the same period in 2018 despite industry activity declines, reflecting our focus on operational efficiencies, realized synergies from the acquisition of Newalta in 2018 and improved Canadian crude oil prices.
- Energy Services Divisional EBITDA Margin improved from 44% in Q4 2018 to 51% in Q4 2019 primarily due to stronger commodity prices, a focus on cost management and realized synergies, as well as one-time 2018 repair and maintenance costs for work completed at Newalta facilities.
- Industrial Services Divisional EBITDA increased by more than 40% over prior year, primarily driven by our continued focus on optimization and increased waste volumes into our facilities, despite reduced demand for steel and lower metals commodity pricing.
- Repurchased 1,432,018 common shares for $11 million under the Normal Course Issuer Bid ("NCIB") announced on May 2, 2019, and amended on December 5, 2019.

Q4 Revenue Increases 47% to $591 Million

- Revenue of $591 million increased by $189 million or 47% from the prior year, primarily due to the increase in marketed oil volumes from acquired Newalta facilities and improved commodity prices.
- Net Energy Services revenue of $117 million decreased $14 million from the prior year. Impacts of improved Canadian crude oil prices were more than offset by an 8% decrease in volumes throughout the facility network and the impact of lower drilling activity.
- Energy marketing revenue increased by 100% compared to the prior year due to favorable crude oil commodity prices combined with a 17% increase in marketed oil volumes, as we began marketing oil volumes from acquired Newalta facilities on January 1, 2019.
- Industrial Services revenue of $60 million was $3 million lower than Q4 2018 primarily driven by lower metals commodity pricing and reduced demand for steel.

Q4 Divisional EBITDA Increases by $5 Million or 8%

- Divisional EBITDA of $70 million increased $5 million or 8% over prior year, largely as a result of improved commodity prices and realized synergies from the Newalta transaction.
- Energy Services Divisional EBITDA of $60 million increased $2 million or 3% from Q4 2018, with synergies from the Newalta transaction and favorable crude oil commodity pricing, more than offsetting lower activity and volumes into our facilities.
- Industrial Services Divisional EBITDA of $10 million was $3 million or 43% higher than the prior year primarily driven by increased project margins combined with higher waste volumes at our waste services facilities, partially offset by the impact of lower metals commodity prices.

Q4 Adjusted EBITDA Increases by $9 Million or 18%

- Adjusted EBITDA of $59 million was a $9 million and 18% improvement from Q4 2018 reflecting increased Divisional EBITDA and a $4 million reduction to G&A expense which was primarily related to synergies realized from the acquisition of Newalta.
- Adjusted EBITDA Margin was 34%, an improvement of eight percentage points compared to prior year primarily due to synergies from the Newalta acquisition, stronger commodity prices and one-time expenses in Q4 2018 to bring acquired facilities onto Tervita's maintenance program.

Q4 Net Loss

- Net loss was $123 million in Q4 2019, compared to net loss of $33 million in the prior year, primarily due a $126 million impairment expense. This non-cash charge was for the write-down of specific assets within Energy Services, approximately 64% of which related to our drilling-based operations in the United States ("US") and Canada, and the remainder to closed or suspended facilities that no longer met our return expectations. These assets did not contribute materially to our 2019 Adjusted EBITDA.

Q4 Capital Additions

- Capital additions related to growth and expansion projects were $41 million in the quarter, and included the ongoing development of a new water disposal infrastructure project.
- Capital additions related to maintenance projects were $11 million, consistent with the prior year.

Q4 Discretionary Free Cash Flow

- Discretionary Free Cash Flow was $9 million, an $11 million increase from the prior year due to an increase in cash generated by our operations and proceeds from the disposal of long-lived assets.

FULL YEAR RESULTS

2019 Revenue Increases 18% to $2,323 Million

- Revenue of $2,323 million increased by $349 million over 2018. This 18% increase is primarily attributable to an 11% increase in production volumes through Energy Services facilities as compared to 2018.
- Marketed oil volumes in 2019 were 30% higher than 2018 primarily due to acquired facilities which drove a 20% increase in energy marketing revenue.
- Industrial Services revenue increased by 6% primarily due to higher volumes through waste services facilities and increased project activity in environmental services and rail services, partially offset by lower metals commodity pricing.

2019 Divisional EBITDA Increases by $39 Million or 16%

- Divisional EBITDA of $279 million was a $39 million increase over 2018.
- Energy Services Divisional EBITDA increased $28 million over 2018 to $240 million, driven primarily by our acquisition of Newalta and related synergies.
- Industrial Services Divisional EBITDA of $39 million was $11 million or 39% higher than 2018, primarily due to increased volumes through our waste facilities and our continued focus on optimization and cost management in the waste and environmental services businesses.

2019 Adjusted EBITDA Increases by $42 Million or 22%

- Adjusted EBITDA of $233 million improved 22% over the prior year, reflecting increased Divisional EBITDA contributions, the adoption of the new lease accounting standard (refer to Impact of New Accounting Standards section) and reduced G&A expenses.
- Adjusted EBITDA Margin was 33%, a three percentage point improvement over 2018.

2019 Net Loss

- Net loss in 2019 was $116 million compared to a loss of $74 million in the prior year, as improvements in Adjusted EBITDA and decreased transaction costs were more than offset by higher impairment expense as well as increased depreciation and finance costs associated with the Newalta acquisition.

2019 Capital Additions

- Capital additions related to growth and expansion projects were $106 million in 2019, which included the ongoing development of a new water disposal infrastructure project, drilling of new disposal wells, construction of new landfill cells, additional facility blending infrastructure, cavern expansions, and the purchase of new rail cars to increase capacity for our metals recycling business.
- 2019 maintenance capital additions were $33 million, consistent with the prior year.

2019 Discretionary Free Cash Flow

- Tervita generated $90 million of Discretionary Free Cash Flow in 2019, a 14% increase over the prior year. Discretionary Free Cash Flow, combined with our focused efforts on improving adjusted working capital, funded the $73 million of cash capital expenditures on growth and expansion projects and the $23 million repurchase of 3.2 million shares through our NCIB in 2019.

OUTLOOK

MARKET OUTLOOK

- Tervita demonstrated strength in its operating and financial results through 2019, delivering a 22% increase in Adjusted EBITDA over the prior year despite reduced energy industry-wide activity. These results in a challenging market are reflective of the majority of our waste volumes coming from a stable base of production-related volumes, continued focus on cost control, and delivery of the Newalta acquisition synergies.
- The Western Canadian Sedimentary Basin ("WCSB") continues to be challenged by egress as well as oil and gas prices, which have reduced drilling and completions activity and impacted producers' capital investment levels. Assuming WTI of approximately US$55/bbl, upstream oil and gas production similar to 2019 levels, and a reduction in drilling activity of approximately 10% from 2019 levels, we would expect Adjusted EBITDA growth in 2020, driven by contributions from:
    - our predominantly contracted 2019 investments in growth capital projects, which were primarily focused on increasing our water handling capacity in the Montney region and enhancing our clean oil energy marketing capabilities;
    - our ongoing focus on cost control and incremental business improvements in our Energy Services segment; and
    - the continued optimization of our waste and environmental services businesses in the Industrial Services segment.
- Recent market developments, which have introduced volatility and corresponding declines in commodity prices, could temper these growth expectations.

CAPITAL

- In 2020, we plan to take a measured approach to the allocation of Discretionary Free Cash Flow between the focus areas of delivering projects within our growth capital pipeline of opportunities, de-levering our balance sheet, and returning value to shareholders. Given our outlook for industry activity in 2020 and more recent market uncertainty, we have taken a prudent approach and established our preliminary capital budget at approximately $85 million for the year, including growth and expansion of $50 million, a 53% reduction from 2019 additions. We anticipate maintenance capital to remain flat to prior year at approximately $35 million. We will continue to exercise capital discipline while remaining responsive to opportunities and market changes and may revise our capital plans accordingly.

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 Consolidated Statements of Profit (Loss) ("Statements of Profit (Loss)") and is defined as net profit (loss) before tax, other income (expense), finance costs, impairment reversal (expense), depreciation and amortization, and certain items that are considered non-recurring in nature. For this MD&A, we have added back all severance, restructuring costs, 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 year ended December 31, 2018 included financial results for Newalta from the Acquisition Date.

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

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	**2019**	2018
Net profit (loss)	**(123)**	(33)	**(116)**	(74)
Add back:				
Severance costs (excluding restructuring and transaction costs)	**—**	—	**3**	1
Depreciation and amortization	**35**	33	**138**	96
Restructuring costs	**—**	—	**3**	—
Impairment expense (reversal)	**126**	23	**120**	25
Finance costs	**24**	21	**92**	69
Transaction costs	**2**	3	**8**	69
Other expense (income)	**(2)**	3	**(1)**	4
Income tax expense (recovery)	**(3)**	—	**(14)**	1
Adjusted EBITDA	**59**	50	**233**	191
Adjusted EBITDA margin	***34 %***	*26 %*	***33 %***	*30 %*

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 G&A expenses and the amount of severance costs not allocated to any segment. 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 and twelve months ended December 31, Divisional EBITDA was as follows:

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	**2019**	2018
Net profit (loss)	**(123)**	(33)	**(116)**	(74)
Add back:				
Severance costs (excluding restructuring and transaction costs)	**—**	—	**3**	1
Depreciation and amortization	**35**	33	**138**	96
Restructuring costs	**—**	—	**3**	—
Impairment expense (reversal)	**126**	23	**120**	25
Finance costs	**24**	21	**92**	69
Transaction costs	**2**	3	**8**	69
Other expense (income)	**(2)**	3	**(1)**	4
Income tax expense (recovery)	**(3)**	—	**(14)**	1
Adjusted EBITDA	**59**	50	**233**	191
Add back:				
General and administrative expenses	**11**	15	**48**	50
Severance costs in general and administrative expenses	**—**	—	**(2)**	(1)
Divisional EBITDA	**70**	65	**279**	240
Divisional EBITDA by reporting segment				
Energy Services	**60**	58	**240**	212
Industrial Services	**10**	7	**39**	28
Divisional EBITDA	**70**	65	**279**	240
Divisional EBITDA Margin				
Energy Services	***51 %***	*44 %*	***51 %***	*52 %*
Industrial Services	***17 %***	*11 %*	***16 %***	*12 %*

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, debt reduction, or return of capital to our shareholders. Discretionary Free Cash Flow is defined as funds from operations, less cash spent on maintenance capital and payment of principal portion of lease liabilities, plus cash proceeds on the sale of long-lived assets and sublease payments received. Payment of principal portion of lease liabilities and receipt of sublease payments have been included in the definition of Discretionary Free Cash Flow as a result of the adoption of IFRS 16 "Leases" ("IFRS 16") (refer to the Impact of New Accounting Standards section).

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

	Three Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	**2019**	2018
Funds from (used in) operations	**20**	10	**127**	102
Less:				
Cash spend on maintenance capital	**(12)**	(11)	**(29)**	(28)
Payment of principal portion of lease liabilities	**(4)**	(1)	**(17)**	(2)
Add:				
Proceeds on disposition of long-lived assets	**5**	—	**7**	7
Sublease payments received	**—**	—	**2**	—
Discretionary Free Cash Flow	**9**	(2)	**90**	79

NET DEBT TO ADJUSTED EBITDA (LTM)

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

Tervita's Net Debt to Adjusted EBITDA (LTM) at December 31, 2019 was as follows:

	LTM December 31 2019
Net profit (loss)	(116)
Add back:	
Severance costs (excluding restructuring and transaction costs)	3
Depreciation and amortization	138
Restructuring costs	3
Impairment expense (reversal)	120
Finance costs	92
Transaction costs	8
Other expense (income)	(1)
Income taxes expense (recovery)	(14)
Adjusted EBITDA (LTM)	233

	As at December 31 2019
Long-term debt	750
Derivative liabilities	10
Less: unrestricted cash and cash equivalents	(22)
Net debt	738
Net Debt to Adjusted EBITDA (LTM)	*3.17*

COVENANT EBITDA

The terms of our revolving credit facility require the Company to comply with certain financial and non-financial covenants, as defined by our lenders. Covenant EBITDA is defined as Adjusted EBITDA (LTM) excluding the Adjusted EBITDA (LTM) of our unrestricted subsidiary and the impact of any changes in GAAP subsequent to the date of the credit agreement (refer to the Impact of New Accounting Standards section for information regarding changes in GAAP).

Tervita's Covenant EBITDA at December 31, 2019 was as follows:

	LTM December 31 2019
Net profit (loss)	(116)
Add back:	
Depreciation and amortization	138
Restructuring costs	3
Impairment expense (reversal)	120
Finance costs	92
Transaction costs	8
Other expense (income)	(1)
Income taxes expense (recovery)	(14)
Eligible adjustments:	
Severance costs (excluding restrucuting and transaction costs)	3
Adjusted EBITDA of unrestricted subsidiaries	(3)
Impact of new accounting standards (IFRS 16)	(10)
Covenant EBITDA	220

ADJUSTED WORKING CAPITAL

Adjusted Working Capital is defined as trade and other receivables, inventory, and other current assets less trade and other payables and other current liabilities. 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.

	As at December 31	
	2019	2018
Trade and other receivables	**192**	180
Inventory	**12**	12
Other current assets	**12**	8
Trade and other payables	**(180)**	(122)
Other current liabilities	**(5)**	—
Adjusted Working Capital	**31**	78

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.

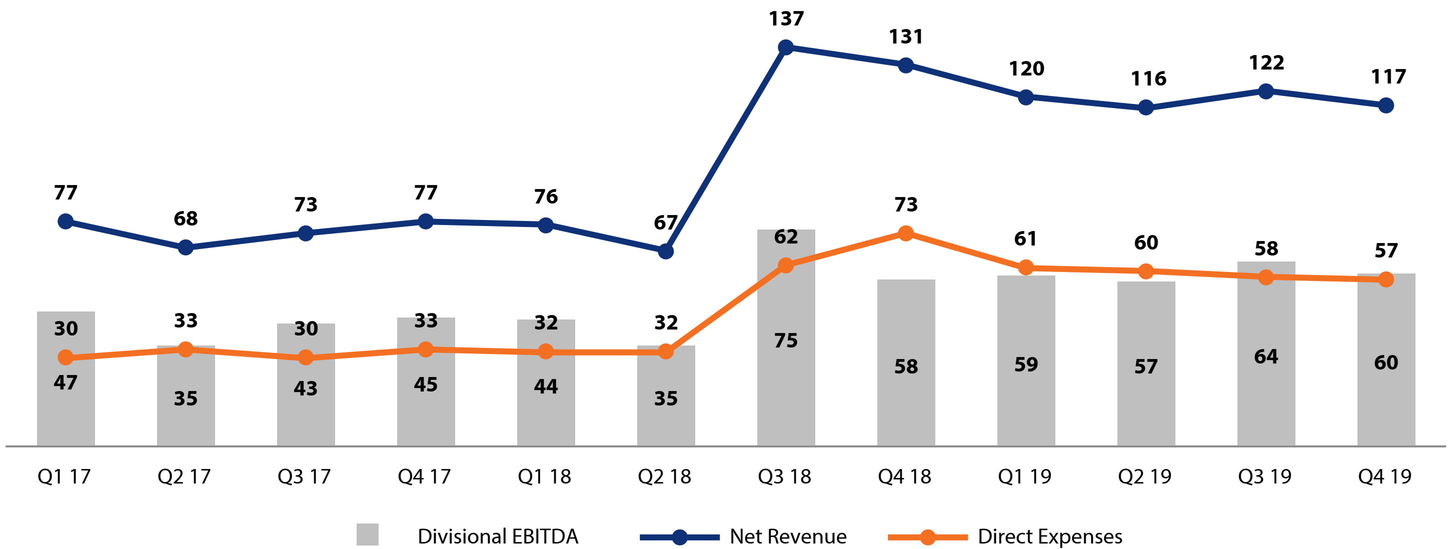
Energy marketing represents activities related to the purchase and resale of oil volumes associated with terminalling, treatment, recovery, and disposal services. Revenue and direct expenses for energy marketing activities are recorded at the purchased cost of oil. Revenue related to services provided 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

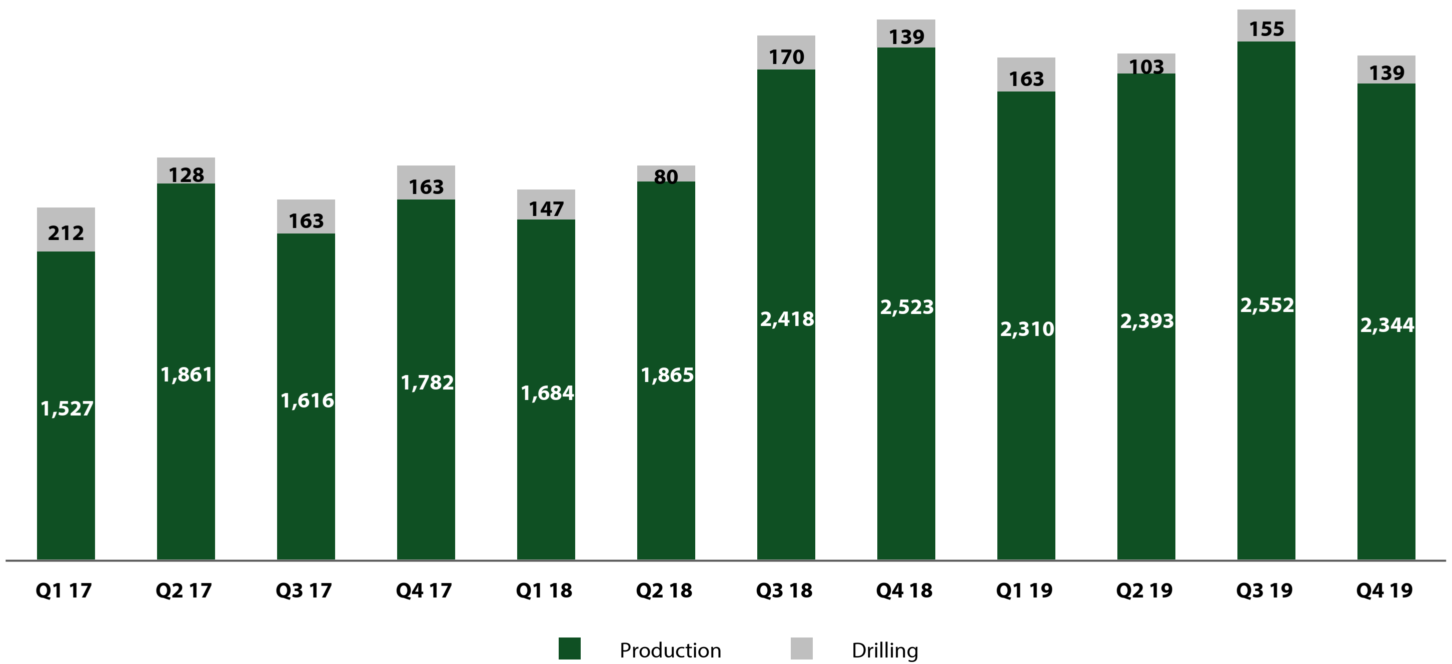
	Three Months Ended December 31				Twelve Months Ended December 31			
	2019	2018	Increase (Decrease)	*% Change*	**2019**	2018	Increase (Decrease)	*% Change*
Facilities revenue	**102**	109	(7)	*(6)%*	**399**	368	31	*8 %*
Onsite revenue	**15**	22	(7)	*(32)%*	**76**	43	33	*77 %*
Energy marketing revenue	**416**	208	208	*100 %*	**1,607**	1,337	270	*20 %*
Less: energy marketing direct expenses	**(416)**	(208)	(208)	*(100)%*	**(1,607)**	(1,337)	(270)	*(20)%*
Net Energy Services revenue	**117**	131	(14)	*(11)%*	**475**	411	64	*16 %*
Facilities and onsite direct expenses	**(57)**	(73)	(16)	*(22)%*	**(236)**	(199)	37	*19 %*
Depreciation and amortization	**(30)**	(29)	1	*3 %*	**(118)**	(82)	36	*44 %*
Impairment reversal (expense)	**(129)**	3	132	*4,400 %*	**(125)**	(1)	124	*12,400 %*
Operating profit (loss)	**(99)**	32	(131)	*(409)%*	**(4)**	129	(133)	*(103)%*
Finance costs	**(3)**	(3)	—	*— %*	**(12)**	(10)	2	*20 %*
Transaction costs	**—**	—	—	*— %*	**—**	(12)	(12)	*(100)%*
Other income (expense)	**1**	(2)	(3)	*(150)%*	**2**	1	(1)	*(100)%*
Net profit (loss)	**(101)**	27	(128)	*(474)%*	**(14)**	108	(122)	*(113)%*
Divisional EBITDA [(1)]	**60**	58	2	*3 %*	**240**	212	28	*13 %*
Divisional EBITDA Margin [(1)]	***51 %***	*44 %*	*7 %*		***51 %***	*52 %*	*(1)%*	

[(1)] *Refer to Non-GAAP Measures section for definitions and reconciliations.*

Energy Services Quarterly Results



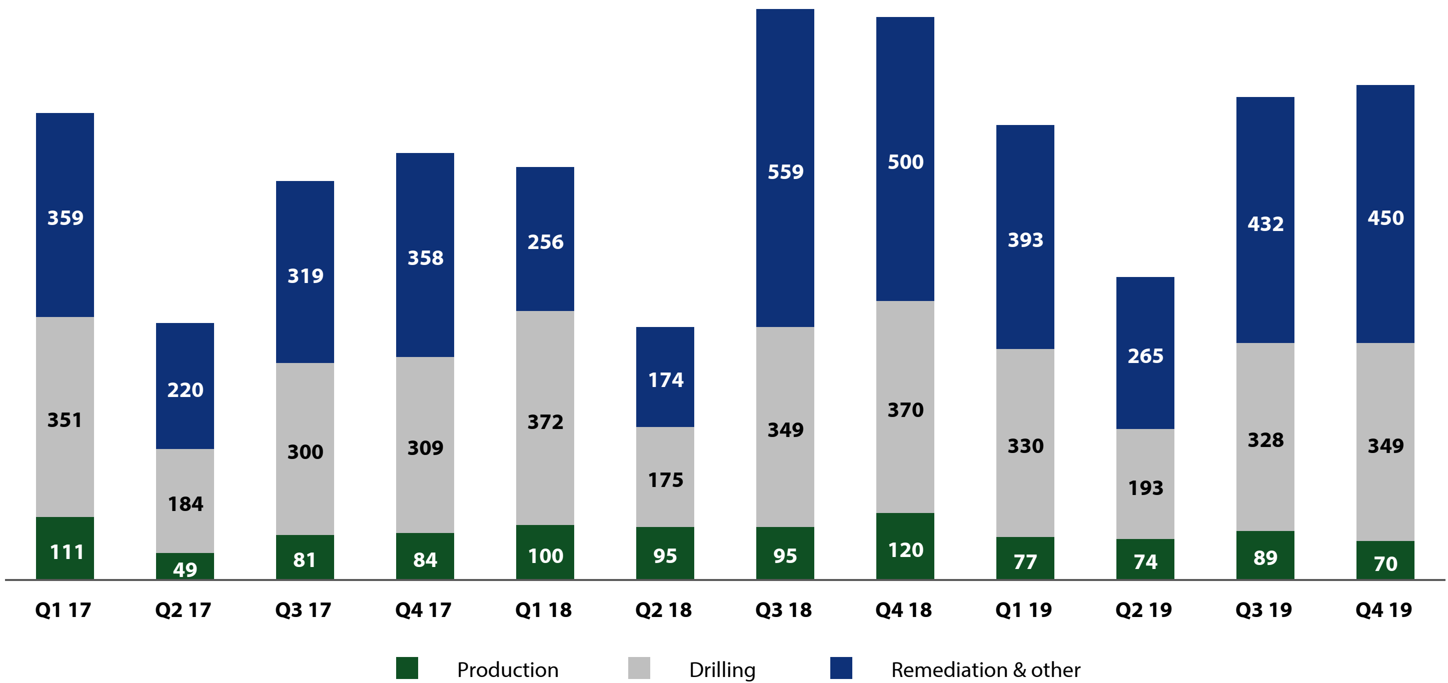
TRDs, Caverns and Wells Volumes by Revenue Source (thousands of m3)



Production volumes are related to oil and gas production operations and include volumes for treatment, terminalling, and disposal activities for liquid waste from 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 (thousands of tonnes)

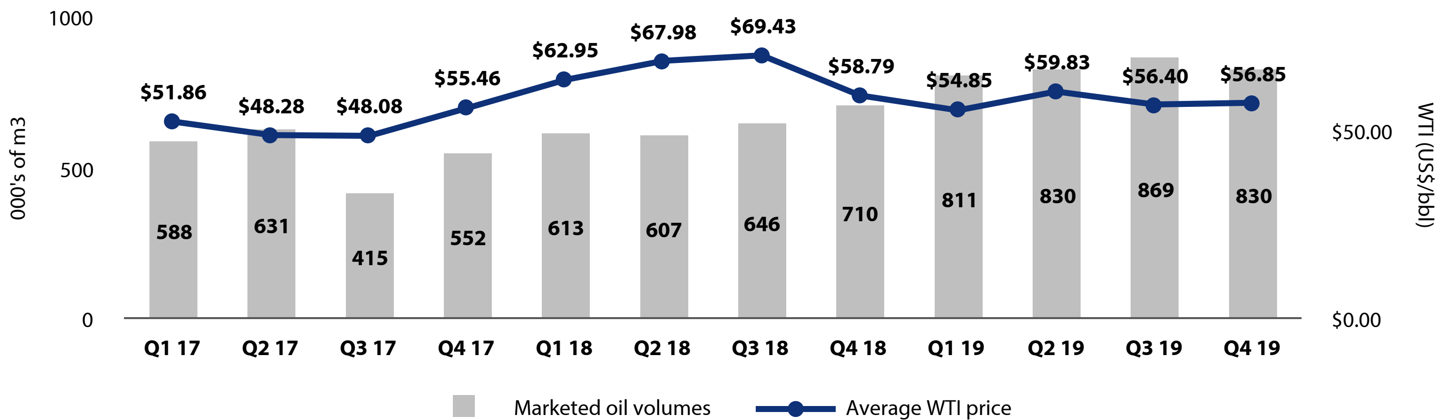


Production volumes are related to oil and gas production operations and include volumes for disposal activities for solids waste from emulsions.

Drilling volumes are primarily volumes for drill cuttings related to oil and gas drilling.

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 2018 and Q4 2018 marketed oil volumes exclude volumes marketed by a third party. Beginning January 1, 2019, these volumes were marketed by Tervita.

Energy Services Fourth Quarter Results

Q4 Divisional EBITDA Increases by $2 Million to $60 Million

- Energy Services Divisional EBITDA increased by 3% in Q4 2019 compared to the prior year despite lower industry activity. EBITDA improvements were driven by favorable Canadian crude oil commodity pricing and benefits from the Newalta acquisition including increased marketed oil volumes and realized synergies. This was partially offset by a 9% decrease in production-related volumes, reduced customer remediation projects and a shift to lower value waste streams.
- Divisional EBITDA Margin was 51% compared to 44% in Q4 2018 due to realized synergies from the Newalta acquisition as well as higher one-time costs in Q4 2018 related to transitioning acquired facilities to Tervita's maintenance program.

Q4 Net Loss of $101 Million

- Energy Services net loss was $101 million, a $128 million decline from Q4 2018 due to impairment expenses, which more than offset the increase in Divisional EBITDA. These non-cash impairment expenses resulted from the write-down of specific assets within Energy Services, approximately 64% of which relate to our drilling-based operations in the US and Canada, with the remainder primarily relating to closed or suspended facilities that no longer met cash and return expectations. These assets did not contribute materially to our 2019 Adjusted EBITDA.

Q4 Net Revenue Decreases $14 Million to $117 Million

- The 11% decrease in Energy Services net revenue compared to prior year was primarily due to the decline in industry activity resulting in lower volumes into facilities and less project work for drill site processing equipment, partially offset by increased marketed oil volumes and favorable Canadian crude oil commodity pricing. Production-related revenue was further impacted by a change in product mix towards lower value waste streams.
- Total volumes at our landfills decreased by 12% compared to the prior year, driven by decreased customer remediation projects and reduced drilling activity.
- Onsite services contributed 13% of our net Energy Services revenue for the quarter, compared to 17% in Q4 2018. Compared to prior year, lower drilling activity resulted in a decrease in project work for drill site processing equipment.

Energy Services Full Year Results

2019 Divisional EBITDA Increases by $28 Million to $240 Million

- 2019 Divisional EBITDA increased by 13% over the prior year, reflecting contributions from our expanded network and realized transaction synergies. Our acquisition of Newalta in Q3 2018 contributed to an 11% increase in production-related volumes through our facilities which more than offset the 2% decrease in drilling-related volumes.
- Energy Services Divisional EBITDA Margin for 2019 was relatively flat compared to prior year.

2019 Net Loss of $14 Million

- Energy Services 2019 net loss was $14 million, a $122 million decline from prior year. Increased Divisional EBITDA and lower transaction costs were offset by higher depreciation and amortization related to acquired Newalta assets and assets associated with the new lease accounting standard as well as impairment expense of $125 million recognized in 2019.

2019 Net Revenue Increases $64 Million to $475 Million

- The 16% or $64 million increase in Energy Services net revenue for 2019 compared to the prior year was primarily driven by our investments in new facility infrastructure and onsite services in 2018, including the acquisition of Newalta and other growth capital investments that provided additional waste disposal, storage, and blending capacity.
- TRD facilities volumes increased by 13% primarily driven by the Newalta acquisition. Revenue from the increased volumes was impacted by a change in product mix resulting in lower realized prices.
- Landfills volumes decreased 4% compared to prior year as the impact of the decline in drilling activity was partially offset by the acquisition of Newalta and a 3% increase in soil volumes received from customer remediation projects.

- Onsite services contributed 16% of net revenue in 2019 compared to 10% in 2018.
- Energy marketing revenue increased by 20% compared to the prior year, primarily due to a 30% increase in marketed oil volumes from acquired Newalta facilities.

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 disposal and waste transportation and classification; and project-based services including site remediation, facility decommissioning, water treatment, sludge and slurry management, bio-remediation and technologies, emergency response, and rail services.

Industrial Services Financial Highlights

	Three Months Ended December 31				Twelve Months Ended December 31			
	2019	2018	Increase (Decrease)	*% Change*	**2019**	2018	Increase (Decrease)	*% Change*
Commodity-based sales	**9**	14	(5)	*(36)%*	**45**	49	(4)	*(8)%*
Facility-based services	**12**	10	2	*20 %*	**45**	33	12	*36 %*
Project-based services	**39**	39	—	*— %*	**156**	149	7	*5 %*
Total revenue	**60**	63	(3)	*(5)%*	**246**	231	15	*6 %*
Direct expenses	**(50)**	(56)	(6)	*(11)%*	**(207)**	(203)	4	*2 %*
Depreciation and amortization	**(3)**	(2)	1	*50 %*	**(13)**	(9)	4	*44 %*
Restructuring costs	**—**	—	—	*— %*	**(3)**	—	3	*100 %*
Impairment reversal (expense)	**1**	(22)	(23)	*(105)%*	**1**	(23)	(24)	*(104)%*
Operating profit (loss)	**8**	(17)	25	*147 %*	**24**	(4)	28	*700 %*
Finance costs	**(1)**	—	1	*100 %*	**(2)**	—	2	*100 %*
Other income (expense)	**4**	(1)	5	*500 %*	**6**	(2)	8	*400 %*
Net profit (loss)	**11**	(18)	29	*161 %*	**28**	(6)	34	*567 %*
Divisional EBITDA [(1)]	**10**	7	3	*43 %*	**39**	28	11	*39 %*
Divisional EBITDA Margin [(1)]	***17 %***	*11 %*	*6 %*		***16 %***	*12 %*	*4 %*	

[(1)] Refer to Non-GAAP Measures section for definitions and reconciliations.

Industrial Services Fourth Quarter Results

Q4 Divisional EBITDA Contributes $10 Million With Divisional EBITDA Margin of 17%

- Industrial Services Divisional EBITDA increased $3 million or 43% over prior year, primarily driven by increased project margins combined with higher waste volumes at our waste services facilities, partially offset by the impact of lower metals commodity prices.
- Divisional EBITDA margin improved six percentage points compared to prior year.

Q4 Net Profit of $11 Million Driven by Higher Divisional EBITDA

- Net profit of $11 million was a $29 million improvement compared to the same period in 2018, due to higher Divisional EBITDA and goodwill impairment recorded in Q4 2018.

Q4 2019 Revenue of $60 Million a 5% Decrease Over Q4 2018

- Fourth quarter revenue decreased $3 million or 5% compared to prior year, primarily due to lower ferrous metals volumes and pricing combined with reduced project activity. This was partially offset by increased waste volumes received at our facilities.

Industrial Services Full Year Results

2019 Divisional EBITDA of $39 Million With Divisional EBITDA Margin of 16%

- Divisional EBITDA of $39 million increased $11 million or 39% over 2018. This increase was primarily driven by increased margins for project work, higher waste volumes at our facilities, particularly in the lower mainland of British

Columbia and central Alberta, higher metal volumes, and the adoption of the new lease accounting standard (refer to Impact of New Accounting Standards section). This was partially offset by lower metals commodity pricing.

- Divisional EBITDA Margin improved by four percentage points in 2019 as compared to the prior year.

2019 Net Profit of $28 Million Driven by Higher Divisional EBITDA

- 2019 net profit of $28 million was a $34 million improvement compared to 2018, primarily driven by Divisional EBITDA improvement and a goodwill impairment in 2018.

2019 Revenue of $246 Million a 6% Increase Over YTD 2018

- Revenue increased $15 million or 6% compared to 2018. This was primarily due to an increase in waste volumes received at our facilities and increased metals volumes, partially offset by lower metals commodity prices.

CORPORATE

	Three Months Ended December 31				Twelve Months Ended December 31			
	2019	2018	Increase (Decrease)	*% Change*	**2019**	2018	Increase (Decrease)	*% Change*
Revenue - intersegment eliminations	**(2)**	—	2	*100 %*	**(5)**	(5)	—	*— %*
Direct costs - intersegment eliminations	**2**	—	(2)	*(100)%*	**5**	5	—	*— %*
General and administrative expenses	**(11)**	(15)	(4)	*(27)%*	**(48)**	(50)	(2)	*(4)%*
Depreciation and amortization	**(2)**	(2)	—	*— %*	**(7)**	(5)	2	*40 %*
Impairment reversal (expense)	**2**	(4)	(6)	*(150)%*	**4**	(1)	(5)	*(500)%*
Finance costs	**(20)**	(18)	2	*11 %*	**(78)**	(59)	19	*32 %*
Transaction costs	**(2)**	(3)	(1)	*(33)%*	**(8)**	(57)	(49)	*(86)%*
Other income (expense)	**(3)**	—	3	*100 %*	**(7)**	(3)	4	*133 %*
Income tax recovery (expense)	**3**	—	(3)	*(100)%*	**14**	(1)	(15)	*(1,500)%*
Total corporate expenses	**(33)**	(42)	(9)	*(21)%*	**(130)**	(176)	(46)	*(26)%*
G&A as a % of revenue (excl. energy marketing)	***6 %***	*8 %*	*(2)%*		***7 %***	*8 %*	*(1)%*	

General and Administrative Expenses

- G&A expenses for Q4 2019 decreased by $4 million compared to 2018, driven primarily by synergies from the acquisition of Newalta and a $1 million impact from the adoption of the new lease accounting standard (refer to Impact of New Accounting Standards section).
- 2019 G&A expenses decreased by $2 million over 2018 as higher employee-related costs associated with the acquired Newalta corporate operations were more than offset by realized synergies and a $2 million decrease in expenses related to the adoption of the new lease accounting standard (refer to Impact of New Accounting Standards section).

Finance Costs

	Three Months Ended December 31				Twelve Months Ended December 31			
	2019	2018	Increase (Decrease)	*% Change*	**2019**	2018	Increase (Decrease)	*% Change*
Interest on long-term debt	**(16)**	(16)	—	*— %*	**(63)**	(52)	11	*21 %*
Amortization of debt issue costs	**(3)**	(2)	1	*50 %*	**(10)**	(7)	3	*43 %*
Accretion of decommissioning liabilities	**(1)**	—	1	*100 %*	**(1)**	—	1	*100 %*
Interest on obligations under leases	**(1)**	—	1	*100 %*	**(5)**	—	5	*100 %*
Sublease interest income	**1**	—	1	*100 %*	**1**	—	1	*100 %*
Finance costs	**(20)**	(18)	4	*22 %*	**(78)**	(59)	21	*36 %*

- Finance costs for the quarter and full year increased over prior year as a result of increased interest and amortization of debt issue costs associated with the additional US$250 million senior secured notes issued in June 2018 for the acquisition of Newalta, as well as increased interest expense recognized on lease liabilities in accordance with our adoption of the new lease accounting standard (refer to Impact of New Accounting Standards section).

Transaction Costs

- Q4 2019 and Q4 2018 transaction costs included integration costs, comprised of severance, branding, site suspension, employee compensation, onerous contracts, and information technology.
- Transaction costs in 2019 included $7 million of integration costs. Transaction costs in 2018 included $13 million of expenses incurred for the completion of the Arrangement with Newalta, $18 million of integration costs, and $26 million of non-cash impairment expense primarily related to the change in discount rate on decommissioning obligations acquired as part of the transaction.

Other Income (Expense)

	Three Months Ended December 31				Twelve Months Ended December 31			
	2019	2018	Increase (Decrease)	*% Change*	**2019**	2018	Increase (Decrease)	*% Change*
Share-based compensation	**(2)**	—	2	*100 %*	**(9)**	(4)	5	*125 %*
Change in provisions and onerous lease contracts	**(2)**	(3)	(1)	*(33)%*	**(3)**	(5)	(2)	*(40)%*
Foreign exchange gain (loss)	**1**	2	1	*50 %*	**3**	1	(2)	*(200)%*
Gain (loss) on sale of assets	**—**	1	1	*100 %*	**1**	5	4	*80 %*
Gain (loss) on lease modification	**—**	—	—	*— %*	**1**	—	(1)	*(100)%*
Other income (expense)	**(3)**	—	3	*100 %*	**(7)**	(3)	4	*133 %*

- Other expense for the quarter and full year increased over prior year primarily due to the issuance of additional share-based compensation units in 2019.

Income Tax Recovery (Expense)

- In 2019, we resolved certain tax matters relating to prior periods and recorded an income tax recovery of $14 million.

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, 2019 included: (i) an undrawn $275 million revolving credit facility; and (ii) an aggregate principal amount of US$590 million senior secured notes, which notes were issued in December 2016 in an amount of US$360 million and in July 2018 in an amount of US$250 million, of which we repurchased US$20 million in November 2019. 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.

At December 31, 2019, Tervita had $77 million in letters of credit ("LCs") issued against our revolving credit facility. The remaining $198 million of capacity, combined with $22 million of cash and cash equivalents, provided $220 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 twelve months ended December 31, 2019, Tervita generated $128 million (December 31, 2018 - $96 million) of cash from operations (net of working capital and including decommissioning activities) and invested approximately $102 million (December 31, 2018 - $84 million) of cash in property, plant and equipment and intangible assets. Tervita did not require any additional liquidity to support continuing operations.

Adjusted Working Capital at December 31, 2019 was $31 million (December 31, 2018 - $78 million). The decrease in Adjusted Working Capital was primarily due to our efforts to reduce our trade receivables through improved collections, and an increase in trade and other payables.

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

For the twelve months ended December 31, 2019, Discretionary Free Cash Flow was $90 million, an increase of $11 million from 2018, due to higher cash flow generated from operations. Discretionary Free Cash Flow represents Tervita's capacity to fund its ongoing growth capital spending, reduce net debt, and repurchase common shares under the NCIB. For the twelve months ended December 31, 2019 Discretionary Free Cash Flow was more than sufficient to fund the $73 million of growth and expansion cash capital expenditures.

Net Debt to Adjusted EBITDA (LTM) at December 31, 2019 was 3.17.

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 LCs or replacement of LCs with other types of financial security, proceeds from the sale of long-term assets, and issuance of share capital.

At December 31, 2019, Tervita had cash and cash equivalents of $22 million. After adjusting for the US$20 million of repurchased debt, cash and cash equivalents are largely unchanged from the prior year.

Revolving Credit Facility

At December 31, 2019, $198 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, including: (i) Total Leverage Ratio; (ii) Secured Leverage Ratio; and (iii) Interest Coverage Ratio.

The Company was in compliance with its covenants at December 31, 2019 as follows:

	Required	Actual
Total Leverage Ratio	Less than 4.50	3.49
Secured Leverage Ratio	Less than 2.50	0.26
Interest Coverage Ratio	Greater than 2.00	3.35

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, less cash balances up to a total of $75 million.

Tervita's Total Leverage Ratio cannot exceed 4.50 to 1.00.

Secured Leverage Ratio

Secured Leverage Ratio is defined as Secured Indebtedness to Covenant EBITDA. Secured Indebtedness consists of the outstanding LCs (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 LCs and standby fees.

Tervita must maintain an Interest Coverage Ratio greater than 2.00 to 1.00.

USES OF CASH

Our primary uses of cash include capital expenditures, operating and G&A expenses, payments for decommissioning obligations, servicing and repayment of the long-term debt, and repurchasing common shares under the NCIB. 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 investments to expand our existing facilities, develop our landfills and caverns, and purchase property, plant and equipment, with the intent of expanding existing businesses or entering into new locations or markets. Maintenance capital expenditures are incurred to retain the current performance levels of existing assets.

Change in capital accruals represent the net non-cash additions to property, plant and equipment and intangible assets that occur as a result of the timing difference between capitalizing an asset and settling the related liability in cash.

Capital additions for the year ended December 31 was as follows:

	Three Months Ended December 31				Twelve Months Ended December 31			
	2019	2018	Increase (Decrease)	% Change	**2019**	2018	Increase (Decrease)	% Change
Capital additions								
Growth and expansion	**41**	18	23	*128 %*	**106**	45	61	*136 %*
Maintenance	**11**	14	(3)	*(21)%*	**33**	38	(5)	*(13)%*
Change in capital accruals	**(5)**	4	(9)	*(225)%*	**(37)**	1	(38)	*(3,800)%*
Capital expenditures (cash)	**47**	36	11	*31 %*	**102**	84	18	*21 %*
Growth and expansion	**35**	25	10	40 %	**73**	56	17	30 %
Maintenance	**12**	11	1	9 %	**29**	28	1	4 %

Management evaluates capital projects based on their internal rate of return, payback period, fit with our corporate strategy, and risks associated with the projects, among other factors. Growth and expansion capital investment is prioritized towards projects that provide stable cash flows and where there is a high degree of certainty of completing projects on time, and on budget. The amount and timing of future maintenance capital is primarily dependent on the volume of waste that is received at our facilities.

We will continue to identify, plan, and execute a growth capital portfolio. Refer to the Outlook section for a discussion of expected capital additions for 2020.

NCIB

On May 7, 2019, we commenced a NCIB to repurchase up to 3,115,264 common shares until May 6, 2020. On December 5, 2019, the NCIB was amended to increase the total amount of common shares that can be repurchased to 5,877,855. As at December 31, 2019, we repurchased 3,202,448 common shares for $23 million.

On May 21, 2019, we entered into an Automatic Share Purchase Plan, which permits an independent broker to repurchase shares under the NCIB during blackout periods. As at December 31, 2019, Tervita recognized a $13 million provision as an estimated value of shares that may be repurchased from the end of the reporting period until the release of our annual financial information.

Repurchase of senior secured notes

In November 2019, Tervita repurchased US$20 million of the senior secured notes originally issued in July 2018 for $26 million.

SUMMARY OF COMPARATIVE RESULTS

SEASONALITY

Our quarterly results reflect how Energy Services 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, roads become impassable or 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 (excluding energy marketing) tends to earn lower revenue and operating profit in the second fiscal quarter (refer to the Operating Results section for a discussion on Energy Services). If the weather causes the ground to be unstable for longer than usual, operating results may continue to be negatively impacted.

QUARTERLY REVIEW SUMMARY

	Q4 2019	**Q3 2019**	**Q2 2019**	**Q1 2019**	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue (excluding energy marketing)	**175**	191	166	184	194	203	124	116
Energy marketing revenue	**416**	420	424	347	208	439	416	274
Revenue	**591**	611	590	531	402	642	540	390
Profit (loss) from continuing operations	**(123)**	10	—	(3)	(33)	(44)	—	3
- per share ($), basic and diluted	**(1.07)**	0.09	—	(0.03)	(0.28)	(0.38)	—	0.03
Net profit (loss)	**(123)**	10	—	(3)	(33)	(44)	—	3
- per share ($), basic and diluted	**(1.07)**	0.09	—	(0.03)	(0.28)	(0.38)	—	0.03

Q3 2019 to Q4 2019

- Net loss increased primarily due to impairment expense related to specific assets and closed or suspended sites.

Q2 2019 to Q3 2019

- The increase in revenue (excluding energy marketing) was primarily due to higher project revenue in environmental services.

Q1 2019 to Q2 2019

- The increase in revenue was primarily from energy marketing due to an increase in Canadian crude oil prices.
- Revenue (excluding energy marketing) decreased due to smaller-scale rail services projects.

Q4 2018 to Q1 2019

- The decrease in revenue (excluding energy marketing) was primarily due to lower volumes through Energy Services facilities from lower production and drilling-related market activity.
- The increase in energy marketing revenue was primarily due to higher marketed oil volumes from acquired Newalta facilities, which were marketed by Tervita beginning Q1 2019 and by a third party in 2018.

Q3 2018 to Q4 2018

- The decrease in revenue was primarily attributable to the reduced activity and associated recovered oil revenue due to the extreme widening of differentials during Q4 2018.
- Net loss increased primarily due to transaction and finance costs incurred on the Newalta acquisition, 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 Canadian crude oil 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 Canadian crude oil prices, and increased project-related revenue in Industrial Services.
- Net profit decreased due to the interest expense incurred on the escrow notes.

SELECT THREE YEAR COMPARATIVE INFORMATION

	Twelve Months Ended December 31		
	2019	2018	2017
Revenue (excluding energy marketing)	**716**	637	505
Energy marketing revenue	**1,607**	1,337	985
Total revenue	**2,323**	1,974	1,490
Profit (loss) from continuing operations	**(116)**	(74)	(82)
- per share ($), basic and diluted	**(0.99)**	(0.67)	(0.78)
Net profit (loss)	**(116)**	(74)	(81)
- per share ($), basic and diluted	**(0.99)**	(0.67)	(0.77)
Adjusted EBITDA[1]	**233**	191	156
Total assets	**1,662**	1,809	1,226
Non-current financial liabilities	**851**	824	476
Shares at December 31 (000's of shares)			
Shares outstanding	**114,355**	117,557	104,626
Weighted average shares outstanding - basic and diluted	**116,732**	110,471	104,626

[1] *Refer to the section Non-GAAP Measures for definitions and reconciliation.*

Year to Date 2018 Versus Year to Date 2017 Comparative Highlights

- Revenue in 2018 increased compared to 2017 as a result of our strategic investment in growth and expansion opportunities in 2017 and 2018, highlighted by the acquisition of Newalta in 2018. These investments expanded our geographic footprint and increased our service line offerings.
- Tervita recorded a net loss in 2018, largely due to incremental costs related to the acquisition of Newalta including $69 million of transaction costs related to the acquisition. Finance costs increased by $20 million compared to 2017, primarily due to issuance of the US$250 million senior secured notes.
- In 2017, Tervita's net loss was primarily a result of non-cash expenses. Most significantly, impairment expense of $76 million primarily related to operation of our landfills, and a provision of $13 million for onerous contracts and legal.
- 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 provisions of $13 million. These reductions were somewhat offset by transaction costs, the increased finance costs, and higher depreciation and amortization expense on new assets of $16 million.
- 2018 adjusted EBITDA of $191 million was a $35 million increase compared to 2017 Adjusted EBITDA of $156 million, primarily due to the acquisition of Newalta.

OTHER ITEMS

ACQUISITION OF NEWALTA

The Competition Act (Canada) ("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 July 19, 2019, no such application had been made to the Competition Tribunal and, pursuant to the Act, the time to make such an application has now lapsed.

Effective January 1, 2019, we assumed the marketing of oil volumes previously marketed by a third party on behalf of Newalta. During the first half of 2019, we also converted Newalta's legacy accounting, payroll, and operating systems onto Tervita's systems, enacted further headcount reductions, suspended operations at additional sites, and achieved further operating improvements.

As of the end of the second quarter 2019, we had achieved an annualized run rate of $45 million of Adjusted EBITDA synergies, at the top of our targeted range and well ahead of schedule.

FINANCIAL INSTRUMENTS

As at December 31, 2019, financial instruments included cash and cash equivalents, trade and other receivables, sublease receivables, equity investments, trade and other payables, interest payable, long-term debt, lease liabilities, 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. The fair value of the long-term debt is influenced by changes in the risk-free interest rates.

Tervita is exposed to foreign currency risk with respect to its senior secured notes that are denominated in US$. Tervita manages this exposure through its cross-currency swap agreements ("cross-currency swaps") and forward-contract swap agreements ("forward swaps"), thereby fixing the exchange rate on certain US$ debt.

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. We have cross-currency swaps for the US$360 million senior secured notes for which we have applied hedge accounting to reduce variability in cash flows due to changes in the US$ to C$ exchange rates ("Designated Hedge"). During the twelve months ended December 31, 2019, the Designated Hedge was deemed to be effective and a loss of $18 million was recognized in accumulated other comprehensive profit (loss).

We also entered into forward swaps to mitigate the foreign exchange risk on the repayment of principal of the US$230 million senior secured notes. All gains and losses associated with changes in the fair value of the forward swaps are included in net profit (loss). Tervita exited the forward swaps on October 29, 2019 for proceeds of $6 million, and recognized a $6 million realized gain. During the twelve months ended December 31, 2018, $18 million was recognized in the Statements of Profit (Loss) associated with unrealized loss in the fair value of the forward swaps.

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, 18, 19 and 22 of the Annual Financial Statements, and the Liquidity and Liquidity Risk section of this MD&A.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2019, Tervita did not have any material off-balance sheet arrangements, other than the commitments, contingencies, and guarantees discussed in note 26 of the Annual Financial Statements. We do not believe that any of these off-balance sheet arrangements 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

Refer to note 25 of the Annual Financial Statements for disclosure regarding related party transactions.

LEGAL AND ENVIRONMENTAL MATTERS

After evaluation from Tervita's management and Board of Directors, we have determined the claim against Secure Energy Services has merit and, accordingly, set a court date for early 2022 and non-binding mediation has been scheduled for late 2020.

Refer to note 26 of the Annual Financial Statements for disclosure of other legal and environmental matters.

IMPACT OF NEW ACCOUNTING STANDARDS

IFRS 16 was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 replaces International Accounting Standards ("IAS") 17 "Leases" ("IAS 17"), International Financial Reporting Interpretations Committee ("IFRIC") 4 "Determining Whether an Arrangement Contains a Lease", Standards Interpretation Committee ("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 under a single on-balance sheet model in a manner similar to the previous accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee recognizes 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 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 applied certain practical expedients available under this adopted approach and 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 surface rights. Tervita does not have any material lease agreements where Tervita acts as the lessor.

The complete impact of adopting IFRS 16 is disclosed in notes 2 and 11 of the Annual Financial Statements.

There were no changes to compliance with the financial covenants that form part of our long-term debt due on the adoption of IFRS 16, as the covenants will continue to be calculated based on lease accounting that would apply under IAS 17. Refer to the Covenant EBITDA in the Non-GAAP Measures section.

ACCOUNTING POLICIES

Tervita's significant accounting policies are included in note 2 of the Annual Financial Statements, which is updated for the impact of new accounting standards as described above.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates are those that require management to make judgments and estimates that affect the application of accounting policies and the reported assets, liabilities, revenues, expenses, gains, losses, and disclosures of off-balance sheet arrangements. These judgments and estimates are highly uncertain at the time the estimate is made and are subject to change based on experience and available information. 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, could have a material impact on the company's financial condition, changes in financial condition, or financial performance.

The most significant accounting estimates and judgments used in the preparation of our Financial Statements are included in note 2 of the Annual Financial Statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Tervita's disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the disclosure of information and reliability of external financial reporting and the preparation of the financial statements in accordance with IFRS. Tervita follows the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Chief Executive Officer and the Chief Financial Officer (collectively, the "Certifying Officers") have evaluated the design and effectiveness of DC&P and the operational effectiveness of our ICFR using COSO 2013. As at December 31, 2019, the Certifying Officers have concluded that such DC&P and ICFR were effective.

Management, including the Certifying Officers, does not expect that the Company's DC&P and ICFR will prevent or detect all misstatements or instances of fraud. Based on their inherent limitations, DC&P and ICFR may not prevent or detect misstatements, and even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and not absolute assurance that all control issues, misstatements, or instances of fraud, if any, within the Company have been detected.

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:

- Tervita's outlook for 2020, including expectations regarding Adjusted EBITDA growth, its approach to the allocation of Discretionary Free Cash Flow, its ability to continue to exercise capital discipline, its estimated preliminary growth and expansion budget and its expectations that maintenance capital will remain flat as compared to 2019;
- market and industry outlook with respect to commodity prices, upstream oil and gas production levels and drilling activity;
- continued business focus on the WCSB;
- that Tervita’s strategy regarding cost control, incremental business improvements and optimization of our businesses 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, and capital expenditure requirements;
- timing of the completion of capital projects and their impact on driving Adjusted EBITDA growth in 2020;
- liquidity, sources and uses of cash, and off-balance sheet arrangements; and
- Tervita’s business strategies and objectives.

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

- current economic and operating conditions, including commodity prices, interest rates, and environmental and regulatory matters;
- the ability of Tervita to obtain equipment, services, supplies and personnel to carry out its business activities;
- the ability of Tervita to successfully market its business in the areas in which it operates; that Tervita's current business environment will remain substantially unchanged;
- Tervita's ability to secure financing on acceptable terms, if needed;
- demand for services in Tervita's businesses can be adversely impacted by general economic conditions and Tervita is dependent on exploration, drilling and production activity levels in the markets where Tervita offers its services;
- risks related to limited pipeline capacity;
- the ability of management to execute its business plan;
- 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 fuel, raw material costs, oil and natural gas prices, commodity 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 Tervita's markets, and competition that could adversely impact Tervita's financial position, results of operations, cash flows or its 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 Tervita's support services;
- increasing concern regarding earthquake activity connected to oil/gas production and waste disposal wells could adversely affect Tervita's business;
- successful implementation of Tervita's investment and acquisition strategy;
- the difficulty of identifying and executing acquisitions on favorable terms, including successfully integrating businesses Tervita acquires, and its significant exposure from unknown liabilities related to Tervita's acquisitions;
- susceptibility to seasonality due to adverse weather conditions;

- risks related to transportation of petroleum products and waste water;
- risks related to any change in provincial royalty rates;
- risks related to First Nations consultation and claims and its effect on Tervita's ability to secure locations for capital projects and ability to operate;
- risks related to changes in industry practices related to crude oil equalization and declines in oil prices that may affect Tervita's 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 its energy marketing business;
- Tervita's 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;
- uncertainty around the impact of the US-Mexico-Canada agreement on Tervita's business;
- potential impairment losses in respect of Tervita's physical assets from reduced industry activity and a sustained decline in demand for services involving such assets;
- fluctuations in supply and demand for scrap metal prices;
- Tervita's ability to attract and retain qualified workers;
- dependence on Tervita's senior management, the loss of which could materially harm its business;
- obligation to comply with health and safety regulations at Tervita's facilities and its operations, the failure of which could result in significant liability and/or fines and penalties;
- failure by Tervita's employees to follow applicable procedures and guidelines or on-site accidents;
- deterioration in Tervita's safety record would harm its relationships with customers, make it less likely for customers to contract for its services and subject it to penalties and fines, which could adversely affect Tervita's business, operating results and financial condition;
- Tervita's obligation to comply with U.S. federal, state and local environmental laws and results;
- the inability of counterparties or customers to fulfill their obligation to Tervita;
- technology Tervita uses in its business is increasingly subject to protection by intellectual property rights;
- technology Tervita uses in its business is subject to security threats;
- Tervita's confidential information may be exposed due to third parties or technical malfunctions; and Tervita's ability to only provide reasonable assurance of its disclosure controls and procedures and its internal controls over financial reporting;
- Tervita's operational dependence on certain of its joint venture arrangements;
- the impact of pending and future legal proceedings on Tervita's business;
- the impact of environmental activism on Tervita's business;
- the impact of climate change and alternative energy sources on Tervita's business;
- possible conflict of interest between Tervita's major shareholders and Tervita's other shareholders;
- possible conflict of interest of Tervita's directors and officers.
- the possible effect of public health crises on Tervita's business; and
- Tervita's treating, 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 AIF dated March 8, 2020. 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 of preliminary growth and expansion budget of $50 million and maintenance capital of approximately $35 million, 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 the Outlook section. 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 was approved by management as of the date of this MD&A to provide investors with an estimation of the outlook for Tervita for 2020 and onwards, where applicable, and 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's management believes 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.

For additional information relating to Tervita, including our AIF, please see our profile on SEDAR, available at www.sedar.com.

TERVITA

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

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, 2019 and 2018 and the consolidated statements of comprehensive profit or loss, consolidated statements of equity, and consolidated statements of 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, 2019 and 2018 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 control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Tervita's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

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.

Chartered Professional Accountants

Calgary, Canada

March 8, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (millions of dollars)	*Note*	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	*12, 22*	**22**	46
Trade and other receivables	*22*	**192**	180
Inventory	*13*	**12**	12
Current portion of derivative assets	*19, 22*	**—**	18
Other current assets	*2, 11*	**12**	8
		238	264
Property, plant and equipment	*2, 11, 14*	**1,043**	1,157
Intangible assets	*15*	**37**	42
Goodwill	*16*	**332**	333
Derivative assets	*19, 22*	**—**	8
Other assets	*2, 11*	**12**	5
TOTAL ASSETS		**1,662**	1,809
LIABILITIES			
Current liabilities			
Trade and other payables	*22, 23*	**180**	122
Income taxes payable	*5*	**2**	14
Interest payable	*22*	**5**	6
Current portion of decommissioning liabilities	*20*	**5**	14
Current portion of obligations under leases	*2, 11, 22*	**18**	15
Current portion of other provisions	*20*	**1**	1
Other current liabilities	*21*	**5**	—
		216	172
Long-term debt	*18, 22*	**750**	805
Obligations under leases	*2, 11, 22*	**95**	46
Decommissioning liabilities	*20*	**350**	399
Other provisions	*20*	**8**	10
Derivative liabilities	*19, 22*	**10**	—
Other long-term liabilities	*21*	**9**	6
TOTAL LIABILITIES		**1,438**	1,438
EQUITY			
Share capital	*23*	**905**	947
Contributed surplus	*23*	**7**	1
Share-based compensation reserve	*21*	**7**	5
Accumulated earnings (deficit)		**(709)**	(593)
Accumulated other comprehensive profit (loss)		**14**	11
TOTAL EQUITY		**224**	371
TOTAL LIABILITIES AND EQUITY		**1,662**	1,809

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***	**2019**	2018
NET PROFIT (LOSS)			
Revenue	*4*	**2,323**	1,974
Operating expenses			
Direct expenses		**(2,045)**	(1,734)
General and administrative expenses		**(48)**	(50)
Depreciation and amortization	*11, 14, 15*	**(138)**	(96)
Restructuring costs		**(3)**	—
Impairment reversal (expense)	*17*	**(120)**	(25)
Operating profit (loss)		**(31)**	69
Finance costs	*7*	**(92)**	(69)
Transaction costs	*3*	**(8)**	(69)
Other income (expense)	*8*	**1**	(4)
Profit (loss) before tax		**(130)**	(73)
Income taxes recovery (expense)	*5*	**14**	(1)
NET PROFIT (LOSS)		**(116)**	(74)
Items that are or may be subsequently reclassified to net profit (loss):			
Foreign operations - foreign currency translation differences		**(4)**	(1)
Net gain (loss) on cash flow hedges	*19*	**7**	(1)
OTHER COMPREHENSIVE PROFIT (LOSS), NET OF TAX		**3**	(2)
TOTAL COMPREHENSIVE PROFIT (LOSS)		**(113)**	(76)
Earnings per share - basic and diluted	*9*	**(0.99)**	(0.67)
Weighted average shares outstanding - basic and diluted		**116,732,368**	110,471,450

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (millions of dollars)	*Note*	2019	2018
OPERATING ACTIVITIES			
Net profit (loss)		**(116)**	(74)
Adjustments for:			
Finance costs	*7*	**92**	69
Impairment (reversal) expense	*17*	**120**	25
Depreciation and amortization	*14, 15*	**138**	96
Income taxes (recovery) expense	*5*	**(14)**	1
Cash taxes paid		**1**	—
Cash interest paid	*11, 18*	**(73)**	(52)
Cash settlement of decommissioning liabilities	*20*	**(15)**	(5)
Realized foreign exchange (gain) loss - debt and derivatives	*8*	**(6)**	8
Unrealized foreign exchange (gain) loss	*8*	**3**	(9)
Other adjustments	*2, 10*	**(3)**	43
Funds from (used in) operations		**127**	102
Changes in non-cash working capital:			
Trade and other receivables		**(12)**	(10)
Inventory		**—**	1
Other current assets		**2**	1
Trade and other payables		**11**	2
Changes in total non-cash working capital		**1**	(6)
Cash provided by (used in) operating activities		**128**	96
FINANCING ACTIVITIES			
Issuance (repayment) of long-term debt	*3, 18, 22*	**(26)**	326
Settlement of debt-related derivatives	*3, 19*	**6**	(8)
Debt issue costs	*3, 18*	**—**	(20)
Contingent consideration payments	*20*	**(1)**	—
Repurchase of common shares	*23*	**(23)**	—
Payment of principal portion of lease liabilities	*2, 11*	**(17)**	(2)
Sublease payments received	*2, 11*	**2**	—
Cash provided by (used in) financing activities		**(59)**	296
INVESTING ACTIVITIES			
Additions to property, plant and equipment	*14*	**(132)**	(72)
Additions to intangible assets	*15*	**(7)**	(11)
Acquisitions	*3*	**—**	(395)
Investment income		**3**	1
Proceeds from sale of property, plant and equipment		**7**	7
Change in non-cash working capital		**37**	(1)
Cash provided by (used in) investing activities		**(92)**	(471)
Effect of exchange rate changes on cash and cash equivalents		**(1)**	1
Increase (decrease) in cash and cash equivalents		**(24)**	(78)
Cash and cash equivalents, beginning of period		**46**	124
CASH AND CASH EQUIVALENTS, END OF PERIOD		**22**	46

See accompanying notes

CONSOLIDATED STATEMENTS OF EQUITY

(millions of dollars)	***Note***	**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, 2019		**947**	**1**	**5**	**(593)**	5	6	**11**	**371**
Net profit (loss)		**—**	**—**	**—**	**(116)**	—	—	**—**	**(116)**
Repurchase of common shares	***23***	**(27)**	**4**	**—**	**—**	—	—	**—**	**(23)**
Provision for repurchase of common shares	***23***	**(15)**	**2**	**—**	**—**	—	—	**—**	**(13)**
Effective portion of cash flow hedges	***19***	**—**	**—**	**—**	**—**	—	(18)	**(18)**	**(18)**
Reclassified to net profit (loss)	***19***	**—**	**—**	**—**	**—**	—	25	**25**	**25**
Foreign currency translation differences		**—**	**—**	**—**	**—**	(4)	—	**(4)**	**(4)**
Share-based compensation	***8, 21***	**—**	**—**	**2**	**—**	—	—	**—**	**2**
As at December 31, 2019		**905**	**7**	**7**	**(709)**	1	13	**14**	**224**
As at January 1, 2018		837	—	2	(519)	6	7	13	333
Net profit (loss)		—	—	—	(74)	—	—	—	(74)
Cancellation of shares	***3, 23***	(837)	—	—	—	—	—	—	(837)
Issuance of shares	***3, 23***	947	—	—	—	—	—	—	947
Issuance of warrants	***3, 23***	—	1	—	—	—	—	—	1
Effective portion of cash flow hedges		—	—	—	—	—	39	39	39
Reclassified to net profit (loss)		—	—	—	—	1	(40)	(39)	(39)
Foreign currency translation differences		—	—	—	—	(2)	—	(2)	(2)
Share-based compensation	***8, 21***	—	—	3	—	—	—	—	3
As at December 31, 2018		947	1	5	(593)	5	6	11	371

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 is one of the largest waste and environmentally focused energy service providers in Canada. We primarily serve companies in the oil and gas industry, as well as the industrial and natural resource sectors, predominantly in Western Canada. 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.

2. BASIS OF PRESENTATION

These Financial Statements for the year ended December 31, 2019 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 8, 2020.

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. 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 Tervita Environmental Services Inc., which is incorporated in the United States ("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 18).

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 other income (expense) 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 subsidiary are 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, income, expenses and disclosure. 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	Revenue and segment information	Yes	Yes	Yes
Note 5	Income taxes	Yes	Yes	Yes
Note 6	Employee benefits	Yes	None	None
Note 9	Earnings per share	Yes	None	None
Note 11	Leases	Yes	Yes	Yes
Note 12	Cash and cash equivalents	Yes	None	None
Note 13	Inventory	Yes	None	None
Note 14	Property, plant and equipment	Yes	Yes	Yes
Note 15	Intangible assets	Yes	Yes	Yes
Note 16	Goodwill	Yes	None	None
Note 17	Impairment	Yes	Yes	Yes
Note 18	Long-term debt	Yes	None	None
Note 19	Derivatives and hedging	Yes	None	Yes
Note 20	Provisions	Yes	Yes	Yes
Note 21	Share-based compensation	Yes	None	Yes
Note 22	Financial instruments and risk management	Yes	Yes	Yes
Note 25	Related party transactions	Yes	None	None
Note 26	Commitments, contingencies and guarantees	None	Yes	None

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, 2019 (the "date of initial application").

Leases

Transition and Application

IFRS 16 "Leases" ("IFRS 16") was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. It replaces International Accounting Standard ("IAS") 17 "Leases" ("IAS 17"), International Financial Reporting Interpretations Committee ("IFRIC") 4 "Determining Whether an Arrangement Contains a Lease" ("IFRIC 4"), Standards Interpretation Committee ("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 under a single on-balance sheet model in a manner similar to the previous accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee recognizes a liability to make lease payments and a right-of-use asset ("ROU asset") representing the right to use the underlying asset during the lease term.

Lessor accounting under IFRS 16 is substantially the same as IAS 17, under which lessors will continue to classify leases as either operating or finance leases. IFRS 16 did not have an impact on the recognition, measurement and classification of leases that were in place before the date of initial application. IFRS 16 may have an impact on identification of lease components in contracts entered into after the date of initial application.

Tervita adopted IFRS 16 using the modified retrospective transition approach, whereby the ROU asset was measured at the value of the lease liability on the date of initial application. The modified retrospective approach does not require restatement of prior periods. Comparative financial results for 2018 were not restated and have been presented as previously reported under IAS 17 and related interpretations (note 11).

Tervita applied the following practical expedients available for transition to IFRS 16 under this approach:

- Used a single discount rate for portfolios of leases with reasonably similar characteristics;
- Relied on our assessment of whether leases were onerous immediately before the date of initial application as an alternative to performing an impairment review;
- Applied the recognition and measurement exemption available for low-value and short-term leases, or leases for which the term ended within 12 months of the date of initial application;
- Used hindsight in determining the lease term if the contract contained options to extend or terminate the lease;
- Excluded initial direct costs in the measurement of the ROU asset; and
- Applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC 4.

Impact to the Financial Statements

The following table shows the reconciliation of operating lease commitments as at December 31, 2018 to the lease liabilities at the date of initial application:

	Impact of IFRS 16
Total operating lease commitments - December 31, 2018	90
Weighted average incremental borrowing rate - January 1, 2019	8 %
Discounted operating lease commitments - January 1, 2019	60
Less:	
Commitments related to short-term leases	(3)
Add:	
Commitments related to onerous lease contracts	31
Commitments related to previously classified finance leases	13
Lease liabilities - January 1, 2019	**101**

The following tables summarize the impact of adoption of IFRS 16 on the Statements of Financial Position at the date of initial application, and the Statements of Profit (Loss) and the Consolidated Statements of Cash Flows ("Statements of Cash Flows") for the year ended December 31, 2019.

Statements of Financial Position

	Description	As at December 31 2018	IFRS 16 Adjustment	As at January 1 2019
Assets				
Property, plant and equipment	Capital leases (IAS 17)	13	(13)	—
Property, plant and equipment	ROU assets	—	65	65
Other assets	Sublease receivable	—	5	5
Total impact on assets		**13**	**57**	**70**
Liabilities				
Obligations under leases	Lease liabilities	—	101	101
Long-term debt	Capital leases (IAS 17)	13	(13)	—
Obligations under leases	Onerous leases contracts	48	(31)	17
Total impact on liabilities		**61**	**57**	**118**

ROU assets were adjusted by the onerous lease contracts provision of $31 million upon transition to IFRS 16.

Other assets pertain to the current and non-current portion of the sublease receivable.

The amount remaining in the onerous lease contracts provision on the date of initial application pertains to non-lease components that are not considered part of the lease liability under IFRS 16.

Statements of Profit (Loss)

For the year ended December 31	Description	2019
Leases under IFRS 16:		
Depreciation and amortization	Depreciation	**9**
Finance costs	Interest on obligations under leases	**7**
Other (income) expense	Gain (loss) on lease modification	**(1)**
Decrease to net profit (loss)		**15**
Leases under IAS 17:		
Direct expenses	Rent expense	**(8)**
General and administrative expenses	Rent expense	**(2)**
Increase to net profit (loss)		**(10)**
Decrease (increase) to net profit (loss)		**5**

Statements of Cash Flows

For the year ended December 31, 2019, payments of principal portion of lease liabilities, net of sublease payments received, have been reclassified from operating activities to financing activities.

Income taxes

IFRIC 23 "Uncertainty Over Income Tax Treatments" ("IFRIC 23") was issued in June 2017 and is effective for annual periods beginning on or after January 1, 2019.

IFRIC 23 addresses the accounting for tax treatments under IAS 12 "Income Taxes" ("IAS 12") when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the tax treatment by taxation authorities; how an entity determines taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

Uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty: either the most likely amount or the expected value. The key test is whether it is probable that the tax authorities will accept a company's chosen tax treatment. A company must reassess the judgments and estimates applied if facts and circumstances change and it is possible that a previous tax amount recognized may change, if challenged by the tax authorities. Uncertainty about an income tax treatment is reflected in the measurement of current and deferred tax.

We reviewed our uncertain tax positions and, based on our tax compliance, determined there were no material changes required on adoption of IFRIC 23.

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 16). 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 17).

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 Acqusition 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.

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 23).

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 Acqusition 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 "2018 senior secured notes") issued by Tervita under the existing indenture governing Tervita's outstanding 7.625% US$360 million senior secured notes due 2021 (the "2016 senior secured notes"), following which the escrow notes were deemed cancelled. See notes 18 and 19 for further details.

Tervita closed its acquisition of Newalta by way of a plan of arrangement on July 19, 2018. The Competition Act (*Canada*) ("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. No such application has been made to the Competition Tribunal and, pursuant to the Act, the time to make such an application has now lapsed.

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 Acqusition Date ($1.24/share).

The warrants issued as part of the Arrangement were valued using the Black-Scholes valuation model.

Cash and cash equivalents included the proceeds received from the 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 Acqusition 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:

	Purchase Price Allocation
Assets	
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
Liabilities	
Trade and other payables	(52)
Capital leases	(13)
Provisions	(62)
Total identifiable net assets	473
Goodwill	32
Purchase consideration	505

The $32 million of goodwill (note 16) recognized reflects the 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, and was allocated to CGUs as follows: $13 million to treatment, recovery, and disposal facilities ("TRDs"), $10 million to energy marketing, $8 million to waste services, and $1 million to drilling and production services ("DPS"). None of the goodwill is expected to be deductible for tax purposes.

Acquisition-Related Costs

During the year ended December 31, 2019, Tervita incurred $7 million (December 31, 2018 - $18 million) of integration costs which were recorded in transaction costs. These costs include severance, branding, site suspensions, employee compensation, onerous lease contracts, and information technology.

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

- Unamortized debt costs of $19 million for fees related to the issuance of the 2018 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; 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.

Impact on Statements of Profit (Loss)

Newalta contributed $108 million of revenue and $58 million of net loss from the Newalta Acqusition Date to December 31, 2018.

If the Arrangement occurred on January 1, 2018, Tervita would have earned revenue of $2,106 million and incurred a net loss before tax of $27 million. Newalta would have contributed $132 million of revenue and $51 million of net loss before tax for the period prior to the Newalta Acqusition Date.

4. REVENUE AND 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
- Executive Vice-President, Strategy and Corporate Development.

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

Corporate includes shared service allocations and corporate costs not allocated to reporting segments. 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.

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 mining and in situ production; purchase and resale of oil volumes associated with treatment, recovery, terminalling, and disposal services, including preparing the oil volumes for entry to the pipeline; 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, water treatment, sludge and slurry management, bio-remediation and technologies, hazardous and non-hazardous waste management and disposal, 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.

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

Tervita recognizes revenue for services performed over time ("project-based services") using either the input method or the output method dependent on the method that closely represents the value provided to the customer. Under the input method, Tervita recognizes revenue by measuring the progress on the project in terms of expenses incurred till date. Under the output method, Tervita recognizes revenue using the right to invoice that corresponds directly to the services provided 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. When using the input method, the transaction price typically results from fixed-fee arrangements over one performance obligation, depending on the customer contract. When using the output method, Tervita uses the right to invoice practical expedient to recognize revenue that reflects the value delivered to the customer. Criteria used to assess the value delivered to the customer include, but are not limited to, the number of hours worked, volume of materials handled, and project milestones achieved.

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.

Certain contracts include an option for a customer to purchase additional goods or services at reduced prices. Management assesses these contracts to determine if a material right exists as a result of 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.

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 "Revenue from contracts with customers" ("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

Financial Information for Reportable Segments and Reconciliation to IFRS Measures

For the year ended December 31, 2019	**Energy Services**	**Industrial Services**	**Corporate**	**Eliminations**	**Total**
Commodity-based sales	**1,607**	**45**	**—**	**—**	**1,652**
Facility-based services	**427**	**45**	**—**	**—**	**472**
Project-based services	**43**	**156**	**—**	**—**	**199**
Revenue - external	**2,077**	**246**	**—**	**—**	**2,323**
Revenue - intersegment	**5**	**—**	**—**	**(5)**	**—**
Revenue - total	**2,082**	**246**	**—**	**(5)**	**2,323**
Operating expenses					
Direct expenses	**(1,843)**	**(207)**	**—**	**5**	**(2,045)**
General and administrative expenses	**—**	**—**	**(48)**	**—**	**(48)**
Depreciation and amortization	**(118)**	**(13)**	**(7)**	**—**	**(138)**
Restructuring costs	**—**	**(3)**	**—**	**—**	**(3)**
Impairment reversal (expense)	**(125)**	**1**	**4**	**—**	**(120)**
Operating profit (loss)	**(4)**	**24**	**(51)**	**—**	**(31)**
Finance costs	**(12)**	**(2)**	**(78)**	**—**	**(92)**
Transaction costs	**—**	**—**	**(8)**	**—**	**(8)**
Other income (expense)	**2**	**6**	**(7)**	**—**	**1**
Profit (loss) before tax	**(14)**	**28**	**(144)**	**—**	**(130)**
Additions to property, plant and equipment and intangible assets	**(126)**	**(12)**	**(1)**	**—**	**(139)**

For the year ended December 31, 2018	Energy Services	Industrial Services	Corporate	Eliminations	Total
Commodity-based sales	1,337	49	—	—	1,386
Facility-based services	378	33	—	—	411
Project-based services	29	148	—	—	177
Revenue - external	1,744	230	—	—	1,974
Revenue - intersegment	4	1	—	(5)	—
Revenue - total	1,748	231	—	(5)	1,974
Operating expenses					
Direct expenses	(1,536)	(203)	—	5	(1,734)
General and administrative expenses	—	—	(50)	—	(50)
Depreciation and amortization	(82)	(9)	(5)	—	(96)
Impairment reversal (expense)	(1)	(23)	(1)	—	(25)
Operating profit (loss)	129	(4)	(56)	—	69
Finance costs	(10)	—	(59)	—	(69)
Transaction costs	(12)	—	(57)	—	(69)
Other income (expense)	1	(2)	(3)	—	(4)
Profit (loss) before tax	108	(6)	(175)	—	(73)
Additions to property, plant and equipment and intangible assets	(65)	(11)	(7)	—	(83)
Acquisitions	—	—	(395)	—	(395)

As at December 31, 2019	**Energy Services**	**Industrial Services**	**Corporate**	**Eliminations**	**Total**
Total assets	**1,398**	**177**	**87**	**—**	**1,662**

As at December 31, 2018	Energy Services	Industrial Services	Corporate	Eliminations	Total
Total assets	1,542	157	110	—	1,809

Geographic Information

For the year ended December 31	**2019**	2018
Revenue by location of services		
Canada	**2,286**	1,953
US	**37**	21
Revenue - total by location of services	**2,323**	1,974

As at December 31	**2019**	2018
Non-current assets (excluding financial instruments)		
Canada	**1,397**	1,456
US	**24**	77
Non-current assets (excluding financial instruments)	**1,421**	1,533

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:

For the years ended December 31	**2019**	2018
Profit (loss) before tax	**(130)**	(73)
Domestic statutory tax rates	**26.5%**	26.9%
Statutory tax (expense) recovery	**34**	20
Adjustments to income taxes due to:		
Settlement of prior period tax matters	**14**	—
(Non-recognition) recognition of operating losses and other assets	**(33)**	(11)
Non-deductible expenses	**(1)**	(10)
Total income taxes (expense) recovery	**14**	(1)

Income Tax Provision

For the years ended December 31	**2019**	2018
Total income taxes (expense) recovery	**14**	(1)
Effective income tax rate (%)	**11%**	(1%)

During the year ended December 31, 2019, the Company resolved certain tax matters relating to prior periods and recorded an income tax recovery of $14 million.

Deferred Income Taxes

In 2019 and 2018, 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.

As at December 31, 2019, $302 million of deferred tax assets were not recognized (December 31, 2018 - $274 million).

Tervita had the following non-capital loss carry forwards as at December 31, 2019:

Year of Expiry	US	Canada
2026	—	38
2027	—	29
2028	1	1
Thereafter	107	809
	108	877

As at December 31, 2019, Tervita had $261 million of deductible temporary differences for which no deferred tax asset was recognized (December 31, 2018 - $119 million).

6. 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. In addition, termination benefits are recognized as an expense when 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, 2019 totaled $154 million, of which $127 million was included in direct expenses and $27 million was included in general and administrative expenses (December 31, 2018 - $137 million, of which $112 million was included in direct expenses and $25 million was included in general and administrative expenses).

Termination benefits for the year ended December 31, 2019 totaled $7 million, of which $1 million was included in direct expenses, $2 million was included in general and administrative expenses, $3 million was included in restructuring costs, and $1 million was included in transaction costs (December 31, 2018 - $8 million, of which $1 million was included in direct expenses and $7 million was included in transaction costs).

Employee savings plan expenses for the year ended December 31, 2019 totaled $3 million (December 31, 2018 - $2 million).

7. FINANCE COSTS

For the years ended December 31	Note	2019	2018
Interest on long-term debt	*18*	**66**	55
Amortization of debt issue costs	*18*	**10**	7
Accretion of decommissioning liabilities	*20*	**9**	7
Interest on obligations under leases	*11*	**8**	—
Interest earned on sublease receivable	*11*	**(1)**	—
Finance costs		**92**	69

8. OTHER INCOME (EXPENSE)

For the years ended December 31	Note	2019	2018
Gain (loss) on sale of assets		**7**	7
Share-based compensation	*21*	**(9)**	(4)
Change in provisions and onerous lease contracts	*11, 20*	**(1)**	(8)
Gain (loss) on lease modification	*11*	**1**	—
Realized foreign exchange gain (loss) - debt and derivatives	*18, 19*	**6**	(8)
Unrealized foreign exchange gain (loss) - debt and derivatives	*18, 19*	**(2)**	6
Unrealized foreign exchange gain (loss) - other		**(1)**	3
Other income (expense)		**1**	(4)

9. EARNINGS PER SHARE

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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.

Diluted EPS is calculated by dividing earnings attributable to common shareholders by the weighted average number of common shares issued and outstanding plus the weighted average number of common shares that would be issued if all potentially dilutive common shares were converted. Tervita uses the treasury stock method to determine the weighted average number of common shares to calculate diluted EPS.

Tervita grants share-based compensation awards with an alternative to exchange the awards for common shares of the company, such grants are considered as equity-settled plans for determining the dilutive impact on basic EPS. See note 21 for information on Tervita's share-based compensation plans. If the grants have a dilutive impact in the period, they are considered potentially dilutive and are included in the calculation of the Company's diluted net earnings per share.

SUPPORTING INFORMATION

Accounting for share-based compensation awards as equity-settled was determined to have no dilutive impact for the years ended December 31, 2019 and 2018.

In addition, Tervita initiated a Normal Course Issuer Bid ("NCIB") in 2019 (note 23) that resulted in a reduction to the number of Tervita's common shares issued and outstanding. To calculate diluted EPS as a result of the NCIB, Tervita used the reverse treasury stock method to determine the weighted average number of common shares. The NCIB did not have a dilutive impact on EPS for the year ended December 31, 2019.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Other adjustments on the Statements of Cash Flows was comprised of:

For the years ended December 31	Note	2019	2018
Loss (gain) on sale of assets	*8*	**(7)**	(7)
Share-based compensation	*8*	**9**	4
Cash settlement of onerous lease contracts	*11*	**(4)**	(9)
Non-cash change in onerous lease contracts and other provisions	*11, 20*	**1**	8
Non-cash change in deferred revenue		**1**	(1)
Non-cash transaction costs	*3*	**—**	47
Other		**(3)**	1
Total other adjustments		**(3)**	43

11. LEASES

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Lessee

An arrangement is classified as a lease when Tervita controls the use of an identified asset for a period of time and has a right to obtain substantially all of the output of the asset in exchange for consideration. On the commencement date of a lease, Tervita recognizes ROU assets at cost, which is equal to the total of the lease liability at the commencement date, lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred, and an estimate of costs to be incurred by Tervita in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Subsequent to initial measurement, Tervita recognizes ROU assets at cost less accumulated depreciation and impairment losses. Tervita expects to use ROU assets evenly over the term of the lease, which are depreciated on a straight-line basis over the lease term. If ownership of any ROU asset transfers to Tervita at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the ROU asset. ROU assets are also subject to impairment (note 17).

If Tervita subleases any ROU asset, the ROU asset is de-recognized to the extent Tervita does not control the use of the asset or the right to the output of the asset. The ROU asset is tested for impairment if the sublease income does not exceed Tervita's costs related to the ROU asset. As an intermediate lessor, Tervita recognizes a lease receivable for the sublease.

At the commencement date of the lease, Tervita recognizes a lease liability at the present value of the lease payments over the expected lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, exercise price of a purchase option if Tervita is reasonably certain to exercise that option, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or rate are recognized as an expense when the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, Tervita uses an incremental borrowing rate ("IBR") at the rate of interest that it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

Subsequent to initial measurement, the lease liabilities increase by interest accrued and decrease by lease payments made.

In addition, the carrying amount of the ROU asset and lease liability is remeasured if there is a modification, a change in the lease term, a change to the in-substance fixed payments or a change in the assessment to purchase the underlying asset.

Leases with lease terms of 12 months or less and leases with low-value are exempt from IFRS 16 treatment. Tervita recognizes these lease expenses in direct expenses or general and administrative expenses in the Statements of Profit (Loss) on a straight-line basis over the lease term, unless another systematic basis represents the benefits of the ROU asset.

Tervita determines the lease term to be the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if Tervita is reasonably certain to exercise the option.

As Tervita adopted IFRS 16 using the modified retrospective transition approach, leases in 2018 were accounted for under IAS 17 as follows:

- Leases in which Tervita assumed substantially all the risks and rewards of ownership were classified as finance leases. On initial recognition, the leased asset was recorded at the lower of its fair value and the present value of the future minimum lease payments. After initial recognition, the asset was accounted for in accordance with accounting policies applicable to the asset type (note 14). Minimum lease payments were apportioned between finance costs and the outstanding lease

liability.

- Operating lease payments were recognized in direct expenses (for operating segments) or allocated general and administrative expenses in the Statements of Profit (Loss) on a straight-line basis over the lease term, unless another systematic basis was more representative of Tervita's use of the benefits of the leased asset. The total of future minimum lease payments under non-cancellable operating leases were disclosed under commitments in the notes to the Financial Statements.

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.

If substantially all the risks and rewards of ownership of the asset are not transferred to a third party, Tervita classifies the lease as an operating lease and recognizes rental income on a straight-line basis over the lease term, unless another systematic basis represents the pattern in which the benefit is derived from the leased asset. Tervita recognizes operating lease income in revenue in the Statements of Profit (Loss) if the leased asset is owned by Tervita. If the leased asset is a subleased ROU asset, Tervita recognizes the operating lease income in other income (expense) in the Statements of Profit (Loss). Tervita recognizes initial direct costs incurred in arranging a lease as additions to the carrying amount of the asset, which is then amortized over the lease term on the same basis as lease income.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17, under which Tervita will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

Onerous Lease 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. When such a contract includes a lease, an onerous obligation is recognized for the non-lease components 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).

Tervita recognizes an impairment expense for the lease component that is included in the ROU asset to the extent that Tervita cannot recover the carrying value of the ROU asset through future subleases.

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 Tervita has the right to control the operations of the asset and obtain substantially all of the output from the asset, and the lease term.

Sources of estimation uncertainty

Lessee

Tervita cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that Tervita would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value and nature to the ROU asset in a similar economic environment. The IBR is an estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. Tervita estimates the IBR using observable inputs such as terms and conditions on Tervita's existing credit facilities and makes certain estimates to reflect the specific lease such as stand-alone credit rating; duration of risk-free rates; nature and duration of the corporate bond yields; value and nature of the ROU asset; underlying security; and economic environment.

Onerous Lease Contracts

The determination of an onerous lease contract 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 discount the onerous lease contracts at December 31, 2019 ranged from 1.68 to 1.70 per cent (December 31, 2018 - 1.86 to 1.96 per cent).

SUPPORTING INFORMATION

ROU Assets

The amount of ROU assets included in property, plant and equipment is as follows:

	Note	Land	Buildings	Equipment	Other	Total
Cost						
Balance, December 31, 2018		—	—	11	2	13
IFRS 16 adjustment	2	5	76	2	—	83
Balance, January 1, 2019		5	76	13	2	96
Additions		4	8	3	—	15
Sublease receivable		—	(9)	—	—	(9)
Balance, December 31, 2019		9	75	16	2	102
Accumulated depreciation						
Balance, December 31, 2018		—	—	—	—	—
IFRS 16 adjustment	2	—	31	—	—	31
Balance, January 1, 2019		—	31	—	—	31
Provision		1	6	6	1	14
Impairment	17	—	—	2	—	2
Balance, December 31, 2019		1	37	8	1	47
Net book value		8	38	8	1	55

Sublease Receivable

The amount of sublease receivable included in other current assets and other assets is as follows:

	Note	Sublease Receivable
Balance, December 31, 2018		—
IFRS 16 adjustment	2	5
Balance, January 1, 2019		5
Additions		9
Modifications	8	1
Interest	7	1
Payments received		(3)
Balance, December 31, 2019		13
Less: current portion		4
Long-term portion		9

Obligations Under Leases

The amount of lease liabilities and onerous lease contracts included in obligations under leases is as follows:

	Note	Lease Liabilities	Onerous Lease Contracts	Total Obligations Under Leases
Balance, December 31, 2018		13	48	61
IFRS 16 adjustment	2	88	(31)	57
Balance, January 1, 2019		101	17	118
Additions		15	—	15
Interest	7	8	—	8
Change in estimates		—	2	2
Payments		(25)	(4)	(29)
Foreign exchange		(1)	—	(1)
Balance, December 31, 2019		98	15	113
Less: current portion		15	3	18
Long-term portion		83	12	95

	Note	Lease Liabilities	Onerous Lease Contracts	Total Obligations Under Leases
Balance, January 1, 2018		—	24	24
Acquisitions	3	13	18	31
Additions		2	6	8
Change in discount rate		—	6	6
Change in estimates		—	3	3
Payments		(2)	(9)	(11)
Balance, December 31, 2018		13	48	61
Less: current portion		4	11	15
Long-term portion		9	37	46

Lease Liabilities

The maturity analysis of the undiscounted cash flows associated with Tervita's lease liabilities is as follows:

As at December 31	**2019**
Less than one year	**21**
One to five years	**57**
More than five years	**49**
Total undiscounted lease liabilities	**127**

Onerous Lease Contracts

The undiscounted cash flows associated with Tervita's onerous lease contracts at December 31, 2019 were estimated at $19 million (December 31, 2018 - $74 million). Payments to settle the onerous lease contracts occur on an ongoing basis and will continue over the remaining lives of the operating assets, which are up to 13 years (December 31, 2018 - 14 years).

Onerous lease contracts acquired through the Arrangement in 2018 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 lease contracts liability of $3 million.

Short-Term Leases

During the year ended December 31, 2019, Tervita recognized $6 million of rent expenses related to short-term leases in the Statements of Profit (Loss).

Tervita as a Lessor

Tervita leases certain property, plant and equipment and has classified these leases as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership of the assets.

The maturity analysis of the undiscounted lease payments to be received under these operating leases is as follows:

As at December 31	**2019**
Less than one year	**9**
One to two years	**13**
Two to three years	**13**
Three to four years	**13**
Four to five years	**13**
Total undiscounted lease payments	**61**

12. 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.

13. 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. The cost of Inventory 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

As at December 31	**2019**	2018
Crude oil	**5**	1
Scrap metal	**6**	9
Other	**1**	2
Inventory	**12**	12

In 2019, Tervita expensed $1,732 million of inventory which was included in direct expenses (December 31, 2018 - $1,356 million).

14. 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 8).

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, December 31, 2018		46	1,621	210	208	35	56	2,176
IFRS 16 adjustment	2, 11	5	—	76	2	—	—	83
Balance, January 1, 2019		51	1,621	286	210	35	56	2,259
Additions		4	71	9	23	1	39	147
Disposals		—	(25)	(1)	(9)	—	—	(35)
Transfers to assets held for sale		—	(15)	—	—	—	—	(15)
Change in decommissioning cost	20	—	(39)	—	—	—	(10)	(49)
Reclassification		—	—	—	(1)	1	—	—
Sublease receivable	11	—	—	(9)	—	—	—	(9)
Foreign exchange		—	(2)	—	—	—	—	(2)
Balance, December 31, 2019		55	1,611	285	223	37	85	2,296
Accumulated depreciation								
Balance, December 31, 2018		1	815	72	99	31	1	1,019
IFRS 16 adjustment	2, 11	—	—	31	—	—	—	31
Balance, January 1, 2019		1	815	103	99	31	1	1,050
Provision		1	82	21	23	3	—	130
Disposals		—	(21)	(1)	(7)	—	—	(29)
Impairment	17	—	75	14	25	—	2	116
Transfers to assets held for sale		—	(14)	—	—	—	—	(14)
Balance, December 31, 2019		2	937	137	140	34	3	1,253
Net book value		53	674	148	83	3	82	1,043

For the year ended December 31, 2019, additions to property, plant and equipment included $15 million of ROU assets (note 11).

	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	20	—	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	17	—	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

15. 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 indefinite useful lives are measured at cost less accumulated impairment losses.

Significant judgments

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 15 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, 2019		**259**	**38**	**62**	**30**	**18**	**407**
Additions		**—**	**—**	**—**	**—**	**7**	**7**
Disposals		**—**	**—**	**—**	**—**	**(1)**	**(1)**
Balance, December 31, 2019		**259**	**38**	**62**	**30**	**24**	**413**
Accumulated amortization							
Balance, January 1, 2019		**258**	**38**	**58**	**2**	**9**	**365**
Provision		**1**	**—**	**2**	**2**	**3**	**8**
Impairment	*17*	**—**	**—**	**—**	**3**	**—**	**3**
Balance, December 31, 2019		**259**	**38**	**60**	**7**	**12**	**376**
Net book value		**—**	**—**	**2**	**23**	**12**	**37**

	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

16. 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, which are finalized within one year of the acquisition date. Goodwill is measured at cost less accumulated impairment losses.

SUPPORTING INFORMATION

	Note	2019	2018
Balance, January 1		**333**	324
Additions	*3*	**—**	32
Impairment	*17*	**(1)**	(23)
Balance, December 31		**332**	333

17. 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.

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 reversal (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 reversal (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 22). 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 nine per cent to 10 per cent (2018 – 10 per cent to 11 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, commodity prices, inflation rates, 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

Impairment expense by type of asset is as follows:

For the years ended December 31	Note	2019	2018
Property, plant and equipment	14	116	2
Intangible assets	15	3	—
Goodwill	16	1	23
Impairment expense		120	25

Property, Plant and Equipment

Tervita recognized $84 million of impairment on specific assets in its Energy Services segment for the year ended December 31, 2019 as a result of uncertainty around certain drilling-based operations in the US, the suspension or closure of inactive facilities, and the revaluation of decommissioning liabilities and associated assets.

The DPS CGU in the Energy Services segment was further tested for impairment as a result of the uncertainty in drilling activity in Canada and the US. After writing off the carrying amount of goodwill, $37 million of impairment was allocated to property, plant and equipment.

Tervita reversed $5 million of impairment in corporate for the year ended December 31, 2019 in relation to subleases of ROU assets that were previously considered onerous, and the revaluation of decommissioning liabilities and associated assets.

Intangible Assets

The 2019 impairment of $3 million related to permits for certain suspended and closed inactive facilities.

Goodwill

Goodwill impairment testing resulted in the following impairment expense:

For the years ended December 31	2019	2018
Waste services	—	23
DPS	1	—
Goodwill impairment	1	23

In 2019, $1 million of goodwill in the DPS CGU was impaired as a result of the decline in drilling activity. In 2018, an impairment of $23 million was recognized on the goodwill allocated to the waste services CGU as a result of 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 CGUs tested are particularly sensitive to the following estimates:

- An increase of 1% in the WACC would have increased the impairment by approximately $2 million (December 31, 2018 - $3 million); and
- A decrease in the terminal growth rate by 1% would have increased the impairment by approximately $2 million (December 31, 2018 - $4 million).

The allocation of goodwill to CGUs after impairment expense is as follows:

As at December 31	**2019**	2018
TRDs	**297**	297
Energy marketing	**16**	16
Landfills	**12**	12
Waste services	**7**	7
DPS	**—**	1
Total allocation to CGUs	**332**	333

18. LONG-TERM DEBT

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies Costs associated with the issuance and 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

The 2018 senior secured notes were issued on the Newalta Acqusition Date (note 3). In November 2019, Tervita repurchased US$20 million of the 2018 senior secured notes.

As at December 31	***Note***	Principal	Issuance	Maturity	**2019**	2018
2016 senior secured notes	***19***	US$360	Dec 2016	Dec 2021	**468**	491
2018 senior secured notes	***3, 19***	US$230	Jul 2018	Dec 2021	**299**	341
Long-term debt					**767**	832
Premium on 2018 senior secured notes					**1**	1
Unamortized debt costs					**(18)**	(28)
Total long-term debt					**750**	805

See note 22 for timing and amount of interest and debt repayment.

Debt Covenants

Tervita has a senior secured revolving credit facility ("Revolver") with a syndicate of Canadian banks, which was amended and extended from $200 million to $275 million in December 2018 and terminates on June 1, 2021. Under the terms of the Revolver, Tervita must comply with certain financial and non-financial covenants, as defined by its lenders, that are calculated based on lease accounting that would have applied under IAS 17 (note 2).

One covenant ("Total Leverage Ratio") limits the amount of Tervita's total indebtedness, net of unrestricted cash and cash equivalents of up to $75 million, relative to a defined measure of earnings ("Covenant EBITDA"). The Total Leverage Ratio cannot exceed 4.50 to 1.00. 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 2.00 to 1.00.

Covenant EBITDA was calculated as:

For the year ended December 31	Note	2019
Net profit (loss)		**(116)**
Adjustments:		
Depreciation and amortization	*14, 15*	**138**
Restructuring costs		**3**
Impairment (reversal) expense	*17*	**120**
Finance costs	*7*	**92**
Transaction costs	*3*	**8**
Other (income) expense	*8*	**(1)**
Income taxes expense (recovery)	*5*	**(14)**
Eligible adjustments:		
Severance costs, excluding restructuring and transaction costs		**3**
Adjusted EBITDA of unrestricted subsidiaries		**(3)**
Impact of new accounting standards (IFRS 16)	*2*	**(10)**
Covenant EBITDA		**220**

The financial covenants for the Revolver for the year ended December 31, 2019 were:

	Required	Achieved
Total Leverage Ratio	**Less than 4.50**	**3.49**
Secured Leverage Ratio	**Less than 2.50**	**0.26**
Interest Coverage Ratio	**Greater than 2.00**	**3.35**

As at December 31, 2019, Tervita was in compliance with all covenants.

Outstanding Letters of Credit

Outstanding letters of credit of $77 million as at December 31, 2019 (December 31, 2018 – $87 million) are primarily issued to satisfy regulatory requirements regarding Tervita's decommissioning obligations. The outstanding letters of credit reduce the borrowing capacity 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	2019	2018
Balance, January 1		**(28)**	(15)
Costs associated with new debt	*3*	**—**	(20)
Amortization of debt issue costs	*7*	**10**	7
Balance, December 31		**(18)**	(28)

19. 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 designates and documents the hedge relationship to which it wishes to apply hedge accounting. The documentation includes the Company's 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. The effective portion of the gain or loss on the hedging instrument is recognized in the cash flow hedge reserve in OCI, and 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 22 for fair value disclosures.

SUPPORTING INFORMATION

Cross-Currency Swap Agreements

Cross-currency swap agreements associated with the 2016 senior secured notes and 2018 senior secured notes for the years ended December 31, 2019 and 2018 were:

Swap agreement	Inception Date	Maturity Date	Settlement Date	Principal	Fixed Foreign Exchange Rate
Designated Hedge	Dec 2016	Dec 2021	Not applicable	476.6	0.7554
Swaps	May 2018	Aug 2018	Jul 2018	321.6	0.7775
Forward swaps	May 2018	Dec 2019	Oct 2019	320.1	0.7809

The fair value of cross-currency swaps were:

As at December 31	**2019**	2018
Forward swaps		
Unrealized exchange gain (loss) on forward swaps	**—**	18
Current portion	**—**	18
Designated Hedge		
2016 senior secured notes	**(11)**	7
Designated Hedge credit risk adjustment	**1**	1
Long-term portion	**(10)**	8
Total derivative assets (liabilities)	**(10)**	26

Designated Hedge

Tervita issued the 2016 senior secured notes (note 18) on December 13, 2016 (the "Designation Date"). On this date, Tervita 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. There is an economic relationship between the Designated Hedge and the 2016 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. 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 2016 senior secured notes.

In 2019, Tervita recognized a total loss in OCI of $18 million (December 31, 2018 - $39 million gain) for the effective portion of the Designated Hedge. For the year ended December 31, 2019, $25 million of OCI was reclassified to other

income (expense) (December 31, 2018 - $40 million) to offset the unrealized foreign exchange gain (loss) on revaluation of the debt. There was no tax impact as a result of this reclassification.

Swaps

The swaps provided a fixed US$:C$ 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 8 for further information.

Forward Swaps

In May 2018, Tervita entered into cross-currency swaps ("forward swaps") with a maturity date of December 2, 2019. The forward swaps mitigated the foreign currency risk associated with the variability in principal repayment of the 2018 senior secured notes, due to changes in the US$:C$ exchange rates. The forward swaps were not designated as a hedge and were classified and measured as financial liabilities at fair value through profit or loss ("FVTPL") (note 22).

The forward swaps were settled on October 29, 2019 resulting in a $6 million realized foreign exchange gain included in other income (expense). For the year ended December 31, 2018, an unrealized foreign exchange gain of $18 million was included in other income (expense) due to changes in the fair value of the forward swaps.

Sources of Hedge Ineffectiveness

Credit Risk

The Company is exposed to counterparty credit risk on the Designated Hedge and internal credit risk on the 2016 senior secured notes. Hedge ineffectiveness could arise from changes to credit risk for either Tervita or any of the counterparties issuing the Designated Hedge. Tervita does not hedge credit risk as part of the hedging relationship, and a counterparty re-assignment of one of the cross-currency swaps in 2019 did not result in changes to the credit risk of the Designated Hedge.

Timing of Derivative Designation

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.

20. PROVISIONS

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Decommissioning Liabilities

Tervita determines its decommissioning liabilities associated with the retirement of property, plant and equipment of 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 when 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 at 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. Subsequent to initial measurement, the contingent consideration is based on discounted cash flows using a discount rate applicable for an

operating segment or business line. Any adjustments to fair value 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 annually or when there is a material change in the rate. The risk-free rates used to estimate the decommissioning liabilities at December 31, 2019 ranged from 0.33 to 0.48 per cent (December 31, 2018 – 1.86 to 2.50 per cent) and an inflation rate of nil (December 31, 2018 – two per cent), and were specific to the timing of the cash flows and the jurisdiction of the obligations. Estimates are based upon Tervita's best practices and current regulatory requirements.

Contingent Consideration

The fair value of contingent consideration is estimated using future commodity prices, cavern capacity, cash flows, and discount rates that are Level 2 inputs under the fair value hierarchy (note 22). The discount rate used for these liabilities is 9.03 per cent (December 31, 2018 - 10.2 per cent) and is calculated using the WACC of comparable companies from a cross-section of industry peers, which reflects the risks inherent in the liability.

SUPPORTING INFORMATION

	Note	Decommissioning Liabilities	Contingent Consideration	Total
Balance, January 1, 2019		**413**	**11**	**424**
Charged to profit (loss)				
Change in other estimates		**—**	**(1)**	**(1)**
Unwinding of discount	7	**9**	**—**	**9**
Capitalized to property, plant and equipment				
New obligations		**9**	**—**	**9**
Disposals		**(6)**	**—**	**(6)**
Change in discount rate		**(22)**	**—**	**(22)**
Change in other estimates		**(33)**	**—**	**(33)**
Settled during the year		**(15)**	**(1)**	**(16)**
Balance, December 31, 2019		**355**	**9**	**364**
Less: current portion		**5**	**1**	**6**
Long-term portion		**350**	**8**	**358**

	Note	Decommissioning Liabilities	Contingent Consideration	Legal	Total
Balance, January 1, 2018		272	9	3	284
Acquisitions	3	44	—	—	44
Charged to profit (loss)					
Change in other estimates		—	2	—	2
Unwinding of discount	7	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)	—	(3)	(8)
Balance, December 31, 2018		413	11	—	424
Less: current portion		14	1	—	15
Long-term portion		399	10	—	409

Provisions were settled for $5 million of cash, an exchange of $1 million of accounts receivable, and discontinuance of a legal claim of $2 million.

Decommissioning Liabilities

The uninflated undiscounted cash flows associated with Tervita's liabilities at December 31, 2019 were estimated at $403 million (December 31, 2018 – $439 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 in 2018 were valued at $44 million through the purchase price allocation using a credit-adjusted discount rate, and were subsequently re-measured using the risk-free discount rate, resulting in an adjustment to the decommissioning obligation of $99 million.

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 amount per cubic meter of by-products received for disposal in the caverns and related disposal wells. Fixed payment rates 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. At December 31, 2019, the fair value of the obligations was $9 million (December 31, 2018 – $11 million).

21. SHARE-BASED COMPENSATION

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Tervita has five share-based compensation plans under which units are granted to members of Tervita's Board of Directors, executive leadership, senior management, and eligible employees. The share-based compensation plans include stock options ("options"), restricted share units ("RSUs"), integration incentive units ("IIUs"), performance share units ("PSUs"), and deferred share units ("DSUs"). These plans are accounted for as equity-settled plans or cash-settled plans depending on the terms of settlement.

Under an equity-settled plan, Tervita recognizes changes in the fair value of units over the vesting period in other income (expense) (note 8) in the Statements of Profit (Loss) and share-based compensation reserve in the Statements of Financial Position. Upon exercise, the consideration received and the amounts previously recognized in share-based compensation reserve are recorded as an increase to issued share capital.

Under a cash-settled plan, Tervita recognizes changes in the fair value of units over the vesting period in other income (expense) (note 8) in the Statements of Profit (Loss), and other current liabilities and other long-term liabilities in the Statements of Financial Position. Settlement of the vested units reduces the outstanding liability.

Option Plan

Options are granted to members of Tervita's executive leadership and senior management, and are accounted for as equity-settled.

The fair value of the options is estimated on the grant date using the Black-Scholes model. Unless otherwise determined by Tervita's Board of Directors, the options vest annually on the anniversary of the grant date over a period of three years, and expire five years after the grant date.

RSU Plan

RSUs are granted to eligible employees, and are accounted for as cash-settled.

The fair value of the RSUs is measured at each reporting date using Tervita's closing share price as at that date. RSUs issued before 2019 vest in full three years after the grant date, and RSUs issued in 2019 vest annually on the anniversary of the grant date over a period of three years.

IIU Plan

IIUs were granted to Tervita's executive leadership and senior management as incentive to achieve targeted synergies with respect to the acquisition and integration of Newalta, and are accounted for as cash-settled.

The fair value of the IIUs is measured at each reporting date using Tervita's closing share price as at that date, adjusted for a performance multiplier that is based on estimated achievement of the performance criteria. IIUs vest in full two years after the grant date.

DSU Plan

DSUs are granted to members of Tervita's Board of Directors, and are accounted for as cash-settled.

The fair value of the DSUs is measured at each reporting date using Tervita's closing share price as at that date. DSUs vest quarterly over a period of one year.

The DSUs are settled when both the vesting period is completed and the board member no longer holds a position on Tervita's Board of Directors.

PSU Plan

PSUs are granted to Tervita's executive leadership and senior management as incentive to achieve performance criteria, and are accounted for as cash-settled.

The fair value of the PSUs is measured at each reporting date using Tervita's closing share price as at that date, adjusted for a performance multiplier that is based on estimated achievement of the performance criteria. PSUs vest in full three years after grant date.

Sources of estimation uncertainty

Determining the fair value of the units under the various plans 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 respective plans at the end of a reporting period. The following key assumptions were used by Tervita in arriving at the fair values of the plans:

- Expected annual volatility – the volatility was determined based on publicly available trading data of comparable companies, in addition to Tervita's trading history since Tervita became a public company in 2018. The volatility is estimated for a period commensurate with the expected life of the option;
- Expected life – the expected life is estimated based on the contractual life or estimated life;
- Forfeiture rate – the actual forfeitures of the group of Tervita's executive leadership, senior management, and eligible employees who received the units were used in estimating future forfeiture rates;
- Market price – the market price is determined based on the closing share price as at the reporting date, or the grant date for options;
- Exercise price – the exercise price is assumed to be the market price on the grant date of the option;
- Risk-free interest rate – the implied yield of zero-coupon government issues for equivalent term remaining at the grant date;
- Dividend yield – since Tervita has not historically paid dividends, the dividend yield is assumed to be $nil at the grant date; and
- Performance multiplier – the fair values of IIUs and PSUs are adjusted for a performance multiplier that is based on the Company’s best estimate of the achievement of performance criteria.

SUPPORTING INFORMATION

Options

The inputs to determine the fair value of the options granted in the period were:

As at December 31	**2019**	2018
Weighted average market price	**$6.19**	$9.23
Expected annual volatility	**54 %**	40 %
Expected life	**4 years**	5 years
Risk-free interest rate	**1.6 %**	2.0 %
Expected annual forfeiture rate	**4 %**	4 %
Weighted average fair value	**$2.64**	$3.52

The changes in options outstanding were:

	2019		2018	
	Units	**Weighted Average Exercise Price**	Units	Weighted Average Exercise Price
Outstanding, January 1	**2,303,728**	**$9.57**	1,034,643	$10.00
Granted	**1,030,696**	**$6.19**	1,318,242	$9.23
Forfeited	**(731,019)**	**$8.72**	(49,157)	$9.35
Outstanding, December 31	**2,603,405**	**$8.48**	2,303,728	$9.57
Exercisable, December 31	**851,496**	**$9.69**	344,881	$10.00

The ranges of exercise price and weighted average remaining lives as at December 31, 2019 were:

	Outstanding			Exercisable	
Exercise prices ($)	**Units**	**Weighted Average Remaining Life (Years)**	**Weighted Average Exercise Price**	**Units**	**Weighted Average Exercise Price**
$6.00 - $6.75	**874,886**	**4.25**	**$6.20**	**19,096**	**$6.54**
$6.75 - $7.50	**16,577**	**4.95**	**$7.49**	**—**	**$—**
$7.50 - $10.00	**1,711,942**	**2.78**	**$9.65**	**832,400**	**$9.76**
Total	**2,603,405**	**3.29**	**$8.48**	**851,496**	**$9.69**

For the year ended December 31, 2019, Tervita recognized share-based compensation expense related to options of $2 million (December 31, 2018 - $3 million). As at December 31, 2019, the share-based compensation reserve under the equity-settled plans was $7 million (December 31, 2018 - $5 million).

Cash-Settled Units

The changes in cash-settled units outstanding were:

	RSUs	**IIUs**	**PSUs**	**DSUs**
Outstanding, January 1, 2019	**1,000,503**	**251,147**	**—**	**—**
Granted	**867,613**	**—**	**433,791**	**177,227**
Cancelled or forfeited	**(147,855)**	**(54,199)**	**(82,103)**	**—**
Outstanding, December 31, 2019	**1,720,261**	**196,948**	**351,688**	**177,227**

	RSUs	IIUs
Outstanding, January 1, 2018	588,362	—
Granted	518,045	251,147
Cancelled or forfeited	(105,904)	—
Outstanding, December 31, 2018	1,000,503	251,147

For the year ended December 31, 2019, Tervita recognized share-based compensation expense related to cash-settled plans of $7 million (December 31, 2018 - $1 million). As at December 31, 2019, the liability under the cash-settled plans was $9 million (December 31, 2018 - $2 million).

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 estimation of the expected credit losses ("ECLs") considering possible default events over the lifetime of the financial instrument. ECLs are a probability-weighted estimate of credit losses based on historical experience and future expectations are applied to the aging categories of the Company's provision matrix. Credit losses are measured as the difference between the contractual cash flows due to the Company and the cash flows Tervita expects to receive.

The Company measures its impairment of 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

				Carrying Value		Estimated Fair Value	
As at December 31	***Note***	Classification	Level	**2019**	2018	**2019**	2018
Cash and cash equivalents		Amortized cost	—	**22**	46	**22**	46
Trade and other receivables		Amortized cost	—	**192**	180	**192**	180
Sublease receivable	***11***	Amortized cost	—	**13**	—	**13**	—
Equity investment		FVTPL	3	**3**	4	**3**	4
Trade and other payables		Other financial liabilities	—	**(180)**	(122)	**(180)**	(122)
Interest payable	***18***	Other financial liabilities	—	**(5)**	(6)	**(5)**	(6)
Long-term debt	***18***	Other financial liabilities	—	**(750)**	(805)	**(771)**	(793)
Lease liabilities	***11***	Other financial liabilities	—	**(98)**	(13)	**(98)**	(13)
Derivative assets (liabilities)	***19***	Designated hedge	2	**(10)**	8	**(10)**	8
Derivative assets (liabilities)	***19***	FVTPL	2	**—**	18	**—**	18
Contingent consideration	***20***	FVTPL	2	**(9)**	(11)	**(9)**	(11)

There were no transfers between levels of the fair value hierarchy in either 2019 or 2018. 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 are presented on a net basis on the Statements of Financial Position as Tervita has a legally enforceable right to set-off the balances due. The following tables show the actual effect of netting arrangements on the Company's financial position:

As at December 31, 2019	**Gross Asset**	**Gross Liability**	**Net Presentation**
Trade and other receivables	**227**	**(176)**	**51**
Trade and other payables	**28**	**(61)**	**(33)**

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

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 customers individually make up more than 10 per cent of Tervita's credit exposure.

Loss Allowance

	2019	2018
Balance, January 1	**(1)**	(1)
Provision for bad debts	**(3)**	—
Write-offs, net of recoveries	**2**	—
Balance, December 31	**(2)**	(1)

Aging Analysis of Trade Accounts Receivable By Invoice Date

As at December 31	**2019**	2018
91 - 120 days	**4**	6
Greater than 121 days	**4**	15
Accounts outstanding over 90 days	**8**	21

The Company deems that the credit risk of a customer has increased significantly since initial recognition if the balance payable is outstanding for more than 90 days from the invoice date. Tervita considers a customer to be in default when the balance payable is outstanding for more than two years from the invoice date or earlier if there are indicators that payment from the customer is unlikely. The Company's credit terms are customer specific and range from 30 days to 60 days. Customers are grouped based on credit status and aging when being assessed for ECLs. Tervita estimates the ECLs at each reporting date using a provision matrix that includes rates based on the number of days since the invoice date. Qualitative factors such as past events, customer-specific conditions and expectations of future economic activity are used to adjust rates for specific customers in the provision matrix.

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, 2019 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 become 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, 2019, there was $198 million of borrowing available under the Revolver (December 31, 2018 - $188 million) and $22 million in cash and cash equivalents available (December 31, 2018 - $46 million).

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

	2020	2021-22	2023-24	Thereafter
Trade and other payables	180	—	—	—
Interest payable, net of related swap agreements	60	60	—	—
Long-term debt (excludes foreign currency revaluation and unamortized debt costs)	—	767	—	—
Lease liabilities	21	33	24	49
Contingent consideration	1	1	2	26
Total	262	861	26	75

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 a portion of its US$ debt (note 19). 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 (December 31, 2018 - $6 million). In 2019, Tervita exited the forward swaps associated with the 2018 senior secured notes (note 19) and repurchased US$20 million of the 2018 senior secured notes (note 18). The Company has incurred an unrealized foreign exchange gain of $2 million on the 2018 senior secured notes since exiting the forward swaps.

Changes in Liabilities Arising From Financing Activities

	Note	Long-Term Debt	Derivative Liabilities (Assets)	Total
Balance, January 1, 2019		**805**	**(26)**	**779**
Cash flows	*19*	**—**	**6**	**6**
Foreign exchange movements		**(39)**	**(7)**	**(46)**
Fair value changes		**—**	**37**	**37**
Repayment of outstanding debt	*18*	**(26)**	**—**	**(26)**
Other		**10**	**—**	**10**
Balance, December 31, 2019		**750**	**10**	**760**

	Note	Long-Term Debt	Derivative Liabilities (Assets)	Total
Balance, January 1, 2018		437	31	468
Cash flows	18	(20)	—	(20)
Foreign exchange movements		49	(1)	48
Fair value changes		—	(56)	(56)
Issuance of new debt	3, 18	332	—	332
Other		7	—	7
Balance, December 31, 2018		805	(26)	779

Market Risk

Market risk is the risk that the fair value or cash flows of Tervita's financial instruments will fluctuate as a result of changes in market prices, influenced by changes in foreign exchange, interest rates, and commodity prices. See note 19 for information on changes in fair value of Tervita's cross-currency swaps for the years ended December 31, 2019 and 2018.

Commodity Price Risk

Tervita provides environmental services to customers that are primarily engaged in oil and gas exploration and production. Oil and gas exploration and, to a lesser extent, production is driven by oil and gas commodity prices, which in turn are impacted by resource availability and demand, costs to produce, and general economic activity. As a result, Tervita's financial performance is indirectly linked to commodity prices.

While activity levels for oil and gas exploration are driven directly by commodity prices, demand for environmental services is less dependent on commodity prices. This has resulted in more stable demand for Tervita's production-related environmental services, which is a mitigating factor for the risk of declining oil and gas commodity prices.

Tervita did had not have material exposure to price risk on its financial instruments as at December 31, 2019 and 2018.

23. SHARE CAPITAL AND NCIB

	Note	Authorized	Issued (number of shares)	Share Capital (millions of C$)	Contributed Surplus (millions of C$)
Class A voting preferred shares with no par value		Unlimited	102,010,181	816	—
Class A voting common shares with no par value		Unlimited	2,615,598	21	—
Cancellation of shares under the Arrangement	3		(104,625,779)	(837)	—
Common shares with no par value	3	Unlimited	117,557,112	947	1
Balance, December 31, 2018			117,557,112	947	1
Repurchase of common shares			**(3,202,448)**	**(27)**	**4**
Shares outstanding, December 31, 2019			**114,354,664**	**920**	**5**
Provision for repurchase of common shares			**(1,732,390)**	**(15)**	**2**
Balance, net of provision, December 31, 2019			**112,622,274**	**905**	**7**

Share Capital

As part of the Arrangement, the class A voting common shares and 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 dividend and distributions, and have an equal and ratable claim to the assets of Tervita upon liquidation.

NCIB

On May 7, 2019, Tervita commenced a NCIB to repurchase up to a maximum of 3,115,264 common shares until May 6, 2020. On December 5, 2019, Tervita announced an amendment to the NCIB to purchase up to an additional 2,762,591 common shares until May 6, 2020.

On May 21, 2019, Tervita entered into an Automatic Share Purchase Plan ("ASPP"), which permits an independent broker to repurchase shares under the NCIB during blackout periods. Tervita recognized a provision of $13 million for the repurchase of common shares under the ASPP in trade and other payables as at December 31, 2019 as an estimate of the maximum number of shares that could be repurchased during the blackout period.

24. CAPITAL MANAGEMENT

Tervita’s capital management objectives are to enable ongoing access to capital to successfully deliver its strategy, meet its financial obligations, provide adequate returns and benefits for shareholders and other stakeholders, and to mitigate risk through changing economic conditions. Tervita's capital structure is comprised of share capital, long-term debt excluding debt costs, and cash and cash equivalents. As at December 31, 2019, Tervita had cash and cash equivalents of $22 million (December 31, 2018 - $46 million) and access to $198 million under its Revolver (net of letters of credit of $77 million) (December 31, 2018 - $188 million).

Tervita's management and the Board of Directors review and assess Tervita's capital structure at least at each scheduled board meeting, a minimum of four times annually, and may adjust the financial strategy based on the current outlook of the underlying business, capital requirements to fund growth initiatives, and the state of the debt and equity capital markets. In the process of managing its capital, Tervita may:

- issue new equity or debt securities;
- amend, revise, renew or extend the terms of existing long-term debt facilities;
- draw on existing credit facilities and/or enter into new credit facilities;
- repay existing debt;
- buy back issued and outstanding equity shares;
- replace outstanding letters of credit with bonds or other types of financial security; and
- sell idle, redundant or non-core assets.

Tervita's management monitors the capital structure based on covenants required pursuant to the Revolver (note 18).

25. RELATED PARTY TRANSACTIONS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Related parties include entities that hold 10 per cent or more of the voting power, key management personnel, which comprise the Board of Directors, 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:

For the years ended December 31	Note	2019	2018
Salaries and short-term benefits	6	2	1
Termination benefits	6	1	—
Share-based compensation	21	4	2
Bonuses		1	1
Total key management compensation		8	4

Other Related Party Transactions

Positions held in the 2016 senior secured notes and 2018 senior secured notes by certain related parties were:

(millions of US dollars)	Note	2019	2018
Balance, January 1		37	22
Additions	3	16	15
Balance, December 31		53	37

During 2019, related parties earned US$4 million in interest income (December 31, 2018 - US$2 million) related to their proportionate holdings in the 2016 senior secured notes and 2018 senior secured notes. During 2018, certain related parties also earned fees of $4 million for issuance of the escrow notes (note 3).

26. COMMITMENTS, CONTINGENCIES AND GUARANTEES

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 cannot be determined), 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

Commitments

	2020	2021-22	Thereafter
Interest on long-term debt	60	60	—
Pipeline transportation commitment	24	8	—
Capital purchase commitments	1	—	—
Utility purchase commitment	2	—	—
Investment commitment	1	—	—
Total commitments	88	68	—

Contingencies

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. The claim alleges that, among other things, the former Tervita employees breached their employment contracts and fiduciary duties, and engaged in other unlawful conduct by improperly taking confidential Tervita information to enable Secure's business in direct competition with Tervita's business. Secure filed a defense and counterclaim in November 2008 claiming damages for alleged conduct in contravention of the Act.

After evaluation from Tervita's management and Board of Directors, Tervita has determined the claim against Secure has merit and has accordingly set a Court date for early 2022 and non-binding mediation has been scheduled for late 2020.

Guarantees

As at December 31, 2019, Tervita had $96 million (December 31, 2018 – $111 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 18.

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, Executive Vice President, Strategy & Corporate Development
Linda Dietsche, Chief Financial Officer

AUDITORS

Ernst & Young LLP

LEGAL COUNSEL

Norton Rose Fulbright Canada LLP

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EARTH MATTERS