# TERVITA

***MANAGEMENT'S DISCUSSION & ANALYSIS***

***March 31, 2018***

# ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") was prepared by management and is a summary of the financial position and results of operations of Tervita Corporation ("Tervita", the "Company", "we", "our", "us" and similar expressions) for the three months ended March 31, 2018 and as compared to the three months ended March 31, 2017. This MD&A is dated May 7, 2018, and takes into consideration information available up to that date. Tervita's Board of Directors approved this disclosure on May 7, 2018.

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: (i) our unaudited Interim Condensed Consolidated Financial Statements and accompanying notes (the "Financial Statements") for the three months ended March 31, 2018 and 2017; (ii) our audited annual Consolidated Financial Statements and accompanying notes (the "Annual Financial Statements") and MD&A (the "Annual MD&A") for the year ended December 31, 2017; and (iii) our MD&A for the three months ended March 31, 2017.

All financial information reflected herein is expressed in millions of Canadian dollars ("$" or "C$") unless otherwise stated. Certain comparative information has been reclassified to conform to the MD&A presentation adopted for the current year.

This MD&A contains references to measures not in accordance with IFRS ("non-GAAP measure"), including Adjusted EBITDA, Adjusted EBITDA margin, Divisional EBITDA, Divisional EBITDA margin, and Net Debt to Adjusted EBITDA. Please refer to the section ***Non-GAAP Measure and Key Definitions*** for a full discussion on management's use of non-GAAP measures and their reconciliation to IFRS measures.

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

# COMPANY OVERVIEW

## COMPANY OVERVIEW

Tervita is one of the largest environmentally focused energy, environmental and waste management service providers in Canada. The Company primarily serves the oil and gas industry, as well as the industrial and natural resource sectors, predominantly in western Canada. Our network of fixed facilities consists of 79 active waste processing, disposal and industrial facilities, including 24 treating, recovery and disposal facilities ("TRDs"), seven stand-alone disposal wells, two cavern disposal facilities, one frac oil facility, 25 engineered landfills (which include 19 owned sites, three sites operated under contract and three sites that it markets under contract for other landfill operators), five transfer stations, one NORM facility, 10 bioremediation facilities and four metals recycling facilities.

## OPERATING SEGMENTS

Tervita's reporting structure is organized into the following two operating segments:

- **Energy Services** provides numerous services to the oil and gas sector, including the treating, recovering and disposal of fluids and the processing, recovery and disposal of solid materials used in, and generated by, natural resource and industrial production, and the disposal of oilfield waste. In conjunction with the operation of its waste processing facilities, the segment also engages in energy marketing activities.
- **Industrial Services** provides comprehensive environmental solutions, including site remediation, facility decommissioning, environmental construction and technologies, hazardous and non-hazardous waste management, emergency response, rail services, and recycling services to oil and gas and other industrial companies. Our recycling services include the purchase and processing of ferrous and non-ferrous metals recovered from demolition sites and other locations. Other offerings include waste transportation and classification.

In addition to our two operating segments, Tervita also presents intersegment eliminations and general and administrative and non-operating expenses as Corporate. General and administrative expenses include expenses for executive leadership, human resources, information technology, finance, accounting, and legal and regulatory, as well as depreciation and amortization for corporate and shared services assets. Intersegment profit eliminations include those related to the construction and transfer of long-lived assets between operating segments.

## NEWALTA TRANSACTION

On February 28, 2018, the Company entered into an arrangement agreement (the "Arrangement Agreement") with Newalta Corporation ("Newalta"), pursuant to which Tervita has agreed, through a series of transactions, to acquire Newalta's issued and outstanding common shares such that Tervita's and Newalta's shareholders will own 89% and 11%, respectively, of the common shares of the combined entity. In addition to common shares, Newalta shareholders will also receive common share purchase warrants (the "warrants") in the combined entity. The warrants will be exercisable for two years from the closing of the arrangement at a price of $2.75 per equivalent common share of Newalta. If exercised, the warrants would increase Newalta's pro forma ownership in the combined entity to 13%. Concurrent with entering the Arrangement Agreement, Tervita entered into bridge financing commitment agreements to ensure Tervita's ability to finance the transaction.

The transaction is to be completed by way of a plan of arrangement (the "Arrangement") under the *Business Corporations Act* (Alberta). A joint information circular regarding the Arrangement was mailed to Newalta's and Tervita's shareholders on March 23, 2018. On April 30th, 2018, the shareholders of Tervita and the securityholders of Newalta approved the Arrangement at each of their respective annual and special meetings. Closing of the Arrangement is expected to occur upon receipt of the remaining regulatory approvals, including approval under the *Competition Act* (Canada).

# BUSINESS OVERVIEW AND FINANCIAL HIGHLIGHTS

## BUSINESS OVERVIEW

Tervita generated net earnings of $3 million in the first quarter of 2018, ahead of the Q1 2017 loss of $2 million, reflecting relatively stable operating earnings, lower depreciation and amortization, and lower general and administrative expenses. Adjusted EBITDA was $37 million in Q1 2018, down from $41 million in the prior year. The decrease in Adjusted EBITDA primarily reflects slightly lower overall activity in our operating areas offset by lower general and administrative expenses. The Adjusted EBITDA margin of 32% in Q1 2018 was in line with the same prior year quarter of 33%, and above the 2017 full year margin of 31%.

Despite higher monthly West Texas Intermediate ("WTI") prices, above normal discounts for western Canadian crude oils (particularly heavy oil) and natural gas resulted in slightly lower activity levels in the Western Canadian Sedimentary Basin ("WCSB") than the prior year. These broad economic conditions are consistent with Tervita's overall strategic focus that assumes WCSB activity will remain relatively stable over the next few years. Consequently, we continue to focus on delivering a low cost, quality, and customer-focused service model while investing prudently in self-funded capital growth projects that we believe will offer high returns.

### *Energy Services*

Improvements in operating results driven by growth capital spend in 2017 in our Energy Services segment partially offset the impact of the lower level of industry activity, resulting in relatively stable volumes and revenues (excluding energy marketing) in Q1 2018 compared to the same quarter of 2017. While revenues (excluding energy marketing) were relatively constant, product mix, particularly a lower proportion of higher value solids and other waste streams associated with drilling activities, negatively impacted costs. Energy marketing volumes have significantly recovered since the impact of the Pembina Peace Pipeline Phase III expansion in Q3 2017, however, volumes were still down marginally from the first quarter of 2017. Accordingly, Q1 2018 Energy Services' Divisional EBITDA was $44 million compared to $47 million in the same quarter of 2017. Our Energy Services segment continued to deliver a strong Divisional EBITDA margin of 58% in Q1 2018 compared to 61% in Q1 2017, and was in line with the full year Divisional EBITDA margin of 58% in 2017.

### *Industrial Services*

The first quarter of 2018 saw moderately lower than expected reclamation and remediation project related activity, particularly in British Columbia ("BC") and Alberta. Consequently, Q1 2018 Industrial Services revenues of $41 million were $9 million lower than the same quarter of the prior year. Ferrous metal pricing rose to an average $330 per net ton in Q1 2018, higher than the $312 per net ton average price of Q1 2017, reflecting continued strong overall economic conditions, particularly in the US. Despite these higher prices, broad rail logistical constraints that impacted several Canadian industries in Q1 2018 (agriculture, oil and gas, among others) limited the ability of our metals business to ship volumes to its end markets. Overall, the Industrial Services segment generated $2 million of Divisional EBITDA in the first quarter of 2018 compared to $7 million in Q1 2017.

## *Corporate*

Company cost reduction efforts contributed positively to results as corporate overheads fell to 9% of revenue (excluding energy marketing) in the first quarter of 2018, down from 15% in the same quarter of 2017. In addition to delivering significant growth and capacity to Tervita's Energy Services business, the Newalta transaction will provide additional opportunities to achieve improvements in Tervita's overheads and Adjusted EBITDA margins.

In addition to announcing the Newalta transaction, Tervita continued the execution of its identified pipeline of capital projects, spending $15 million in the first quarter of 2018, up from $9 million in the same quarter of 2017. We also continued to fund capital projects with cash provided by operations, with Net Debt remaining steady at $344 million and cash and cash equivalents increasing $9 million from the end of 2017 to $133 million at March 31, 2018. Our March 31, 2018 Net Debt to Adjusted EBITDA of 2.26 times was in line with December 31, 2017, providing Tervita the flexibility to finance the Newalta transaction.

## FINANCIAL HIGHLIGHTS

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2018** | 2017 | *% change* |
| Energy marketing revenue | **274** | 554 | *(51)* |
| Revenue (excluding energy marketing) | **116** | 125 | *(7)* |
| Total revenue | **390** | 679 | *(43)* |
| Profit (loss) from continuing operations | **3** | (2) | |
| - per share ($), basic and diluted | **0.03** | (0.02) | |
| Net profit (loss) | **3** | (2) | |
| - per share ($), basic and diluted | **0.03** | (0.02) | |
| Divisional EBITDA[1] | **46** | 54 | *(15)* |
| Adjusted EBITDA[1] | **37** | 41 | *(10)* |
| Capital expenditures | **15** | 9 | *67* |
| Total assets | **1,229** | 1,257 | *(2)* |
| Non-current financial liabilities | **484** | 484 | - |
| Net debt | **344** | 368 | *(7)* |
| Number of shares outstanding - end of period | **104,625,779** | 104,625,779 | - |
| Weighted average shares outstanding - basic and diluted | **104,625,779** | 104,625,779 | - |

[1] *Refer to* ***Non-GAAP Measures and Key Definitions*** *section.*

Total revenues of $390 million were down from $679 million in the prior year. The lower reported revenues are due mainly to the adoption of the new revenue recognition standard (*IFRS 15: Revenue from Contracts with Customers or "IFRS 15"*) that reduced energy marketing revenue related to certain energy marketing pipeline activities. Effective January 1, 2018, these activities are presented on a net basis with a corresponding offset to direct expenses and no impact on operating profit (loss) or net profit (loss). Before applying IFRS 15, the purchased cost of oil and, therefore, revenue was lower in Q1 2018 as compared to Q1 2017, as follows:

| | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | **Reported** | Adjustment | Amount Without IFRS 15 Adoption | Reported | *% change* |
| Energy marketing revenue | **274** | 260 | 534 | 554 | *(4)* |
| Revenue (excluding energy marketing) | **116** | - | 116 | 125 | *(7)* |
| Total revenue | **390** | 260 | 650 | 679 | *(4)* |

Lower revenue (excluding energy marketing) was primarily due to reduced project activity in Industrial Services.

# OUTLOOK

We believe that current levels of WTI pricing could support much higher levels of WCSB oil and gas spending activity, particularly in the heavy oil producing regions of the WCSB. With anticipated incremental takeaway capacity and higher overall western Canadian netbacks, we believe this will result in marginally better and broader based levels of industry activity than in the first quarter of 2018. Accordingly, we are expecting higher waste volumes over the second half of the year in our Energy Services segment, due in part to the continuing impact from ongoing growth spending. We continue to believe the Montney and Duvernay plays will be the areas of highest activity, and the focus of much of our growth capital spending, as we work collaboratively with customers to deliver capacity and services to meet their needs.

Combining forecasted revenue growth from our Energy Services and Industrial Service segments with cost reductions already achieved, we believe we will continue to build on and exceed the financial and operating results achieved in 2017.

The second quarter is typically impacted by the thaw and subsequent melting of the winter snow pack ("break up") resulting in road bans and other delays typical of the spring. With 2018's unusually long winter that stretched well into spring and provided above average snow packs, the 2018 break up is expected to be extended this year and may also impact Q2 2018 results.

We expect revenues from our Industrial Services segment to recover over the remainder of the year. A strong current backlog and anticipated pipeline of reclamation and remediation projects is anticipated to offset lower project revenue in the first quarter of 2018.

Due to positive progress on a large maintenance project at our Janvier landfill, we have decided to advance maintenance capital spending previously planned for 2019 into 2018. This spending acceleration will result in lower overall project expenses by eliminating demobilization and mobilization costs that would have been incurred over the winter. Consequently, we are raising our expected maintenance capital spending for 2018 from a range of $26 million to $32 million to a range of $35 million to $40 million.

We continue to forecast spending of approximately $50 million to $80 million towards expansion and growth projects in 2018, primarily in our Energy Services segment. This may include further bolt-on acquisitions unrelated to the Newalta acquisition.

On April 30, 2018, the Newalta transaction received the formal approval of Tervita's and Newalta's securityholders. The Newalta transaction is currently expected to close in late Q2 2018 or early Q3 2018 upon receipt of the remaining regulatory approvals, including approval under the *Competition Act* (Canada). Tervita is currently focused on planning for the integration of the combined facility and operating networks. Post closing of the transaction, the company will be focused on achieving the estimated $40 to $45 million of transaction synergies and ensuring an orderly and successful transition of the corporate work force and culture. While planned expansion and growth capital spending will continue throughout the integration, a full evaluation of the combined capital project opportunities will be conducted immediately following close and we will move to execution of the updated capital project inventory as soon as possible.

# NON-GAAP MEASURES AND KEY DEFINITIONS

Tervita uses both IFRS measures and measures not in accordance with IFRS ("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 performance and use of cash resources. 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 or loss or other performance measures derived in accordance with IFRS, or as an alternative to cash provided by (used in) operating activities as a measure of liquidity. In addition, Tervita's method of determining non-GAAP measures may vary from the methods used by other companies and, as a result, may not be comparable to similarly titled measures, ratios or credit statistics disclosed by other companies.

| | |
|---|---|
| *Adjusted EBITDA and Adjusted EBITDA Margin* | We believe that Adjusted EBITDA is useful in measuring Tervita's operating performance. Adjusted EBITDA is defined as net profit or loss before tax, other income (expense), finance costs, impairment expense, depreciation and amortization, and certain items that are considered non-recurring in nature. For this MD&A, we have added back all severance costs and deducted the gain (loss) on debt restructuring, if any. |

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

For the three months ended March 31, Tervita's net profit (loss) has been reconciled to Adjusted EBITDA as follows:

| | 2018 | 2017 |
|---|---|---|
| Net profit (loss) | 3 | (2) |
| Add back: | | |
| Severance costs | 1 | 6 |
| Depreciation and amortization | 17 | 22 |
| Finance costs | 12 | 13 |
| Other expense (income) | 4 | 2 |
| Income taxes expense (recovery) | - | - |
| Loss (profit) from discontinued operations, net of tax | - | - |
| Adjusted EBITDA | 37 | 41 |

The presentation of Adjusted EBITDA should not be construed as an inference that future results will be unaffected by unusual or nonrecurring 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.

*Divisional EBITDA and Divisional EBITDA Margin*

We believe that Divisional EBITDA is useful in measuring our operating segments' performance. Divisional EBITDA is defined as Adjusted EBITDA excluding general and administrative expenses.

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

For the three months ended March 31, Divisional EBITDA was as follows:

| | 2018 | 2017 |
|---|---|---|
| Net profit (loss) | 3 | (2) |
| Add back: | | |
| Severance costs | 1 | 6 |
| Depreciation and amortization | 17 | 22 |
| Finance costs | 12 | 13 |
| Other expense (income) | 4 | 2 |
| Income taxes expense (recovery) | - | - |
| Loss (profit) from discontinued operations, net of tax | - | - |
| Adjusted EBITDA | 37 | 41 |
| Add back: | | |
| General and administrative expenses (before severance costs) | 9 | 13 |
| Divisional EBITDA | 46 | 54 |
| Energy Services | 44 | 47 |
| Industrial Services | 2 | 7 |

*Net Debt to Adjusted EBITDA*

Management monitors Tervita's Net Debt to Adjusted EBITDA as a measure of our overall indebtedness and capital structure. We believe Net Debt to Adjusted EBITDA is an appropriate measure of our debt capacity, particularly given our relatively high cash balance. Net Debt is calculated as debt and derivative liability less cash and cash equivalents. Adjusted EBITDA is for the last twelve months ("LTM").

*Working capital*

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

*Notes*

Notes are the US$360 million senior secured notes issued on December 13, 2016, which bear a coupon rate of 7.625 per cent. The Notes mature on December 1, 2021, and interest is payable semi-annually on June 1 and December 1, beginning June 1, 2017.

Under the terms of Tervita's revolving credit facility, Tervita must comply with certain financial and non-financial covenants, as defined by our lenders. The following definitions are used to assess compliance with our covenants and are not considered meaningful for any other purpose:

*LTM Adjusted EBITDA*

LTM Adjusted EBITDA (referred to as Adjusted EBITDA in the credit agreement) is defined as Adjusted EBITDA for the last twelve months, is used in the determination of compliance with debt covenants, and is not a recognized measure under IFRS.

For the twelve months ended March 31, 2018, Tervita's net profit (loss) was reconciled to LTM Adjusted EBITDA as follows:

| March 31, 2018 | LTM |
|---|---|
| Net profit (loss) | **(76)** |
| Add back: | |
| Depreciation and amortization | **74** |
| Impairment expense | **76** |
| Finance costs | **48** |
| Other expense (income) | **28** |
| Income taxes expense (recovery) | **(3)** |
| Loss (profit) from discontinued operations, net of tax | **(1)** |
| Eligible adjustments: | |
| Severance costs | **5** |
| Other non-recurring expenses | **1** |
| LTM Adjusted EBITDA | **152** |

*Total indebtedness*

Total indebtedness is used in the monitoring of compliance with Tervita's financial covenants. It consists of the principal value of Notes outstanding, reported in C$ and reflecting the impact of cross currency swaps, and the amount of capital lease obligations less cash balances up to a total of $50 million.

*Secured indebtedness*

Secured indebtedness is used in the monitoring of compliance with Tervita's financial covenants. It consists of the outstanding letters of credit (which reduce the borrowing availability under the revolving credit facility) less cash balances up to a total of $50 million.

*Interest expense*

Interest expense consists of LTM interest payments on the Notes and interest due on letters of credit and standby fees.

# RESULTS OF OPERATIONS

## Operating Results For the Three Months Ended March 31

| | Energy Services | | Industrial Services | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| Energy marketing revenue[(1)] | **274** | 554 | **-** | - | **-** | - | **274** | 554 |
| Revenue (excluding energy marketing) | **76** | 77 | **41** | 50 | **(1)** | (2) | **116** | 125 |
| | **350** | 631 | **41** | 50 | **(1)** | (2) | **390** | 679 |
| Energy marketing direct expenses[(1)] | **(274)** | (554) | **-** | - | **-** | - | **(274)** | (554) |
| Direct expenses (excluding energy marketing) | **(32)** | (30) | **(39)** | (43) | **1** | 2 | **(70)** | (71) |
| General and administrative expenses | **-** | - | **-** | - | **(10)** | (19) | **(10)** | (19) |
| Depreciation and amortization | **(14)** | (19) | **(2)** | (2) | **(1)** | (1) | **(17)** | (22) |
| | **(320)** | (603) | **(41)** | (45) | **(10)** | (18) | **(371)** | (666) |
| Operating profit (loss) | **30** | 28 | **-** | 5 | **(11)** | (20) | **19** | 13 |
| Finance costs | **(2)** | (2) | **-** | - | **(10)** | (11) | **(12)** | (13) |
| Other income (expense) | **1** | - | **(1)** | - | **(4)** | (2) | **(4)** | (2) |
| Income taxes recovery (expense) | **-** | - | **-** | - | **-** | - | **-** | - |
| Profit (loss) from continuing operations | **29** | 26 | **(1)** | 5 | **(25)** | (33) | **3** | (2) |
| Profit (loss) from discontinued operations, net of tax | **-** | - | **-** | - | **-** | - | **-** | - |
| Net profit (loss) | **29** | 26 | **(1)** | 5 | **(25)** | (33) | **3** | (2) |
| Divisional EBITDA | **44** | 47 | **2** | 7 | **-** | - | **46** | 54 |
| *Divisional EBITDA Margin* | **58%** | 61% | **5%** | 14% | **-** | - | **40%** | 43% |
| Adjusted EBITDA | | | | | | | **37** | 41 |
| *Adjusted EBITDA Margin* | | | | | | | **32%** | 33% |

*(1) Tervita determined that certain energy marketing pipeline activities do not qualify under IFRS 15 to be presented as gross revenue, and are now recorded on a net basis against direct expenses effective January 1, 2018. This change did not result in any impact to operating profit (loss) or net profit (loss), as it decreased revenue and direct expenses by the same amount.*

### *Energy Services*

Energy Services Divisional EBITDA decreased 6% in the first quarter of 2018 compared to the same period in 2017 primarily due to lower soil volumes received at landfills. Q1 2018 revenues were largely the same as Q1 2017 and the Q1 2018 Divisional EBITDA margin of 58% was the same as the full year 2017 margin. However, the decrease in the Q1 2018 margin compared to the same period of 2017 was due primarily to the product mix in Q1 2018 requiring slightly higher variable costs to process, as well as the impact of lower soil revenues over the fixed cost nature of our landfills.

*Energy marketing*

Without applying IFRS 15, energy marketing revenue and direct expenses would be as follows:

| | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | **Reported** | Adjustments | Amounts Without IFRS 15 | Reported | *% change* |
| Energy marketing revenue | **274** | 260 | 534 | 554 | *(4)* |
| Energy marketing direct expenses | **(274)** | (260) | (534) | (554) | *(4)* |

Energy marketing represents activities related to the purchase and resale of oil volumes associated with TRD services. Revenue and direct expenses for these activities are recorded at the purchase cost of oil. Revenue related to services provided by the TRDs to

| | |
|---|---|
| | prepare the oil volumes for entry to the pipeline, including treating, blending, and terminalling, are reported with revenue (excluding energy marketing).<br><br>Although purchase and resale volumes were 4% higher than Q1 2017, average cost per $m^3$ was lower, resulting in a decrease in revenue and direct costs year over year. |
| *Revenue (excluding energy marketing)* | Q1 2018 revenue included $2 million from facilities acquired in Q4 2017 (3k Oilfield Services or "3k"). Excluding 3k, revenue in Q1 2018 decreased $3 million primarily due to lower soil volumes through landfills. |
| *Direct expenses (excluding energy marketing)* | Included in Q1 2018 direct expenses was $1 million incurred by acquired 3k facilities. The decrease in revenue from lower soil volumes did not result in reduced expenses due to the fixed cost nature of landfills. Additionally, higher variable costs for consumables and logistics were incurred by TRDs due to the type of products received by the facilities. |
| *Depreciation and amortization* | Depreciation and amortization decreased by 26% due to certain assets being fully amortized by the end of 2017 as well as lower soil volumes in Q1 2018 which reduced the depletion rate of certain landfills. |

## *Industrial Services*

Industrial Services Divisional Q1 2018 EBITDA was $2 million compared to $7 million in the same quarter of 2017. The decrease is primarily due to lower project activity in the first quarter of 2018 and the maintenance of a stable project workforce to meet a strong booked pipeline of projects in the second of 2018.

| | |
|---|---|
| *Revenue* | Revenue declined by 18%, primarily reflecting lower project activity in the first quarter of 2018. Several large projects that were underway in the first quarter of 2017 resulted in unseasonably higher levels of activity. The slow first quarter of 2018 is a timing issue as activity for a fully booked pipeline of projects is anticipated to commence in Q2 2018. Ferrous realized pricing was strong at an average of $330 per net tonne in Q1 2018 compared to $312 per net tonne in Q1 2017. However, ferrous volumes were negatively impacted by logistical challenges presented by railroad operators, reducing our ability to access markets and resulting in lower ferrous revenue of $1 million year over year, more than offsetting the positive impacts on volumes from the two metal recycling facilities purchased in the second half of 2017. |
| *Direct expenses* | Direct expenses for the first quarter of 2018 did not fall in line with reduced revenues, primarily reflecting the maintenance of a stable project workforce in anticipation of higher activity levels in the remainder of the year. Excluding these employee costs the reduction in direct expenses related to lower cost of sales for metals and lower variable costs including reduced repairs and maintenance on equipment were in line with the lower level of industrial services activities. |

## *Corporate*

Corporate overhead fell from 15% to 9% of revenue (excluding energy marketing), reflecting continued efforts to recalibrate our overhead cost structure.

| | |
|---|---|
| *General and administrative expenses* | The 47% decrease in general and administrative expenses was due to staff reductions throughout 2017 and $6 million of severance costs incurred in the first quarter of 2017 compared to $1 million in 2018. |
| *Finance costs* | |

| | 2018 | 2017 |
|---|---|---|
| Interest expense | 9 | 10 |
| Amortization of debt issue costs | 1 | 1 |
| Finance costs | 10 | 11 |

*Other income (expense)*

| | 2018 | 2017 |
|---|---|---|
| Share-based compensation | **(1)** | - |
| Arrangement costs | **(3)** | - |
| Gain (loss) on provisions | **-** | (1) |
| Unrealized foreign exchange gain (loss) on debt and derivatives | **-** | (1) |
| Other income (expense) | **(4)** | (2) |

Arrangement costs include those costs incurred by Tervita for completion of the Arrangement Agreement and joint information circular with Newalta.

## SUMMARY OF QUARTERLY RESULTS

| | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 |
|---|---|---|---|---|---|---|---|---|
| Revenue[(1)] | **390** | 606 | 437 | 607 | 679 | 540 | 512 | 501 |
| Revenue-excluding energy marketing | **116** | 132 | 135 | 114 | 125 | 122 | 123 | 98 |
| Direct expenses[(1)] | **(344)** | (558) | (385) | (565) | (625) | (492) | (472) | (475) |
| General and administrative expenses | **(10)** | (10) | (10) | (11) | (19) | (15) | (16) | (16) |
| Depreciation and amortization | **(17)** | (19) | (22) | (17) | (22) | (19) | (34) | (27) |
| Operating profit (loss) | **19** | 19 | 20 | 14 | 13 | 14 | (10) | (17) |
| Profit (loss) from continuing operations | **3** | (65) | (2) | (13) | (2) | 1,079 | (227) | (112) |
| - per share ($), basic and diluted | **0.03** | (0.62) | (0.02) | (0.12) | (0.02) | 0.71 | (0.12) | (0.06) |
| Net profit (loss) | **3** | (65) | (2) | (12) | (2) | 1,079 | (247) | (114) |
| - per share ($), basic and diluted | **0.03** | (0.62) | (0.02) | (0.11) | (0.02) | 0.71 | (0.13) | (0.06) |
| Adjusted EBITDA | **37** | 40 | 42 | 33 | 41 | 34 | 25 | 12 |

(1) *Tervita determined that certain energy marketing pipeline activities do not qualify under IFRS 15 to be presented as gross revenue, and are now recorded on a net basis against direct expenses effective January 1, 2018. This change did not result in any impact to operating profit (loss) or net profit (loss), as it decreased revenue and direct expenses by the same amount.*

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

In Q3 2017, total revenue was impacted by the Pembina Peace Phase III pipeline expansion, which increased pipeline capacity and intensified competition for trucked volumes. We have since seen volumes recover at facilities due to production growth and development in some key regions.

Net profit (loss) was impacted throughout in 2016 and 2017 by the following factors:

- 2016 results were affected by annual finance costs of $295 million;
- Impairment expense of $70 million was recognized in Q3 2016, with an additional $200 million recognized as at December 31, 2016. In comparison, $76 million of total impairment was recognized in 2017, with the majority recognized in the fourth quarter. Of the total impairment in 2016 and 2017, $311 million was for goodwill; and
- Tervita recognized one-time gains on the settlement of debt and related derivatives as part of the recapitalization of our debt and share capital in December 2016.

# LIQUIDITY AND CAPITAL RESOURCES

The Company manages its cash and bank facility balances to have sufficient capital to fund ongoing operations, capital programs, and growth initiatives. The Company's liquidity and operational cash requirements are managed through cash flow forecasts, monitoring of operational expenditures compared to budget, and monitoring of financial leverage ratios. Working capital as at March 31, 2018 was $36 million (March 31, 2017 - $63 million). 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. At current activity levels, we have ample liquidity to meet our ongoing commitments and operational requirements of the business.

## CREDIT FACILITIES AND RELATED DEBT COVENANTS

Tervita has a $200 million syndicated revolving credit facility expiring December 2019. At March 31, 2018, Tervita had $72 million in letters of credit issued against this facility. The remaining $128 million of capacity, combined with $133 million of cash and cash equivalents, provided $261 million in available liquidity at March 31, 2018. For the three months ended March 31, 2018, Tervita generated $9 million of cash, net of financing and investing activity, and did not require any additional liquidity to support continuing operations.

### *Financial Covenants*

Under the terms of our revolving credit facility, Tervita's Total Leverage Ratio is calculated as the ratio of total indebtedness to LTM Adjusted EBITDA and cannot exceed 5.50 to 1.00 in 2017, 5.00 to 1.00 in 2018, and 4.50 to 1.00 thereafter. Additionally, as of December 31, 2016, Tervita must also maintain a secured indebtedness to LTM Adjusted EBITDA ratio ("Secured Leverage Ratio") of less than 2.50 to 1.00, and a LTM Adjusted EBITDA to interest expense ratio ("Interest Coverage Ratio") of greater than 1.50 to 1.00 until December 31, 2017, 1.75 to 1.00 for the year ended December 31, 2018, and 2.00 to 1.00 thereafter.

As at March 31, 2018, the Company complied with its covenants, as follows:

| | Required | Achieved |
|---|---|---|
| Total Leverage Ratio | Less than 5.00 | **2.82** |
| Secured Leverage Ratio | Less than 2.50 | **0.14** |
| Interest Coverage Ratio | Greater than 1.75 | **3.71** |

Management also monitors Tervita's Net Debt to Adjusted EBITDA against our industry peers as a measure of our overall indebtedness and capital structure. As at March 31, 2018, Net Debt to Adjusted EBITDA was 2.26 times.

## CHANGES IN CASH

Cash and cash equivalents at March 31, 2018 was $133 million (March 31, 2017 - $107 million).

### *Cash Provided by Operations*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2018** | 2017 | Increase / (Decrease) |
| Cash provided by (used in) operating activities | **24** | 26 | (2) |

### *Cash Provided by (Used in) Financing Activities*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2018** | 2017 | Increase / (Decrease) |
| Debt issue costs | **-** | (1) | 1 |
| Cash provided by (used in) financing activities | **-** | (1) | 1 |

### *Cash Provided by (Used in) Investing Activities*

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2018** | 2017 | Increase / (Decrease) |
| Capital expenditures | | | |
| Maintenance | **(4)** | (2) | (2) |
| Growth and expansion | **(11)** | (7) | (4) |
| | **(15)** | (9) | (6) |
| Proceeds from sale of property, plant and equipment | **-** | 1 | (1) |
| Cash provided by (used in) investing activities | **(15)** | (8) | (7) |

| | |
|---|---|
| *Maintenance capital* | Maintenance capital expenditures are defined as cash spend on capital asset replacements or improvements required to maintain existing assets at their current level of service. The amount and timing of future maintenance capital is primarily dependant on the volume of waste that is received at our facilities. |
| *Growth and expansion capital* | Growth and expansion capital expenditures are defined as cash spend to expand existing facilities, primarily cell expansion at our landfills and cavern development, or with the intent of expanding existing businesses, entering into new locations or markets, or completing business acquisitions.<br><br>In 2018, we continued our 2017 initiative of identifying, planning, and executing a growth capital portfolio. The 2018 growth and expansion capital spending was primarily related to enhancements and additions to existing facilities as well as early engineering and design work for new facilities in our Energy Services segment, including the completion of capacity expansion at four of our landfills, site upgrades, and a pipeline connection.<br><br>In 2017, we expanded our capacity at two of our landfills and one cavern facility. |

### CONTRACTUAL OBLIGATIONS

Contractual obligations included in the Annual MD&A continue to represent those of the Company at March 31, 2018, except for reductions in contractual obligations outstanding in 2018 and changes to the amount of future cash flows related to long-term debt and the related derivative liability. The future cash outflows related to long-term debt increased to $466 million and derivative liability decreased to $25 million due to an increase in the US$ exchange rate. In addition, during the first quarter of 2018, Tervita entered into $8 million of bridge financing commitment agreements to ensure Tervita's ability to finance the Newalta transaction.

## FINANCIAL INSTRUMENTS

Tervita has exposure to financial instruments through several items. All of cash and cash equivalents, trade and other receivables, trade and other payables and interest payable have carrying values that approximate their fair values due to the short-term maturities. Tervita monitors credit risk of some of its customers, but believes the risk is mitigated by the size, reputation and diversified nature of the companies to which Tervita extends credit and a lack of concentration of credit risk with no counterparty individually making up more than 10% of Tervita's credit exposure.

In December 2016, Tervita issued senior the Notes as part of the recapitalization of our debt and share capital. At the same time, Tervita entered into cross currency swap agreements ("swaps") and applied hedge accounting to the transactions to mitigate exchange risk. All gains and losses related to the Notes and the swaps are recognized in accumulated other comprehensive profit (loss), except for gains or losses recognized in profit (loss) related to the portion of hedge deemed to be ineffective. The carrying value of the Notes and the fair value of the swaps are also disclosed in the Financial Statements. The fair value of the swaps is a Level 2 valuation based on observable inputs.

For further information regarding our financial and other instruments, refer Notes 2 and 10 of the Financial Statements.

# FINANCIAL POSITION

| | March 31, 2018 | December 31, 2017 | Increase / (Decrease) |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | **133** | 124 | 9 |
| Trade and other receivables | **125** | 130 | (5) |
| Assets held for sale | **5** | - | 5 |
| Other current assets | **19** | 13 | 6 |
| Property, plant, and equipment | **604** | 615 | (11) |
| Intangible assets | **19** | 20 | (1) |
| Goodwill | **324** | 324 | - |
| Liabilities | | | |
| Trade and other payables | **82** | 94 | (12) |
| Income taxes payable | **14** | 14 | - |
| Interest payable | **12** | 4 | 8 |
| Liabilities held for sale | **10** | - | 10 |
| Debt (current and long-term) | **452** | 437 | 15 |
| Provisions (current and long-term) | **299** | 308 | (9) |
| Derivative liabilities | **25** | 31 | (6) |
| Other long-term liabilities | **6** | 5 | 1 |

Changes in our financial position as at March 31, 2018 compared to December 31, 2017 were due to:

| | |
|---|---|
| *Trade and other receivables* | The decrease was due to lower revenue for the period. |
| *Assets held for sale* | In 2018, we were in the process of finalizing the sale of a landfill in Canada. |
| *Other current assets* | The increase was due to the $8 million of bridge financing commitment agreements which were entered into to ensure our ability to finance the Newalta transaction. |
| *Property, plant and equipment* | Depreciation and assets transferred to held for sale exceeded capital additions. |
| *Trade and other payables* | The decrease was due to reduced operating expenses and capital accruals, as well as the payment of 2017 bonus accrual. |
| *Interest payable* | The increase was due to accrued interest on the Notes, which is payable semi-annually on June 1 and December 1. |
| *Liabilities held for sale* | In 2018, we were in the process of finalizing the sale of a landfill in Canada and a cavern in the United States. |
| *Debt* | The increase was due to the impact of the strengthening US$ on the revaluation of the Notes. |
| *Provisions* | The decrease was due to the reclassification of certain decommissioning liabilities to held for sale, which was partially offset by the accretion for the period. |
| *Derivative liabilities* | The decrease was due to changes in the fair value of our swaps. |

## OUTSTANDING SHARE CAPITAL

As at May 7, 2018, the Company had 102,010,181 Class A voting preferred shares and 2,615,598 Class A voting common shares outstanding. At that date, Tervita also had 2,246,440 options and 1,091,844 restricted stock units outstanding. Refer to Notes 23 and 25 of the Annual Financial Statements for details regarding the estimation, calculation, and details of issued and outstanding share capital and options.

## OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2018 and December 31, 2017, the Company did not have any off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

Refer to Note 27 of the Annual Financial Statements for disclosure of related party transactions.

## LEGAL AND ENVIRONMENTAL MATTERS

Refer to Note 29 of the Annual Financial Statements for disclosure of legal and environmental matter.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Refer to the Notes to the Annual Financial Statements for disclosure of critical accounting judgments and estimates, and Note 2 of the Financial Statements for disclosure of changes to these estimates which resulted from the transition to IFRS 9 and 15.

## IMPACT OF NEW ACCOUNTING STANDARDS

Tervita adopted IFRS 9 “Financial Instruments”, IFRS 15 “Revenue from Contracts with Customers”, and the amendments to IFRS 2 “Share-Based Payment” on January 1, 2018. Refer to Note 2 of the Financial Statements for the methods of adoption and the effect of these standards on the Company’s Financial Statements.

The Company expects to adopt IFRS 16 “Leases” on January 1, 2019. Refer to Note 2 of the Annual Financial Statements for the Company’s assessment of the impact of this standard.

## RISKS

Refer to the Annual MD&A for a complete list of risks and uncertainties Tervita is subject to for which it is reasonably believed may affect our future performance.

## FORWARD-LOOKING STATEMENTS

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

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

- the long-term oil and gas environmental services market outlook in Canada will generate sufficient demand for Tervita’s services;
- oil and gas producers will continue to outsource waste by-product treatment and disposal;
- it is difficult for third parties to replicate the extensive footprint of Tervita’s facilities;
- that Tervita’s strategy will be successful;

- cash generated from operations, asset sales and amounts available under the credit facilities will be adequate to permit Tervita to meet its debt service obligations, ongoing costs of operations, working capital needs, capital expenditure requirements and to fund acquisitions (other than material acquisitions) for the foreseeable future;
- the amount and nature of insurance coverage obtained will be adequate considering the potential hazards;
- timing of the completion of projects under development and their attendant costs; and
- governmental regulation of the oil and gas industry, permits and other legal requirements, including Tervita's expectations with respect to permits.

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

- demand for services in our businesses can be adversely impacted by general economic conditions and we are dependent on exploration, drilling and production activity levels in the markets where we offer our services;
- the ability of management to execute its business plan;
- the risks of the environmental solutions industry, such as operational risks and market demand;
- risks inherent in Tervita's marketing operations, including credit risk;
- the uncertainty of estimates and projections relating to revenues, costs, expenses, and capital expenditures;
- fluctuations in oil and natural gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- general economic conditions in Canada, the United States, and globally;
- industry conditions;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- governmental regulation of the environmental solutions industry, including environmental regulation;
- unanticipated operating events;
- failure to obtain third-party consents and approvals, when required;
- risks associated with existing and potential future lawsuits and regulatory actions against Tervita;
- the highly competitive nature of our markets, and competition that could adversely impact our financial position, results of operations, cash flows or our ability to make required payments on debt outstanding;
- global financial conditions are subject to increased volatility;
- legislative and regulatory initiatives related to hydraulic fracturing that could result in increased costs and additional operating restrictions or delays as well as adversely affect our support services;
- increasing concern regarding earthquake activity connected to oil/gas production and waste disposal wells could adversely affect our business;
- successful implementation of our investment and acquisition strategy;
- the difficulty of identifying and executing acquisitions on favorable terms, including successfully integrating businesses we acquire, and our significant exposure from unknown liabilities related to our acquisitions;
- susceptibility to seasonality due to adverse weather conditions;
- risks related to changes in industry practices related to crude oil equalization and declines in oil prices that may affect our energy marketing business;
- risk of implementation of controls or tariffs on competitor-owned pipelines which impede Tervita's ability to physically or economically access the pipelines that may affect our energy marketing business;
- our operations being subject to numerous natural disasters and operating hazards and the lack of assurance that such events will be covered by insurance or whether any such insurance coverage would be adequate;
- potential impairment losses in respect of our physical assets from reduced industry activity and a sustained decline in demand for services involving such assets;
- our ability to attract and retain qualified workers;
- dependence on our senior management, the loss of which could materially harm our business;
- obligation to comply with health and safety regulations at our facilities and our operations, the failure of which could result in significant liability and/or fines and penalties;
- failure by our employees to follow applicable procedures and guidelines or on-site accidents;

- deterioration in our safety record would harm our relationships with customers, make it less likely for customers to contract for our services and subject us to penalties and fines, which could adversely affect our business, operating results and financial condition;
- fluctuations in exchange rates;
- the inability of counterparties or customers to fulfill their obligation to us;
- technology we use in our business is increasingly subject to protection by intellectual property rights; and
- our 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.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. 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 to reflect new information, future events or otherwise, except as required by applicable laws. Considering these risks, uncertainties, and assumptions, the forward-looking statements might occur to a different extent or at a different time than has been described, or might not occur. Tervita cannot assure that projected results or events will be achieved.