TERVITA

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tervita Corporation

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Tervita in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Tervita 's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Tervita or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Tervita's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Tervita's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Tervita's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Tervita to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Chartered Professional Accountants

Calgary, Canada

March 13, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

See accompanying notes

Approved by the Board of Directors:

(Signed) Grant Billing
Director

(Signed) John Cooper
Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE PROFIT (LOSS)

For the years ended December 31 (millions of dollars, except for per share amounts)	*Note*	**2018**	2017
NET PROFIT (LOSS)			
Revenue	*2, 6*	**1,974**	2,329
Operating expenses			
Direct expenses	*2*	**(1,734)**	(2,131)
General and administrative expenses		**(50)**	(52)
Depreciation and amortization	*15, 16*	**(96)**	(80)
Impairment expense	*18*	**(25)**	(76)
Operating profit (loss)		**69**	(10)
Finance costs	*3, 8*	**(69)**	(49)
Transaction costs	*3*	**(69)**	—
Other income (expense)	*9*	**(4)**	(26)
Profit (loss) before tax		**(73)**	(85)
Current income taxes recovery (expense)	*5*	**(1)**	(1)
Deferred income taxes recovery (expense)	*5*	**—**	4
Profit (loss) from continuing operations		**(74)**	(82)
Profit (loss) from discontinued operations, net of tax		**—**	1
NET PROFIT (LOSS)		**(74)**	(81)
Items that are or may be subsequently reclassified to net profit (loss):			
Foreign operations - foreign currency translation differences		**(1)**	—
Net gain (loss) on cash flow hedges	*20*	**(1)**	6
OTHER COMPREHENSIVE PROFIT (LOSS), NET OF TAX		**(2)**	6
TOTAL COMPREHENSIVE PROFIT (LOSS)		**(76)**	(75)
Basic and diluted earnings per share	*10*	**(0.67)**	(0.77)
Weighted average shares outstanding - basic and diluted	*10*	**110,471,450**	104,625,779

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes

CONSOLIDATED STATEMENTS OF EQUITY

(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, 2018		**837**	**—**	**2**	**(519)**	6	7	**13**	**333**
Net profit (loss)		**—**	**—**	**—**	**(74)**	—	—	**—**	**(74)**
Cancellation of shares	*3, 24*	**(837)**	**—**	**—**	**—**	—	—	**—**	**(837)**
Issuance of shares	*3, 24*	**947**	**—**	**—**	**—**	—	—	**—**	**947**
Issuance of warrants	*3*	**—**	**1**	**—**	**—**	—	—	**—**	**1**
Effective portion of cash flow hedges		**—**	**—**	**—**	**—**	—	39	**39**	**39**
Reclassified to net profit (loss)	*9*	**—**	**—**	**—**	**—**	1	(40)	**(39)**	**(39)**
Foreign currency translation differences	*9*	**—**	**—**	**—**	**—**	(2)	—	**(2)**	**(2)**
Share-based compensation	*9*	**—**	**—**	**3**	**—**	—	—	**—**	**3**
As at December 31, 2018		**947**	**1**	**5**	**(593)**	5	6	**11**	**371**
As at January 1, 2017		837	—	—	(438)	6	1	7	406
Net profit (loss)		—	—	—	(81)	—	—	—	(81)
Effective portion of cash flow hedges		—	—	—	—	—	(25)	(25)	(25)
Reclassified to net profit (loss)	*9*	—	—	—	—	(1)	31	30	30
Foreign currency translation differences	*9*	—	—	—	—	1	—	1	1
Share-based compensation	*9*	—	—	2	—	—	—	—	2
As at December 31, 2017		837	—	2	(519)	6	7	13	333

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

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

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

2. BASIS OF PRESENTATION

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

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

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

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

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Consolidation

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

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

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

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

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

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

Foreign currency translation

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

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

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

Current and non-current classification

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

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

Fair values

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

OTHER ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

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

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

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

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

Revenue from contracts with customers

Transition and Application

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

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

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

Changes to the Timing and Recognition of Revenue

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

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

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

Impact on the Financial Statements

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

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

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

Financial instruments

Transition and Application

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

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

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

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

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

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

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

Share-based compensation

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Leases

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

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

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

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

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

3. BUSINESS ACQUISITIONS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

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

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

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

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

Significant judgments

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

Sources of estimation uncertainty

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

SUPPORTING INFORMATION

Newalta Corporation

Arrangement Overview

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

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

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

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

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

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

Purchase Price Allocation

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

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

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

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

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

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

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

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

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

Acquisition-Related Costs

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

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

Pro Forma Statement of Profit (Loss)

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

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

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

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

Other Acquisitions

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

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

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

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

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

4. SEGMENT INFORMATION

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

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

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

Energy Services

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

Industrial Services

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

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

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

SUPPORTING INFORMATION

Financial Information for Reportable Segments

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

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

Reconciliation of Information on Operating Segments to IFRS Measures

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

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

As at December 31	**2018**	2017
Total assets		
Total assets for operating segments	**1,687**	1,072
Unallocated assets	**122**	154
Consolidated total assets	**1,809**	1,226

For the years ended December 31	**Note**	**2018**	2017
Total purchases of property, plant and equipment, intangible assets and acquisitions			
Total operating segment purchases		**80**	52
Total corporate purchases		**4**	1
Total acquisitions	3	**395**	22
Consolidated purchases of property, plant and equipment, intangible assets and acquisitions		**479**	75

Geographic Information

For the years ended December 31	**2018**	2017
Revenue by location of services		
Canada	**1,953**	2,329
US	**21**	—
Total revenue	**1,974**	2,329

As at December 31	**2018**	2017
Non-current assets		
Canada	**1,468**	959
US	**77**	—
Total non-current assets	**1,545**	959

5. INCOME TAXES

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

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

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

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

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

Significant judgments	Deferred tax assets are recognized on the Statements of Financial Position based on the results from operating activities or due to the implementation of tax planning strategies which will create sufficient taxable profit to offset the deferred tax assets. Judgment is required in determining the amount of deferred tax assets to be recognized, based on the likely timing and the level of future taxable profits available for their utilization in conjunction with the execution of certain tax planning opportunities, and the likely timing of reversal. Management assesses the recognition of deferred tax assets each reporting period.
Sources of estimation uncertainty	Uncertainty exists with respect to the interpretation of complex income tax regulations. Current and deferred income taxes include estimates of future earnings and reversals of timing differences. Actual results may differ from assumptions made, which would necessitate future adjustments to previously recorded income taxes recovery (expense). Tervita establishes provisions, based on reasonable estimates, for the impact or outcome of audits by the tax authorities of the respective jurisdictions in which Tervita operates.

SUPPORTING INFORMATION

Income taxes recovery (expense)

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

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

Income Tax Provision

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

Deferred Income Taxes

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

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

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

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

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

6. REVENUE

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

Revenue From the Sale of Inventory

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

Service Revenue Recognized at a Point in Time

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

Service Revenue Recognized Over Time

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

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

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

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

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

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

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

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

Significant judgments

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

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

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

Sources of estimation uncertainty

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

SUPPORTING INFORMATION

Disaggregated Revenue

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

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

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

7. EMPLOYEE BENEFITS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

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

SUPPORTING INFORMATION

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

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

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

8. FINANCE COSTS

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

9. OTHER INCOME (EXPENSE)

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

10. EARNINGS PER SHARE

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

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

11. SUPPLEMENTAL CASH FLOW

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

12. LEASES

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Lessee

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

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

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

Lessor

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

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

Significant judgments

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

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

13. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

14. INVENTORY

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

SUPPORTING INFORMATION

As at December 31	**2018**	2017
Crude oil	**1**	2
Scrap metal	**9**	7
Other	**2**	—
Inventory	**12**	9

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

15. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

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

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

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

Significant judgments

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

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

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

Sources of estimation uncertainty

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

SUPPORTING INFORMATION

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

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

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

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

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

16. INTANGIBLE ASSETS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

Intangible assets acquired as part of a business combination are capitalized separately from goodwill if the asset is separable or arises from contractual or legal rights, and the fair value can be measured reliably on initial recognition.

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

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

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

Significant judgment

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

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

Sources of estimation uncertainty

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

SUPPORTING INFORMATION

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

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

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

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

17. GOODWILL

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

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

SUPPORTING INFORMATION

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

18. IMPAIRMENT

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

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

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

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

Significant judgments

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

Sources of estimation uncertainty

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

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

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

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

SUPPORTING INFORMATION

Allocation of Goodwill

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

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

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

Impairment Expense

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

Property, Plant and Equipment

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

Goodwill

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

For the years ended December 31	**2018**	2017
Landfills	**—**	57
Waste services	**23**	—
Goodwill impairment	**23**	57

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

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

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

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

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

19. LONG-TERM DEBT

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

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

SUPPORTING INFORMATION

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

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

Debt Covenants

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

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

Outstanding Letters of Credit

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

Guarantees

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

Debt Costs

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

20. DERIVATIVES AND HEDGING

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Initial Recognition and Subsequent Measurement of Hedging Instruments

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

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

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

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

Sources of estimation uncertainty

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

SUPPORTING INFORMATION

Foreign Currency Risk

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

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

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

Sources of Hedge Ineffectiveness

Credit Risk

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

Timing of Derivative Designation

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

Cross-Currency Swap Agreements

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

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

The fair value of cross-currency swaps were:

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

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

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

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

21. PROVISIONS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Decommissioning Liabilities

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

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

Contingent Consideration

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

Onerous Contracts

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

Significant judgments

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

Sources of estimation uncertainty

Decommissioning Liabilities

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

Contingent Consideration

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

Onerous Contracts

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

SUPPORTING INFORMATION

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

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

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

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

Decommissioning Liabilities

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

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

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

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

Contingent Consideration

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

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

Onerous Contracts

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

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

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

22. SHARE-BASED COMPENSATION

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Option Plan

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

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

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

RSU Plan

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

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

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

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

IIU Plan

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

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

Sources of estimation uncertainty

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

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

SUPPORTING INFORMATION

Option Plan

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

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

The changes in options granted were:

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

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

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

RSU Plan

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

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

The changes in RSUs granted were:

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

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

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

IIU Plan

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

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

Financial Assets and Liabilities

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

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

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

Derivatives and Hedging

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

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

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

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

Derecognition of Financial Instruments

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

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

Offsetting Financial Assets and Liabilities

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

Impairment

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

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

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

Significant judgments

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

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

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

Sources of estimation uncertainty

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

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

SUPPORTING INFORMATION

Fair Value of Financial Instruments

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

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

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

Offsetting Financial Assets and Liabilities

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

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)**

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

Risk Management

Counterparty Credit Risk

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

Loss Allowance

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

Aging Analysis of Trade Accounts Receivable Past Due

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

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

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

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

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

Liquidity Risk

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

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

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

Foreign Exchange Risk

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

Changes in Liabilities Arising From Financing Activities

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

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

24. SHARE CAPITAL

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

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

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

25. CAPITAL MANAGEMENT

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

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

Liquidity Risk

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

Debt Covenants

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

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

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

Covenant EBITDA was calculated as:

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

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

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

26. RELATED PARTY TRANSACTIONS

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Accounting policies

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

SUPPORTING INFORMATION

Management Compensation

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

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

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

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

Other Related Party Transactions

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

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

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

27. COMMITMENTS

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

28. CONTINGENCIES

ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

Significant judgments

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

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

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

SUPPORTING INFORMATION

Legal and Environmental Matters

Secure Energy Services

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

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

29. GUARANTEES

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

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

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