# TERVITA

## *INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)*

## *March 31, 2018*

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE PROFIT OR LOSS

*(unaudited)*

| *(millions of dollars)* | *Note* | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|---|
| **NET PROFIT (LOSS)** | | | |
| Revenue | *2, 6* | **390** | 679 |
| Operating expenses | | | |
| Direct expenses | | **(344)** | (625) |
| General and administrative expenses | | **(10)** | (19) |
| Depreciation and amortization | | **(17)** | (22) |
| Operating profit (loss) | | **19** | 13 |
| Finance costs | *7* | **(12)** | (13) |
| Other income (expense) | *8* | **(4)** | (2) |
| Profit (loss) before tax | | **3** | (2) |
| Income taxes recovery (expense) | | **-** | - |
| Profit (loss) from continuing operations | | **3** | (2) |
| Profit (loss) from discontinued operations, net of tax | | **-** | - |
| **NET PROFIT (LOSS)** | | **3** | (2) |
| 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 | | **(6)** | (2) |
| **OTHER COMPREHENSIVE PROFIT (LOSS), NET OF TAX** | | **(7)** | (2) |
| **TOTAL COMPREHENSIVE PROFIT (LOSS)** | | **(4)** | (4) |
| Basic and diluted net profit (loss) per share | | **0.03** | (0.02) |
| Weighted average shares outstanding - basic and diluted | | **104,625,779** | 104,625,779 |

*See accompanying notes*

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*(unaudited)*

| *(millions of dollars)* | *Note* | As at March 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | *10* | **133** | 124 |
| Trade and other receivables | *10* | **125** | 130 |
| Inventory | | **9** | 9 |
| Other current assets | | **10** | 4 |
| Assets held for sale | *5* | **5** | - |
| | | **282** | 267 |
| Property, plant and equipment | | **604** | 615 |
| Intangible assets | | **19** | 20 |
| Goodwill | | **324** | 324 |
| **TOTAL ASSETS** | | **1,229** | 1,226 |
| | | | |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Trade and other payables | *10* | **82** | 94 |
| Income taxes payable | | **14** | 14 |
| Interest payable | *10* | **12** | 4 |
| Liabilities held for sale | *5* | **10** | - |
| Current portion of decommissioning liabilities | | **5** | 6 |
| Current portion of capital leases | *9, 10* | **1** | - |
| Current portion of other provisions | *10* | **8** | 7 |
| | | **132** | 125 |
| Long-term debt | *9, 10* | **451** | 437 |
| Decommissioning liabilities | | **258** | 266 |
| Other provisions | *10* | **28** | 29 |
| Derivative liabilities | | **25** | 31 |
| Other long-term liabilities | | **6** | 5 |
| **TOTAL LIABILITIES** | | **900** | 893 |
| | | | |
| **EQUITY** | | | |
| Share capital | | **837** | 837 |
| Share based compensation reserve | | **2** | 2 |
| Accumulated earnings (deficit) | | **(516)** | (519) |
| Accumulated other comprehensive profit (loss) | | **6** | 13 |
| **TOTAL EQUITY** | | **329** | 333 |
| **TOTAL LIABILITIES AND EQUITY** | | **1,229** | 1,226 |

*See accompanying notes*

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(unaudited)*

| *(millions of dollars)* | *Note* | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit (loss) from continuing operations | | **3** | (2) |
| Adjustments for: | | | |
| Finance costs | *7* | **12** | 13 |
| Depreciation and amortization | | **17** | 22 |
| Cash interest paid | | **(1)** | - |
| Cash settlement of provisions | | **(2)** | (1) |
| Shared-based compensation | | **1** | - |
| Unrealized foreign exchange (gain) loss | | **-** | 1 |
| **Funds from (used in) operations** | | **30** | 33 |
| Changes in non-cash working capital: | | | |
| Trade and other receivables | *10* | **5** | (11) |
| Other current assets | | **1** | 1 |
| Trade and other payables | *10* | **(12)** | 3 |
| **Total non-cash working capital** | | **(6)** | (7) |
| **Cash provided by (used in) operating activities** | | **24** | 26 |
| **Financing activities** | | | |
| Debt issue costs | | **-** | (1) |
| **Cash provided by (used in) financing activities** | | **-** | (1) |
| **Investing activities** | | | |
| Additions to property, plant and equipment | | **(13)** | (9) |
| Additions to intangible assets | | **(1)** | - |
| Business acquisitions | | **(1)** | - |
| Proceeds from sale of property, plant and equipment | | **-** | 1 |
| **Cash provided by (used in) investing activities** | | **(15)** | (8) |
| Effect of exchange rate changes on cash and cash equivalents | | **-** | - |
| **Increase (decrease) in cash and cash equivalents from continuing operations** | | **9** | 17 |
| Cash provided by (used in) discontinued operations | | **-** | 1 |
| Cash and cash equivalents, beginning of period | | **124** | 89 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | | **133** | 107 |

*See accompanying notes*

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

*(unaudited)*

| *(millions of dollars)* | Share capital | 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) | **-** | **-** | **3** | - | - | **-** | **3** |
| Effective portion of cash flow hedges | **-** | **-** | **-** | - | 6 | **6** | **6** |
| Reclassified to net profit (loss) | **-** | **-** | **-** | (1) | (12) | **(13)** | **(13)** |
| **As at March 31, 2018** | **837** | **2** | **(516)** | 5 | 1 | **6** | **329** |
| | | | | | | | |
| **As at January 1, 2017** | 837 | - | (438) | 6 | 1 | 7 | 406 |
| Net profit (loss) | - | - | (2) | - | - | - | (2) |
| Effective portion of cash flow hedges | - | - | - | - | (7) | (7) | (7) |
| Reclassified to net profit (loss) | - | - | - | - | 5 | 5 | 5 |
| **As at March 31, 2017** | 837 | - | (440) | 6 | (1) | 5 | 402 |

*See accompanying notes*

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**For the Three Months Ended March 31, 2018 and 2017**
*(unaudited)*

## 1. CORPORATE MANAGEMENT

Tervita Corporation is incorporated under the laws of Canada. Our head office is located at 1600, 140 – 10 Avenue S.E., Calgary, Alberta, Canada. In these Interim Condensed Consolidated Financial Statements (the "Financial Statements"), "we", "us", "our", "Tervita", and "Company" mean Tervita Corporation, its subsidiaries and joint arrangements.

Tervita's executive leadership is comprised of the following:

- President and Chief Executive Officer;
- Chief Financial Officer;
- Chief Operating Officer; and
- Vice President, Business 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 ("CODM") for the purposes of reporting segment operations under International Financial Reporting Standards ("IFRS"). The CODM reviews the results of our operations and financial position on consolidated and operating segment levels. We manage our business through two operating segments: Energy Services and Industrial Services.

Costs included in general and administrative expenses on the Interim Condensed Consolidated Statements of Comprehensive Profit or Loss ("Statement of Profit or Loss") are considered shared services or corporate costs and are not allocated to the operating segments.

### ENERGY SERVICES

Energy Services provides many services to the oil and gas sector, including the treating, recovering and disposal of fluids and the processing, recovery and disposal of solid materials used in, and generated by, natural resource and industrial production, and the disposal of oilfield waste. In conjunction with the operation of its waste processing facilities, the segment also engages in energy marketing activities.

### INDUSTRIAL SERVICES

Industrial Services provides comprehensive environmental solutions, including site remediation, facility decommissioning, environmental construction and technologies, hazardous and non-hazardous waste management, emergency response, rail services, and recycling services to oil and gas and other industrial companies. Our recycling services include the purchase and processing of ferrous and non-ferrous metals recovered from demolition sites and other locations. Other offerings include waste transportation and classification.

## 2. BASIS OF PRESENTATION

These Financial Statements for the three months ended March 31, 2018 have been prepared in accordance with IAS 34 "Interim Financial Reporting" 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 should be read in conjunction with the Company's Annual Consolidated Financial Statements as at and for the year ended December 31, 2017 ("Annual Financial Statements").

These Financial Statements provide comparative information in respect of the previous year and are presented rounded to the nearest million Canadian dollars ("C$"), unless otherwise stated. They are prepared on the historical cost basis, except for certain financial instruments and share-based compensation that are measured at fair value at the end of each reporting period, and certain assets listed as held for sale, which are revalued to fair value less costs of disposal as required under IFRS.

Unless otherwise noted, these Financial Statements were prepared using the same accounting policies, critical accounting judgments, and key estimates as used in the Annual Financial Statements.

Certain prior period comparative figures have been reclassified to conform to current year presentation.

These Financial Statements were approved by the Audit Committee on behalf of the Board of Directors on May 7, 2018.

## 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.

*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 (the "date of initial application"). 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 four 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;
- 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 has determined that the effects of applying this standard to the portfolio of contracts would not differ materially from applying it to the individual contracts; and
- Restatement of the comparative period has not occurred for contracts that began and ended within the same annual reporting period or were completed contracts at the beginning of the earliest period presented (January 1, 2017).

### *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. Some of these projects have multiple performance obligations but have 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 from IAS 18, which used the transfer of risks and rewards to determine the amount of revenue to be recognized. Under IFRS 15, revenue for these contracts is now recorded as control of performance obligations is transferred to the customer. The change in timing of revenue recognition may result in the recognition of contract assets and liabilities. However, as at March 31, 2018, there were no contract assets and liabilities identified.

### *Impact on the Financial Statements*

Application of IFRS 15 for contracts that were not complete at January 1, 2018 did not have a material impact on the amount of revenue recognized on these projects and there was no cumulative adjustment to accumulated earnings (deficit).

The following table summarizes the impact of adopting IFRS 15 on the Company's Statement of Profit or Loss for the three months ended March 31, 2018 for each of the line items affected.

| | Amounts Without IFRS 15 Adoption | Adjustments | **March 31, 2018 Reported** |
|---|---|---|---|
| Revenue | 650 | (260) | **390** |
| Direct expenses | (604) | 260 | **(344)** |

There was no material impact to the Company's Interim Condensed Consolidated Statements of Financial Position ("Statement of Financial Position") as at March 31, 2018 and its Interim Condensed Consolidated Statements of Cash Flows ("Statement of Cash Flows") for the three months then ended.

*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 adopted prospectively.

Tervita elected to exercise a transition exemption whereby prior periods were not restated for all the classification and measurement requirements of IFRS 9 that were adopted and disclosed retrospectively. Instead, any differences resulting from the transition were recognized in accumulated earnings (deficit) at the date of initial application. Accordingly, the financial results for 2017 were not restated and were presented as previously reported under IAS 39.

Application of IFRS 9 did not have a material impact on the Financial Statements, and there was no cumulative adjustment to accumulated earnings (deficit).

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

Classification of Tervita's financial liabilities were not impacted by the transition to IFRS 9. However, the standard eliminated several financial asset categories: available for sale, held to maturity, and loans and receivables. Furthermore, financial assets are assessed for classification under IFRS 9 based on the contractual cash flows associated with the asset and the business model under which the asset is managed. The only impact on classification for Tervita was in relation to financial assets measured at amortized cost. Financial assets measured at amortized cost are held within a business model whose objective is to hold financial assets to collect contractual cash flows and whose contractual terms give rise on specified dates to cash flows on the principal amount outstanding that are solely payments of principal and interest. Cash and cash equivalents and trade and other receivables were classified financial assets at amortized cost under IFRS 9, and were previously disclosed under IAS 39 as fair value through profit or loss ("FVTPL") and loans and receivables respectively.

Under IFRS 9, write-offs of all or part of a financial asset are considered a derecognition event. IAS 39 only required financial assets to be derecognized when the contractual rights to the cash flows expire or substantially all the risks and rewards related to ownership are transferred to a third party. These requirements still apply under IFRS 9.

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 contractual cash flows due to the Company under a contract and the cash flows that

Tervita expects to receive. Tervita uses reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments are initially recognized. The Company assessed receivables for indicators of a significant increase in credit risk since initial recognition and noted no changes to the assessment previously made.

Tervita elected to adopt the new general hedge accounting model in IFRS 9. This requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. Requirements for hedge effectiveness include the existence of an economic relationship between the hedging instrument and hedged item, that the effect of credit risk does not dominate the value changes that result from that economic relationship, and that the hedge ratio is maintained. IFRS 9 also requires that the unrecoverable amount of cash flow reserves held at a loss is recognized in profit or loss at the time of discontinuation. This compares to the hedging requirements of IAS 39, which limited the hedging relationships to specific instruments, 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.

The following table summarizes the impact on financial instruments from the transition to IFRS 9 at the date of initial application:

| | Classification Under | | Carrying Value Under | |
|---|---|---|---|---|
| | IAS 39 | IFRS 9 | IAS 39 | IFRS 9 |
| Cash and cash equivalents | FVTPL | Amortized cost | 124 | 124 |
| Trade and other receivables | Loans and receivables | Amortized cost | 130 | 130 |
| Trade and other payables | Other financial liabilities | Other financial liabilities | (94) | (94) |
| Interest payable | Other financial liabilities | Other financial liabilities | (4) | (4) |
| Long-term debt | Other financial liabilities | Other financial liabilities | (437) | (437) |
| Derivative liabilities | Designated hedge | Designated hedge | (31) | (31) |
| Contingent consideration | FVTPL | FVTPL | (9) | (9) |

**Cash and cash equivalents** – Financial assets which were previously classified at FVTPL are now classified under amortized cost and subject to impairment considerations. Impairment on cash and cash equivalents is measured at an amount equal to 12-month ECLs. The credit risk on these balances is presumed to be low since deposits are held with highly-rated financial institutions. At the date of initial application, there was no impairment of cash and cash equivalents.

**Trade and other receivables** – Financial assets which were previously classified as loans and receivables are now classified under amortized cost and continue to be subject to impairment considerations. Tervita has elected to assess all 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 calculated based on historical credit loss experience and relevant future industry expectations and applied to the categories of the Company's provision matrix. At the date of initial application, there was no impairment of trade and other receivables as Tervita already used a provision matrix to assess the loss allowance (previously termed allowance for doubtful accounts), and the future information included in the model did not materially change management's assessment of impairment.

**Derivative liabilities** – Financial liabilities which continue to be classified as a designated hedge, and are measured at fair value. Hedging relationships previously designated under IAS 39 were assessed at the initial date of application and were determined to continue to meet the criteria for hedge accounting under IFRS 9. The hedge ratio at inception of the hedge was 1:1 and remained 1:1 at the date of initial application, and no rebalancing for transition to IFRS 9 was required.

### *Impact on the Financial Statements*

Application of IFRS 9 did not have a material impact on the Financial Statements, and there was no cumulative adjustment to accumulated earnings (deficit).

The following table summarizes the impact of IFRS 9 on the loss allowance at the date of initial application (January 1, 2018):

| | Cash and cash equivalents | Trade and other receivables | Total |
|---|---|---|---|
| Loss allowance at December 31, 2017 (IAS 39) | - | 1 | 1 |
| Impairment adjustments | - | - | - |
| Loss allowance at January 1, 2018 (IFRS 9) | - | 1 | 1 |

*Share-based payments*

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-payment transactions: accounting for cash-settled payments which include vesting requirements, classifying transactions with net settlement features, and accounting for transactions modified from cash-settled to equity-settled. Tervita has assessed there is no impact on the measurement and classification of share-based payments, as none of the share-based payments issued by the Company were cash-settled.

## 3. SEASONALITY

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

## 4. OPERATING SEGMENTS

### For the Three Months Ended March 31, 2018

| | Energy Services | Industrial Services | Total |
|---|---|---|---|
| External revenue | **349** | **41** | **390** |
| Inter-segment revenue | **1** | **-** | **1** |
| Segment revenue | **350** | **41** | **391** |
| Depreciation and amortization | **(14)** | **(2)** | **(16)** |
| Segment operating profit (loss) before tax | **31** | **(1)** | **30** |
| Finance costs | **(2)** | **-** | **(2)** |
| Other income (expense) | **1** | **(1)** | **-** |
| Assets - as at March 31, 2018 | **933** | **131** | **1,064** |
| Purchases of property, plant and equipment, intangible assets and business acquisitions | **(13)** | **(1)** | **(14)** |

### For the Three Months Ended March 31, 2017

| | Energy Services | Industrial Services | Total |
|---|---|---|---|
| External revenue | 629 | 50 | 679 |
| Inter-segment revenue | 2 | - | 2 |
| Segment revenue | 631 | 50 | 681 |
| Depreciation and amortization | (19) | (2) | (21) |
| Segment operating profit (loss) before tax | 28 | 5 | 33 |
| Finance costs | (2) | - | (2) |
| Other income (expense) | - | - | - |
| Assets - as at December 31, 2017 | 930 | 143 | 1,073 |
| Purchases of property, plant and equipment, intangible assets and business acquisitions | (8) | (1) | (9) |

Tervita's revenues and direct expenses from Energy Services and Industrial Services were primarily derived in Canada.

### Reconciliation of Information on Operating Segments to IFRS measures

| | Note | Three months ended March 31, 2018 | 2017 |
|---|---|---|---|
| **Revenue** | | | |
| Total revenue for operating segments | *2, 6* | **391** | 681 |
| Elimination of inter-segment revenue | | **(1)** | (2) |
| Consolidated revenue | | **390** | 679 |
| **Profit (Loss) Before Tax** | | | |
| Total segment operating profit (loss) before tax | | **30** | 33 |
| Unallocated general and administrative | | **(10)** | (19) |
| Unallocated depreciation and amortization | | **(1)** | (1) |
| Operating profit (loss) | | **19** | 13 |
| Operating segment finance costs | *7* | **(2)** | (2) |
| Unallocated finance costs | *7* | **(10)** | (11) |
| Unallocated other income (expense) | *8* | **(4)** | (2) |
| Profit (loss) before tax | | **3** | (2) |

| | Note | As at March 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **Total Assets** | | | |
| Total assets for operating segments | | **1,064** | 1,073 |
| Unallocated assets | | **165** | 153 |
| Consolidated total assets | | **1,229** | 1,226 |

| | Note | Three months ended March 31, 2018 | 2017 |
|---|---|---|---|
| **Total Purchases of Property, Plant and Equipment, Intangibles and Business Acquisitions** | | | |
| Total operating segment property, plant and equipment purchases | | **13** | 9 |
| Total business acquisitions | | **1** | - |
| Total intangibles purchases | | **1** | - |
| **Consolidated Purchases of Property, Plant and Equipment, Intangibles and Business Acquisitions** | | **15** | 9 |

## 5. HELD FOR SALE

| As at | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Property, plant and equipment | **5** | - |
| Total assets held for sale | **5** | - |
| | | |
| Decommissioning liabilities | **10** | - |
| Total liabilities held for sale | **10** | - |

In 2018, Tervita was in the process of finalizing the sale of a landfill in Canada ($5 million of property, plant and equipment and $5 million of decommissioning liabilities) and a cavern in the United States ($5 million of decommissioning liabilities).

## 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 business unit, customer, and contract requirements. Customer creditworthiness is assessed prior to contract signing 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, and the customer has accepted the inventory. These conditions are generally satisfied when the goods are provided to the customer based on the shipping terms of the contract, as this has historically been the point at which both the customer and Tervita agree a transfer of control has occurred. Revenue earned from the sale of goods includes the marketing of crude oil and the sale of scrap metal.

### *Service Revenue Recognized at a Point in Time*

Recognition of revenue from the rendering services performed (facility-based services) occurs based 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 the services provided are transferred to the buyer, Tervita has a present right to payment for the service, and the customer has accepted the services performed. These conditions are generally satisfied when the services are completed in accordance with the contract specifications. Revenue earned from the rendering of services includes the treating, recovering and disposal of fluids and the processing, recovery and disposal of solid materials used in, and generated by, natural resource and industrial production, the disposal of oilfield waste, hazardous and non-hazardous waste management, and rail services.

### *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, each of which are allocated on a stand-alone basis. Service revenue is earned from a variety of sources, including the provision of environmental solutions for waste management, environmental remediation, and facility decommissioning and demolition.

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. The transaction price typically results from lump-sum fixed-fee arrangements over multiple performance obligations, each of which 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.

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 contract's performance obligations 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 also include mobilization costs, or costs to fulfil the contract. Such costs are recognized as a contract asset if all the following criteria are achieved: costs relate directly to the contract and can be specifically identified, costs generate or enhance resources of Tervita that will be used in satisfying performance obligations into the future, and the costs are expected to be recovered. Contract assets are amortized on a straight-line basis over the life of the contract.

| | |
|---|---|
| *Significant Judgments* | Revenue is assessed for certain revenue streams on a portfolio basis, as the contracts in the portfolio have similar characteristics and performance obligations, and Tervita does not expect that the effects of applying IFRS 15 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.<br><br>Timing of the satisfaction of the performance obligations associated with revenue recognition involves an understanding of the nature of the performance obligations and contracts. Judgment is required in determining the methods used to recognize revenue for the transfer of inventory and rendering of services. Transfer of inventory generally occurs when control of the inventory transfers to the buyer, and the Company must assess whether the indicators of a transfer of control are satisfied. Rendering of services generally occurs when Tervita has a right to invoice, and the Company must determine the appropriate criteria to use to assess achievement of performance obligations and how performance obligations are to be allocated to the contract purchase price under fixed-pricing arrangements.<br><br>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 revenues 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

### *Disaggregation of Revenue*

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

**For the Three Months Ended March 31, 2018**

| | Note | Energy Services | Industrial Services | Intersegment Eliminations | Total |
|---|---|---|---|---|---|
| Commodity-based sales | *2* | **274** | **10** | **-** | **284** |
| Facility-based services | | **76** | **7** | **(1)** | **82** |
| Project-based services | | **-** | **24** | **-** | **24** |
| Disaggregated revenue | | **350** | **41** | **(1)** | **390** |

***For the Three Months Ended March 31, 2017***

| | Note | Energy Services | Industrial Services | Intersegment Eliminations | Total |
|---|---|---|---|---|---|
| Commodity-based sales | *2* | 554 | 11 | - | 565 |
| Facility-based services | | 77 | 9 | (2) | 84 |
| Project-based services | | - | 30 | - | 30 |
| Disaggregated revenue | | 631 | 50 | (2) | 679 |

# 7. FINANCE COSTS

| For the three months ended March 31, | **2018** | 2017 |
|---|---|---|
| Interest expense | **10** | 11 |
| Amortization of debt issue costs | **1** | 1 |
| Accretion of decommissioning liabilities | **1** | 1 |
| Finance costs | **12** | 13 |

## 8. OTHER INCOME (EXPENSE)

| For the three months ended March 31, | Note | 2018 | 2017 |
|---|---|---|---|
| Gain (loss) on sale of assets | | 1 | - |
| Share-based compensation | | (1) | - |
| Arrangement costs | 11 | (3) | - |
| Gain (loss) on provisions | | (1) | (1) |
| Unrealized foreign exchange gain (loss) - other | | - | (1) |
| Total other income (expense) | | (4) | (2) |

## 9. LONG-TERM DEBT

### SUPPORTING INFORMATION

| As at | Principal | Maturity | March 31, 2018 | December 31, 2017 |
|---|---|---|---|---|
| Senior secured notes | US$360 | Dec 2021 | 464 | 452 |
| Unsecured debt - capital leases | | | 2 | - |
| Long-term debt | | | 466 | 452 |
| Unamortized debt costs | | | (14) | (15) |
| Total debt | | | 452 | 437 |
| Less: current portion | | | (1) | - |
| Long-term portion | | | 451 | 437 |

#### *Debt Covenants*

Under the terms of the $200 million revolving credit facility due December 2019, Tervita must comply with certain financial and non-financial covenants, as defined by its lenders. As at March 31, 2018, Tervita complied with all covenants.

#### *Outstanding Letters of Credit*

Outstanding letters of credit at March 31, 2018 totalled $72 million (December 31, 2017 – $73 million). The outstanding letters of credit reduce the borrowing available under the revolving credit facility.

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### FAIR VALUE OF FINANCIAL INSTRUMENTS

#### *As at March 31, 2018*

| | Classification | Level | Carrying Value | Estimated Fair Value |
|---|---|---|---|---|
| Cash and cash equivalents | Amortized cost | 1 | 133 | 133 |
| Trade and other receivables | Amortized cost | - | 125 | 125 |
| Trade and other payables | Other financial liabilities | - | (82) | (82) |
| Interest payable | Other financial liabilities | - | (12) | (12) |
| Long-term debt | Other financial liabilities | - | (452) | (474) |
| Derivative liabilities | Designated hedge | 2 | (25) | (25) |
| Contingent consideration | FVTPL | 2 | (9) | (9) |

### *As at December 31, 2017*

| | Classification | Level | Carrying Value | Estimated Fair Value |
|---|---|---|---|---|
| Cash and cash equivalents | FVTPL | 1 | 124 | 124 |
| Trade and other receivables | Loans and receivables | - | 130 | 130 |
| Trade and other payables | Other financial liabilities | - | (94) | (94) |
| Interest payable | Other financial liabilities | - | (4) | (2) |
| Long-term debt | Other financial liabilities | - | (437) | (454) |
| Derivative liabilities | Designated hedge | 2 | (31) | (31) |
| Contingent consideration | FVTPL | 2 | (9) | (9) |

There were no transfers between levels of the fair value hierarchy in either 2018 or 2017.

## RISK MANAGEMENT

### *Counterparty Credit Risk*

The Company deems that the credit risk of a financial instrument 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 have been indications from the borrower that payment is unlikely. 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. 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. Any accounts deemed uncollectible are expensed.

## 11. NEWALTA TRANSACTION

On February 28, 2018, the Company entered into an arrangement agreement (the "Arrangement Agreement") with Newalta Corporation ("Newalta"), pursuant to which Tervita has agreed, through a series of transactions, to acquire Newalta's issued and outstanding common shares such that Tervita's and Newalta's shareholders will own 89% and 11%, respectively, of the common shares of the combined entity. In addition to common shares, Newalta shareholders will also receive common share purchase warrants in the combined entity. The warrants will be exercisable for two years from the closing of the arrangement at a price of $2.75 per equivalent common share of Newalta. If exercised, the warrants would increase Newalta's pro forma ownership in the combined entity to 13%. Concurrent with entering the Arrangement Agreement, Tervita entered into $8 million of bridge financing commitment agreements to ensure Tervita's ability to finance the transaction. Financing commitments are recognized on the Statement of Financial Position under both other current assets and trade and other payables as at March 31, 2018.

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

Arrangement costs included in other income (expenses) comprise of costs incurred by Tervita for completion of the Arrangement Agreement and the joint information circular.