# TERVITA

## *MANAGEMENT'S DISCUSSION & ANALYSIS*

***For the Three and Six Months Ended June 30, 2017***

# ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") was prepared by management and is a summary of the financial position and results of operations of Tervita Corporation ("Tervita", "the Company", "we", "our", "us" and similar expressions) for the three and six months ended June 30, 2017 and as compared to the three and six months ended June 30, 2016. Tervita's Board of Directors carries out its responsibility for review of the MD&A through its Audit Committee, which approved this disclosure on August 9, 2017.

The MD&A is a review of the financial results of Tervita, prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with our Interim Condensed Consolidated Financial Statements and accompanying notes (the "Financial Statements") for the three and six months ended June 30, 2017, and our Annual MD&A and audited Consolidated Financial Statements for the year ended December 31, 2016.

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

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

# COMPANY AND MARKET OVERVIEW

## COMPANY OVERVIEW

Tervita is one of the largest environmentally focused energy, environmental and waste management service providers in Canada. The Company primarily serves the oil and gas industry, as well as the industrial and natural resource sectors, predominantly in Western Canada. Our network of fixed facilities consists of more than 70 active waste processing, disposal and industrial facilities, including 25 treating, recovery and disposal facilities ("TRDs"), seven stand-alone disposal wells, two cavern disposal facilities, 19 engineered landfills, six transfer stations, 10 bioremediation facilities and five metals recycling facilities, as well as a fleet of specialized equipment and assets.

## OPERATING SEGMENTS

In 2017, Tervita reorganized its reporting structure into the following two operating segments:

- **Energy Services** provides a number of services to the oil and gas sector, including the treating, recovering and disposing of fluids and the processing, recovery and disposal of solid materials used in, and generated by, natural resource and industrial production, and the disposal of oilfield waste. In conjunction with the operation of its waste processing facilities, the segment also engages in energy marketing activities.
- **Industrial Services** provides comprehensive environmental solutions, including site remediation, facility decommissioning, environmental construction and technologies, hazardous and non-hazardous waste management, emergency response, 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, classification, and tracking services.

In addition to our two operating segments, Tervita's other expenses within operating profit relate to corporate and shared services activities. These include: general and administrative expenses for executive leadership, human resources, information technology, finance, accounting, and legal and regulatory; depreciation and amortization for corporate and shared services assets; and intersegment profit eliminations including those related to the construction and transfer of long-lived assets between operating segments.

Prior to 2017, Tervita had three operating segments: Midstream Services, Environmental Services, and Production Services. During 2016, we disposed of the Production Services operating segment and comparative results of that segment have been presented in Discontinued Operations. Comparative results for continuing operations have been reclassified to reflect the change in operating segments.

### MARKET OVERVIEW

West Texas Intermediate ("WTI") benchmark prices were up 6% in the three months ending June 30, 2017 compared to the same period last year. While WTI recovery was tempered slightly in the second quarter due to a heightened uncertainty around the pace of global oil supply balancing, rig activity in the Western Canadian Sedimentary Basin continued to be strong compared to last year, up 144%. Metres drilled in the second quarter were 2.9 million compared to 1.1 million last year, representing an increase of 164%. Year to date, a strong second quarter for active rigs and metres drilled contributed to a year over year increase of 100% and 122%, respectively, for the six months ending June 30, 2017. It is uncertain whether the recent pull back in energy commodity prices will have an impact on the fall and winter activity levels.

## NON-GAAP MEASURES AND DEFINITIONS

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

### NON-GAAP MEASURES

*EBITDA and EBITDA Margin*

We believe that investors, analysts and ratings agencies consider EBITDA to be useful in measuring Tervita's operating performance. The presentation of EBITDA should not be construed as an inference that future results will be unaffected by unusual or nonrecurring items. EBITDA should not be considered a measure of discretionary cash available for the return of capital to debt and equity stakeholders and to invest in the business.

EBITDA is defined as profit or loss from continuing operations before tax, other income (expense), finance costs, impairment expense and depreciation and amortization, and any other items that are considered non-recurring in nature. For this MD&A, we have deducted the gain (loss) on debt restructuring, if any.

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

For the three months ended June 30, Tervita's profit (loss) before taxes has been reconciled to EBITDA as follows:

| | 2017 | 2016 |
|---|---|---|
| Profit (loss) from continuing operations before tax | (13) | (112) |
| Adjustments: | | |
| Depreciation and amortization | 16 | 26 |
| Impairment expense | 1 | 36 |
| Finance costs | 12 | 66 |
| Other expense (income) | 13 | (15) |
| (Gain) loss on debt restructuring | - | 7 |
| EBITDA | 29 | 8 |

For the six months ended June 30, Tervita's profit (loss) before taxes has been reconciled to EBITDA as follows:

| | 2017 | 2016 |
|---|---|---|
| Profit (loss) from continuing operations before tax | (15) | (185) |
| Adjustments: | | |
| Depreciation and amortization | 38 | 55 |
| Impairment expense | 1 | 129 |
| Finance costs | 25 | 138 |
| Other expense (income) | 15 | (112) |
| (Gain) loss on debt restructuring | - | 8 |
| EBITDA | 64 | 33 |

*Working capital*

Working capital is defined as trade and other receivables, inventories and other current assets less trade and other payables.

## DEFINITIONS

*Recapitalization Transaction*

In 2016, Tervita completed the recapitalization of its debt and share capital. Refer to the ***Liquidity and Capital Resources*** section for further discussion.

*Average WTI price*

Average WTI prices referred to in the MD&A are a key driver of the Company's business. Tervita uses published monthly average WTI prices (US$).

# RESULTS OF OPERATIONS

## OPERATING RESULTS FOR THE THREE MONTHS ENDED JUNE 30

| | Energy Services | | Industrial Services | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Energy marketing revenue | 493 | 403 | - | - | - | - | 493 | 403 |
| Revenue (excluding energy marketing) | 69 | 47 | 47 | 52 | (2) | (1) | 114 | 98 |
| | 562 | 450 | 47 | 52 | (2) | (1) | 607 | 501 |
| Energy marketing direct expenses | (493) | (403) | - | - | - | - | (493) | (403) |
| Direct expenses (excluding energy marketing) | (33) | (27) | (41) | (45) | 2 | 1 | (72) | (71) |
| General and administrative expenses | - | - | - | - | (13) | (19) | (13) | (19) |
| | (526) | (430) | (41) | (45) | (11) | (18) | (578) | (493) |
| EBITDA | 36 | 20 | 6 | 7 | (13) | (19) | 29 | 8 |
| *EBITDA Margin* | *52%* | *43%* | *13%* | *13%* | - | - | *25%* | *8%* |
| Depreciation and amortization | (14) | (23) | (1) | (1) | (1) | (2) | (16) | (26) |
| Operating profit (loss) | 23 | (3) | 5 | 6 | (14) | (21) | 13 | (18) |
| Impairment expense | (1) | (36) | - | - | - | - | (1) | (36) |
| Finance costs | - | - | - | - | (12) | (66) | (12) | (66) |
| Other income (expense) | - | - | - | - | (13) | 15 | (13) | 15 |
| Gain (loss) on debt restructuring | - | - | - | - | - | (7) | - | (7) |
| Income taxes recovery (expense) | - | - | - | - | - | - | - | - |
| Profit (loss) from continuing operations | 22 | (39) | 5 | 6 | (39) | (79) | (13) | (112) |
| Profit (loss) from discontinued operations, net of tax | - | - | - | - | 1 | (2) | 1 | (2) |
| Net profit (loss) | 22 | (39) | 5 | 6 | (38) | (81) | (12) | (114) |

## Energy Services

*Revenue*

Energy marketing revenue increased 22% primarily due to higher marketed volumes in 2017 as well as higher average realized WTI prices, from an average of US$45.59/bbl in the second quarter of 2016 to US$48.29/bbl in the second quarter of 2017.

Higher market activity in 2017, in part due to the delayed and less significant spring breakup, positively impacted waste processing's volumes, resulting in an increase of 47% in revenue over the prior year.

*Direct expenses*

Energy marketing direct expenses increased 22% compared to 2016, consistent with the increase in revenue.

Waste processing direct expenses increased 22% compared to 2016 reflecting mainly variable costs, particularly utilities and repairs and maintenance due to increased activity levels, as well as higher landfill leachate costs and a larger employee bonus accrual. The increase in direct expenses was not as significant as the increase in our revenue due to the fixed nature of the majority of our costs.

*Depreciation and amortization*

Depreciation and amortization decreased by 39% compared to 2016 due to a change in depreciation method for certain assets during the fourth quarter of 2016 and the reduction in decommissioning assets as a result of changes in provision estimates in December 2016.

*Impairment expense*

In 2017, a fire at a TRD facility resulted in certain assets being damaged. In 2016, due to the slowdown in the oil and gas sector and general economic uncertainty, we recognized $30 million of goodwill impairment and $6 million of asset impairment.

## Industrial Services

*Revenue*

Revenue was 10% lower compared to 2016, primarily due to the winding down of large environmental service projects that were active in 2016 as well as reduced market activity in field services. This decrease was partially offset by the increased worldwide demand and price for ferrous metal as well as the increase in rail services projects.

*Direct expenses*

Direct expenses decreased 9% compared to 2016, consistent with the decline in revenue.

## Corporate

*General and administrative expenses*

The 32% decrease in general and administrative expenses was due to cost savings from staff reductions in 2016 and 2017 and office cost savings from a reduction in rent at the Calgary head office. Some vacated office space was also reclassified to onerous contracts in late 2016.

*Finance costs*

| | 2017 | 2016 |
|---|---|---|
| Interest expense | 10 | 62 |
| Amortization of debt issue costs | 1 | 3 |
| Accretion of decommissioning liabilities | 1 | 1 |
| Finance costs | 12 | 66 |

The decrease in interest expense was due to lower average long term debt outstanding in 2017 as a result of the Recapitalization Transaction, which was completed in December 2016.

*Other income (expense)*

| | 2017 | 2016 |
|---|---|---|
| Onerous contract provision | (8) | (4) |
| Realized foreign exchange gain (loss) | - | (12) |
| Unrealized foreign exchange gain (loss) | - | 24 |
| Other | (5) | 7 |
| Other income (expense) | (13) | 15 |

| | |
|---|---|
| | The onerous contract provision was the result of vacated office space in of each 2017 and 2016. |
| | In December 2016, we entered several cross currency swap agreements to hedge the foreign exchange fluctuations related to payments of interest and principal, as well as the revaluation of our US$ denominated senior secured notes. We have applied hedge accounting treatment such that any foreign exchange fluctuations related to payments and revaluation of debt are fully offset by the reclassification of other comprehensive profit (loss) associated with the revaluation of swap agreements into net profit (loss). |
| | Prior to the Recapitalization Transaction, we had not applied hedge accounting treatment to any debt or swaps, therefore, associated unrealized foreign exchange on revaluation and realized foreign exchange on payment of debt in the second quarter of 2016 were recorded to other income (expense). |
| *Severance costs* | There was $2 million of severance costs included in direct expenses and general and administrative expenses for the three months ended June 30, 2017 (June 30, 2016 - $2 million). |

## Operating Results For the Six Months Ended June 30

| | Energy Services | | Industrial Services | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Energy marketing revenue | **1,047** | 739 | **-** | - | **-** | - | **1,047** | 739 |
| Revenue (excluding energy marketing) | **146** | 118 | **97** | 96 | **(4)** | (2) | **239** | 212 |
| | **1,193** | 857 | **97** | 96 | **(4)** | (2) | **1,286** | 951 |
| Energy marketing direct expenses | **(1,047)** | (739) | **-** | - | **-** | - | **(1,047)** | (739) |
| Direct expenses (excluding energy marketing) | **(61)** | (54) | **(83)** | (89) | **4** | 2 | **(140)** | (141) |
| General and administrative expenses | **-** | - | **-** | - | **(35)** | (38) | **(35)** | (38) |
| | **(1,108)** | (793) | **(83)** | (89) | **(31)** | (36) | **(1,222)** | (918) |
| EBITDA | **85** | 64 | **14** | 7 | **(35)** | (38) | **64** | 33 |
| *EBITDA Margin* | ***58%*** | *54%* | ***14%*** | *7%* | **-** | - | ***27%*** | *16%* |
| Depreciation and amortization | **(33)** | (48) | **(3)** | (4) | **(2)** | (3) | **(38)** | (55) |
| Operating profit (loss) | **53** | 17 | **11** | 3 | **(37)** | (41) | **26** | (22) |
| Impairment expense | **(1)** | (128) | **-** | (1) | **-** | - | **(1)** | (129) |
| Finance costs | **-** | - | **-** | - | **(25)** | (138) | **(25)** | (138) |
| Other income (expense) | **-** | - | **-** | - | **(15)** | 112 | **(15)** | 112 |
| Gain (loss) on debt restructuring | **-** | - | **-** | - | **-** | (8) | **-** | (8) |
| Income taxes recovery (expense) | **-** | - | **-** | - | **-** | 8 | **-** | 8 |
| Profit (loss) from continuing operations | **52** | (111) | **11** | 2 | **(77)** | (67) | **(15)** | (177) |
| Profit (loss) from discontinued operations, net of tax | **-** | - | **-** | - | **1** | (1) | **1** | (1) |
| Net profit (loss) | **52** | (111) | **11** | 2 | **(76)** | (68) | **(14)** | (178) |

## *Energy Services*

| | |
|---|---|
| *Revenue* | Energy marketing revenue increased 42% primarily due to higher average realized WTI prices in 2017, from an average of US$39.52/bbl in the first six months of 2016 to US$50.10/bbl in the first six months of 2017, as well as higher marketed volumes in 2017. |
| | Higher market activity in 2017, in part due to the delayed and less significant spring breakup, positively impacted waste processing's volumes, resulting in an increase of 24% |

in revenue over the prior year.

*Direct expenses*

Energy marketing direct expenses increased 42% compared to 2016, consistent with the increase in revenue.

Waste processing direct expenses increased 13% compared to 2016 reflecting mainly variable costs, particularly utilities and repairs and maintenance, due to increased activity levels as well as a higher employee bonus accrual. The increase in direct expenses was not as significant as the increase in our revenue due to the fixed nature of our costs as well as the benefit of a full six month impact of 2016 cost containment initiatives.

*Depreciation and amortization*

Depreciation and amortization decreased by 31% compared to 2016 due to a change in depreciation method for certain assets during the fourth quarter of 2016 and the reduction in decommissioning assets as a result of changes in provision estimates in December 2016.

*Impairment expense*

In 2017, a fire at a TRD facility resulted in certain assets being damaged. In 2016, due to the slowdown in the oil and gas sector and general economic uncertainty, we recognized $121 million of goodwill impairment and $7 million of asset impairment.

## Industrial Services

*Revenue*

Revenue remained relatively consistent with 2016, as the effect of increased worldwide demand and price for ferrous metal was offset by the reduced market activity in field services and winding down of large environmental service projects.

*Direct expenses*

The decrease in direct expenses of 7% from 2016 was primarily the result of reduced environmental services and field services activity. The higher cost of sales from increased volumes of ferrous sales and the 2017 bonus accrual were offset by cost savings from staff reductions in 2016, lower repair and maintenance costs, and a legal settlement as the claimant.

## Corporate

*General and administrative expenses*

The 8% decrease in general and administrative expenses was due to staff reductions in 2016 and 2017, a reduction in rent at the Calgary head office, reclassification of some vacated office space to onerous contracts in late 2016, and reduced IT expenses as a result of outsourcing IT support in the third quarter of 2016. These decreases were partially offset by severance costs incurred in 2017.

*Finance costs*

| | 2017 | 2016 |
|---|---|---|
| Interest expense | 21 | 130 |
| Amortization of debt issue costs | 2 | 5 |
| Accretion of decommissioning liabilities | 2 | 3 |
| Finance costs | 25 | 138 |

The decrease in interest expense was a result of significantly lower average long term debt outstanding in 2017 as a result of the Recapitalization Transaction, which was completed in December 2016.

*Other income (expense)*

| | 2017 | 2016 |
|---|---|---|
| Onerous contract provision | (8) | (7) |
| Realized foreign exchange gain (loss) | - | 290 |
| Unrealized foreign exchange gain (loss) | (1) | (191) |
| Other | (6) | 20 |
| Other income (expense) | (15) | 112 |

Changes in other income (expense) for the six months ended June 30, 2017 compared to the same period in 2016 are due to the same factors impacting the second quarter of 2017 compared to the second quarter of 2016. Included in Other in 2016 was the revaluation of puttable minority interest, for which there was no comparable instrument in 2017.

| | |
|---|---|
| *Severance costs* | There was $8 million of severance costs included in direct expenses and general and administrative expenses (June 30, 2016 - $5 million). |

### SUMMARY OF QUARTERLY RESULTS

| | **Q2 2017** | **Q1 2017** | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 |
|---|---|---|---|---|---|---|---|---|
| Revenue | **607** | **679** | 540 | 512 | 501 | 450 | 556 | 644 |
| Revenue - excluding EM | **114** | **125** | 122 | 123 | 98 | 114 | 128 | 141 |
| Direct expenses | **(565)** | **(622)** | (490) | (472) | (474) | (406) | (488) | (582) |
| General and administrative expense | **(13)** | **(22)** | (16) | (17) | (19) | (19) | (16) | (20) |
| Depreciation and amortization | **(16)** | **(22)** | (19) | (35) | (26) | (29) | (18) | (29) |
| Operating profit (loss) | **13** | **13** | 15 | (11) | (18) | (4) | 34 | 13 |
| Net profit (loss) | **(12)** | **(2)** | 1,079 | (247) | (114) | (64) | (746) | (73) |
| EBITDA | **29** | **35** | 34 | 24 | 8 | 25 | 52 | 42 |

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.

## LIQUIDITY AND CAPITAL RESOURCES

### RECAPITALIZATION TRANSACTION

On December 14, 2016, the Company completed a Recapitalization Transaction pursuant to a Court approved plan of arrangement (the “Plan”) under the Canada Business Corporations Act. The Plan included a private placement of class A voting preferred shares for proceeds of $404 million (the “Private Placement”) and the issuance by the Company of US$360 million of senior secured notes (the “Notes”). The Company’s secured debt, unsecured debt and subordinated debt were settled through the utilization of cash on hand and proceeds from the Private Placement and the Notes, along with the issuance of class A voting preferred shares and class A voting common shares. All of Tervita’s issued and outstanding share capital existing prior to the completion of the Restructuring Transaction was cancelled in exchange for the right to receive 20% of the net proceeds that may be received by the Company from any full and final determination of the Secure Energy Services Inc. litigation.

The Notes have a coupon rate of 7.625% and were issued on December 13, 2016. The Notes mature on December 1, 2021, with interest payable semi-annually on June 1 and December 1, beginning June 1, 2017.

### CREDIT FACILITIES AND RELATED DEBT COVENANTS

Tervita has a $200 million syndicated revolving credit facility expiring December 2019. At June 30, 2017, Tervita had $98 million in letters of credit issued against this facility. The remaining $102 million of capacity, combined with $133 million of cash and cash equivalents, provided $235 million in available liquidity at June 30, 2017. For the six months ended June 30, 2017, Tervita generated $43 million of cash, net of financing and investing activity, and did not require any additional liquidity to support continuing operations.

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

| | |
|---|---|
| *Adjusted EBITDA* | Adjusted EBITDA is determined by the credit agreement and is defined as EBITDA for the last twelve months (“LTM”) adjusted by other extraordinary, non-recurring, or unusual losses, charges or expenses. Adjusted EBITDA is used in the determination of compliance with debt covenants and is not a recognized measure under IFRS. |

For the twelve months ended June 30, 2017, Tervita's EBITDA has been reconciled to Adjusted EBITDA as follows:

| | Q2 2017 LTM |
|---|---|
| EBITDA | 122 |
| Eligible adjustments: | |
| Non-operating litigation expense | 2 |
| Retention expense | 3 |
| Severance costs | 10 |
| Adjusted EBITDA | 137 |

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

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

*Interest expense* For the purposes of Tervita's financial covenants, interest expense is the first and second quarter interest expense multiplied by two. Interest expense consists of interest payments on the Notes and interest due on letters of credit and standby fees.

### Financial Covenants

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

As at June 30, 2017, the Company was in compliance with all of its covenants, as follows:

| | Required | Achieved |
|---|---|---|
| Total Leverage Ratio | Less than 5.50 | 3.12 |
| Secured Leverage Ratio | Less than 2.50 | 0.35 |
| Interest Coverage Ratio | Greater than 1.50 | 3.27 |

Management also monitors Tervita's Net Debt to LTM EBITDA against our industry peers as a measure of our overall indebtedness and capital structure. Net Debt is calculated as debt and derivative liability less cash and cash equivalents. As at June 30, 2017, Net Debt to LTM EBITDA was 2.76 times.

## CHANGES IN CASH

Cash and cash equivalents at June 30, 2017 was $133 million (June 30, 2016 - $345 million).

### Cash Provided by Operations

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase / (Decrease) | 2017 | 2016 | Increase / (Decrease) |
| Cash provided by (used in) operating activities | 54 | 20 | 34 | 80 | 70 | 10 |

The increase in cash provided by operations reflects higher EBITDA compared to 2016 due primarily to higher market activity and the reduction of accounts receivable balances as part of a focus on reducing the aging of receivables.

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

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase / (Decrease) | 2017 | 2016 | Increase / (Decrease) |
| Repayment of long-term debt | - | (70) | 70 | - | (73) | 73 |
| Cash on settlement of swaps | - | - | - | - | 304 | (304) |
| Debt issue costs | - | - | - | (1) | - | (1) |
| Cash interest paid | (19) | (83) | 64 | (19) | (117) | 98 |
| Issuance (redemption) of trust units | - | - | - | - | (1) | 1 |
| Cash provided by (used in) financing activities | (19) | (153) | 134 | (20) | 113 | (133) |

The change in cash provided by financing activities was a result of the Recapitalization Transaction. There are no principal repayments required on the Notes until 2021, and interest payments are due in June and December of each year. In 2016, the cash inflow related to the proceeds on the settlement of swap agreements, which was partially offset by interest payments and the repayment of debt principal.

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

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase / (Decrease) | 2017 | 2016 | Increase / (Decrease) |
| Capital expenditures | | | | | | |
| Maintenance | (9) | (9) | - | (17) | (17) | - |
| Growth | (1) | (2) | 1 | (2) | (5) | 3 |
| | (10) | (11) | 1 | (19) | (22) | 3 |
| Cash from sale of property, plant and equipment | 1 | 12 | (11) | 2 | 12 | (10) |
| Cash provided by (used in) investing activities | (9) | 1 | (10) | (17) | (10) | (7) |

*Maintenance and sustaining capital*

Maintenance and sustaining capital expenditures are defined as cash spend on capital asset additions, replacements or improvements required to maintain existing levels of service or to replace utilized capacity.

Expenditures in 2017 are consistent with the prior year.

*Growth capital*

Growth capital expenditures have the intent of expanding existing businesses, entering into new locations or markets, or completing business acquisitions.

2016 growth capital included $2 million for a well acquisition in the first quarter and $2 million for a new customer facing software project in the second quarter.

*Cash from sale of property, plant and equipment*

In 2016, we received proceeds from the sales of our dredging and dewatering assets and a transfer station.

## FINANCIAL POSITION

| | June 30 2017 | December 31 2016 | Increase / (Decrease) |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | **133** | 89 | 44 |
| Accounts receivable | **109** | 129 | (20) |
| Assets held for sale | **-** | 6 | (6) |
| Other current assets | **12** | 11 | 1 |
| Property, plant, and equipment | **600** | 627 | (27) |
| Intangible assets | **7** | 7 | - |
| Goodwill | **376** | 376 | - |
| Liabilities | | | |
| Trade and other payables | **61** | 57 | 4 |
| Income taxes payable | **13** | 13 | - |
| Interest payable | **4** | 2 | 2 |
| Liabilities held for sale | **-** | 5 | (5) |
| Debt (current and long-term) | **451** | 466 | (15) |
| Provisions (current and long-term) | **289** | 283 | 6 |
| Derivative liabilities | **19** | 6 | 13 |
| Other long-term liabilities | **6** | 7 | (1) |

| | |
|---|---|
| *Accounts receivable* | Decrease as a result of improved collection rate. |
| *Assets held for sale* | Decrease due to the sale of a US facility. |
| *Property, plant and equipment* | Decrease due to depreciation expense in excess of capital expenditures. |
| *Liabilities held for sale* | Decrease due to the sale of a US facility. |
| *Debt* | Decrease due to impact of weakening US$ on the revaluation of the Notes. |
| *Provisions* | Increase due to the recognition of a new onerous contract and legal claims, partially offset by the sale of a disposal well and its associated decommissioning liability. |
| *Derivative liabilities* | Increase due to changes in the fair value of our swaps. |

## LEGAL AND ENVIRONMENTAL MATTERS

In July 2017, Tervita and a major customer came to an agreement to finalize a portion of a previously settled claim, which will result in the set off of $6 million of Tervita's accounts receivable against the claim provision, leaving $1 million of the claim and provision outstanding.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In 2017, we reorganized our reporting structure into two operating segments, as described in our Financial Statements. Detailed information regarding our other accounting estimates and judgments is provided in our 2016 Annual Financial Statements.

# IMPACT OF NEW ACCOUNTING STANDARDS

The International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee have issued standards and amendments or interpretations to existing standards that were not yet effective and not applied as at June 30, 2017. Tervita does not anticipate early adoption of these standards at this time. Detailed information related to the impact of these standards is provided in our 2016 Annual MD&A.

# RISKS

Readers of the Financial Statements and MD&A should carefully consider Tervita's risk factors, as described in our 2016 Annual MD&A. If any of these risks or uncertainties actually occurs, our business, financial position, results of operations and cash flows could be materially adversely affected.

# OUTLOOK

Energy market views of global oil supply have shifted upwards somewhat reflecting continued growth in both activity and production from the United States Permian basin. Oil prices shifted downwards during the second quarter of 2017 to a range of US$42/bbl to US$53/bbl, comparable to the same period last year. The price shift reflects some softening in market sentiment related to supply levels and persistently high inventory levels, remaining well above the five-year average. Despite the tempered view, energy industry activity in Western Canada remains stronger than 2016. Activity remains largely concentrated in the Montney and Duvernay, with our facilities in these regions experiencing high utilizations. Opportunities exist to expand capacity in these areas even at current energy prices. Activity across the remainder of our footprint remains steady, however, we believe sustained oil prices are generally required before these regions show an appreciable increase in drilling activity. Overall, these market conditions have translated into better results in 2017 for our Energy Services segment.

In our Industrial Services segment, continued strong ferrous metal pricing and volumes, the continued focus on project costs and execution coupled with a more targeted bid strategy have generated improved margins and results. Project activity on the West Coast and in Manitoba and Central Canada has been strong reflecting the improved economic conditions in those areas. This is tempered somewhat by lower activity in the prairies and southern Alberta. Overall, we anticipate continued steady results from Industrial Services for the remainder of the year.

Assuming a continuation of the current level of market activity and commodity price conditions, we believe results will continue to compare favorably to 2016. While the impact of current oil prices on fall and winter drilling programs remains uncertain, it appears activity will remain stable and concentrated in the current active areas and tempered elsewhere. The efforts to rationalize our cost structure continue to be a critical area of focus.

Overall, our focus is to:

- Optimize Tervita's existing infrastructure footprint. This includes targeted investments to increase capacity and profitability in areas with strong industry activity or to manage the cost and efficiency of service offerings in areas with moderate activity. These investments may include targeted acquisitions of additional facilities or services that clearly add value to our current infrastructure footprint; and
- As noted, efforts to rationalize Tervita's corporate legacy cost structure continue. Further progress was made in the second quarter of 2017 exclusive of severance and restructuring costs.

We continue to anticipate 2017 capital spending of approximately $70 to $80 million comprised of approximately $55 million of maintenance and sustaining capital, with the balance directed towards growth capital focused on enhancing our energy marketing capability and upgrading/expanding facilities in our Energy Services segment as well as the purchase of a metals recycling yard in South Eastern British Columbia.

# FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements or forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of securities legislation. Such forward-looking statements include, without limitation, forecasts, estimates, expectations and objectives for future operations that are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of Tervita. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or are events or conditions that “will”, “would”, “may”, “could” or “should” occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following:

- Results of operations;
- Business plans and strategy;
- Cost structure rationalization;
- Capital expenditures; and
- Sources of working capital.

The forward-looking statements contained in this MD&A reflect several material factors, expectations and assumptions of Tervita, and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements as described in our 2016 Annual MD&A. No assurances can be given as to future results, levels of activity, and achievements and such statements are not guarantees of future performance. Tervita’s actual results may differ materially from those expressed or implied in forward-looking statements and readers should not place undue importance or reliance on the forward-looking statements. Tervita disclaims any intention or obligation to publically update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law.

Certain information set out herein may be considered as financial outlook within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Tervita’s reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.