TERVITA

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Tervita Corporation

We have audited the accompanying consolidated financial statements of Tervita Corporation, which comprise the consolidated statements of financial position at December 31, 2017 and 2016 and the consolidated statements of comprehensive profit or loss, equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tervita Corporation as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst + Young LLP

Calgary, Canada

March 14, 2018

Chartered Professional Accountants

CONSOLIDATED STATEMENTS OF COMPREHENSIVE PROFIT OR LOSS

For the Years Ended December 31

(millions of dollars)	*Note*	2017	2016
NET PROFIT (LOSS)			
Revenue	*8*	**2,329**	2,003
Operating expenses			
Direct expenses		**(2,126)**	(1,841)
General and administrative expenses		**(57)**	(70)
Depreciation and amortization	*16, 17*	**(80)**	(109)
Operating profit (loss)		**66**	(17)
Impairment expense	*19*	**(76)**	(270)
Finance costs	*10*	**(49)**	(295)
Other income (expense)	*11*	**(26)**	579
Gain (loss) on debt restructuring	*3*	**-**	670
Profit (loss) before tax		**(85)**	667
Current income taxes recovery (expense)	*6*	**(1)**	8
Deferred income taxes recovery (expense)	*6*	**4**	-
Profit (loss) from continuing operations		**(82)**	675
Profit (loss) from discontinued operations, net of tax	*7*	**1**	(21)
NET PROFIT (LOSS)		**(81)**	654
Profit (loss) attributable to parent		**(81)**	655
Profit (loss) attributable to non-controlling interest		**-**	(1)
NET PROFIT (LOSS)		**(81)**	654
Items that are or may be subsequently reclassified to net profit (loss):			
Foreign operations - foreign currency translation differences		**-**	(4)
Net gain (loss) on cash flow hedges	*21*	**6**	1
OTHER COMPREHENSIVE PROFIT (LOSS), NET OF TAX		**6**	(3)
TOTAL COMPREHENSIVE PROFIT (LOSS)		**(75)**	651

See accompanying notes

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31

(millions of dollars)	*Note*	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	*14*	**124**	89
Trade and other receivables	*24*	**130**	129
Assets held for sale	*7*	**-**	6
Inventory	*15*	**9**	6
Other current assets		**4**	5
		267	235
Property, plant and equipment	*16*	**615**	626
Intangible assets	*17*	**20**	8
Goodwill	*18*	**324**	376
TOTAL ASSETS		**1,226**	1,245
LIABILITIES			
Current liabilities			
Trade and other payables	*24*	**94**	57
Income taxes payable	*6*	**14**	13
Interest payable		**4**	2
Liabilities held for sale	*7*	**-**	5
Current portion of decommissioning liabilities	*22*	**6**	4
Current portion of other provisions	*22*	**7**	12
		125	93
Long-term debt	*20, 24*	**437**	466
Decommissioning liabilities	*22*	**266**	246
Other provisions	*22*	**29**	21
Derivative liabilities	*21, 24*	**31**	6
Other long-term liabilities		**5**	7
TOTAL LIABILITIES		**893**	839
EQUITY			
Share capital	*25*	**837**	837
Share based compensation reserve	*23*	**2**	-
Accumulated earnings (deficit)		**(519)**	(438)
Accumulated other comprehensive profit (loss)		**13**	7
TOTAL EQUITY		**333**	406
TOTAL LIABILITIES AND EQUITY		**1,226**	1,245

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31

(millions of dollars)	*Note*	**2017**	2016
Operating activities			
Profit (loss) from continuing operations		**(82)**	675
Adjustments for:			
Finance costs	*10*	**49**	295
Impairment expense	*19*	**76**	270
Depreciation and amortization	*16, 17*	**80**	109
Income taxes (recovery) expense	*6*	**(3)**	(8)
Cash settlement of provisions	*22*	**(16)**	(13)
(Gain) loss on settlement of debt	*3, 20*	**-**	(697)
Unrealized foreign exchange (gain) loss	*11*	**2**	(294)
Realized foreign exchange (gain) loss on debt and derivatives	*20, 21*	**-**	(286)
Other	*12*	**20**	(18)
Changes in:			
Trade and other receivables		**(1)**	24
Inventory		**(3)**	3
Other current assets		**1**	3
Trade and other payables		**20**	(20)
Cash provided by (used in) operating activities		**143**	43
Financing activities			
Proceeds on settlement of debt-related derivatives	*20 ,21*	**-**	304
Repayment of long-term debt	*20*	**-**	(1,123)
Issuance of long-term debt	*20*	**-**	473
Debt issue costs	*20*	**(1)**	(18)
Interest paid		**(39)**	(182)
Issuance of share capital	*25*	**-**	404
Contingent consideration payments	*22*	**(1)**	(1)
Cash provided by (used in) financing activities		**(41)**	(143)
Investing activities			
Additions to property, plant and equipment	*16*	**(50)**	(43)
Additions to intangible assets	*17*	**(3)**	(4)
Business acquisitions	*4*	**(22)**	-
Investment income		**1**	-
Proceeds from sale of property, plant and equipment	*16*	**6**	13
Cash provided by (used in) investing activities		**(68)**	(34)
Effect of exchange rate changes on cash and cash equivalents		**-**	(17)
Increase (decrease) in cash and cash equivalents from continuing operations		**34**	(151)
Cash provided by (used in) discontinued operations	*7*	**1**	51
Cash and cash equivalents, beginning of period		**89**	189
CASH AND CASH EQUIVALENTS, END OF PERIOD		**124**	89

See accompanying notes

CONSOLIDATED STATEMENTS OF EQUITY

For the Years Ended December 31

(millions of dollars)	Note	Share capital	Share-based compensation reserve	Accumulated earnings (deficit)	Foreign currency translation reserve	Cash flow hedge reserve	Accumulated other comprehensive profit (loss)	Non-controlling interest	Total equity
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)		**-**	**-**	**-**	(1)	31	**30**	-	**30**
Foreign currency translation differences		**-**	**-**	**-**	1	-	**1**	-	**1**
Share-based compensation	*23*	**-**	**2**	**-**	-	-	**-**	-	**2**
As ad December 31, 2017		**837**	**2**	**(519)**	6	7	**13**	-	**333**
As at January 1, 2016		1,841	-	(2,930)	10	-	10	(3)	(1,082)
Net profit (loss)		-	-	655	-	-	-	(1)	654
Shares issued	*25*	837	-	-	-	-	-	-	837
Recapitalization transaction	*3*	(1,841)	-	1,837	-	-	-	4	-
Effective portion of cash flow hedges		-	-	-	-	6	6	-	6
Reclassified to net profit (loss)		-	-	-	(4)	(5)	(9)	-	(9)
As at December 31, 2016		837	-	(438)	6	1	7	-	406

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Consolidated Financial Statements (the "Financial Statements"), "we", "us", "our", "Tervita", and "Company" mean Tervita Corporation, its subsidiaries and joint arrangements.

Tervita's executive leadership was comprised of the following:

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

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.

Some costs included in general and administrative expenses on the 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 year ended December 31, 2017 have been prepared in accordance with 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 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.

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

These Financial Statements were approved by the Board of Directors on March 14, 2018.

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Consolidation

These financial statements include the consolidated financial statements of Tervita Corporation and its subsidiaries.

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 a subsidiary begins when Tervita obtains control over the subsidiary and ceases when Tervita ceases to control the subsidiary. Assets, liabilities, revenues 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 subsidiary.

A change in the ownership interest of a subsidiary without a 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 ("Statement 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 Statement of Profit or Loss, and reclassifies Tervita's share of components previously recognized in Other Comprehensive Profit (Loss) ("OCI") to the Statement of Profit or Loss or accumulated deficit, as appropriate, as would be required if Tervita had directly disposed of the related assets or liabilities.

All significant intergroup balances and transactions eliminated on consolidation.

Foreign currency translation

The functional currency for each subsidiary and combined entity 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 (loss) gain on the Statement of Profit or Loss. Non-monetary items are not re-measured 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 the Canadian dollar are translated to presentation currency at the exchange rate at the reporting date. Revenues 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 Statement of Profit or Loss.

Current and non-current classification

Tervita presents assets and liabilities in the Consolidated Statements of Financial Position ("Statement 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, is expected to be realized within twelve months after the reporting period or is cash or cash equivalents which 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, is 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.

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, revenues 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, as follows:

		Accounting Policy	Judgments	Estimates
Note 4	Business acquisitions	Yes	Yes	Yes
Note 5	Operating segments	Yes	N/A	N/A
Note 6	Income taxes	Yes	Yes	Yes
Note 7	Held for sale and discontinued operations	Yes	Yes	Yes
Note 8	Revenue	Yes	N/A	Yes
Note 9	Employee benefits	Yes	N/A	N/A
Note 13	Leases	Yes	Yes	N/A
Note 14	Cash and cash equivalents	Yes	N/A	N/A
Note 15	Inventory	Yes	N/A	N/A
Note 16	Property, plant and equipment	Yes	Yes	Yes
Note 17	Intangible assets	Yes	Yes	Yes
Note 18	Goodwill	Yes	N/A	N/A
Note 19	Impairment	Yes	Yes	Yes
Note 20	Long-term debt	Yes	N/A	N/A
Note 21	Derivatives and hedging	Yes	N/A	Yes
Note 22	Provisions	Yes	Yes	Yes
Note 23	Share-based compensation	Yes	N/A	Yes
Note 24	Financial instruments and risk management	Yes	Yes	Yes
Note 27	Related party transactions	Yes	N/A	N/A
Note 29	Contingencies	N/A	Yes	N/A

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

Certain new standards, interpretations and amendments to existing standards were issued by the IASB and are mandatory for accounting periods beginning on or after January 1, 2017. The standards impacted are as follows:

Statement of cash flow

Amendments were made to IAS 7 "Statement of Cash Flows" in January 2016 and were effective for annual periods beginning on or after January 1, 2017. On initial application of the amendments, entities were not required to provide comparative information for preceding periods.

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Application of amendments resulted in additional disclosures by the Company (note 24).

FUTURE ACCOUNTING PRONOUNCEMENTS

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, 2017. Tervita does not anticipate early adoption of these standards.

Revenue from contracts with customers

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" and any related interpretations. Tervita has elected to apply IFRS 15 prospectively from January 1, 2018. For contracts not complete at the beginning of the adoption period, any changes from applying the requirements of IFRS 15 are recognized cumulatively in accumulated earnings (deficit) and no restatement of prior periods is required.

Upon adoption of IFRS 15, Tervita determined that certain pipeline activities within energy marketing will no longer be presented as gross revenue, but will instead be recorded on a net basis against direct expenses. This will not result in any impact to operating profit (loss) or net profit (loss).

Tervita generates project revenue through the provision of a variety of environmental and decommissioning services, which may be longer term and more complex in nature. Some of these projects have multiple performance obligations but have lump sum, fixed pricing arrangements, which will require allocation of the purchase price among the performance obligations. Upon adoption of IFRS 15, revenue will be recorded as control of those performance obligations is transferred to the customer. This may result 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. Application of IFRS 15 for contracts that were not complete at January 1, 2018 was determined to not have a significant impact on the amount of revenue recognized on these projects, and will result in nil being recorded as a cumulative adjustment to accumulated earnings (deficit).

No other impacts to the financial results of Tervita were identified for the adoption of IFRS 15.

Share-based payments

The IASB issued amendments to IFRS 2 "Share-Based Payment" ("IFRS 2") in June 2016, which requires prospective application effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted, but Tervita elected not to adopt this standard prior to its effective date. Tervita has assessed there is no significant impact on the measurement and classification of share-based payments.

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.

Financial instruments

IFRS 9 "Financial Instruments" ("IFRS 9") will replace IAS 39 "Financial Instruments: Recognition and Measurement" and its retroactive application is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted, but Tervita has elected not to adopt this standard prior to its effective date.

The standard focuses on three financial instrument areas: classification and measurement, impairment, and hedge accounting. Tervita does not expect any significant impact on measurement and classification of financial instruments from adoption. IFRS 9 will impact Tervita's accounting for trade receivable impairment and hedging relationships, however, neither of these are expected to be material. Additional required disclosure will be included in Tervita's financial statements commencing in 2018.

Leases

The IASB issued IFRS 16 "Leases" ("IFRS 16") in January 2016 to replace IAS 17 "Leases" ("IAS 17"), and its retrospective application or the adjustment to opening equity at the date of initial transition is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, but Tervita has elected not to adopt this standard prior to its effective date.

The new standard does not differentiate between finance and operating leases, and instead applies a single lease model that will require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The only exceptions relate to leases with a term of less than twelve months and leases of small items. Tervita is currently assessing the impact of IFRS 16, but expects a material increase in lease assets and liabilities will be required.

3. RECAPITALIZATION TRANSACTION

On December 14, 2016, the Company issued US$360 million senior secured notes (the "Notes") and 50,500,000 class A voting preferred shares for proceeds of $404 million through a private placement the ("Recapitalization Transaction"). The Company's existing secured debt, unsecured debt and subordinated debt were settled with cash on hand and the proceeds from the issuance of the Notes and class A voting preferred shares. Additionally, a portion of the secured and unsecured debt was settled in exchange for class A voting preferred shares and class A voting common shares. The settlement of the Company's secured debt resulted in an early redemption premium of $13 million and a loss of $308 million on the settlement of debt were recorded to gain(loss) on debt restructuring. The Company settled the unsecured debt in exchange for class A voting common shares and recognized a gain of $689 million. The subordinated notes were settled in exchange for $25 million in cash, and resulted in a gain of $329 million recorded to gain (loss) on debt restructuring on the Statement of Profit or Loss.

The gain (loss) on debt restructuring was as follows:

Gain on settlement of debt	**697**
Debt restructuring costs	**(27)**
Total gain (loss) on debt restructuring	**670**

The Company's existing share capital was cancelled in exchange for the right to receive 20 per cent of the net proceeds received from any full and final determination of the Secure Energy Services Inc. ("Secure") litigation (note 29). This resulted in a write down of the existing share capital of the Company to nil value, recorded directly to retained earnings with no impact to the Statement of Profit or Loss.

	Shares / units	Equity prior to Recapitalization Transaction ($)	Equity after Recapitalization Transaction ($)
Tervita Corporation - class A voting preferred shares	102,010,181	-	816
Tervita Corporation - class A voting common shares	2,615,598	-	21
Finance LP - partnership units	1,226,997,434	1,227	-
RSH 1 - share capital	613,737,693	614	-

For the period to December 14, 2016, the financial statements of the Employee Trust were consolidated with the financial statements of Tervita. The Employee Trust is owned by employees of Tervita and certain other individuals and, while Tervita did not have an ownership interest in the Employee Trust, control existed under the terms of the trustee agreement. The Employee Trust held a non-controlling interest in the common and preferred shares of Tervita. Employees of Tervita invested in the Company by acquiring trust units in the Employee Trust, which contained a put option which was exercisable at for cash at the discretion of the holder. This required the put option to be recognized as a financial liability, and was recognized at fair value with subsequent changes to the fair value being recognized in gain (loss) on puttable non-controlling interest on the Statement of Profit or Loss.

Until December 14, 2016, prior to the Recapitalization Transaction Tervita had a Canadian stock-option plan ("CSOP plan"), a US stock appreciation rights plan ("USAR plan"), and a phantom stock appreciation rights plan ("PSAR plan"). These plans were extinguished as part of the Recapitalization Transaction.

As part of the Recapitalization Transaction the Company:

- Issued the US$360 million Notes, which bear a coupon rate of 7.625 per cent. Interest on the Notes is payable semi-annually on June 1 and December 1, beginning June 1, 2017. The Notes mature on December 1, 2021. Prior to December 1, 2018, up to 10 per cent per year of the aggregate principal may be redeemed at 103 per cent of the principal amount to be repaid and up to 35 per cent of the aggregate principal may be redeemed at 108 per cent with net proceeds of certain equity offerings. This facility is secured on a second lien basis by substantially all the tangible and intangible assets of Tervita Corporation and the Guarantor subsidiary, other than certain excluded assets.
- Settled the US$300 million senior secured term loan and associated accrued interest of $5 million for cash proceeds of $308 million and 2,444,137 class A voting preferred shares (note 25), resulting in a loss on the settlement of debt of $2 million and a realized foreign exchange loss of $74 million which were recorded to gain (loss) on debt restructuring. This senior secured term loan bore interest at the London Interbank Offered Rate ("LIBOR") plus 500 basis points, with a minimum LIBOR rate of 1.25 per cent. Interest and principal payments, equal to 0.25 percent of the original outstanding balance, were due quarterly. In 2016, the interest rate on the loan averaged 6.25 per cent.

- Settled the US$650 million senior secured notes, the associated accrued interest of $5 million and early redemption premium of $10 million, for cash proceeds of $572 million and 41,984,175 class A voting preferred shares (note 25) resulting in a loss on the settlement of debt of $38 million and realized foreign exchange loss of $200 million and which were recorded to gain (loss) on debt restructuring. The US$650 million senior secured notes had a coupon rate of eight per cent and interest was payable semi-annually on May 15 and November 15.
- Settled the C$200 million senior secured notes, the associated accrued interest of $1 million and early redemption premium of $3 million, for cash proceeds of $154 million and 7,081,869 class A voting preferred shares (note 25) resulting in a loss on the settlement of debt of $7 million which was recorded to gain (loss) on debt restructuring. The C$200 million senior secured notes had a coupon rate of 9 per cent and interest was payable semi-annually on May 15 and November 15.
- Settled the US$335 million senior unsecured notes and the associated accrued interest of $40 million in exchange for 1,466,319 class A voting common shares. Tervita recognized a $467 million gain on the settlement of debt and a realized foreign exchange loss of $81 million which were recorded to gain (loss) on debt restructuring. The US$335 million notes had a coupon rate of 10.875 per cent and interest was payable semi-annually on February 15 and August 15.
- Settled the US$290 million senior unsecured notes and the associated accrued interest of $23 million in exchange for 1,149,279 class A voting common shares. Tervita recognized a $394 million gain on the settlement of debt and a realized foreign exchange loss of $92 million which were recorded to gain (loss) on debt restructuring. The US$290 million notes had a coupon rate of 9.75 per cent and interest was paid semi-annually on May 1 and November 1.
- Settled the US$308 senior subordinated notes for cash proceeds of $25 million as well as the associated accrued interest of $41 million. Tervita recorded a $420 million gain on the settlement of debt and a realized foreign exchange loss of $90 million which were recorded to gain (loss) on debt restructuring. These notes would have matured on November 15, 2018 and bore interest at 11.875 per cent. They were subordinated in the right of payment to all of Tervita's existing and future senior indebtedness, including any borrowings under the senior secured credit facilities and both senior notes, and ranked senior in right of payment to all existing and future subordinated indebtedness.
- Cancelled the revolving credit facility with a maximum borrowing amount of $350 million. Included in this revolving credit facility was a $25 million swing line facility with the same terms and conditions. Interest rates on these facilities varied based on Tervita's consolidated leverage ratio.
- Entered into a new revolving credit facility, with a maximum borrowing amount of $200 million. The facility matures December 2019 and bears interest between 2.50 per cent and 4.25 per cent, varying based on Tervita's consolidated total debt to EBITDA ratio. This facility is secured on a first lien basis by substantially all the tangible and intangible assets of Tervita Corporation and the Guarantor subsidiary. At December 31, 2017, $nil was drawn on this facility (December 31, 2016 - $nil).

4. BUSINESS ACQUISITIONS

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Business acquisitions ("combinations" or "acquisitions") are accounted for using the acquisition method. The considerations 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 date the control is obtained ("acquisition date"). Acquisition related costs, other than those associated with the issue of debt or equity, are recognized as incurred in general and administrative expenses on the Statement of Profit (Loss).

When Tervita acquires a business, it assesses the financial assets 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 the acquisition is initially recognized at cost, being the excess of the aggregate consideration transferred over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business acquisition is, from the acquisition date, allocated to each of

Tervita's cash generating units ("CGU") that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquired entity are assigned to the units.

The measurement period is the period from the date of acquisition 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 date of acquisition. If the initial accounting for a business combination is incomplete by the end of a reporting period in which the business 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 set 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 set of activities or assets have inputs and processes that are capable of producing outputs. If management determines that the acquired set of activities or assets acquired constitute a business, the acquisition is accounted for as a business combination. If, in management's judgment, the acquired set of activities or assets does not constitute a business, then 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 the fair value valuation.

SUPPORTING INFORMATION

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. This is subject to working capital adjustments to be resolved in the first quarter of 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 are the same, and all amounts are expected to be fully collected. Upon acquisition, goodwill of $5 million was recognized in the Energy Services segment from the recognition of a deferred tax liability. From the date of acquisition, 3k contributed $2 million of revenue and $1 million to operating profit (loss). If the combination had taken place at the beginning of the year, total revenue and profit before tax from continuing operations for the Company would have been $9 million and $4 million higher respectively.

In addition, Tervita purchased assets related to metals recycling yards in July 2017 and September 2017 for total cash consideration of $4 million which included $2 million of property, plant and equipment (note 16) and $2 million of intangibles (note 17). No goodwill was recognized as part of these purchases.

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

	Note	3k	Metals recycling yards	Total
Assets				
Trade and other receivables		2	-	2
Property, plant and equipment	*16*	7	2	9
Intangible assets	*17*	12	2	14
Liabilities				
Trade and other payables		(1)	-	(1)
Deferred tax liability		(4)	-	(4)
Decommisioning obligations	*22*	(2)	-	(2)
Total identifiable net assets		14	4	18
Goodwill		5	-	5
Purchase consideration		19	4	23

5. OPERATING SEGMENTS

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. Inter-segment sales are made under terms that approximate market values.

FINANCIAL INFORMATION FOR OPERATING SEGMENTS

For the Year Ended and As At December 31, 2017

	Energy Services	Industrial Services	Total
External revenue	**2,110**	**219**	**2,329**
Inter-segment revenue	**11**	**-**	**11**
Segment revenue	**2,121**	**219**	**2,340**
Depreciation and amortization	**(70)**	**(7)**	**(77)**
Segment operating profit (loss) before tax	**103**	**23**	**126**
Impairment expense	**(76)**	**-**	**(76)**
Assets	**935**	**139**	**1,074**
Purchases of property, plant and equipment, intangible assets and business acquisitions	**(64)**	**(11)**	**(75)**

For the Year Ended and As At December 31, 2016

	Energy Services	Industrial Services	Total
External revenue	1,790	213	2,003
Inter-segment revenue	7	1	8
Segment revenue	1,797	214	2,011
Depreciation and amortization	(92)	(10)	(102)
Segment operating profit (loss) before tax	48	12	60
Impairment expense	(264)	(1)	(265)
Assets	981	139	1,120
Purchases of property, plant and equipment, intangible assets and business acquisitions	(41)	(6)	(47)

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	2017	2016
Revenue			
Total revenue for operating segments	8	2,340	2,011
Elimination of inter-segment revenue		(11)	(8)
Consolidated revenue		2,329	2,003
Profit (Loss) Before Tax			
Total segment operating profit (loss) before tax		126	60
Unallocated general and administrative		(57)	(70)
Unallocated depreciation and amortization		(3)	(7)
Operating profit (loss)		66	(17)
Operating segment impairment expense		(76)	(265)
Unallocated impairment expense	19	-	(5)
Unallocated finance costs	10	(49)	(295)
Unallocated other income (expense)	11	(26)	579
Unallocated gain (loss) on debt restructuring	3, 20	-	670
Profit (loss) before tax		(85)	667
Total Assets			
Total assets for operating segments		1,074	1,120
Unallocated assets		152	125
Consolidated total assets		1,226	1,245
Total Purchases of Property, Plant and Equipment, Intangibles and Business Acquisitions			
Total operating segment property, plant and equipment purchases	16	50	43
Total operating segment intangible purchases	17	3	4
Total business acquisitions	4	22	-
Consolidated Purchases of Property, Plant and Equipment, Intangibles and Business Acquisitions		75	47

6. INCOME TAXES

Accounting Policies, Judgments and Estimates

Accounting policies

Tervita is comprised of entities taxable under the Income Tax Act (Canada) and certain other jurisdictions, including the US, where it carries on business. Income tax expense is comprised of current and deferred taxes. Current and deferred taxes are recognized in the Statement of Profit or 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 combination are reported on the Statement of Financial Position at the time of the acquisition.

Current tax is the expected tax payable or receivable calculated on the taxable profit or 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 or 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.

Tervita applies a weighted-average probability methodology in its measurement of tax uncertainties.

Significant judgments

Deferred tax assets are recognized on the Statement 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. 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 tax (expense) recovery. 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 Tax (Expense) Recovery

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

	2017	2016
Profit (loss) before income taxes	**(85)**	667
Domestic statutory tax rates	**27%**	27%
Statutory tax (expense) recovery	**23**	(180)
Adjustments to income taxes due to:		
(Non-recognition) recognition of operating losses and other assets	**-**	221
Forgiveness of debt	**-**	57
(Expense) recovery of prior year tax amounts	**(4)**	3
Impairment	**(16)**	(68)
Foreign exchange on swaps and long-term debt	**-**	(25)
Total income tax (expense) recovery	**3**	8

Income Tax Provision

	2017	2016
Total income tax (expense) recovery	**3**	8
Effective income tax rate (%)	**4**	(1)

Deferred Income Taxes

In 2017 and 2016, there were no material temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized.

At December 31, 2017, $203 million of deferred tax assets have not been recognized (December 31, 2016 - $199 million).

Tervita had the following non-capital loss carry forwards as at December 31, 2017:

Year of expiry	Canada
2033	337
2034	77
2035	151
2037	7
	572

Tervita also had $180 million of deductible temporary differences for which no deferred tax asset had been recognized.

7. HELD FOR SALE AND DISCONTINUED OPERATIONS

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Assets Held for Sale

Non-current assets and the assets and liabilities of disposal groups are classified as held for sale if their carrying amounts are expected to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. In addition, Tervita must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets and liabilities held for sale are classified as current and are carried at the lower of carrying value and fair value less costs of disposal. A group of assets and liabilities to be disposed of in a single transaction is deemed to be a disposal group. Any adjustment to the carrying value of assets and liabilities of a disposal group which meets the definition of a discontinued operation is included in discontinued operations on the Statement of Profit or Loss. Any adjustment to the carrying value for other non-current assets classified as held for sale is recognized in impairment expense on the Statement of Profit or Loss.

Once classified as held for sale, property, plant and equipment and intangible assets are not depreciated or amortized.

Discontinued Operations

A disposal group qualifies as discontinued operations if it is deemed to be a component whose operations and cash flows are clearly distinguishable from the rest of the Company, and will have previously been identified as a separate CGU or group of CGUs. The disposal group must represent a separate major line of business or geographical area of operations, and be part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

The results of discontinued operations are excluded from continuing operations and are presented net of tax in the Statement of Profit or Loss for the current and comparative year.

Significant judgments

Judgment is required when determining whether the criteria for classification as held for sale or discontinued operations have been met. These criteria include determining when the sale of an asset is highly probable and whether the sale is expected to be completed within one year from the date of classification. If an asset or disposal group is not sold within one year, Tervita reassesses the classification as held for sale based on the circumstances to ensure that the held for sale criteria are still met.

Sources of estimation uncertainty

Determining the fair value less costs of disposal of assets classified as held for sale is based on management and third-party assessments. The estimated fair value of assets held for sale has been determined using a Level 3 valuation approach (note 24), which contemplates the sale of similar assets in like markets and relies on third party offers and independent valuations and appraisals to value the assets and liabilities held for sale which are deemed to be the most reliable measures of fair value less costs of disposal. As fair value less costs of disposal is based on external data not prepared by Tervita, no significant unobservable inputs are disclosed.

Supporting Information

Assets and Liabilities Held For Sale

As at December 31,	2017	2016
Property, plant and equipment	-	5
Intangible assets	-	1
Total assets held for sale	-	6
Decommissioning liabilities	-	5
Total liabilities held for sale	-	5

In 2017, Tervita sold a landfill, the assets and liabilities of which were previously included in held for sale and the operating results of which were included in profit (loss) from discontinued operations.

In 2016, land previously included in held for sale was reclassified to property, plant and equipment as the held for sale criteria were no longer met. No impairment was recognized in 2016 related to assets held for sale. Tervita sold a landfill and hauling operation, the assets and liabilities of which were previously included in held for sale and the operating results were included in profit (loss) from discontinued operations.

Discontinued Operations

Sale of Discontinued Operations

	2017	2016		
	Landfill	Production Services	Landfill and hauling	Total
(Loss) gain on disposal	1	(24)	4	(20)
Cash proceeds	-	41	1	42

In 2016, the Production Services operating segment was sold and the loss on disposal and results of operations were included in profit (loss) from discontinued operations.

Results of Discontinued Operations

	2017	2016
Profit (Loss) From Discontinued Operations		
Revenue	-	39
Expenses	-	(41)
Operating profit (loss)	-	(2)
(Loss) gain on disposal	1	(19)
Profit (loss) from discontinued operations	1	(21)
Profit (loss) from discontinued operations, net of tax	1	(21)
Cash Provided By (Used In) Discontinued Operations		
Net cash provided by (used in) operating activities	1	11
Net cash provided by (used in) investing activities	-	40
Cash provided by (used in) discontinued operations	1	51
Cash Taxes Received (Paid)		
Cash taxes received (paid)	-	3
Assets and Liabilities Held For Sale For Discontinued Operations		
Property, plant and equipment	-	4
Intangible assets	-	1
Total assets of discontinued operations	-	5
Decommissioning liabilities	-	5
Total liabilities of discontinued operations	-	5

8. REVENUE

Accounting Policies, Judgments and Estimates

Accounting policies	Revenue is measured at the fair value of the consideration received or receivable. Revenue from the rendering of services is recognized after the service has been provided and in accordance with the service contract. 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 projects involving multiple deliverables over several reporting periods, management estimates the percentage of completion for those services and the corresponding revenue to be recognized in any 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 is recognized on individual contractual terms when all of the following criteria are met; the significant risks and rewards of ownership are transferred to the buyer, it is probable that the economic benefits associated with the transaction will flow to Tervita, the costs incurred in respect of the transaction can be reliably measured, and the amount of revenue can be reliably measured. These conditions are generally satisfied when the goods are provided to the customer. Revenue earned from the sale of goods includes the marketing of crude oil and the sale of scrap metal.
Sources of estimation uncertainty	Tervita records revenues for certain services based on an estimate of the stage or percentage of completion of those services. The percentage of completion and the total anticipated activity are subject to significant estimates by management.

Supporting Information

	2017	2016
Sale of inventory	**1,929**	1,636
Rendering of services	**411**	375
Intersegment eliminations	**(11)**	(8)
Total revenue	**2,329**	2,003

9. 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 from an offer made to encourage voluntary redundancy. 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, 2017 totaled $140 million, of which $104 million is included in direct costs and $36 million is included in general and administrative expenses (December 31, 2016 - $145 million, of which $102 million is included in directs costs and $43 million is included in general and administrative expenses). Termination benefits for the year ended December 31, 2017 totaled $10 million (December 31, 2016 - $8 million) and were expensed as a component of direct expenses and general and administrative expenses on the Statement of Profit or Loss.

In 2017, Tervita introduced an employee savings plan and recognized $1 million of expense related to the plan (December 31, 2016 - $nil).

10. FINANCE COSTS

	Note	2017	2016
Interest expense	*20*	**41**	258
Amortization of debt issue costs	*20*	**4**	32
Accretion of decommissioning liabilities	*22*	**4**	5
Finance costs		**49**	295

11. OTHER INCOME (EXPENSE)

	Note	2017	2016
Gain (loss) on puttable non-controlling interest	*3*	**-**	14
Gain (loss) on sale of assets		**(1)**	8
Share-based compensation	*23*	**(3)**	-
Gain (loss) on provisions	*22*	**(19)**	(21)
Realized foreign exchange gain (loss) on debt and derivatives	*20, 21*	**-**	286
Realized foreign exchange gain (loss) - other		**-**	2
Unrealized foreign exchange gain (loss) on debt and derivatives	*20, 21*	**-**	311
Unrealized foreign exchange gain (loss) - other		**(2)**	(17)
Other		**(1)**	(4)
Total other income (expense)		**(26)**	579

12. SUPPLEMENTAL CASH FLOW

	Note	2017	2016
Gain (loss) on disposal of assets	*11*	**1**	(8)
Share-based compensation	*23*	**3**	-
Non-cash change in provisions	*22*	**17**	21
Non-cash change in deferred charges		**(1)**	(1)
Gain (loss) on puttable non-controlling interest	*11*	**-**	(14)
Gain (loss) on write-down of puttable non-controlling interest liability	*3*	**-**	(29)
Redemption of call premium	*3*	**-**	13
Total other cash adjustments		**20**	(18)

13. LEASES

Accounting Policies, Judgments and Estimates

Accounting policies

Lessee

Leases where 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 16). 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 Statement of Profit or 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 Statement 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 (loss) gain on sale of assets on the Statement of Profit or Loss.

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 general and unallocated administrative expenses on the Statement of Profit or 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.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit and short-term interest-bearing securities with original maturities of less than three months. There was no restricted cash at December 31, 2017 (December 31, 2016 - $1 million).

15. 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.

SUPPORTING INFORMATION

As at December 31,	**2017**	2016
Crude oil	**2**	1
Scrap metal	**7**	4
Other	**-**	1
Total inventory	**9**	6

Tervita expensed $1,893 million of inventory which was included in direct expenses (2016 - $1,591 million).

16. 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 Statement of Profit or 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 Statement of Profit or 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.

Any gain or loss arising on disposal of an asset is included in gain (loss) on sale of assets on the Statement of Profit or Loss.

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, as follows:

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

Sources of estimation uncertainty

Determining the useful life and expected residual values 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

December 31, 2017

	Note	Land	Facilities	Rigs	Buildings	Equipment	Other	CIP	Total
Cost									
Balance, beginning of year		47	1,119	-	127	128	34	14	1,469
Additions		-	38	-	-	4	-	31	73
Business acquisitions	4	1	4		1	3		-	9
Disposals		(4)	(10)	-	(1)	(6)	(1)	-	(22)
Impairments	19	(1)	(17)	-	(1)	-	-	-	(19)
Adjustments		-	13	-	-	-	-	-	13
Balance, end of year		43	1,147	-	126	129	33	45	1,523
Accumulated depreciation									
Balance, beginning of year		-	668	-	58	88	29	-	843
Provision		-	60	-	5	8	2	-	75
Disposals		-	(5)	-	(1)	(4)	-	-	(10)
Balance, end of year		-	723	-	62	92	31	-	908
Net book value		43	424	-	64	37	2	45	615

For the year ended December 31, 2017, additions included $15 million of decommissioning liabilities (note 22).

Acquiring or constructing property, plant and equipment and the capitalization of decommissioning liabilities does not result in a cash outflow until the related liability is settled. Therefore, investing activities for the purchase of property, plant and equipment on the Consolidated Statements of Cash Flows ("Statement 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, 2017, the non-cash adjustment to the Statement of Cash Flows was $8 million.

December 31, 2016

	Note	Land	Facilities	Rigs	Buildings	Equipment	Other	CIP	Total
Cost									
Balance, beginning of year		34	1,130	110	135	153	44	27	1,633
Additions		-	54	3	2	8	-	(5)	62
Disposals		(2)	(10)	(111)	(9)	(24)	(10)	(3)	(169)
Impairments	19	(5)	(7)	-	-	(3)	-	(4)	(19)
Adjustments		4	(47)	(2)	-	6	-	(1)	(40)
Transfers to (from) AHFS	7	16	(1)	-	(1)	(12)	-	-	2
Balance, end of year		47	1,119	-	127	128	34	14	1,469
Accumulated depreciation									
Balance, beginning of year		-	596	58	56	101	31	-	842
Provision		-	81	3	7	11	7	-	109
Disposals		-	(9)	(60)	(5)	(16)	(9)	-	(99)
Adjustments		-	1	(1)	-	1	-	-	1
Transfers to (from) AHFS	7	-	(1)	-	-	(9)	-	-	(10)
Balance, end of year		-	668	-	58	88	29	-	843
Net book value		47	451	-	69	40	5	14	626

For the year ended December 31, 2016, additions included $16 million of decommissioning liabilities (note 22).

Acquiring or constructing property, plant and equipment and the capitalization of decommissioning liabilities does not result in a cash outflow until the related liability is settled. Therefore, investing activities for the purchase of property, plant and equipment on the Statement 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, 2016, the non-cash adjustment to the Statement of Cash Flows was $1 million.

In 2016, the Company performed a review of the useful lives of its assets and, as a result, recorded depreciation expense of $6 million to reflect a change in estimate. The Company concurrently performed a review of assets previously depreciated under the declining balance method, and determined that a change in method of depreciation to the straight-line method better reflected the realization of future economic benefit of those assets. The decrease in depreciation expense resulting from this change in method was $5 million for the year ended December 31, 2016.

17. 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 on the Statement of Profit or 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).

Significant judgments

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

- Customer relationship – three to five years
- Trade names – 8 years

- Technology – four years
- Permits – three to 10 years
- Other – two to 20 years

Sources of estimation uncertainty

The useful life and expected residual values of an intangible asset are estimates, which 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

December 31, 2017

	Note	Customer Relationships	Trade Names	Technology	Permits	Other	Total
Cost							
Balance, beginning of year		**265**	**47**	**57**	**2**	**28**	**399**
Additions		**-**	**-**	**2**	**-**	**1**	**3**
Business acquisitions	*4*	**1**	**-**	**-**	**12**	**1**	**14**
Balance, end of year		**266**	**47**	**59**	**14**	**30**	**416**
Accumulated depreciation							
Balance, beginning of year		**265**	**47**	**51**	**1**	**27**	**391**
Provision		**-**	**-**	**4**	**-**	**1**	**5**
Balance, end of year		**265**	**47**	**55**	**1**	**28**	**396**
Net book value		**1**	**-**	**4**	**13**	**2**	**20**

December 31, 2016

	Note	Customer Relationships	Trade Names	Technology	Permits	Other	Total
Cost							
Balance, beginning of year		269	62	58	2	30	421
Additions		-	-	4	-	-	4
Disposals		(4)	(15)	(5)	-	(2)	(26)
Balance, end of year		265	47	57	2	28	399
Accumulated depreciation							
Balance, beginning of year		269	62	52	-	29	412
Provision		-	-	4	1	-	5
Disposals		(4)	(15)	(5)	-	(2)	(26)
Balance, end of year		265	47	51	1	27	391
Net book value		-	-	6	1	1	8

18. 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 date of acquisition. 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 19).

SUPPORTING INFORMATION

	Note	**2017**	2016
Balance, beginning of year		**376**	630
Additions	*4*	**5**	-
Impairment	*19*	**(57)**	(254)
Balance, end of year		**324**	376

19. 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 each year during the fourth quarter, 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 group 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 value in use, 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 CGU's 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 or amortization, if no impairment loss had been recognized. The reversal of an impairment loss is recognized in impairment expense on the Statement of Profit or 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 impairment expense on the Statement of Profit or Loss, and excluding assets held for sale which meet the classification criteria of discontinued operations. The impairment expense for assets and liabilities held for sale that meet the criteria is included 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 24). 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 ranging from 13 per cent to 14 per cent (2016 – 8 per cent to 12 per cent) based on comparable companies using a cross-section of industry peers. The discounted cash flows assume average annual revenue and expense growth rates of between one and four percent, and two per cent for terminal years. These conditions are sensitive to change and could affect the fair value.

Cash flows are based on Tervita's operating budget for the next fiscal year, 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. Tervita projects its discounted cash flows over a three-year period plus a terminal year.

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. CGUs that experienced significant growth in prior periods due to acquisitions will review the increased scale of operations, new markets entered or services offered to establish future revenue and earnings estimates. 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.

Tervita has assessed that there are no reasonably possible changes to key assumptions that would change the analysis below and require additional impairments to be recognized.

Supporting Information

Allocation of Goodwill and Intangibles with Indefinite Useful Lives

	2017		2016	
As at December 31,	Goodwill	Permits	Goodwill	Permits
TRDs	284	-	279	-
Landfills	12	-	69	-
Waste services	22	-	22	-
Energy marketing	6	-	6	-
Total allocation to CGUs	324	-	376	-

Impairment Expense

	Note	2017	2016
Property, plant and equipment	16	19	16
Goodwill	18	57	254
Total impairment expense		76	270

Property, Plant and Equipment

The 2017 impairment included $16 million for waste slumps at two landfill sites. The 2016 impairment included $10 million of assets at various Energy Services facilities and $5 million for non-operating assets.

Goodwill

Goodwill impairment testing resulted in the following impairment expense (note 18):

	2017	2016
TRDs and caverns	-	185
Landfills	57	69
Total	57	254

20. 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 Statement of Profit or Loss over the term of the related liability using the effective interest method.

SUPPORTING INFORMATION

As at December 31,	Principal	Maturity	2017	2016
Senior secured notes	US$360	Dec 2021	**452**	483
Unsecured debt - capital leases			**-**	1
Long-term debt			**452**	484
Unamortized debt costs			**(15)**	(18)
Total debt			**437**	466

Debt Covenants

Under the terms of the revolving credit facility, Tervita must comply with certain financial and non-financial covenants, as defined by its lenders. As at December 31, 2017, Tervita complied with all covenants (note 26).

Outstanding Letters of Credit

Outstanding letters of credit at December 31, 2017 totalled $73 million (December 31, 2016 – $153 million). The outstanding letters of credit reduce the borrowing available under the revolving credit facility.

Guarantees

Tervita's obligations under the revolving credit facility are guaranteed by the Guarantor subsidiary. The guarantees are secured by substantially all tangible and intangible assets owned by Tervita and the Guarantor subsidiary.

Debt Costs

	2017	2016
Balance, beginning of year	**(18)**	(32)
Costs associated with new debt	**(1)**	(18)
Amortization of debt issue costs	**4**	32
Balance, end of year	**(15)**	(18)

In 2016, debt costs related to debt instruments that were extinguished as part of the Recapitalization Transaction were fully expensed (note 3) and the Company incurred $18 million of new debt costs related to the issuance of the Notes and revolving credit facility.

21. 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 ("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. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. 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 were highly effective throughout the financial reporting periods for which they were designated. 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 Canadian dollars at period end.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, 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. Events that could impact the designation as a cash flow hedge include an assessment that the hedged cash flows are no longer highly probable of occurring or changes in credit risk of either the Company or the counterparties.

Sources of estimation uncertainty

Tervita is required to determine the fair value of the swaps at each period end. 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 counterparties. See note 24 for fair value disclosures.

SUPPORTING INFORMATION

Foreign Currency Risk

Tervita issued the Notes (note 20) on December 13, 2016 (the "Designation Date"). On this date, it also designated five cross currency swaps (the "Swaps") as hedges of these Notes. The Swaps were entered to mitigate the cash flow risk associated with the variability in interest and principal cash flows due to changes in the US$ to C$ exchange rates, and were determined to be 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 Swaps were 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. In 2017, Tervita recognized a total amount in OCI of $25 million (December 31, 2016 - $6 million), and reclassified $31 million (2016 - $5 million) to other income (expense) to offset the revaluation of the debt. There was no tax impact for this reclassification.

Swap Agreements

As at December 31,	**2017**	2016
Derivative liabilities		
Notes	**36**	11
Swap credit risk adjustment	**(5)**	(5)
Total derivative liabilities	**31**	6

Impact of Swap Agreements

In 2016, swap arrangements were settled for proceeds of US$226 million, resulting in a realized net foreign exchange gain of $304 million.

Tervita's obligations under the swap agreements are secured equally and rateably and on a pari passu basis with the obligations of the revolving credit facility.

Swap agreements associated with the Notes outstanding as at December 31, 2017 consisted of the following:

Swap agreement	Inception Date	Maturity Date	Principal	Fixed Foreign Exchange rate (US$ to C$)
Notes	Dec 2016	Dec 2021	476.6	0.7554

22. PROVISIONS

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Decommissioning Obligations

Tervita determines its decommissioning obligations associated with the retirement of property, plant and equipment at the facility level. Tervita recognizes a provision for the present value of the future costs of its decommissioning obligations in the period in which it is determined that a present obligation exists to incur the costs and a reasonable estimate of fair value can be made. Fair value is determined through an annual review of engineering and environmental studies, industry guidelines, and management's best estimates.

The liabilities accrete to the periods the obligations are expected to settle, with accretion expense recognized as a component of finance costs on the Statement of Profit or Loss. The liabilities are reviewed each reporting period for revisions in the estimated timing and/or 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 Statement of Profit or 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 Statement of Profit or 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 Obligations

Determination of the decommissioning obligations 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 obligations, which is assessed quarterly and updated when there is a material change in the rate. Estimates are based upon Tervita's best practices and current regulatory requirements. Changes in estimates reflect both revisions to the expected amount and timing of future expenses and the revision of the discount rates.

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 initial date of acquisition. 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 24).

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

December 31, 2017

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

[1]Provisions were settled in exchange for $17 million of cash and $7 million of accounts receivable.

December 31, 2016

	Decommissioning Obligations	Contingent Consideration	Onerous Contracts	Legal	Total
Balance, beginning of year	279	11	7	2	299
Charged to profit or loss					
New obligations	-	-	12	7	19
Change in other estimates	-	-	-	(1)	(1)
Unwinding of discount	5	-	-	-	5
Capitalized to property, plant and equipment					
New obligations	16	-	-	-	16
Change in discount rate	(21)	-	-	-	(21)
Change in other estimates	(20)	-	-	-	(20)
Settled during the year	(9)	(1)	(4)	-	(14)
Balance, end of year	250	10	15	8	283
Less: current portion	4	1	3	8	16
Long-term portion	246	9	12	-	267

Decommissioning Obligations

The risk-free rates used to estimate the decommissioning obligations at December 31, 2017 ranged from 1.68 to 2.26 per cent (December 31, 2016 – 0.78 to 2.84 per cent) and an inflation rate of two per cent (December 31, 2016 – 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, 2017 were estimated at $511 million (December 31, 2016 – $533 million). Payments to settle the decommissioning obligations occur on an ongoing basis and will continue over the remaining lives of the operating assets, which are up to 107 years.

Included in decommissioning obligations is $13 million (December 31, 2016 $nil) related to present obligations to remediate waste slumps at two landfill sites. Corresponding assets of $13 million were capitalized upon recognition of the decommissioning obligation and immediately impaired (note 19). 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, 2017 was $9 million, using a discount rate of 11.6 per cent (December 31, 2016 – $10 million, 10 per cent discount rate).

The discount rate used for these liabilities was developed with a capital asset pricing model approach using comparable public company trading values, and reflect 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

Included within office and facility lease commitments (note 28) are onerous lease provisions totalling $13 million (December 2016 - $12 million). This represents four property leases of: six floors at head office, two of which have been sublet, and other vacated property primarily in Calgary and Grande Prairie. The expense of $13 million (December 2016 - $14 million) was included in other (income) expense (note 11).

23. SHARE-BASED COMPENSATION

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Until December 14, 2016, Tervita had a Canadian stock-option plan ("CSOP plan"), a US stock appreciation rights plan ("USAR plan"), and a phantom stock appreciation rights plan ("PSAR plan"). These plans were extinguished as part of the Recapitalization Transaction (note 3).

In 2017, Tervita implemented a stock option plan ("Option Plan") and a restricted stock units plan ("RSU Plan") for eligible employees and directors of Tervita.

Option Plan

The Option Plan is equity settled and is accounted for using the fair value method. The fair value of each stock option ("option") granted is estimated on the grant date and that value is recorded as share-based compensation expense with an offset to share-based compensation reserve in the Consolidated Statements of Financial Position ("Statement of Financial Position") over the vesting period of those grants, adjusted to reflect estimated and actual forfeitures. Forfeitures are initially estimated on the grant date, and subsequently adjusted at each period end to reflect actual forfeitures. Unless otherwise determined by the Board of Directors, options vest in equal thirds on each of the first three anniversaries of the grant date, and expire five years after the grant date. On the exercise of stock options, the consideration received and the amounts previously recognized in share-based compensation reserve are recorded as an increase to issued capital.

RSU Plan

Restricted stock units ("RSUs") issued under the RSU Plan are accounted for as cash-settled transactions, whereby share-based compensation expense is accrued and recognized over the vesting period of the award. At each reporting period end between the grant date and maturity, the fair value of the liability is revalued with any changes recognized in share-based compensation expense in the Statement of Profit or Loss.

Unless otherwise determined by the Board of Directors, RSUs vest in full 36 months after the grant date (the "Maturity Date"), and are payable in cash based on the fair market value of Tervita's share capital on the Maturity Date. A forfeiture rate is estimated on the grant date and is adjusted throughout the vesting period to reflect the actual number of RSUs that vest, based on the number of active months of employment during the vesting period. Awards are fully cancelled if an employee resigns at any time during the vesting period. When the awards are surrendered for cash, the cash paid reduces the outstanding liability.

Sources of estimation uncertainty

Determining the fair value of Tervita's options 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 option liability outstanding in a reporting period. The following key areas of estimation were used by Tervita:

- Expected annual volatility – as Tervita has no traded market price history, the volatility was determined based on comparable company trading data;
- Expected life – options can only be exercised if certain liquidity or partial liquidity events (as defined in the Option Plan documentation) occur. Therefore, the estimation of expected life is based on the contractual life of the options as Tervita has limited experience with similar options and is unable to predict the occurrence and timing of future events;
- Forfeiture rate – estimates of forfeiture rates are based on internal analysis of the pool of the employees and directors who received the grants, and will be reviewed against actual forfeitures throughout the vesting periods;
- Market price –Tervita has determined the current fair value of its share capital to be $10 per share; and
- Dividend yield – Tervita has not historically paid dividends, and has no expectation to do so in the future. As such, the dividend yield is assumed to be nil.

SUPPORTING INFORMATION

Option Plan

In 2017, Tervita issued 1,102,579 stock options to certain employees and directors under the Option Plan. The options vest in equal thirds in January 2018, 2019 and 2020, and expire in January 2022. The options can only be exercised based on the occurrence of certain liquidity events including, but not limited to, Tervita completing an initial public offering. The options have an exercise price of $10, and a grant date fair value of $3.70 - $3.85, as determined using a Black Scholes option pricing model. As at December 31, 2017, there were 1,034,643 options outstanding, with a remaining contractual life of 4 years. The total share-based compensation expense for the options was $2 million.

The inputs to the Black Scholes model to determine the grant date fair value of the options were as follows:

	2017
Market price per unit	$ 10.00
Expected annual volatility	43%
Expected expiry period	5 years
Risk-free interest rate	1.1%
Expected annual dividend yield	-
Expected annual forfeitures	0% - 5%
Weighted average fair value per option granted during period	$ 3.74

RSU Plan

In 2017, the Company issued 630,970 RSUs to certain employees under the RSU Plan. The RSUs vest fully in January 2020, and the grant date fair value was $10 per unit. An estimated annual forfeiture rate of 5% was used in determining the fair value of the liability. As at December 31, 2017, there were 588,362 RSUs outstanding, with a remaining life to maturity of 2 years. The liability associated with the RSUs was $1 million at December 31, 2017. The total share-based compensation expense for the RSUs was $1 million for 2017.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Financial assets and financial liabilities ("financial instruments") are initially recognized at fair value, which is normally equal to cost plus directly attributable transaction costs, other than for those financial instruments that are classified as at fair value through profit or loss ("FVTPL"). Transaction costs for non-FVTPL financial instruments are then amortized over the financial instrument's remaining expected life using the effective interest method and are included as part of finance costs on the Statement of Profit or 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:

Loans and receivables - Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables and measured at amortized cost using the effective interest method. Gains and losses are recognized when the asset is derecognized or impaired. Assets with a short-term nature and/or expected maturity 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 costs using the effective interest method. Liabilities with a short-term nature and/or expected maturity 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. Information for non-recurring fair value measurements is provided in note 7.

The fair value of debt is based on third party observable quotes and may not reflect actual amounts payable by Tervita.

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 instruments not designated as hedges are recorded at fair value each reporting date, with any unrealized gains or losses recognized in profit or 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 Canadian dollars at period end.

Contracts and agreements are assessed for embedded derivatives and, where necessary (i.e., when items are not closely related) Tervita separately recognizes the embedded derivative at fair value for each reporting period.

Financial assets are 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. Financial liabilities are derecognized when the contractual obligation expires, is discharged or cancelled. Gains or losses arising from settlement repurchase, or cancellation of financial instruments are recognized in the Statement of Profit or Loss.

Financial instruments are offset with the net amount presented in the Statement 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.

Tervita assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment exists if one or more events have occurred since the initial recognition of the asset that has an impact on the estimated future cash flows. Evidence of impairment 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.

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 in which category of the hierarchy items 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.

Fair Value of Financial Instruments

	Classification	Level	Carrying Value		Estimated Fair Value	
			2017	2016	**2017**	2016
Cash and cash equivalents	FVTPL	1	**124**	89	**124**	89
Trade and other receivables	Loans and receivables	-	**130**	129	**130**	129
Trade and other payables	Other financial liabilities	-	**(94)**	(57)	**(94)**	(57)
Interest payable	Other financial liabilities	-	**(4)**	(2)	**(4)**	(2)
Long-term debt	Other financial liabilities	-	**(437)**	(466)	**(454)**	(494)
Derivative liabilities	Designated hedge	2	**(31)**	(6)	**(31)**	(6)
Contingent consideration	FVTPL	2	**(9)**	(10)	**(9)**	(10)

There were no transfers between levels of the fair value hierarchy in either 2017 or 2016.

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 Statement 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, 2017

	Gross Asset	Gross Liability	Net Presentation
Accounts receivable	**86**	**(65)**	**21**
Accounts payable	**101**	**(115)**	**(14)**

As at December 31, 2016

	Gross Asset	Gross Liability	Net Presentation
Accounts receivable	68	(43)	25
Accounts payable	100	(120)	(20)

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 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 accounts receivable on an ongoing basis. None of the counterparties individually make up more than 10 per cent of Tervita's credit exposure.

Accounts Receivable

	2017	2016
Accounts receivable - trade	**125**	127
Accounts receivable - other	**6**	5
Allowance for doubtful accounts	**(1)**	(3)
Total trade and other receivables	**130**	129

Allowance for Doubtful Accounts

	2017	2016
Balance, beginning of year	**(3)**	(12)
Provision for bad debts	**-**	(1)
Write-offs, net of recoveries	**2**	10
Balance, end of year	**(1)**	(3)

Aging Analysis of Trade Accounts Receivable Past Due

	2017	2016
91 to 120 days	**4**	1
Greater than 121 days	**3**	11
	7	12

Tervita performs regular reviews of accounts that are past due and adjusts its allowance according to these reviews. Any accounts deemed uncollectible are expensed.

Credit exposure on cash and cash equivalents arises as Tervita holds those assets with major financial institutions. Management believes risk is mitigated by the size and financial strength of those major financial institutions.

Tervita's maximum counterparty credit exposure as at December 31, 2017 was the total carrying value of cash and accounts receivable.

Liquidity Risk

Liquidity risk is the risk that Tervita will encounter difficulties in meeting its financial obligations as they come due. Tervita expects to rely primarily on cash generated from operations and borrowings under the revolving credit facilities as its primary sources of liquidity and to fund capital expenditures. At December 31, 2017, there was $127 million of borrowing availability under the revolving credit facilities (December 31, 2016 – $47 million available under the revolving and swing line facilities). There was $124 million in cash available at December 31, 2017 (December 31, 2016 – $89 million). No assurances can be given that the level of liquidity risk will not increase. Refer to note 20 for further discussion on liquidity risk.

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

	2018	2019-20	2021-22	Thereafter
Trade and other payables	94	-	-	-
Interest payable, net of related swaps agreements	37	75	37	-
Long-term debt (excludes foreign currency revaluation and unamortized debt costs)	-	-	452	-
Derivative liabilities	-	-	31	-
Contingent consideration	1	3	3	12
Total	132	78	523	12

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 certain US$ debt (note 20). Absent the swap agreements, a $0.01 change in the US$ to Canadian dollar exchange rate would result in a change to net income (loss) of $4 million (2016 - $4 million).

Changes in liabilities arising from financing activities

December 31, 2017

	Long-term debt	Derivative liabilities	Total
Balance, beginning of year	**466**	**6**	**472**
Cash flows	**(1)**	**-**	**(1)**
Foreign exchange movements	**(32)**	**(1)**	**(33)**
Fair value changes	**-**	**26**	**26**
Other	**4**	**-**	**4**
Balance, end of year	**437**	**31**	**468**

December 31, 2016

	Long-term debt	Derivative liabilities	Total
Balance, beginning of year	2,761	(360)	2,401
Cash flows	(1,141)	304	(837)
Foreign exchange movements	(543)	-	(543)
Fair value changes	-	62	62
New liabilities	473	-	473
Gain (loss) on debt restructuring	(697)	-	(697)
Other	(387)	-	(387)
Balance, end of year	466	6	472

25. SHARE CAPITAL

	Note	Authorized	Issued (number of shares)	Value (millions of C$)
Class A voting preferred shares with no par value	3	Unlimited number of preferred shares	102,010,181	816
Class A voting common shares with no par value	3	Unlimited number of common shares	2,615,598	21
Balance, December 31, 2017 and 2016			104,625,779	837

The class A voting common shares and the class A voting preferred shares will each have one vote per share, rank equally as to any dividends and distributions, have an equal and rateable claim to the assets of Tervita upon liquidation, and otherwise have substantially identical terms in all respects.

26. CAPITAL MANAGEMENT

Tervita's objectives when managing capital 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 has cash and cash equivalents of $131 million and access to $128 million under its revolving credit facility (net of letters of credit of $72 million) as at March 14, 2018.

DEBT COVENANTS

At December 31, 2017, the terms of Tervita's revolving credit facility 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 $50 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 or loss before tax, other income (expense), finance costs, impairment expense, depreciation and amortization, and any other items that are considered non-recurring in nature. 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.

This Total Leverage Ratio 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 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 1.50 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.

Covenant EBITDA is calculated as follows:

	Note	2017
Net profit (loss)		(81)
Adjustments:		
Depreciation and amortization	16, 17	80
Impairment expense	19	76
Finance costs	10	49
Other (income) expense	11	26
Gain (loss) on debt restructuring	3	-
Income taxes recovery (expense)	6	(3)
Loss (profit) from discontinued operations, net of tax	7	(1)
Eligible adjustments:		
Severance costs		10
Covenant EBITDA		156

The financial covenants for the revolving credit facilities were as follows for the year ended December 31, 2017:

	Required	Achieved
Total Leverage Ratio	Less than 5.50	2.74
Secured Leverage Ratio	Less than 2.50	0.15
Interest Coverage Ratio	Greater than 1.50	3.80

CONSOLIDATED SECURED DEBT RATIO

Prior to the Recapitalization Transaction, Tervita's secured credit facilities had embedded covenants, which limited the amount of secured indebtedness Tervita could incur relative to Adjusted EBITDA, in accordance with the credit agreement. The covenant was comprised of the Consolidated Secured Debt Ratio, which could not exceed 5.75 to 1.00 at any time. Subject to certain exceptions, the senior secured credit facilities required that 100 per cent of the net proceeds from certain asset sales (including casualty and condemnation events and subject to a step-down) and debt issuances and 50 per cent of annual Excess Cash Flow for each fiscal year (subject to step-downs) be used to pay down outstanding borrowings.

27. 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. 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 operating and general and administrative expenses on the Statement of Profit or Loss was as follows:

	2017	2016
Salaries and short-term benefits	1	4
Termination benefits	8	-
Share-based compensation	1	-
Bonuses	-	9
Total key management compensation	10	13

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

	2017
Exercise price	$10
Units outstanding, beginning of year	-
Units issued	905,073
Units outstanding, end of year	905,073

Options issued under the CSOP, USAR, and PSAR plans were extinguished as part of the Recapitalization Transaction in 2016 (note 3).

Other Related Party Transactions

Positions held in the senior notes and senior subordinated notes (note 3) by certain equity owners and members of the Board of Directors were as follows:

	Senior Notes		Senior Subordinated Notes	
(US$)	2017	2016	2017	2016
Balance, beginning of year	-	68	-	228
Settlement of previously existing debt	-	(68)	-	(228)
Balance, end of year	-	-	-	-

During 2016, equity owners and certain members of the Board of Directors earned US$1 million in interest income related to their proportionate holdings in the senior notes and senior subordinated notes.

28. COMMITMENTS

	2018	2019-20	2021-22	Thereafter
Long-term debt	-	-	452	-
Interest	37	75	37	-
Office and facility leases	12	24	24	75
Operating leases	1	-	-	-
Pipeline transportation commitment	19	25	-	-
Decommissioning liabilities	6	34	15	457
Contingent consideration	1	3	3	12
Derivative liability	-	-	31	-
Total commitments	76	161	562	544

LONG-TERM DEBT

Long-term debt includes the current and long-term portions of the principal, but excludes foreign currency revaluation, the effect of foreign exchange swaps, and unamortized debt costs.

OFFICE AND FACILITY LEASES

Tervita has operating leases for office premises and mobile and office equipment, with future minimum lease payments due over the terms of the leases. In addition, Tervita has entered into agreements to sublease excess office space in various locations. As at December 31, 2017, the future minimum sublease payments to be received were $6 million (December 31, 2016 – $7 million), which are offset against the office and facility lease commitments. For the year ended December 31, 2017, expenses related to office and facility and operating leases were $13 million (December 31, 2016 – $16 million) which included sublease recoveries of $nil (December 31, 2016 - $2 million). For the year ended December 31, 2017, Tervita expensed $1 million of contingent rental amounts due to usage based royalties (December 31, 2016 - $1 million).

29. 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 state 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.

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 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 Competition Act (Canada).

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.

30. GUARANTEES

As at December 31, 2017, Tervita had $69 million (December 31, 2016 – $86 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 revolving credit facility.

For guarantees associated with Tervita's long-term debt, see note 20.

Tervita indemnifies its directors and officers who are, or were, serving at Tervita's request in such capacities. Historically, these costs have not been material to Tervita's financial position, results of operations, or cash flows.

31. SUBSEQUENT EVENTS

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 all of 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 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%.

The transaction is to be completed by way of a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta). The Arrangement is subject to customary conditions for a transaction of this nature, which include, without limitation, court and regulatory approvals including the Toronto Stock Exchange and approval under the Competition Act (Canada), the approval of 66 2/3% of the votes cast by Newalta's securityholders represented in person or by proxy at an annual and special meeting of Newalta's securityholders to be called to consider the Arrangement (the "Newalta Meeting"), and the approval of 66 2/3% of the votes cast by the shareholders of Tervita represented in person or by proxy at an annual and special meeting of the shareholders of Tervita to be called to consider the Arrangement (the "Tervita Meeting"). A joint information circular regarding the Arrangement is expected to be mailed to Newalta's securityholders and the shareholders of Tervita in late March 2018 for the Newalta Meeting and the Tervita Meeting, respectively, each scheduled to take place in late April 2018. Closing of the Arrangement is expected to occur upon receipt of all required regulatory approvals, including the approval under the Competition Act (Canada).