

The Management's Discussion and Analysis of Financial Condition and Results of Operations for Waste Connections, Inc. is also included in the Form 10-Q for the period ended September 30, 2020 filed on SEDAR on October 29, 2020 in its entirety. All references to \$ are to U.S. dollars unless otherwise indicated.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q are forward-looking in nature, including statements related to the impact of global economic conditions, including the price of crude oil, on our volume, business and results of operations; the impact of the COVID-19 pandemic on our business, financial condition and results of operations; our ability to generate internal growth or expand permitted capacity at landfills we own or operate; our ability to grow through acquisitions and our expectations with respect to the impact of acquisitions on our expected revenues and expenses following the integration of such businesses; the competitiveness of our industry and how such competition may affect our operating results; the possibility of losing contracts through competitive bidding, early termination or governmental action; the effects of financial difficulties of some of our customers, including governmental entities, affecting their credit risk; our ability to provide adequate cash to fund our operating activities; our ability to draw from our credit facility or raise additional capital; our ability to generate free cash flow and reduce our leverage; the impact on our tax positions of changes in U.S. tax law and future changes in tax laws in the jurisdictions in which we operate; the effects of landfill special waste projects on volume results; the impact that price increases may have on our business and operating results; demand for recyclable commodities and recyclable commodity pricing; the effects of seasonality on our business and results of operations; our ability to obtain additional exclusive arrangements; increasing alternatives to landfill disposal; increases in labor and pension plan costs or the impact that labor union activity may have on our operating results; operational and safety risks, including the risk of personal injury to employees and others; our expectations with respect to the purchase of fuel and fuel prices; our expectations with respect to capital expenditures; our expectations with respect to the outcomes of our legal proceedings; the impairment of our goodwill; insurance costs; disruptions to or breaches of our information systems and other cybersecurity threats; and environmental, health and safety laws and regulations, including changes to the regulation of landfills, solid waste disposal, E&P waste disposal, or hydraulic fracturing. These statements can be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "might," "will," "could," "should" or "anticipates," or the negative thereof or comparable terminology, or by discussions of strategy. Our business and operations are subject to a variety of risks and uncertainties and, consequently, actual results may differ materially from those projected by any forward-looking statements. Factors that could cause actual results to differ from those projected include, but are not limited to, those listed above and elsewhere in this report and in our other filings with the SEC, as well as in our filings during the year with the Canadian Securities Administrators. There may be additional risks of which we are not presently aware or that we currently believe are immaterial which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change.

OVERVIEW OF OUR BUSINESS

We are an integrated solid waste services company that provides non-hazardous waste collection, transfer and disposal services, along with recycling and resource recovery, in mostly exclusive and secondary markets across 42 states in the U.S. and six provinces in Canada. Waste Connections also provides non-hazardous oilfield waste treatment, recovery and disposal services in several basins across the U.S., as well as intermodal services for the movement of cargo and solid waste containers in the Pacific Northwest.

We generally seek to avoid highly competitive, large urban markets and instead target markets where we can attain high market share either through exclusive contracts, vertical integration or asset positioning. In markets where waste collection services are provided under exclusive arrangements, or where waste disposal is municipally owned or funded or available at multiple municipal sources, we believe that controlling the waste stream by providing collection services under exclusive arrangements is often more important to our growth and profitability than owning or operating landfills. We also target niche markets, like E&P waste treatment and disposal services.

As of September 30, 2020, we served residential, commercial, industrial and E&P customers in 42 states in the U.S. and six provinces in Canada: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Oregon,

Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin and Wyoming, and the provinces of Alberta, British Columbia, Manitoba, Ontario, Québec and Saskatchewan.

The solid waste industry is local and highly competitive in nature, requiring substantial labor and capital resources. The participants compete for collection accounts primarily on the basis of price and, to a lesser extent, the quality of service, and compete for landfill business on the basis of tipping fees, geographic location and quality of operations. The solid waste industry has been consolidating and continues to consolidate as a result of a number of factors, including the increasing costs and complexity associated with waste management operations and regulatory compliance. Many small independent operators and municipalities lack the capital resources, management, operating skills and technical expertise necessary to operate effectively in such an environment. The consolidation trend has caused solid waste companies to operate larger landfills that have complementary collection routes that can use company-owned disposal capacity. Controlling the point of transfer from haulers to landfills has become increasingly important as landfills continue to close and disposal capacity moves farther from the collection markets it serves.

Generally, the most profitable operators within the solid waste industry are those companies that are vertically integrated or enter into long-term collection contracts. A vertically integrated operator will benefit from: (1) the internalization of waste, which is bringing waste to a company-owned landfill; (2) the ability to charge third-party haulers tipping fees either at landfills or at transfer stations; and (3) the efficiencies gained by being able to aggregate and process waste at a transfer station prior to landfilling.

The E&P waste services industry is regional in nature and is also highly fragmented, with acquisition opportunities available in several active natural resource basins. Competition for E&P waste comes primarily from smaller regional companies that utilize a variety of disposal methods and generally serve specific geographic markets, and other solid waste companies. In addition, customers in many markets have the option of using internal disposal methods or outsourcing to another third-party disposal company. The principal competitive factors in this business include: gaining customer approval of treatment and disposal facilities; location of facilities in relation to customer activity; reputation; reliability of services; track record of environmental compliance; ability to accept multiple waste types at a single facility; and price.

The demand for our E&P waste services depends on the continued demand for, and production of, oil and natural gas. Crude oil and natural gas prices historically have been volatile. Macroeconomic and geopolitical conditions, including a significant decline in oil prices driven by both surplus production and supply, as well as the decrease in demand caused by factors including the COVID-19 pandemic, have resulted in decreased levels of oil and natural gas exploration and production activity and a corresponding decrease in demand for our E&P waste services. Through June 30, 2020, we maintained a separate E&P segment which was combined with our Southern segment on July 1, 2020. During the nine months ended September 30, 2020, our total E&P revenue declined 36%, compared to the prior year period, on rig count declines of 72% in certain basins. The most impacted basins included the Williston Basin in North Dakota, the Eagle Ford Basin in Texas and the Powder River Basin in Wyoming, all of which had relatively high costs associated with drilling, making them less attractive than other basins, including the Permian Basin in Texas and New Mexico. Additionally, across the industry there is uncertainty regarding future demand for oil and related services, as noted by several energy companies, many of whom are customers of our E&P operations. These companies have written down the values of their oil and gas assets in anticipation of the potential for the decarbonization of their energy product mix given an increased global focus on reducing greenhouse gases and addressing climate change. Such uncertainty regarding global demand has had a significant impact on the investment and operating plans of our E&P waste customers in the basins where we operate. Based on these events and the outlook for future drilling activity and resulting demand for our E&P waste services not showing significant improvement, we concluded that the carrying value of property and equipment at four E&P landfills exceeded their estimated fair value, resulting in an impairment charge of \$417.4 million being recorded during the nine months ended September 30, 2020. See Note 5 to our Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q for a further discussion of this impairment charge.

THE IMPACT OF COVID-19 ON OUR RESULTS OF OPERATIONS

During the first quarter of 2020, COVID-19 emerged across North America. The World Health Organization declared COVID-19 a global pandemic on March 11, 2020.

The COVID-19 pandemic has had adverse impacts on our business since March 2020, when we experienced decreasing revenues associated with declines primarily in commercial collection, transfer station and landfill volumes as a result of COVID-19 economic disruptions. In addition, and to a lesser extent, solid waste roll off revenue was impacted in some markets, and year-over-year reductions in E&P revenue, resulting primarily from the drop in the value of crude oil, were driven by both surplus production and supply, as well as the decrease in demand caused by factors including the COVID-19 pandemic. In late February we formed a task force to commence preparedness in the event the scope of the COVID-19 outbreak expanded. Protecting the health, safety and welfare of our employees was and remains our first priority, which led to our introduction of various health and safety protocols in early March, including the distribution of safety and preparedness updates, revised policies on employee time off, leaves of absence and short-term disability, modifications to our operations to minimize community spread of COVID-19, and enhanced resources to enable remote working, communications and digital connectivity to help non-frontline employees work from home more efficiently.

In recognition of the Company's status as an essential services provider, and to reduce employee concerns regarding income, healthcare and family obligations, we implemented a supplemental pay bonus for frontline employees representing 80% of our workforce, emergency wages for employees out of work due to COVID-19 and extended benefits coverage in markets where reductions in customer activity have impacted employee hours. In addition, we expanded our Employee Relief Fund and initiated the Waste Connections Scholarship Program to help employee children achieve their vocational, technical and university education goals. These actions increased our cost of operations nominally in the first quarter and further impacted the second and third quarters of 2020 as discussed below. We also implemented a number of measures to reduce our operating costs and preserve cash, which included hiring limitations, wage freezes for all managers and region and corporate personnel, restrictions on travel, group meetings and other discretionary spending, and the suspension of the Company's 401(k) match effective June 1, 2020. In addition, we began and intend to continue deferring qualified U.S. payroll and other tax payments as permitted by the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, which the U.S. government enacted on March 27, 2020. Through the third quarter of 2020, we deferred \$29.4 million in payroll taxes in conjunction with the CARES Act of which 50% are due by December 31, 2021 and 50% are due by December 31, 2022. To the extent available, we may utilize similar programs being offered by the federal and provincial governments in Canada. With respect to our liquidity and capital resources, as of September 30, 2020, we had \$859.1 million of cash and equivalents and \$1.258 billion of remaining borrowing capacity under our Credit Agreement, which matures in March 2023.

During the second quarter of 2020, our business was impacted by COVID-19 due to a reduction in revenue primarily in solid waste commercial collection, roll off activity and solid waste transfer and disposal resulting from a slowdown in activity associated with shelter-in-place or other closure restrictions or requirements imposed in response to the COVID-19 pandemic. Commercial collection activity slowed down in certain markets due to service reductions or suspensions by customers whose business activity was curtailed by such measures, with third party transfer and disposal volumes and roll off activity typically following similar patterns, and some of the declines in E&P waste activity may also be related to COVID-19. The impacts to solid waste activity that we experienced during the second quarter varied by geography, the size and customer mix in each market, and the timing and extent of shutdown requirements and reopening policies across markets. In some markets, the impacts abated during the second quarter, as reopenings resulted in increased service requirements by commercial customers and higher landfill volumes and roll off activity; in other cases, where reopenings were delayed or more limited, the improvements were less pronounced.

Through the second quarter of 2020, about 53% of solid waste commercial customers and 42% of associated revenue in competitive markets we track that had suspended or reduced service due to COVID-19, had since reached out for either a resumption of service or an increase in frequency. Volumes in all of our solid waste regions exceeded our initial expectations, resulting in solid waste revenue down 5.3% on a same store basis in the quarter, about 0.7 percentage points better than the expectations we provided in May. Moreover, excluding the most impacted markets in the Northeast and Canada, where closures were widespread and volumes were most impacted, solid waste revenues were down only 1.3% year over year on a same store basis.

During the third quarter of 2020, our business continued to be impacted by COVID-19, albeit to a lesser extent than in the prior period in many markets. Revenue in solid waste commercial collection and solid waste transfer and disposal continued to reflect the extent to which the slowdown in activity associated with shelter-in-place or other closure restrictions or requirements in effect since the first quarter of 2020 have persisted.

The impacts to solid waste activity from COVID-19 that we experienced during the third quarter reflected the pace of reopening activity and varied by geography, the size and customer mix in each market. In some markets, impacts began to abate in the second quarter, when a portion of the lost volumes returned; in other cases, the impacts of the pandemic abated more during the third quarter, when reopenings resulted in increased service requirements by commercial customers and higher landfill volumes and roll off activity. In markets where reopenings continue to be delayed or where additional restrictions have been imposed, the improvements were less pronounced.

Through the third quarter, about 68% of solid waste commercial customers and 57% of associated revenue in competitive markets we track that had suspended or reduced service due to COVID-19, had since reached out for either a resumption of service or an increase in frequency, an increase from 53% and 42%, respectively, through the second quarter. As a result, solid waste collection, transfer and disposal revenue was down 2.0% year over year on a same store basis in the third quarter, but was an improvement of 3.3 percentage points from second quarter 2020 revenue, which was down 5.3% year over year.

The impact of the COVID-19 pandemic on our business, results of operations, financial condition and cash flows in future periods will depend largely on future developments, including the duration and spread of the outbreak in the U.S. and Canada, its severity, the actions to contain the novel coronavirus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements. As described by the SEC, critical accounting estimates and assumptions are those that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on the financial condition or operating performance of a company. Such critical accounting estimates and assumptions are applicable to our reportable segments. Refer to our most recent Annual Report on Form 10-K for a complete description of our critical accounting estimates and assumptions.

NEW ACCOUNTING PRONOUNCEMENTS

For a description of the new accounting standards that affect us, see Note 3 to our Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

The following table sets forth items in our Condensed Consolidated Statements of Net Income in thousands of U.S. dollars and as a percentage of revenues for the periods indicated.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
Revenues	\$ 1,389,552	100.0 %	\$ 1,412,444	100.0 %	\$ 4,047,739	100.0 %	\$ 4,026,719	100.0 %
Cost of operations	828,822	59.6	835,098	59.1	2,429,957	60.0	2,384,607	59.2
Selling, general and administrative	136,003	9.8	137,883	9.8	404,213	10.0	410,132	10.2
Depreciation	157,590	11.3	157,994	11.2	459,641	11.4	461,616	11.5
Amortization of intangibles	32,653	2.4	31,934	2.3	96,062	2.4	93,821	2.3
Impairments and other operating items	3,805	0.3	12,935	0.9	442,582	10.9	32,949	0.8
Operating income	230,679	16.6	236,600	16.7	215,284	5.3	643,594	16.0
Interest expense	(40,636)	(2.9)	(36,780)	(2.6)	(119,562)	(2.9)	(111,313)	(2.8)
Interest income	903	0.1	2,056	0.1	4,396	0.1	7,186	0.2
Other income (expense), net	702	0.0	(19)	(0.0)	(3,046)	(0.1)	4,562	0.1
Income tax provision	(33,657)	(2.4)	(42,783)	(3.0)	(23,654)	(0.6)	(110,539)	(2.7)
Net income	157,991	11.4	159,074	11.2	73,418	1.8	433,490	10.8
Net loss attributable to noncontrolling interests	58	0.0	35	0.0	594	0.0	89	0.0
Net income attributable to Waste Connections	\$ 158,049	11.4 %	\$ 159,109	11.2 %	\$ 74,012	1.8 %	\$ 433,579	10.8 %

Revenues. Total revenues decreased \$22.8 million, or 1.6%, to \$1.390 billion for the three months ended September 30, 2020, from \$1.412 billion for the three months ended September 30, 2019. Total revenues increased \$21.0 million, or 0.5%, to \$4.048 billion for the nine months ended September 30, 2020, from \$4.027 billion for the nine months ended September 30, 2019.

During the three months ended September 30, 2020, incremental revenue from acquisitions closed during, or subsequent to, the three months ended September 30, 2019, increased revenues by approximately \$47.2 million. During the nine months ended September 30, 2020, incremental revenue from acquisitions closed during, or subsequent to, the nine months ended September 30, 2019, increased revenues by approximately \$156.3 million.

Operations that were divested subsequent to September 30, 2019 decreased revenues by approximately \$2.9 million and \$11.7 million, respectively, for the three and nine months ended September 30, 2020.

During the three months ended September 30, 2020, the net increase in prices charged to our customers at our existing operations was \$49.1 million, consisting of \$53.8 million of core price increases, partially offset by a decrease in surcharges of \$4.7 million. During the nine months ended September 30, 2020, the net increase in prices charged to our customers at our existing operations was \$168.0 million, consisting of \$173.9 million of core price increases, partially offset by a decrease in surcharges of \$5.9 million.

During the three and nine months ended September 30, 2020, volume decreases in our existing business decreased solid waste revenues by \$74.6 million and \$199.8 million, respectively, due primarily to the economic disruptions resulting from COVID-19 that began in March 2020 and have continued throughout the third quarter of 2020. The decreases during the nine months ended September 30, 2020 resulting from COVID-19 were partially offset by increased landfill special waste volumes in certain markets and the impact of one additional business day resulting from leap year.

E&P revenues at facilities owned during the three and nine months ended September 30, 2020 and 2019 decreased \$42.8 million and \$75.2 million, respectively. Decreases in the demand for crude oil as a result of economic disruptions from COVID-19 resulted in a drop in the value of crude oil, decreases in drilling and production activity levels and decreases in overall demand for our E&P waste services. Drilling and production activity was also adversely impacted by

the drop in the value of crude oil due to the increased supply of oil resulting from Saudi Arabia and Russia abandoning production quotas and increasing production levels, which was exacerbated by the impact of COVID-19.

A decrease in the average Canadian dollar to U.S. dollar currency exchange rate resulted in a decrease in revenues of \$1.6 million and \$9.6 million, respectively, for the three and nine months ended September 30, 2020. The average Canadian dollar to U.S. dollar exchange rates on our Canadian revenues were 0.7511 and 0.7573 in the three months ended September 30, 2020 and 2019, respectively. The average Canadian dollar to U.S. dollar exchange rates on our Canadian revenues were 0.7399 and 0.7524 in the nine months ended September 30, 2020 and 2019, respectively.

Revenues from sales of recyclable commodities at facilities owned during the three months ended September 30, 2020 and 2019 increased \$2.4 million. Revenues from sales of recyclable commodities at facilities owned during the nine months ended September 30, 2020 and 2019 decreased \$2.5 million. Prices for old corrugated cardboard and volumes from increased residential collection increased in the second and third quarters of 2020, contributing to the increase in revenues for the three months ended September 30, 2020. Lower prices for old corrugated cardboard in the first quarter of 2020, decreased collected commercial recycling volumes caused by economic disruptions resulting from COVID-19 and decreased prices for plastic and aluminum contributed to the overall decrease in revenues for the nine months ended September 30, 2020.

Other revenues increased by \$0.4 million during the three months ended September 30, 2020 and decreased by \$4.5 million during the nine months ended September 30, 2020. The decrease for the nine months ended September 30, 2020 was due primarily to a reduction in intermodal cargo volumes.

Cost of Operations. Total cost of operations decreased \$6.3 million, or 0.8%, to \$828.8 million for the three months ended September 30, 2020, from \$835.1 million for the three months ended September 30, 2019. The decrease was primarily the result of a decrease in operating costs at our existing operations of \$31.7 million, assuming foreign currency parity, a decrease in operating costs of \$3.5 million at operations divested during, or subsequent to, the three months ended September 30, 2019 and a decrease of \$0.9 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by \$29.8 million of additional operating costs from acquisitions closed during, or subsequent to, the three months ended September 30, 2019.

The decrease in operating costs at our existing operations for the three months ended September 30, 2020 of \$31.7 million, assuming foreign currency parity, included the following decreases totaling \$27.6 million due to solid waste, intermodal and E&P volume losses resulting from the impact of COVID-19: a decrease in third-party disposal expenses of \$6.7 million, a decrease in third-party trucking and transportation expenses of \$6.0 million, a decrease in direct labor expenses at our E&P operations of \$3.0 million due to headcount reductions, a decrease in equipment and facility maintenance and repair expenses of \$2.8 million at our E&P operations, a decrease in direct labor expenses at our Eastern segment of \$2.6 million due to headcount reductions, a decrease in expenses for processing recyclable commodities of \$2.4 million due to a decrease in commercial recycling volumes collected, a decrease in intermodal rail expenses of \$2.1 million and a decrease in subcontracted E&P operating expenses of \$2.0 million.

The remaining decrease in operating costs at our existing operations of \$4.1 million for the three months ended September 30, 2020 consisted of a decrease in fuel expense of \$7.3 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in taxes on revenues of \$4.9 million from the reversal of recorded liabilities for certain fees and exactions at Chiquita Canyon landfill due to our successful challenge of increases assessed in prior periods, a decrease in 401(k) matching expenses of \$3.9 million as we suspended our 401(k) match as of June 1, 2020, a decrease in employee medical benefits expenses of \$3.5 million due to a reduction in medical visits, a decrease in expenses for auto and workers' compensation claims of \$2.2 million due primarily to adjustments recorded in the current year period to decrease projected losses on outstanding claims originally recorded in prior periods, a decrease in labor expenses at our Canada segment of \$1.7 million due to the receipt of a government subsidy reimbursing us for certain payroll expenditures remitted to our employees during the COVID-19 pandemic and a decrease in subcontracted hauling services at our solid waste operations of \$1.5 million due primarily to the net impact of our Canada segment reversing expenses accrued in a prior period and incurring less expenses in the current period associated with estimated equipment charge overages related to an outsourced collection contract exceeding an increase in expenses at our Eastern segment associated with outsourcing the servicing of certain non-strategic collection customers to third party haulers,

partially offset by an increase in other cash incentive compensation to non-management personnel of \$8.5 million to recognize the services they are providing during the COVID-19 pandemic, an increase in labor expenses totaling \$4.3 million at our Western and Central segments, and the solid waste operations of our Southern segment, due primarily to annual pay increases, an increase in truck, container, equipment and facility maintenance and repair expenses of \$4.0 million at our solid waste operations due to cost increases and a higher quantity of large repairs, an increase in landfill operating expenses of \$1.2 million at our solid waste operations due primarily to increased gas system repairs and \$2.9 million of other net expense increases.

Total cost of operations increased \$45.4 million, or 1.9%, to \$2.430 billion for the nine months ended September 30, 2020, from \$2.385 billion for the nine months ended September 30, 2019. The increase was primarily the result of \$98.3 million of additional operating costs from acquisitions closed during, or subsequent to, the nine months ended September 30, 2019, partially offset by a decrease in operating costs at our existing operations of \$35.0 million, assuming foreign currency parity, a decrease in operating costs of \$12.7 million at operations divested during, or subsequent to, the nine months ended September 30, 2019 and a decrease of \$5.2 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods.

The decrease in operating costs at our existing operations for the nine months ended September 30, 2020 of \$35.0 million, assuming foreign currency parity, included the following decreases totaling \$57.0 million due to solid waste, intermodal and E&P volume losses resulting from the impact of COVID-19: a decrease in third-party disposal expenses of \$18.3 million, a decrease in third-party trucking and transportation expenses of \$15.0 million, a decrease in direct labor expenses at our Eastern segment of \$4.5 million due to headcount reductions, a decrease in equipment and facility maintenance and repair expenses of \$4.2 million at our E&P operations, a decrease in intermodal rail expenses of \$4.1 million, a decrease in subcontracted E&P operating expenses of \$3.6 million, a decrease in direct labor expenses at our E&P operations of \$3.4 million due to headcount reductions, a decrease in expenses for processing recyclable commodities of \$2.3 million due to a decrease in commercial recycling volumes collected and a decrease in revenue-based royalties paid by our E&P operations of \$1.6 million.

The remaining increase in operating costs at our existing operations of \$22.0 million for the nine months ended September 30, 2020 consisted of an increase in other cash incentive compensation to non-management personnel of \$13.5 million to recognize the services they are providing during the COVID-19 pandemic, an increase in labor expenses totaling \$13.4 million at our Western and Central segments, and the solid waste operations of our Southern segment, due primarily to annual pay increases and the impact of an additional working day during the nine months ended September 30, 2020, an increase of \$11.5 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, an increase in truck, container, equipment and facility maintenance and repair expenses at our solid waste operations of \$10.9 million due to cost increases and a higher quantity of large repairs, an increase in expenses for auto and workers' compensation claims of \$10.6 million due primarily to increases in our deductibles for auto claims, higher claims severity in the current year period and adjustments recorded in the prior year period to decrease projected losses on outstanding claims originally recorded prior to 2019, an increase in leachate expense of \$2.5 million due to higher precipitation in Florida and increased leachate in landfill cells constructed in 2020, an increase in property tax expenses of \$2.3 million due primarily to reassessed values of certain landfills and property acquired in recent acquisitions, an increase in landfill gas system repairs and maintenance expenses at our solid waste operations of \$1.8 million and \$2.9 million of other net expense increases, partially offset by a decrease in fuel expense of \$17.2 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in employee medical benefits expenses of \$14.0 million due to a reduction in medical visits, a decrease in taxes on revenues of \$4.9 million from the reversal of recorded liabilities for certain fees and exactions at Chiquita Canyon landfill due to our successful challenge of increases assessed in prior periods, a decrease in 401(k) matching expenses of \$4.7 million as we suspended our 401(k) match as of June 1, 2020, a decrease in compressed natural gas expense of \$2.0 million due primarily to the recognition in 2020 of tax credits associated with the purchase of compressed natural gas, a decrease in insurance premiums of \$2.0 million due primarily to the net impact of credits from premium audits exceeding increases associated with auto and environmental policy renewals, a decrease in labor expenses at our Canada segment of \$1.7 million due to the receipt of a government subsidy reimbursing us for certain payroll expenditures remitted to our employees during the COVID-19 pandemic and a decrease in subcontracted hauling services at our solid waste operations of \$0.9 million due primarily to the net impact of our Canada segment reversing expenses accrued in a prior period and incurring less expenses in the current period associated with estimated equipment charge

overages related to an outsourced collection contract exceeding an increase in expenses at our Eastern segment associated with outsourcing the servicing of certain non-strategic collection customers to third party haulers.

Cost of operations as a percentage of revenues increased 0.5 percentage points to 59.6% for the three months ended September 30, 2020, from 59.1% for the three months ended September 30, 2019. The increase as a percentage of revenues consisted of a combined 1.3 percentage point increase from labor expenses, maintenance and repair expenses and recurring taxes on revenues not declining at the same rate as the decline in our revenues at locations owned in the comparable periods due primarily to the economic disruptions resulting from COVID-19, a 0.6 percentage point increase resulting from the accrual of other cash incentive compensation to non-management personnel, a 0.2 percentage point increase from increased landfill site maintenance and repairs, a 0.2 percentage point increase from the net impact of cost of operations expenses from acquisitions closed during, or subsequent to, the three months ended September 30, 2019 and a 0.3 percentage point increase from all other net changes, partially offset by a 0.4 percentage point decrease from the reversal of recorded liabilities for certain fees and exactions at Chiquita Canyon landfill, a 0.4 percentage point decrease from lower diesel fuel expenses, a 0.3 percentage point decrease from a reduction in expenses for auto and workers' compensation claims, a 0.3 percentage point decrease from lower trucking and transportation expenses, a 0.3 percentage point decrease from lower 401(k) match expenses, a 0.2 percentage point decrease from lower employee medical benefits expenses and a 0.2 percentage point decrease from lower subcontracted operating expenses.

Cost of operations as a percentage of revenues increased 0.8 percentage points to 60.0% for the nine months ended September 30, 2020, from 59.2% for the nine months ended September 30, 2019. The increase as a percentage of revenues consisted of a 0.6 percentage point increase from higher labor expenses, a 0.3 percentage point increase resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, a 0.3 percentage point increase from the net impact of cost of operations expenses from acquisitions closed during, or subsequent to, the nine months ended September 30, 2019, a 0.3 percentage point increase resulting from the accrual of other cash incentive compensation to non-management personnel, a 0.3 percentage point increase from higher maintenance and repair expenses, a 0.2 percentage point increase from an increase in expenses for auto and workers' compensation claims and a 0.2 percentage point increase from all other net changes, partially offset by a 0.4 percentage point decrease from lower diesel fuel expenses, a 0.4 percentage point decrease from lower trucking and transportation expenses, a 0.3 percentage point decrease from lower employee medical benefits expenses and a 0.3 percentage point decrease from lower disposal expenses.

SG&A. SG&A expenses decreased \$1.9 million, or 1.4%, to \$136.0 million for the three months ended September 30, 2020, from \$137.9 million for the three months ended September 30, 2019. The decrease was comprised of a decline of \$4.2 million in SG&A expenses at our existing operations, assuming foreign currency parity, and a decline of \$0.2 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by \$2.5 million of additional SG&A expenses from operating locations at acquisitions closed during, or subsequent to, the three months ended September 30, 2019.

The decrease in SG&A expenses at our existing operations, assuming foreign currency parity, of \$4.2 million for the three months ended September 30, 2020 was comprised of a collective decrease in travel, meeting, training and community activity expenses of \$5.9 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, a decrease in 401(k) matching expenses of \$1.5 million as we suspended our 401(k) match as of June 1, 2020, a decrease in legal expenses of \$1.3 million due to the impact of work on legal matters being postponed resulting from temporary court closures, a decrease in employee medical benefits expenses of \$0.9 million due to a reduction in medical visits and \$1.9 million of other net expense decreases, partially offset by an increase in equity-based compensation expenses of \$2.4 million resulting primarily from an increased value of our recurring grant of restricted and performance share units to our personnel and adjustments to the amount of performance-based restricted share units granted in 2018 that are estimated to ultimately vest, an increase in share-based compensation expenses of \$1.7 million due primarily to increased share price volatility in the current period for equity awards accounted for as liabilities that were granted to employees of Progressive Waste prior to June 1, 2016 which are subject to valuation adjustments each period based on changes in fair value, an increase in direct acquisition expenses of \$1.3 million due to an increase in acquisition activity, an increase in deferred compensation expenses of \$1.2 million as a result of increases in the market value of investments to which employee deferred compensation liability balances are tracked and an increase of \$0.7 million in equity-based compensation expenses associated with fair value adjustments to Waste Connections, Inc.

common shares held in our deferred compensation plan by certain key executives as a result of the shares being exchanged for other investment options.

SG&A expenses decreased \$5.9 million, or 1.4%, to \$404.2 million for the nine months ended September 30, 2020, from \$410.1 million for the nine months ended September 30, 2019. The decrease was comprised of a decline of \$14.2 million in SG&A expenses at our existing operations, assuming foreign currency parity, and a decline of \$0.9 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by \$9.2 million of additional SG&A expenses from operating locations at acquisitions closed during, or subsequent to, the nine months ended September 30, 2019.

The decrease in SG&A expenses at our existing operations, assuming foreign currency parity, of \$14.2 million for the nine months ended September 30, 2020 was comprised of a collective decrease in travel, meeting, training and community activity expenses of \$18.3 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, a decrease in direct acquisition expenses of \$3.6 million due to a decline in acquisition activity, a decrease in employee medical benefits expenses of \$3.6 million due to a reduction in medical visits, a decrease in professional fees of \$3.0 million due primarily to work on legal matters being postponed resulting from temporary court closures and a decrease in third party tax consulting expenses, a decrease in deferred compensation expenses of \$3.0 million as a result of decreases in the market value of investments to which employee deferred compensation liability balances are tracked, a decrease in share-based compensation expenses of \$1.7 million due primarily to decreased share price volatility and fewer outstanding shares in the current period for equity awards accounted for as liabilities that were granted to employees of Progressive Waste prior to June 1, 2016 which are subject to valuation adjustments each period based on changes in fair value, a decrease in office supplies and office utilities of \$1.7 million due to office closures resulting from shelter at home restrictions, a decrease in 401(k) matching expenses of \$1.5 million as we suspended our 401(k) match as of June 1, 2020 and \$0.3 million of other net expense decreases, partially offset by an increase in expenses for uncollectible accounts receivable of \$5.5 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19, an increase in accrued recurring cash incentive compensation expense to our management of \$5.2 million, an increase of \$4.0 million in equity-based compensation expenses associated with fair value adjustments to Company common shares held in our deferred compensation plan by certain key executives as a result of the shares being exchanged for other investment options, an increase in payroll expenses of \$3.2 million as a result of annual pay increases, additional paid time off benefits and the impact of an additional working day during the nine months ended September 30, 2020, an increase in software licenses and subscriptions expenses of \$2.3 million due primarily to the addition of new sales and customer service applications, an increase of \$1.2 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19 and an increase in equity-based compensation expenses of \$1.1 million resulting primarily from the impact of an increased value of our recurring grant of restricted and performance share units to our personnel, net of adjustments to the amount of performance-based restricted share units estimated to ultimately vest.

SG&A expenses as a percentage of revenues was 9.8% for both the three months ended September 30, 2020 and 2019. The percentage of revenues impact from the reduction in travel, meeting, training and community activity expenses was offset by an increase from higher equity-based and share-based compensation expenses.

SG&A expenses as a percentage of revenues decreased 0.2 percentage points to 10.0% for the nine months ended September 30, 2020, from 10.2% for the nine months ended September 30, 2019. The decrease as a percentage of revenues consisted of a 0.4 percentage point decrease from a reduction in travel, meeting, training and community activity expenses, a 0.1 percentage point decrease from lower direct acquisition expenses, a 0.1 percentage point decrease from lower medical benefits expenses, a 0.1 percentage point decrease from lower deferred compensation expense, a 0.1 percentage point decrease from lower legal expenses and a 0.1 percentage point decrease from all other net changes, partially offset by a 0.3 percentage point increase associated with administrative salaries and wages, a 0.2 percentage point increase due to higher expenses for uncollectible accounts receivable and a 0.2 percentage point increase from higher cash incentive compensation expense.

Depreciation. Depreciation expense decreased \$0.4 million, or 0.3%, to \$157.6 million for the three months ended September 30, 2020, from \$158.0 million for the three months ended September 30, 2019. The decrease was comprised of a decrease in depletion expense of \$9.0 million at our existing landfills due primarily to economic disruptions resulting

from COVID-19 causing a decrease in E&P and municipal solid waste volumes and a decrease of \$0.2 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by an increase in depreciation and depletion expense of \$4.6 million from acquisitions closed during, or subsequent to, the three months ended September 30, 2019 and an increase in depreciation expense at our existing operations of \$4.2 million due primarily to the impact of additions to our fleet and equipment purchased to support our existing operations.

Depreciation expense decreased \$2.0 million, or 0.4%, to \$459.6 million for the nine months ended September 30, 2020, from \$461.6 million for the nine months ended September 30, 2019. The decrease was comprised of a decrease in depletion expense of \$20.1 million at our existing landfills due primarily to economic disruptions resulting from COVID-19 causing a decrease in E&P and municipal solid waste and a decrease of \$1.0 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by an increase in depreciation and depletion expense of \$15.0 million from acquisitions closed during, or subsequent to, the nine months ended September 30, 2019 and an increase in depreciation expense at our existing operations of \$4.1 million due primarily to the impact of additions to our fleet and equipment purchased to support our existing operations exceeding certain equipment acquired from the Progressive Waste acquisition becoming fully depreciated in June 2019.

Depreciation expense as a percentage of revenues increased 0.1 percentage points to 11.3% for the three months ended September 30, 2020, from 11.2% for the three months ended September 30, 2019. The decrease in our revenues due to economic disruptions resulting from COVID-19 contributed to a 0.6 percentage point increase, which was partially offset by a 0.5 percentage point reduction attributable to reduced E&P and municipal solid waste landfill volumes.

Depreciation expense as a percentage of revenues decreased 0.1 percentage points to 11.4% for the nine months ended September 30, 2020, from 11.5% for the nine months ended September 30, 2019. The decrease as a percentage of revenues consisted of a 0.4 percentage point decrease resulting from declines in E&P and municipal solid waste landfill volumes, partially offset by a 0.3 percentage point increase resulting from a decrease in our revenues due to economic disruptions resulting from COVID-19.

Amortization of Intangibles. Amortization of intangibles expense increased \$0.8 million, or 2.3%, to \$32.7 million for the three months ended September 30, 2020, from \$31.9 million for the three months ended September 30, 2019. The increase was the result of \$4.0 million from intangible assets acquired in acquisitions closed during, or subsequent to, the three months ended September 30, 2019, partially offset by a decrease of \$3.1 million from certain intangible assets becoming fully amortized subsequent to September 30, 2019 and a decrease of \$0.1 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods.

Amortization of intangibles expense increased \$2.3 million, or 2.4%, to \$96.1 million for the nine months ended September 30, 2020, from \$93.8 million for the nine months ended September 30, 2019. The increase was the result of \$12.2 million from intangible assets acquired in acquisitions closed during, or subsequent to, the nine months ended September 30, 2019, partially offset by a decrease of \$9.6 million from certain intangible assets becoming fully amortized subsequent to September 30, 2019 and a decrease of \$0.3 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods.

Amortization expense as a percentage of revenues increased 0.1 percentage points to 2.4% for the three and nine months ended September 30, 2020, from 2.3% for the three and nine months ended September 30, 2019.

Impairments and Other Operating Items. Impairments and other operating items decreased \$9.1 million, to net losses totaling \$3.8 million for the three months ended September 30, 2020, from net losses totaling \$12.9 million for the three months ended September 30, 2019.

The net losses of \$3.8 million recorded during the three months ended September 30, 2020 consisted of \$1.9 million of losses on property and equipment that were disposed of through sales or as a result of being damaged in operations, \$1.8 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated termination date and \$0.1 million of other net charges to expense.

The net losses of \$12.9 million recorded during the three months ended September 30, 2019 consisted of \$8.0 million resulting from the abandonment of an E&P landfill development project, \$3.5 million of losses on property and equipment that were disposed of through sales or as a result of being damaged in operations, \$1.2 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated termination date and \$0.2 million of other net charges to expense.

Impairments and other operating items increased \$409.7 million, to net losses totaling \$442.6 million for the nine months ended September 30, 2020, from net losses totaling \$32.9 million for the nine months ended September 30, 2019.

Macroeconomic and geopolitical conditions, including a significant decline in oil prices driven by both surplus production and supply, as well as the decrease in demand caused by factors including the COVID-19 pandemic, resulted in decreased levels of oil and natural gas exploration and production activity and a corresponding decrease in demand for our E&P waste services. During the nine months ended September 30, 2020, our E&P revenue declined \$75.2 million on rig count declines of 72% in certain basins. The most impacted basins include the Williston Basin in North Dakota, the Eagle Ford Basin in Texas and the Powder River Basin in Wyoming, all of which have relatively high costs associated with drilling, making them less attractive than other basins, including the Permian Basin in Texas and New Mexico. Additionally, across the industry there is uncertainty regarding future demand for oil and related services, as noted by several energy companies, many of whom are customers of our E&P operations. These companies have written down the values of their oil and gas assets in anticipation of the potential for the decarbonization of their energy product mix given an increased global focus on reducing greenhouse gases and addressing climate change. Such uncertainty regarding global demand has had a significant impact on the investment and operating plans of our E&P waste customers in the basins where we operate.

Based on these events, we concluded during the second quarter of 2020 that a triggering event occurred which required us to perform an impairment test of the property and equipment and intangible assets of our E&P operations as of June 30, 2020. As a result of the impairment test, we determined that the carrying value of four landfills in our E&P operations exceeded their estimated fair value, resulting in an impairment charge of \$417.4 million to property and equipment.

The remaining net losses of \$25.2 million recorded during the nine months ended September 30, 2020 consisted of \$16.8 million to adjust the carrying value of contingent consideration liabilities, \$4.3 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated termination date, \$3.4 million of losses on property and equipment that were disposed of through sales or as a result of being damaged in operations and \$0.7 million of other net charges.

The net losses of \$32.9 million recorded during the nine months ended September 30, 2019 consisted of \$14.3 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated termination date, \$8.0 million resulting from the abandonment of an E&P landfill development project, \$7.7 million of losses on property and equipment that were disposed of through sales or as a result of being damaged in operations, \$1.7 million of expenses associated with the settlement of various litigation claims and a \$1.5 million expense charge to increase the fair value of amounts payable under liability-classified contingent consideration arrangements from acquisitions closed in periods prior to 2018, partially offset by \$0.3 million of other gains.

Operating Income. Operating income decreased \$5.9 million, or 2.5%, to \$230.7 million for the three months ended September 30, 2020, from \$236.6 million for the three months ended September 30, 2019. Operating income decreased \$428.3 million, or 66.5%, to \$215.3 million for the nine months ended September 30, 2020, from \$643.6 million for the nine months ended September 30, 2019. Contributing to decreases for the three and nine month comparable periods were declines in our existing solid waste and E&P operations resulting from the impact of COVID-19, partially offset by solid waste price increases and operating income generated from acquisitions, with the comparable nine month period further impacted by the impairment charge attributable to four of our E&P landfills.

Operating income as a percentage of revenues decreased 0.1 percentage points to 16.6% for the three months ended September 30, 2020, from 16.7% for the three months ended September 30, 2019. The decrease as a percentage of revenues was comprised of a 0.5 percentage point increase in cost of operations, a 0.1 percentage point increase in

depreciation expense and a 0.1 percentage point increase in amortization expense, partially offset by a 0.6 percentage point decrease in impairments and other operating items.

Operating income as a percentage of revenues decreased 10.7 percentage points to 5.3% for the nine months ended September 30, 2020, from 16.0% for the nine months ended September 30, 2019. The decrease as a percentage of revenues was comprised of a 10.1 percentage point increase in impairments and other operating items, a 0.8 percentage point increase in cost of operations and a 0.1 percentage point increase in amortization expense, partially offset by a 0.2 percentage point decrease in SG&A expense and a 0.1 percentage point decrease in depreciation expense.

Interest Expense. Interest expense increased \$3.8 million, or 10.5%, to \$40.6 million for the three months ended September 30, 2020, from \$36.8 million for the three months ended September 30, 2019. The increase was primarily attributable to an increase of \$3.9 million from the January 2020 issuance of our 2030 Senior Notes, an increase of \$3.8 million from the March 2020 issuance of our 2050 Senior Notes, an increase of \$0.4 million from higher net interest rates on borrowings outstanding under our Credit Agreement due primarily to a \$150 million interest rate swap agreement commencing in February 2020 at a higher interest rate than two interest rate swap agreements totaling \$175 million which expired in February 2020 and \$0.7 million of other net increases, partially offset by a decrease of \$2.7 million due to a reduction in the average borrowings outstanding under our Credit Agreement and a decrease of \$2.3 million from the repayment of our 2019 Senior Notes.

Interest expense increased \$8.3 million, or 7.4%, to \$119.6 million for the nine months ended September 30, 2020, from \$111.3 million for the nine months ended September 30, 2019. The increase was primarily attributable to an increase of \$10.8 million from the January 2020 issuance of our 2030 Senior Notes, an increase of \$8.4 million from the March 2020 issuance of our 2050 Senior Notes, an increase of \$5.1 million from the April 2019 issuance of our 2029 Senior Notes, an increase of \$1.0 million from higher net interest rates on borrowings outstanding under our Credit Agreement due primarily to a \$150 million interest rate swap agreement commencing in February 2020 at a higher interest rate than two interest rate swap agreements totaling \$175 million which expired in February 2020 and \$0.4 million of other net increases, partially offset by a decrease of \$10.5 million due to a reduction in the average borrowings outstanding under our Credit Agreement and a decrease of \$6.9 million from the repayment of \$175 million of our 2019 Senior Notes.

Interest Income. Interest income decreased \$1.2 million, to \$0.9 million for the three months ended September 30, 2020, from \$2.1 million for the three months ended September 30, 2019. Interest income decreased \$2.8 million, to \$4.4 million for the nine months ended September 30, 2020, from \$7.2 million for the nine months ended September 30, 2019. The decreases were primarily attributable to lower reinvestment rates in the current period.

Other Income (Expense). Other income (expense) increased \$0.7 million, to an income total of \$0.7 million for the three months ended September 30, 2020, from an income total of \$0 for the three months ended September 30, 2019. The increase was due primarily to a \$1.5 million increase in the value of investments purchased to fund our employee deferred compensation obligations due to stock market valuation increases and \$0.1 million of other net income increases, partially offset by interest rate swap termination costs of \$0.9 million associated with our early termination in September 2020 of four interest rate swap agreements.

Other income (expense) decreased \$7.6 million, to an expense total of \$3.0 million for the nine months ended September 30, 2020, from an income total of \$4.6 million for the nine months ended September 30, 2019. The decrease was due primarily to a \$2.6 million decrease in the value of investments purchased to fund our employee deferred compensation obligations due to stock market valuation declines, a \$3.0 million adjustment to increase certain accrued liabilities acquired in the 2016 Progressive Waste acquisition, an increase in foreign currency transaction losses of \$2.2 million attributable to changes in the average foreign currency exchange rate in effect during the comparable reporting periods impacting our third party debt in Canadian dollars and our inter-entity financing arrangements and interest rate swap termination costs of \$0.9 million, partially offset by \$1.1 million of other net expense increases.

Income Tax Provision. Income taxes decreased \$9.1 million, to \$33.7 million for the three months ended September 30, 2020, from \$42.8 million for the three months ended September 30, 2019. Our effective tax rate for the three months ended September 30, 2020 was 17.6%. Our effective tax rate for the three months ended September 30, 2019 was 21.2%. Income taxes decreased \$86.8 million, to \$23.7 million for the nine months ended September 30, 2020, from \$110.5 million

for the nine months ended September 30, 2019. Our effective tax rate for the nine months ended September 30, 2020 was 24.4%. Our effective tax rate for the nine months ended September 30, 2019 was 20.3%.

The income tax provision for the nine months ended September 30, 2020 included a \$27.4 million expense associated with certain 2019 related-party payments no longer being deductible for tax purposes due to the finalization of tax regulations on April 7, 2020 under Internal Revenue Code section 267A and a \$4.1 million expense related to an increase in our deferred income tax liabilities resulting from the impairment of certain assets within our E&P operations, which impacted the geographical apportionment of our state income taxes. Additionally, the income tax benefit for the nine months ended September 30, 2020 included a benefit of \$5.3 million from share-based payment awards being recognized in the income statement when settled, as well as a portion of our internal financing being taxed at effective rates substantially lower than the U.S. federal statutory rate.

The income tax provision for the three and nine months ended September 30, 2019 included a \$3.8 million expense primarily associated with a reduction in deferred income tax assets related to compensation of executive officers no longer deemed deductible for tax purposes. Additionally, the income tax provision for the three and nine months ended September 30, 2019 included a benefit of \$0.1 million and \$5.4 million, respectively, from share-based payment awards being recognized in the income statement when settled, as well as a portion of our internal financing being taxed at effective rates substantially lower than the U.S. federal statutory rate.

SEGMENT RESULTS

General

No single contract or customer accounted for more than 10% of our total revenues at the consolidated or reportable segment level during the periods presented. The following table disaggregates our revenue by service line for the periods indicated (dollars in thousands of U.S. dollars).

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Commercial	\$ 406,037	\$ 408,415	\$ 1,197,971	\$ 1,186,565
Residential	387,566	355,574	1,131,486	1,024,105
Industrial and construction roll off	216,894	226,801	618,122	629,597
Total collection	1,010,497	990,790	2,947,579	2,840,267
Landfill	308,795	310,633	855,631	852,073
Transfer	205,910	209,585	575,761	575,337
Recycling	21,377	14,142	59,701	50,676
E&P	26,218	70,874	131,748	205,743
Intermodal and other	27,141	26,520	84,970	90,491
Intercompany	(210,386)	(210,100)	(607,651)	(587,868)
Total	<u>\$ 1,389,552</u>	<u>\$ 1,412,444</u>	<u>\$ 4,047,739</u>	<u>\$ 4,026,719</u>

Our Chief Operating Decision Maker evaluates operating segment profitability and determines resource allocations based on several factors, of which the primary financial measure is segment EBITDA. We define segment EBITDA as earnings before interest, taxes, depreciation, amortization, impairments and other operating items and other income (expense). Segment EBITDA is not a measure of operating income, operating performance or liquidity under GAAP and may not be comparable to similarly titled measures reported by other companies. Our management uses segment EBITDA in the evaluation of segment operating performance as it is a profit measure that is generally within the control of the operating segments.

Prior to July 2020, we managed our operations through five geographic solid waste operating segments and our E&P segment, which were also our reportable segments. As of July 2020, our Chief Operating Decision Maker determined that the E&P and Southern operating segments met all of the aggregation criteria and has eliminated our E&P segment by combining all operations of the E&P segment into the Southern segment. After giving effect to this combination, our reportable segments consist of our five geographic solid waste operating segments and no longer include a separate E&P

segment. Each operating segment is responsible for managing several vertically integrated operations, which are comprised of districts. The segment information presented herein reflects the realignment of these districts. Segment results for the 2019 periods reflected in this report have been reclassified to reflect the realignment of our reportable segments for comparison with the same period in 2020.

At September 30, 2020, under the current orientation, our Eastern segment services customers located in northern Illinois, Kentucky, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, eastern Tennessee, Vermont, Virginia and Wisconsin; our Southern segment services customers located in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, New Mexico, North Dakota, southern Oklahoma, western Tennessee, Texas, Wyoming and along the Gulf of Mexico; our Western segment services customers located in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming; our Central segment services customers located in Arizona, Colorado, southern Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, South Dakota, western Texas, Utah and eastern Wyoming; and our Canada segment services customers located in the state of Michigan and in the provinces of Alberta, British Columbia, Manitoba, Ontario, Québec and Saskatchewan.

Revenues, net of intercompany eliminations, for our reportable segments are shown in the following table in thousands of U.S. dollars and as a percentage of total revenues for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
Eastern	\$ 344,353	24.8 %	\$ 330,887	23.4 %	\$ 995,446	24.6 %	\$ 947,334	23.5 %
Southern	330,575	23.8	371,455	26.3	1,033,297	25.5	1,084,194	26.9
Western	301,221	21.7	289,208	20.5	848,739	21.0	821,185	20.4
Central	228,566	16.4	230,074	16.3	653,728	16.1	626,312	15.6
Canada	184,837	13.3	190,820	13.5	516,529	12.8	547,694	13.6
	<u>\$ 1,389,552</u>	<u>100.0 %</u>	<u>\$ 1,412,444</u>	<u>100.0 %</u>	<u>\$ 4,047,739</u>	<u>100.0 %</u>	<u>\$ 4,026,719</u>	<u>100.0 %</u>

Segment EBITDA for our reportable segments is shown in the following table in thousands of U.S. dollars and as a percentage of segment revenues for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
Western	\$ 101,071	33.6 %	\$ 90,059	31.1 %	\$ 267,523	31.5 %	\$ 253,504	30.9 %
Eastern	90,991	26.4 %	88,101	26.6 %	258,333	26.0 %	250,106	26.4 %
Central	82,887	36.3 %	81,746	35.5 %	235,742	36.1 %	219,280	35.0 %
Southern	81,394	24.6 %	113,209	30.5 %	276,844	26.8 %	327,139	30.2 %
Canada	72,516	39.2 %	66,794	35.0 %	185,589	35.9 %	193,702	35.4 %
Corporate ^(a)	(4,132)	—	(446)	—	(10,462)	—	(11,751)	—
	<u>\$ 424,727</u>	<u>30.6 %</u>	<u>\$ 439,463</u>	<u>31.1 %</u>	<u>\$ 1,213,569</u>	<u>30.0 %</u>	<u>\$ 1,231,980</u>	<u>30.6 %</u>

(a) Corporate consists of expenses associated with its administrative departments and certain centralized expenses including cash and equity-based incentive compensation, direct acquisition expenses and share-based compensation expenses associated with Progressive Waste share-based grants outstanding at June 1, 2016 that were continued by the Company. Amounts reflected are net of allocations to the five operating segments.

A reconciliation of segment EBITDA to Income before income tax provision is included in Note 12 to our Condensed Consolidated Financial Statements included in Part 1, Item 1 of this report.

Significant changes in revenue and segment EBITDA for our reportable segments for the three and nine month periods ended September 30, 2020, compared to the three and nine month periods ended September 30, 2019, are discussed below:

Segment Revenue

Revenue in our Eastern segment increased \$13.5 million, or 4.1%, to \$344.4 million for the three months ended September 30, 2020, from \$330.9 million for the three months ended September 30, 2019. The components of the increase consisted of net revenue growth from acquisitions closed during, or subsequent to, the three months ended September 30, 2019, of \$32.1 million, net price increases of \$13.5 million and other revenue increases of \$0.5 million, partially offset by solid waste volume decreases of \$29.7 million attributable primarily to COVID-19 economic disruptions driving declines in commercial collection, roll off collection, transfer station and landfill volumes and net revenue reductions from divestitures closed subsequent to September 30, 2019 of \$2.9 million.

Revenue in our Eastern segment increased \$48.1 million, or 5.1%, to \$995.4 million for the nine months ended September 30, 2020, from \$947.3 million for the nine months ended September 30, 2019. The components of the increase consisted of net revenue growth from acquisitions closed during, or subsequent to, the nine months ended September 30, 2019, of \$107.4 million and net price increases of \$45.1 million, partially offset by solid waste volume decreases of \$89.9 million attributable primarily to COVID-19 economic disruptions driving declines in commercial collection, roll off collection, transfer station and landfill volumes, net revenue reductions from divestitures closed subsequent to September 30, 2019 of \$11.1 million, decreased recyclable commodity sales of \$2.1 million resulting from a decrease in recycling volumes collected and declines in prices for plastic and aluminum and other revenue decreases of \$1.3 million.

Revenue in our Southern segment decreased \$40.9 million, or 11.0%, to \$330.6 million for the three months ended September 30, 2020, from \$371.5 million for the three months ended September 30, 2019. The components of the decrease consisted of a decline in revenue at our E&P operations of \$41.6 million, partially offset by an increase in revenue at our solid waste operations of \$0.7 million. The \$41.6 million decrease in revenue at our E&P operations was attributable to decreases in the demand for crude oil as a result of economic disruptions from COVID-19 resulting in a drop in the value of crude oil, decreases in drilling and production activity levels and decreases in overall demand for our E&P waste services. The components of the \$0.7 million increase in revenue at our solid waste operations consisted of net price increases of \$11.0 million and other revenue increases of \$0.8 million, partially offset by solid waste volume decreases of \$11.1 million attributable primarily to the net impact of COVID-19 economic disruptions driving declines in commercial collection, roll off collection, transfer station and municipal solid waste landfill volumes that exceeded increases in landfill special waste volumes.

Revenue in our Southern segment decreased \$50.9 million, or 4.7%, to \$1.033 billion for the nine months ended September 30, 2020, from \$1.084 billion for the nine months ended September 30, 2019. The components of the decrease consisted of a decline in revenue at our E&P operations of \$72.7 million, partially offset by an increase in revenue at our solid waste operations of \$21.8 million. The \$72.7 million decrease in revenue at our E&P operations was attributable to decreases in the demand for crude oil as a result of economic disruptions from COVID-19 resulting in a drop in the value of crude oil, decreases in drilling and production activity levels and decreases in overall demand for our E&P waste services. Drilling and production activity during the nine months ended September 30, 2020 were also adversely impacted by the drop in the value of crude oil due to the increased supply of oil resulting from Saudi Arabia and Russia abandoning production quotas and increasing production levels, which was exacerbated by the impact of COVID-19. The components of the \$21.8 million increase in revenue at our solid waste operations consisted of net price increases of \$41.8 million and net revenue growth from acquisitions closed during, or subsequent to, the nine months ended September 30, 2019 of \$12.3 million, partially offset by solid waste volume decreases of \$30.3 million attributable primarily to COVID-19 economic disruptions driving declines in commercial collection, roll off collection, transfer station and municipal solid waste landfill volumes that exceeded increases in landfill special waste volumes, net revenue reductions from divestitures closed subsequent to September 30, 2019 of \$0.6 million and other revenue decreases of \$1.4 million.

Revenue in our Western segment increased \$12.0 million, or 4.2%, to \$301.2 million for the three months ended September 30, 2020, from \$289.2 million for the three months ended September 30, 2019. The components of the increase consisted of net revenue growth from acquisitions closed during, or subsequent to, the three months ended September 30,

2019, of \$7.3 million, net price increases of \$7.2 million and other revenue increases of \$0.4 million, partially offset by intermodal revenue decreases of \$2.9 million due primarily to a reduction in intermodal cargo volumes.

Revenue in our Western segment increased \$27.5 million, or 3.4%, to \$848.7 million for the nine months ended September 30, 2020, from \$821.2 million for the nine months ended September 30, 2019. The components of the increase consisted of net price increases of \$23.4 million and net revenue growth from acquisitions closed during, or subsequent to, the three months ended September 30, 2019, of \$9.4 million, partially offset by intermodal revenue decreases of \$4.5 million due to a reduction in intermodal cargo volumes and other revenue decreases of \$0.8 million.

Revenue in our Central segment decreased \$1.5 million, or 0.7%, to \$228.6 million for the three months ended September 30, 2020, from \$230.1 million for the three months ended September 30, 2019. The components of the decrease consisted of solid waste volume decreases of \$17.5 million due to the impact of COVID-19 economic disruptions driving decreases in commercial collection, roll off collection, transfer station and landfill volumes and other revenue decreases of \$0.5 million, partially offset by net price increases of \$9.1 million and net revenue growth from acquisitions closed during, or subsequent to, the three months ended September 30, 2019, of \$7.4 million.

Revenue in our Central segment increased \$27.4 million, or 4.4%, to \$653.7 million for the nine months ended September 30, 2020, from \$626.3 million for the nine months ended September 30, 2019. The components of the increase consisted of net price increases of \$30.0 million and revenue growth from acquisitions closed during, or subsequent to, the nine months ended September 30, 2019, of \$26.5 million, partially offset by solid waste volume decreases of \$28.0 million due to the impact of COVID-19 economic disruptions driving decreases in commercial collection, roll off collection, transfer station and landfill volumes and other revenue decreases of \$1.1 million.

Revenue in our Canada segment decreased \$6.0 million, or 3.1%, to \$184.8 million for the three months ended September 30, 2020, from \$190.8 million for the three months ended September 30, 2019. The components of the decrease consisted of solid waste volume decreases of \$16.2 million due to the net impact of COVID-19 economic disruptions driving decreases in commercial collection, roll off collection, transfer station and landfill volumes and a decrease of \$1.6 million resulting from a lower average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by net price increases of \$8.3 million, an increase of \$2.9 million resulting from an increase in the prices for renewable energy credits and natural gas associated with the generation and sale of landfill gas and other revenue increases of \$0.6 million.

Revenue in our Canada segment decreased \$31.2 million, or 5.7%, to \$516.5 million for the nine months ended September 30, 2020, from \$547.7 million for the nine months ended September 30, 2019. The components of the decrease consisted of solid waste volume decreases of \$50.9 million due to the net impact of COVID-19 economic disruptions driving decreases in commercial collection, roll off collection, transfer station and landfill volumes and a decrease of \$9.6 million resulting from a lower average foreign currency exchange rate in effect during the comparable reporting, partially offset by net price increases of \$27.6 million, net revenue growth from acquisitions closed during, or subsequent to, the nine months ended September 30, 2019 of \$0.6 million and other revenue increases of \$1.1 million.

Segment EBITDA

Segment EBITDA in our Western segment increased \$11.0 million, or 12.2%, to \$101.1 million for the three months ended September 30, 2020, from \$90.1 million for the three months ended September 30, 2019. The increase was due primarily to an increase in revenues of \$12.0 million, a decrease in taxes on revenues of \$4.9 million from the reversal of recorded liabilities for certain fees and exactions at Chiquita Canyon landfill due to our successful challenge of increases assessed in prior periods, a decrease in intermodal rail expenses of \$2.1 million due to a reduction in cargo volume, a decrease in fuel expense of \$1.1 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in 401(k) matching expenses of \$1.1 million as we suspended our 401(k) match as of June 1, 2020 and a collective decrease in travel, meeting, training, and community activity expenses of \$0.9 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, partially offset by a net \$5.4 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in corporate overhead expense allocations of \$3.3 million due to an increase in the overhead

allocation rate, an increase in recurring taxes on revenues of \$2.2 million attributable to price-led increases in residential collection and landfill municipal solid waste revenues and other expense increases of \$0.2 million.

Segment EBITDA in our Western segment increased \$14.0 million, or 5.5%, to \$267.5 million for the nine months ended September 30, 2020, from \$253.5 million for the nine months ended September 30, 2019. The increase was due primarily to an increase in revenues of \$27.5 million, a decrease in taxes on revenues of \$4.9 million from the reversal of recorded liabilities for certain fees and exactions at Chiquita Canyon landfill due to our successful challenge of increases assessed in prior periods, a decrease in intermodal rail expenses of \$4.0 million due to a reduction in cargo volume, a collective decrease in travel, meeting, training, and community activity expenses of \$2.6 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, a decrease in employee medical benefits expenses of \$2.3 million due to a reduction in medical visits, a decrease in fuel expense of \$2.3 million due to a decrease in the price of diesel fuel and a decrease in 401(k) matching expenses of \$1.5 million as we suspended our 401(k) match as of June 1, 2020, partially offset by a net \$6.2 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in labor expenses of \$4.6 million due primarily to employee pay rate increases, an additional calendar and business day in the current year period due to leap year, as well as emergency wages and other COVID-19-related employee costs, an increase in recurring taxes on revenues of \$4.5 million attributable to price-led increases in residential collection and landfill municipal solid waste revenues, an increase in corporate overhead expense allocations of \$3.2 million due to an increase in the overhead allocation rate, an increase of \$2.4 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, an increase in third party disposal expenses of \$2.2 million due primarily to disposal rate increases and higher residential collection tonnage, an increase in landfill site maintenance expenses of \$1.3 million due primarily to increased daily cover costs, an increase in property tax expenses of \$1.2 million due primarily to reassessed values of certain landfills, an increase in expenses for auto and workers' compensation claims of \$1.2 million due primarily to non-recurring adjustments recorded in the prior year period to decrease projected losses on outstanding claims originally recorded prior to 2019 and other expense increases of \$4.3 million.

Segment EBITDA in our Eastern segment increased \$2.9 million, or 3.3%, to \$91.0 million for the three months ended September 30, 2020, from \$88.1 million for the three months ended September 30, 2019. The increase was due primarily to an increase in revenues of \$16.4 million from organic growth and acquisitions, \$10.0 million of collective decreases in third-party disposal expenses, third-party trucking expenses, labor expenses and expenses for processing recyclable commodities attributable to declines in solid waste and commercial recycling volumes resulting primarily from economic disruptions caused by COVID-19, a decrease in fuel expense of \$2.1 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in employee medical benefits expenses of \$1.6 million due to a reduction in medical visits, a decrease in 401(k) matching expenses of \$1.1 million as we suspended our 401(k) match as of June 1, 2020, a collective decrease in travel, meeting, training, and community activity expenses of \$1.0 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, an increase to EBITDA of \$0.9 million from the impact of operations disposed of subsequent to the three months ended September 30, 2019 and other expense decreases of \$0.6 million, partially offset by a net \$23.8 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in corporate overhead expense allocations of \$4.7 million due to an increase in the overhead allocation rate, an increase in truck, container, equipment and facility maintenance and repair expenses of \$1.2 million due to an increase in facility repairs and the completion of certain vehicle and equipment maintenance activities that were postponed in the second quarter of 2020 and an increase in landfill operating expenses of \$1.1 million due primarily to increased gas system repairs.

Segment EBITDA in our Eastern segment increased \$8.2 million, or 3.3%, to \$258.3 million for the nine months ended September 30, 2020, from \$250.1 million for the nine months ended September 30, 2019. The increase was due primarily to an increase in revenues of \$59.2 million from organic growth and acquisitions, \$26.0 million of collective decreases in third-party disposal expenses, third-party trucking expenses, labor expenses, expenses for processing recyclable commodities and taxes on revenues attributable to declines in solid waste and commercial recycling volumes resulting primarily from economic disruptions caused by COVID-19, a decrease in fuel expense of \$5.5 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in employee medical benefits expenses of \$5.3 million due to a reduction in medical visits, a collective decrease in travel, meeting, training, and community activity expenses of \$1.8 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, an increase to EBITDA of \$1.5 million

from the impact of operations disposed of during the nine months ended September 30, 2020, a decrease in 401(k) matching expenses of \$1.3 million as we suspended our 401(k) match as of June 1, 2020 and other expense decreases of \$1.9 million, partially offset by a net \$78.0 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in corporate overhead expense allocations of \$6.3 million due to an increase in the overhead allocation rate, an increase of \$2.7 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, an increase in expenses for uncollectible accounts receivable of \$2.5 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19, an increase in truck, container, equipment and facility maintenance and repair expenses of \$1.5 million due to an increase in facility repairs as well as parts and service rate increases, an increase in subcontracted hauling services of \$1.2 million due to outsourcing the servicing of certain non-strategic collection customers to third party haulers, an increase in expenses for auto and workers' compensation claims of \$1.1 million due primarily to non-recurring adjustments recorded in the prior year period to decrease projected losses on outstanding claims occurring prior to 2019 and an increase in landfill operating expenses of \$1.0 million due primarily to increased gas system repairs.

Segment EBITDA in our Central segment increased \$1.2 million, or 1.4%, to \$82.9 million for the three months ended September 30, 2020, from \$81.7 million for the three months ended September 30, 2019. The increase was due primarily to \$2.9 million of collective decreases in third-party disposal expenses and third-party trucking expenses attributable to declines in solid waste volumes resulting from economic disruptions caused by COVID-19, a decrease in expenses for uncollectible accounts receivable of \$1.2 million due primarily to the current period collection of certain accounts deemed uncollectible in prior periods, a decrease in 401(k) matching expenses of \$1.1 million as we suspended our 401(k) match as of June 1, 2020, a decrease in employee medical benefits expenses of \$0.8 million due to a reduction in medical visits, a decrease in fuel expense of \$0.8 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a collective decrease in travel, meeting, training, and community activity expenses of \$0.6 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities and other expense decreases of \$1.1 million, partially offset by a net \$3.5 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in corporate overhead expense allocations of \$2.3 million due to an increase in the overhead allocation rate and a decrease in revenues of \$1.5 million.

Segment EBITDA in our Central segment increased \$16.4 million, or 7.5%, to \$235.7 million for the nine months ended September 30, 2020, from \$219.3 million for the nine months ended September 30, 2019. The increase was due primarily to an increase in revenues of \$27.4 million, \$5.3 million of collective decreases in third-party disposal expenses and third-party trucking expenses attributable to declines in solid waste volumes resulting from economic disruptions caused by COVID-19, a decrease in employee medical benefits expenses of \$3.6 million due to a reduction in medical visits, a decrease in expenses for uncollectible accounts receivable of \$1.9 million due primarily to the current period collection of certain accounts deemed uncollectible in prior periods, a decrease in fuel expense of \$1.6 million due to a decrease in the price of diesel fuel, a decrease in 401(k) matching expenses of \$1.3 million as we suspended our 401(k) match as of June 1, 2020, a collective decrease in travel, meeting, training, and community activity expenses of \$1.2 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities and other expense decreases of \$0.7 million, partially offset by a net \$15.4 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in labor expenses of \$5.1 million due primarily to employee pay rate increases, an additional calendar and business day in the current year period due to leap year, as well as emergency wages and other COVID-19-related employee costs exceeding decreases in hours worked attributable to solid waste volume reductions resulting from COVID-19 economic disruptions, an increase in corporate overhead expense allocations of \$2.7 million due to an increase in the overhead allocation rate, an increase of \$2.3 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19 and an increase in expenses for auto and workers' compensation claims of \$1.1 million due primarily to non-recurring adjustments recorded in the prior year period to decrease projected losses on outstanding claims.

Segment EBITDA in our Southern segment decreased \$31.8 million, or 28.1%, to \$81.4 million for the three months ended September 30, 2020, from \$113.2 million for the three months ended September 30, 2019. The decrease was due to a decrease in E&P revenues of \$41.6 million, an increase in corporate overhead expense allocations to our solid waste operations of \$3.3 million due to an increase in the overhead allocation rate, an increase in truck, container, equipment and facility maintenance and repair expenses at our solid waste operations of \$2.4 million due to an increase in facility

repairs as well as parts and service rate increases, an increase in labor expenses at our solid waste operations of \$1.6 million due primarily to employee pay rate increases, an increase in expenses for uncollectible accounts receivable at our E&P operations of \$1.5 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19 and \$0.7 million of other net expense increases at our solid waste operations, partially offset by a decrease in 401(k) matching expenses at our solid waste operations of \$1.9 million as we suspended our 401(k) match as of June 1, 2020, a decrease in third party disposal expenses at our solid waste operations of \$1.4 million due primarily to declines in commercial and roll off collection volumes, a decrease in employee medical benefits expenses at our solid waste operations of \$1.2 million due to a reduction in medical visits, a decrease in fuel expense at our solid waste operations of \$0.9 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in expenses for auto and workers' compensation claims at our solid waste operations of \$0.8 million due primarily to adjustments recorded in the current year period to decrease projected losses on outstanding claims originally recorded in prior periods, a collective decrease in travel, meeting, training, and community activity expenses at our solid waste operations of \$0.7 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, an increase in revenues at our solid waste operations of \$0.7 million and the following expense decreases at our E&P operations which were directly attributable to the decline in E&P volumes and corresponding decline in E&P revenues: a decrease in labor expenses of \$3.0 million; a decrease in equipment and property repair and maintenance expenses of \$2.8 million; a decrease in operating activities outsourced to third-parties of \$2.0 million; a decrease in fuel expense of \$0.9 million; a decrease in landfill operating supplies of \$0.9 million; a decrease in third-party trucking and transportation services of \$0.6 million; a decrease in royalty expenses paid on revenues of \$0.6 million; a decrease in travel, meetings and training expenses of \$0.5 million and \$0.4 million of other net expense decreases.

Segment EBITDA in our Southern segment decreased \$50.3 million, or 15.4%, to \$276.8 million for the nine months ended September 30, 2020, from \$327.1 million for the nine months ended September 30, 2019. The decrease was due to a decrease in E&P revenues of \$72.7 million, a net \$8.3 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in truck, container, equipment and facility maintenance and repair expenses at our solid waste operations of \$7.8 million due to an increase in facility repairs as well as parts and service rate increases, an increase in expenses for auto and workers' compensation claims of \$6.7 million at our solid waste operations due primarily to increases in our deductibles for auto claims, higher claims severity in the current year period and adjustments recorded in the prior year period to decrease projected losses on outstanding claims originally recorded prior to 2019, an increase in labor expenses at our solid waste operations of \$6.0 million due primarily to employee pay rate increases, an increase of \$3.6 million resulting from the payment of supplemental bonuses to non-management employees at our solid waste operations to provide financial assistance associated with the impact of COVID-19, an increase in corporate overhead expense allocations to our solid waste operations of \$3.5 million due to an increase in the overhead allocation rate, an increase in third party trucking and transportation expenses of \$2.2 million at our solid waste operations due to increased landfill special waste volumes requiring transportation services to our disposal sites, an increase in expenses for uncollectible accounts receivable at our E&P operations of \$1.9 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19, an increase in leachate expense at our solid waste operations of \$1.5 million due to higher precipitation at our sites in Florida and \$0.4 million of other net expense increases at our solid waste operations, partially offset by an increase in revenues at our solid waste operations of \$21.8 million, a decrease in third party disposal expenses at our solid waste operations of \$6.3 million due primarily to declines in commercial and roll off collection volumes, a decrease in employee medical benefits expenses at our solid waste operations of \$5.4 million due to a reduction in medical visits, a decrease in 401(k) matching expenses at our solid waste operations of \$2.4 million as we suspended our 401(k) match as of June 1, 2020, a collective decrease in travel, meeting, training, and community activity expenses at our solid waste operations of \$2.3 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, a decrease in fuel expense at our solid waste operations of \$1.6 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in compressed natural gas expense at our solid waste operations of \$1.5 million due primarily to the recognition in 2020 of tax credits associated with the purchase of compressed natural gas and the following expense decreases at our E&P operations which were directly attributable to the decline in E&P volumes and corresponding decline in E&P revenues: a decrease in equipment and property repair and maintenance expenses of \$4.2 million; a decrease in operating activities outsourced to third-parties of \$3.6 million; a decrease in labor expenses of \$3.4 million; a decrease in third-party trucking and transportation services of \$3.2 million; a decrease in fuel expense of \$2.0 million; a decrease in royalty expenses paid on revenues of \$1.6 million; a decrease in landfill operating supplies of \$1.3 million; a decrease in

travel, meetings and training expenses of \$1.2 million; a decrease in equipment rental expenses of \$0.6 million and \$1.9 million of other net expense decreases.

Segment EBITDA in our Canada segment increased \$5.7 million, or 8.6%, to \$72.5 million for the three months ended September 30, 2020, from \$66.8 million for the three months ended September 30, 2019. The increase was comprised of an increase of \$6.2 million assuming foreign currency parity during the comparable reporting periods and a decrease of \$0.5 million from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods. The \$6.2 million increase, which assumes foreign currency parity, was due to a decrease in subcontracted hauling services at our solid waste operations of \$2.8 million due primarily to the impact of reversing expenses accrued in a prior period and incurring less expenses in the current period associated with estimated equipment charge overages related to an outsourced collection contract, \$2.4 million of collective decreases in third-party disposal expenses and third-party trucking expenses attributable to declines in solid waste volumes resulting from economic disruptions caused by COVID-19, a decrease in labor expenses of \$1.7 million due to the receipt of a government subsidy reimbursing us for certain payroll expenditures remitted to our employees during the COVID-19 pandemic, a decrease in fuel expense of \$1.5 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in insurance premium expense of \$1.2 million due primarily to refunds received in the current period resulting from favorable workers' compensation claim incident totals and a decrease in expenses for uncollectible accounts receivable of \$1.2 million due primarily to the current period collection of certain accounts deemed uncollectible in prior periods, partially offset by a decrease in revenues of \$4.4 million and other expense increases of \$0.2 million.

Segment EBITDA in our Canada segment decreased \$8.1 million, or 4.2%, to \$185.6 million for the nine months ended September 30, 2020, from \$193.7 million for the nine months ended September 30, 2019. The decrease was comprised of a decrease of \$4.8 million assuming foreign currency parity during the comparable reporting periods and a decrease of \$3.3 million from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods. The \$4.8 million decrease, which assumes foreign currency parity, was due primarily to a decrease in revenues of \$21.6 million, additional expenses of \$1.2 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19 and an increase in other net expenses of \$1.3 million, partially offset by collective decreases totaling \$7.2 million in third-party disposal expenses and third-party trucking expenses attributable to declines in solid waste volumes resulting primarily from economic disruptions caused by COVID-19, a decrease in fuel expense of \$4.4 million due to declines in the market price of diesel fuel, a decrease in subcontracted hauling services at our solid waste operations of \$3.2 million due primarily to the impact of reversing expenses accrued in a prior period and incurring less expenses in the current period associated with estimated equipment charge overages related to an outsourced collection contract, a decrease in labor expenses of \$1.7 million due to the receipt of a government subsidy reimbursing us for certain payroll expenditures remitted to our employees during the COVID-19 pandemic, a decrease in insurance premium expense of \$1.5 million due primarily to refunds received in the current period resulting from favorable workers' compensation claim incident totals and a collective decrease in travel, meeting, training, and community activity expenses of \$1.3 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities.

Segment EBITDA at Corporate decreased \$3.7 million, to a loss of \$4.1 million for the three months ended September 30, 2020, from a loss of \$0.4 million for the three months ended September 30, 2019. The decrease was due to an increase in accrued cash incentive compensation expense to our management and non-management employees of \$9.5 million, an increase in equity-based compensation expenses of \$2.4 million resulting primarily from an increased value of our recurring grant of restricted and performance share units to our personnel and adjustments to the amount of performance-based restricted share units granted in 2018 that are estimated to ultimately vest, an increase in share-based compensation expenses of \$1.7 million due primarily to increased share price volatility in the current period for equity awards accounted for as liabilities that were granted to employees of Progressive Waste prior to June 1, 2016 which are subject to valuation adjustments each period based on changes in fair value, an increase in direct acquisition expenses of \$1.3 million due to an increase in acquisition activity, an increase in deferred compensation expenses of \$1.2 million as a result of increases in the market value of investments to which employee deferred compensation liability balances are tracked, an increase in software licenses and subscriptions expenses of \$0.9 million due primarily to the addition of new sales and customer service applications, an increase of \$0.7 million in equity-based compensation expenses associated with fair value adjustments to Company common shares held in our deferred compensation plan by certain key executives as a result of the shares being exchanged for other investment options and \$1.8 million of other net expense increases, partially offset

by an increase in corporate overhead allocated through charges to our segments of \$14.0 million due to an increase in expenses qualifying for allocation rates and a collective decrease in travel, meeting, training, office supplies and community activity expenses of \$1.8 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities.

Segment EBITDA at Corporate increased \$1.3 million, to a loss of \$10.5 million for the nine months ended September 30, 2020, from a loss of \$11.8 million for the nine months ended September 30, 2019. The increase was due to an increase in corporate overhead allocated through charges to our segments of \$16.1 million due to an increase in expenses qualifying for allocation, a collective decrease in travel, meeting, training, office supplies and community activity expenses of \$6.0 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, a decrease in direct acquisition expenses of \$3.6 million due to a decline in acquisition activity, a decrease in deferred compensation expenses of \$3.0 million as a result of decreases in the market value of investments to which employee deferred compensation liability balances are tracked, a decrease in professional fees of \$2.9 million due primarily to work on legal matters being postponed resulting from temporary court closures and a decrease in third party tax consulting expenses and a decrease in share-based compensation expenses of \$1.7 million due primarily to decreased share price volatility and less outstanding shares in the current period for equity awards accounted for as liabilities that were granted to employees of Progressive Waste prior to June 1, 2016 which are subject to valuation adjustments each period based on changes in fair value, partially offset by an increase in accrued cash incentive compensation expense to our management and non-management employees of \$18.4 million, an increase of \$4.0 million in equity-based compensation expenses associated with fair value adjustments to Company common shares held in our deferred compensation plan by certain key executives as a result of the shares being exchanged for other investment options, an increase in software licenses and subscriptions expenses of \$2.2 million due primarily to the addition of new sales and customer service applications, an increase in payroll and payroll related expenses of \$2.1 million due to annual pay increases and increased employee termination pay, an increase in equity-based compensation expenses of \$1.1 million resulting primarily from the impact of an increased value of our recurring grant of restricted and performance share units to our personnel, net of adjustments to the amount of performance-based restricted share units estimated to ultimately vest, and \$4.2 million of other net expense increases.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth certain cash flow information for the nine months ended September 30, 2020 and 2019 (in thousands of U.S. dollars):

	Nine Months Ended September 30,	
	2020	2019
Net cash provided by operating activities	\$ 1,185,573	\$ 1,185,430
Net cash used in investing activities	(650,066)	(885,672)
Net cash used in financing activities	(4,093)	(308,039)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	980	143
Net increase (decrease) in cash, cash equivalents and restricted cash	532,394	(8,138)
Cash, cash equivalents and restricted cash at beginning of period	423,221	403,966
Cash, cash equivalents and restricted cash at end of period	<u>\$ 955,615</u>	<u>\$ 395,828</u>

Operating Activities Cash Flows

For the nine months ended September 30, 2020, net cash provided by operating activities was \$1.186 billion. For the nine months ended September 30, 2019, net cash provided by operating activities was \$1.185 billion. The \$0.1 million increase was due primarily to the following:

- 1) *Accounts receivable* — Our increase in net cash provided by operating activities was favorably impacted by \$95.0 million from accounts receivable, as changes in accounts receivable, net of acquisitions, resulted in an increase to operating cash flows of \$46.0 million for the nine months ended September 30, 2020, compared to a decrease to operating cash flows of \$49.1 million for the nine months ended September 30, 2019. During the nine months ended September 30, 2020, net price increases of \$168.0 million were offset by volume decreases in our solid waste business and E&P business of \$199.8 million and \$75.2 million, respectively. The net decrease in revenues resulting from volume losses in excess of price increases during the nine months ended September 30, 2020 contributed to a decrease in accounts receivable at September 30, 2020. During the nine months ended September 30, 2019, we recognized net price increases of \$174.5 million and volume increases in our solid waste business and E&P business of \$7.0 million and \$12.5 million, respectively. The increase in revenues resulting from price and volume increases during the nine months ended September 30, 2019 contributed to an increase in accounts receivable at September 30, 2019.
- 2) *Decrease in earnings* — Our increase in net cash provided by operating activities was unfavorably impacted by \$72.1 million from a decrease in net income, excluding depreciation, amortization of intangibles, amortization of leases, deferred income taxes, share-based compensation, adjustments to and payments of contingent consideration recorded in earnings and loss on disposal of assets and impairments, due primarily to a decline in earnings at our E&P operations, as well as economic disruptions resulting from COVID-19, and additional income tax expense due to the finalization of tax regulations under Internal Revenue Code section 267A.
- 3) *Accounts payable and accrued liabilities* — Our increase in net cash provided by operating activities was unfavorably impacted by \$13.1 million from accounts payable and accrued liabilities. Although certain operating expenses declined as a result of solid waste and E&P volume losses due to economic disruptions resulting from COVID-19, our operating cash flows were adversely impacted from the timing of vendor payments and payroll cycles as well as the payment of higher outstanding liabilities existing prior to the recent economic downturn. This decrease was partially offset by an increase in accrued payroll tax liabilities of \$29.2 million associated with our deferral of qualifying U.S. payroll and other tax payments as permitted by the CARES Act, an increase in liabilities for cash incentive compensation of \$19.1 million and an increase in accrued interest expense liabilities of \$7.2 million due to the timing of interest payments for our outstanding senior note obligations. We expect to defer approximately \$45.0 million of U.S. payroll and other tax payments in 2020 under the CARES Act, of which 50% will be remitted in 2021 and 50% remitted in 2022.

As of September 30, 2020, we had a working capital surplus of \$456.0 million, including cash and equivalents of \$859.1 million. Our working capital surplus increased \$332.6 million from a working capital surplus of \$123.4 million at December 31, 2019, including cash and equivalents of \$326.7 million, due primarily to the impact of increased cash balances being partially offset by higher short-term contingent consideration liabilities, accrued liabilities and a reduction in accounts receivable. To date, we have experienced no loss or lack of access to our cash and equivalents; however, we can provide no assurances that access to our cash and equivalents will not be impacted by adverse conditions in the financial markets. Our strategy in managing our working capital is generally to apply the cash generated from our operations that remains after satisfying our working capital and capital expenditure requirements, along with share repurchase and dividend programs, to reduce the unhedged portion of our indebtedness under our Credit Agreement and to minimize our cash balances.

Investing Activities Cash Flows

Net cash used in investing activities decreased \$235.6 million to \$650.1 million for the nine months ended September 30, 2020, from \$885.7 million for the nine months ended September 30, 2019. The significant components of the decrease included the following:

- 1) A decrease in cash paid for acquisitions of \$246.6 million due primarily to a decrease in acquisitions closed during the nine months ended September 30, 2020;
- 2) A decrease in capital expenditures of \$12.8 million due to decreases in vehicles for our collection operations and equipment for our disposal operations exceeding capital expenditures for landfill sites costs and expenditures for vehicles, containers and equipment purchased for operations acquired during, or subsequent to, the nine months ended September 30, 2019;
- 3) An increase from increased proceeds from the sale of property and equipment of \$8.9 million; less
- 4) An increase in capital expenditures for undeveloped landfill property of \$35.1 million attributable to expenditures during the nine months ended September 30, 2020 for expansion land at certain existing landfill facilities exceeding expenditures during the nine months ended September 30, 2019 for the purchase of a greenfield landfill site in our Southern segment that will be developed into an operating location in the future.

Financing Activities Cash Flows

Net cash used in financing activities decreased \$303.9 million to \$4.1 million for the nine months ended September 30, 2020, from net cash used in financing activities of \$308.0 million for the nine months ended September 30, 2019. The significant components of the decrease included the following:

- 1) A decrease from the net change in long-term borrowings of \$447.4 million (long-term borrowings increased \$285.0 million during the nine months ended September 30, 2020 and decreased \$162.4 million during the nine months ended September 30, 2019) due primarily to maintaining a portion of the proceeds from our 2050 Senior Notes in cash; less
- 2) An increase in payments to repurchase our common shares of \$105.7 million as we resumed our share repurchase activity during the nine months ended September 30, 2020; less
- 3) An increase in debt issuance costs of \$5.2 million due to costs incurred during the nine months ended September 30, 2020 for our 2030 Senior Notes and 2050 Senior Notes exceeding costs incurred during the nine months ended September 30, 2019 for our 2029 Senior Notes; less
- 4) An increase in tax withholdings related to net share settlements of equity-based compensation of \$5.8 million due to an increase in the value of equity-based compensation awards vesting; less
- 5) An increase in cash dividends paid of \$19.6 million due primarily to an increase in our quarterly dividend rate for the nine months ended September 30, 2020 to \$0.185 per share, from \$0.16 per share for the nine months ended September 30, 2019.

Our business is capital intensive. Our capital requirements include acquisitions and capital expenditures for landfill cell construction, landfill development, landfill closure activities and intermodal facility construction in the future.

On July 23, 2020, our Board of Directors approved, subject to receipt of regulatory approvals, the annual renewal of our normal course issuer bid, or the NCIB, to purchase up to 13,144,773 of our common shares during the period of August 10, 2020 to August 9, 2021 or until such earlier time as the NCIB is completed or terminated at our option. Shareholders may obtain a copy of our TSX Form 12 – Notice of Intention to Make a Normal Course Issuer Bid, without charge, by request directed to our Senior Vice President and Chief Financial Officer at (832) 442-2200. The timing and amounts of any repurchases pursuant to the NCIB will depend on many factors, including our capital structure, the market price of our common shares and overall market conditions. All common shares purchased under the NCIB will be immediately cancelled following their repurchase. Information regarding our NCIB can be found under the “Shareholders’ Equity” section in Note 18 to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Our Board of Directors authorized the initiation of a quarterly cash dividend in October 2010 and has increased it on an annual basis. In October 2019, our Board of Directors authorized an increase to our regular quarterly cash dividend of \$0.025, from \$0.16 to \$0.185 per share. In October 2020, our Board of Directors authorized an increase to our regular quarterly cash dividend of \$0.02, from \$0.185 to \$0.205 per share. Cash dividends of \$145.9 million and \$126.3 million were paid during the nine months ended September 30, 2020 and 2019, respectively. We cannot assure you as to the amounts or timing of future dividends.

We made \$420.7 million in capital expenditures for property and equipment during the nine months ended September 30, 2020, and we expect to make total capital expenditures for property and equipment of approximately \$575 million in 2020. In addition, we made \$66.8 million in capital expenditures for undeveloped landfill property during the nine months ended September 30, 2020 and may opportunistically make other capital expenditures for undeveloped landfill property in 2020. We have funded and intend to fund the balance of our planned 2020 capital expenditures principally through cash on hand, internally generated funds and borrowings under our Credit Agreement. In addition, we may make substantial additional capital expenditures in acquiring land and municipal solid waste and E&P waste businesses. If we acquire additional landfill disposal facilities, we may also have to make significant expenditures to bring them into compliance with applicable regulatory requirements, obtain permits or expand our available disposal capacity. We cannot currently determine the amount of these expenditures because they will depend on the number, nature, condition and permitted status of any acquired landfill disposal facilities. We believe that our cash and equivalents, Credit Agreement and the funds we expect to generate from operations will provide adequate cash to fund our working capital and other cash needs for the foreseeable future. However, disruptions in the capital and credit markets could adversely affect our ability to draw on our Credit Agreement or raise other capital. Our access to funds under the Credit Agreement is dependent on the ability of the banks that are parties to the agreement to meet their funding commitments. Those banks may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time.

As of September 30, 2020, \$650.0 million under the term loan and \$178.7 million under the revolving credit facility were outstanding under our Credit Agreement, exclusive of outstanding standby letters of credit of \$125.9 million. Our Credit Agreement matures in March 2023.

On January 23, 2020, we completed an underwritten public offering of \$600.0 million aggregate principal amount of 2.60% Senior Notes due 2030, or the 2030 Senior Notes. The 2030 Senior Notes were issued under the Indenture, dated as of November 16, 2018, by and between the Company and U.S. Bank National Association, as trustee, as supplemented by the Third Supplemental Indenture, dated as of January 23, 2020.

We will pay interest on the 2030 Senior Notes semi-annually in arrears and the 2030 Senior Notes will mature on February 1, 2030. The 2030 Senior Notes are senior unsecured obligations, ranking equally in right of payment with our other existing and future unsubordinated debt and senior to any of our future subordinated debt. The 2030 Senior Notes are not guaranteed by any of our subsidiaries.

On March 13, 2020, we completed an underwritten public offering of \$500.0 million aggregate principal amount of 3.05% Senior Notes due 2050, or the 2050 Senior Notes. The 2050 Senior Notes were issued under the Indenture, dated as of November 16, 2018, by and between the Company and U.S. Bank National Association, as trustee, as supplemented by the Fourth Supplemental Indenture, dated as of March 13, 2020.

We will pay interest on the 2050 Senior Notes semi-annually in arrears and the 2050 Senior Notes will mature on April 1, 2050. The 2050 Senior Notes are senior unsecured obligations, ranking equally in right of payment with our other existing and future unsubordinated debt and senior to any of our future subordinated debt. The 2050 Senior Notes are not guaranteed by any of our subsidiaries.

See Note 11 to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details on the debt agreements.

We are a well-known seasoned issuer with an effective shelf registration statement on Form S-3 filed in May 2018, which registers an unspecified amount of debt securities, including debentures, notes or other types of debt. In the future,

we may issue debt securities under our shelf registration statement or in private placements from time to time on an opportunistic basis, based on market conditions and available pricing. Unless otherwise indicated in the relevant offering documents, we expect to use the proceeds from any such offerings for general corporate purposes, including repaying, redeeming or repurchasing debt, acquiring additional assets or businesses, capital expenditures and increasing our working capital.

As of September 30, 2020, we had the following contractual obligations:

Recorded Obligations	Payments Due by Period				
	(amounts in thousands of U.S. dollars)				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Long-term debt	\$ 4,714,670	\$ 6,772	\$ 1,411,234	\$ 532,919	\$ 2,763,745
Cash interest payments	\$ 1,297,414	\$ 162,469	\$ 292,585	\$ 212,944	\$ 629,416
Contingent consideration	\$ 109,000	\$ 62,492	\$ 7,160	\$ 3,224	\$ 36,124
Operating leases	\$ 209,446	\$ 35,750	\$ 63,224	\$ 23,455	\$ 87,017
Final capping, closure and post-closure	\$ 1,527,763	\$ 5,454	\$ 65,995	\$ 13,750	\$ 1,442,564

Long-term debt payments include:

- 1) \$178.7 million in principal payments due March 2023 related to our revolving credit facility under our Credit Agreement. We may elect to draw amounts on our Credit Agreement in U.S. dollar LIBOR rate loans, U.S. dollar base rate loans, Canadian-based bankers' acceptances, and Canadian dollar prime rate loans. At September 30, 2020, \$175.0 million of the outstanding borrowings drawn under the revolving credit facility were in U.S. LIBOR rate loans, which bear interest at the LIBOR rate plus the applicable margin (for a total rate of 1.35% on such date) and \$3.7 million of the outstanding borrowings drawn under the revolving credit facility were in Canadian-based bankers' acceptances, which bear interest at the Canadian Dollar Offered Rate plus the applicable acceptance fee (for a total rate of 1.68% on such date).
- 2) \$650.0 million in principal payments due March 2023 related to our term loan under our Credit Agreement. Outstanding amounts on the term loan can be either base rate loans or LIBOR loans. At September 30, 2020, all amounts outstanding under the term loan were in LIBOR loans which bear interest at the LIBOR rate plus the applicable margin (for a total rate of 1.35% on such date).
- 3) \$100.0 million in principal payments due 2021 related to our 2021 Senior Notes. The 2021 Senior Notes bear interest at a rate of 4.64%. We have recorded this obligation in the payments due in 1 to 3 years category in the table above as we have the intent and ability to redeem the 2021 Senior Notes on April 1, 2021 using borrowings under our Credit Agreement.
- 4) \$150.0 million in principal payments due 2021 related to our New 2021 Senior Notes. The New 2021 Senior Notes bear interest at a rate of 2.39%. We have recorded this obligation in the payments due in 1 to 3 years category in the table above as we have the intent and ability to redeem the New 2021 Senior Notes on June 1, 2021 using borrowings under our Credit Agreement.
- 5) \$125.0 million in principal payments due 2022 related to our 2022 Senior Notes. The 2022 Senior Notes bear interest at a rate of 3.09%.
- 6) \$200.0 million in principal payments due 2023 related to our 2023 Senior Notes. The 2023 Senior Notes bear interest at a rate of 2.75%.
- 7) \$150.0 million in principal payments due 2024 related to our 2024 Senior Notes. The 2024 Senior Notes bear interest at a rate of 3.24%.

- 8) \$375.0 million in principal payments due 2025 related to our 2025 Senior Notes. The 2025 Senior Notes bear interest at a rate of 3.41%.
- 9) \$400.0 million in principal payments due 2026 related to our 2026 Senior Notes. The 2026 Senior Notes bear interest at a rate of 3.03%.
- 10) \$250.0 million in principal payments due 2027 related to our 2027 Senior Notes. The 2027 Senior Notes bear interest at a rate of 3.49%.
- 11) \$500.0 million in principal payments due 2028 related to our 2028 Senior Notes. The 2028 Senior Notes bear interest at a rate of 4.25%.
- 12) \$500.0 million in principal payments due 2029 related to our 2029 Senior Notes. The 2029 Senior Notes bear interest at a rate of 3.50%.
- 13) \$600.0 million in principal payments due 2030 related to our 2030 Senior Notes. The 2030 Senior Notes bear interest at a rate of 2.60%.
- 14) \$500.0 million in principal payments due 2050 related to our 2050 Senior Notes. The 2050 Senior Notes bear interest at a rate of 3.05%.
- 15) \$43.2 million in principal payments related to our notes payable to sellers and other third parties. Our notes payable to sellers and other third parties bear interest at rates between 2.42% and 10.35% at September 30, 2020, and have maturity dates ranging from 2021 to 2036.

The following assumptions were made in calculating cash interest payments:

- 1) We calculated cash interest payments on the Credit Agreement using the LIBOR rate plus the applicable LIBOR margin, the base rate plus the applicable base rate margin, the Canadian Dollar Offered Rate plus the applicable acceptance fee and the Canadian prime rate plus the applicable prime rate margin at September 30, 2020. We assumed the Credit Agreement is paid off when it matures in March 2023.
- 2) We calculated cash interest payments on our interest rate swaps using the stated interest rate in the swap agreement less the LIBOR rate through the earlier expiration of the term of the swaps or the term of the credit facility.

Contingent consideration payments include \$88.5 million recorded as liabilities in our Condensed Consolidated Financial Statements at September 30, 2020, and \$20.5 million of future interest accretion on the recorded obligations.

We are party to operating lease agreements. These lease agreements are established in the ordinary course of our business and are designed to provide us with access to facilities at competitive, market-driven prices.

The estimated final capping, closure and post-closure expenditures presented above are in current dollars.

	Amount of Commitment Expiration Per Period				
	(amounts in thousands of U.S. dollars)				
Unrecorded Obligations⁽¹⁾	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Unconditional purchase obligations	\$ 138,217	\$ 89,523	\$ 48,694	\$ —	\$ —

- (1) We are party to unconditional purchase obligations. These purchase obligations are established in the ordinary course of our business and are designed to provide us with access to products at competitive, market-driven prices. At September 30, 2020, our unconditional purchase obligations consisted of multiple fixed-price fuel purchase contracts under which we have 54.8 million gallons remaining to be purchased for a total of \$138.2 million. The current fuel purchase contracts expire on or before December 31, 2022. These arrangements have not materially affected our financial position, results of operations or

liquidity during the nine months ended September 30, 2020, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

We have obtained financial surety bonds, primarily to support our financial assurance needs and landfill and E&P operations. We provided customers and various regulatory authorities with surety bonds in the aggregate amounts of approximately \$1.181 billion and \$1.081 billion at September 30, 2020 and December 31, 2019, respectively. These arrangements have not materially affected our financial position, results of operations or liquidity during the nine months ended September 30, 2020, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

From time to time, we evaluate our existing operations and their strategic importance to us. If we determine that a given operating unit does not have future strategic importance, we may sell or otherwise dispose of those operations. Although we believe our reporting units would not be impaired by such dispositions, we could incur losses on them.

The disposal tonnage that we received in the nine month periods ended September 30, 2020 and 2019, at all of our landfills during the respective period, is shown below (tons in thousands):

	Nine Months Ended September 30,			
	2020		2019	
	Number of Sites	Total Tons	Number of Sites	Total Tons
Owned operational landfills and landfills operated under life-of-site agreements	89	33,268	92	35,412
Operated landfills	4	413	4	433
	93	33,681	96	35,845

NON-GAAP FINANCIAL MEASURES

Adjusted Free Cash Flow

We present adjusted free cash flow, a non-GAAP financial measure, supplementally because it is widely used by investors as a valuation and liquidity measure in the solid waste industry. Management uses adjusted free cash flow as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. We define adjusted free cash flow as net cash provided by operating activities, plus or minus change in book overdraft, plus proceeds from disposal of assets, less capital expenditures for property and equipment and distributions to noncontrolling interests. We further adjust this calculation to exclude the effects of items management believes impact the ability to assess the operating performance of our business. This measure is not a substitute for, and should be used in conjunction with, GAAP liquidity or financial measures. Other companies may calculate adjusted free cash flow differently. Our adjusted free cash flow for the nine month periods ended September 30, 2020 and 2019, are calculated as follows (amounts in thousands of U.S. dollars):

	Nine Months Ended	
	September 30,	
	2020	2019
Net cash provided by operating activities	\$ 1,185,573	\$ 1,185,430
Plus (less): Change in book overdraft	(862)	1,911
Plus: Proceeds from disposal of assets	11,564	2,626
Less: Capital expenditures for property and equipment	(420,694)	(433,526)
Less: Distributions to noncontrolling interests	—	(117)
Adjustments:		
Cash received for divestitures ^(a)	(4,974)	(2,376)
Transaction-related expenses ^(b)	4,497	8,057
Pre-existing Progressive Waste share-based grants ^(c)	7,455	4,306
Tax effect ^(d)	(4,168)	(3,375)
Adjusted free cash flow	\$ 778,391	\$ 762,936

(a) Reflects the elimination of cash received in conjunction with the divestiture of certain operations.

(b) Reflects the addback of acquisition-related transaction costs.

(c) Reflects the cash settlement of pre-existing Progressive Waste share-based awards during the period.

(d) The aggregate tax effect of footnotes (a) through (c) is calculated based on the applied tax rates for the respective periods.

Adjusted EBITDA

We present adjusted EBITDA, a non-GAAP financial measure, supplementally because it is widely used by investors as a performance and valuation measure in the solid waste industry. Management uses adjusted EBITDA as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. We define adjusted EBITDA as net income attributable to Waste Connections, minus net loss attributable to noncontrolling interests, plus income tax provision, plus interest expense, less interest income, plus depreciation and amortization expense, plus closure and post-closure accretion expense, plus or minus any loss or gain on impairments and other operating items, plus other expense, less other income. We further adjust this calculation to exclude the effects of other items management believes impact the ability to assess the operating performance of our business. This measure is not a substitute for, and should be used in conjunction with, GAAP financial measures. Other companies may calculate adjusted EBITDA differently. Our adjusted EBITDA for the three and nine month periods ended September 30, 2020 and 2019, are calculated as follows (amounts in thousands of U.S. dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income attributable to Waste Connections	\$ 158,049	\$ 159,109	\$ 74,012	\$ 433,579
Less: Net loss attributable to noncontrolling interests	(58)	(35)	(594)	(89)
Plus: Income tax provision	33,657	42,783	23,654	110,539
Plus: Interest expense	40,636	36,780	119,562	111,313
Less: Interest income	(903)	(2,056)	(4,396)	(7,186)
Plus: Depreciation and amortization	190,243	189,928	555,703	555,437
Plus: Closure and post-closure accretion	3,723	3,649	11,340	10,821
Plus: Impairments and other operating items	3,805	12,935	442,582	32,949
Plus (less): Other expense (income), net	(702)	19	3,046	(4,562)
Adjustments:				
Plus: Transaction-related expenses ^(a)	2,335	1,036	4,497	8,057
Plus (less): Fair value changes to equity awards ^(b)	1,798	(589)	6,021	3,693
Adjusted EBITDA	<u>\$ 432,583</u>	<u>\$ 443,559</u>	<u>\$ 1,235,427</u>	<u>\$ 1,254,551</u>

(a) Reflects the addback of acquisition-related transaction costs.

(b) Reflects fair value accounting changes associated with certain equity awards.

Adjusted Net Income Attributable to Waste Connections and Adjusted Net Income per Diluted Share Attributable to Waste Connections

We present adjusted net income attributable to Waste Connections and adjusted net income per diluted share attributable to Waste Connections, both non-GAAP financial measures, supplementally because they are widely used by investors as a valuation measure in the solid waste industry. Management uses adjusted net income attributable to Waste Connections and adjusted net income per diluted share attributable to Waste Connections as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. We provide adjusted net income attributable to Waste Connections to exclude the effects of items management believes impact the comparability of operating results between periods. Adjusted net income attributable to Waste Connections has limitations due to the fact that it excludes items that have an impact on our financial condition and results of operations. Adjusted net income attributable to Waste Connections and adjusted net income per diluted share attributable to Waste Connections are not a substitute for, and should be used in conjunction with, GAAP financial measures. Other companies may calculate these non-GAAP financial measures differently. Our adjusted net income attributable to Waste Connections and adjusted net income per diluted share attributable to Waste Connections for the three and nine month periods ended September 30, 2020 and 2019, are calculated as follows (amounts in thousands of U.S. dollars, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Reported net income attributable to Waste Connections	\$ 158,049	\$ 159,109	\$ 74,012	\$ 433,579
Adjustments:				
Amortization of intangibles ^(a)	32,653	31,934	96,062	93,821
Impairments and other operating items ^(b)	3,805	12,935	442,582	32,949
Transaction-related expenses ^(c)	2,335	1,036	4,497	8,057
Fair value changes to equity awards ^(d)	1,798	(589)	6,021	3,693
Tax effect ^(e)	(10,000)	(11,486)	(137,523)	(33,955)
Tax items ^(f)	—	—	31,508	—
Adjusted net income attributable to Waste Connections	<u>\$ 188,640</u>	<u>\$ 192,939</u>	<u>\$ 517,159</u>	<u>\$ 538,144</u>
Diluted earnings per common share attributable to Waste Connections' common shareholders:				
Reported net income	\$ 0.60	\$ 0.60	\$ 0.28	\$ 1.64
Adjusted net income	<u>\$ 0.72</u>	<u>\$ 0.73</u>	<u>\$ 1.96</u>	<u>\$ 2.03</u>

- (a) Reflects the elimination of the non-cash amortization of acquisition-related intangible assets.
- (b) Reflects the addback of impairments and other operating items.
- (c) Reflects the addback of acquisition-related transaction costs.
- (d) Reflects fair value accounting changes associated with certain equity awards.
- (e) The aggregate tax effect of the adjustments in footnotes (a) through (d) is calculated based on the applied tax rates for the respective periods.
- (f) Reflects the impact of a portion of our 2019 related-party payments no longer being deductible for tax purposes due to the finalization of tax regulations on April 7, 2020 under Internal Revenue Code section 267A and an increase in deferred tax liabilities resulting from the E&P impairment.

INFLATION

Other than volatility in fuel prices, third party brokerage and labor costs in certain markets, inflation has not materially affected our operations in recent years. Consistent with industry practice, many of our contracts allow us to pass through certain costs to our customers, including increases in landfill tipping fees and, in some cases, fuel costs. To the extent that there are decreases in fuel costs, in some cases, a portion of these reductions are passed through to customers in the form of lower fuel and material surcharges. Therefore, we believe that we should be able to increase prices to offset many cost increases that result from inflation in the ordinary course of business. However, competitive pressures or delays in the timing of rate increases under our contracts, particularly amid the economic impact of the COVID-19 pandemic, may

require us to absorb at least part of these cost increases, especially if cost increases exceed the average rate of inflation. Management's estimates associated with inflation have an impact on our accounting for landfill liabilities.

SEASONALITY

Based on historic trends, excluding any impact from the COVID-19 pandemic or an economic recession, we would expect our operating results to vary seasonally, with revenues typically lowest in the first quarter, higher in the second and third quarters and lower in the fourth quarter than in the second and third quarters. This seasonality reflects (a) the lower volume of solid waste generated during the late fall, winter and early spring because of decreased construction and demolition activities during winter months in Canada and the U.S. and (b) reduced E&P activity during harsh weather conditions, with expected fluctuation due to such seasonality between our highest and lowest quarters of approximately 12%. In addition, some of our operating costs may be higher in the winter months. Adverse winter weather conditions slow waste collection activities, resulting in higher labor and operational costs. Greater precipitation in the winter increases the weight of collected municipal solid waste, resulting in higher disposal costs, which are calculated on a per ton basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to market risk, including changes in interest rates and prices of certain commodities. We use hedge agreements to manage a portion of our risks related to interest rates and fuel prices. While we are exposed to credit risk in the event of non-performance by counterparties to our hedge agreements, in all cases such counterparties are highly rated financial institutions and we do not anticipate non-performance under current market conditions. We do not hold or issue derivative financial instruments for trading purposes. We monitor our hedge positions by regularly evaluating the positions at market and by performing sensitivity analyses over the unhedged fuel and variable rate debt positions.

At September 30, 2020, our derivative instruments included 10 interest rate swap agreements that effectively fix the interest rate on the applicable notional amounts of our variable rate debt as follows (dollars in thousands of U.S. dollars):

<u>Date Entered</u>	<u>Notional Amount</u>	<u>Fixed Interest Rate Paid*</u>	<u>Variable Interest Rate Received</u>	<u>Effective Date</u>	<u>Expiration Date</u>
May 2014	\$ 50,000	2.344 %	1-month LIBOR	October 2015	October 2020
May 2014	\$ 25,000	2.326 %	1-month LIBOR	October 2015	October 2020
May 2014	\$ 50,000	2.350 %	1-month LIBOR	October 2015	October 2020
May 2014	\$ 50,000	2.350 %	1-month LIBOR	October 2015	October 2020
August 2017	\$ 100,000	1.900 %	1-month LIBOR	July 2019	July 2022
August 2017	\$ 200,000	2.200 %	1-month LIBOR	October 2020	October 2025
August 2017	\$ 150,000	1.950 %	1-month LIBOR	February 2020	February 2023
June 2018	\$ 200,000	2.925 %	1-month LIBOR	October 2020	October 2025
June 2018	\$ 200,000	2.925 %	1-month LIBOR	October 2020	October 2025
December 2018	\$ 200,000	2.850 %	1-month LIBOR	July 2022	July 2027

* Plus applicable margin.

On September 28, 2020, we terminated four of our interest rate swaps with notional amounts of \$150.0 million, \$150.0 million, \$50.0 million and \$50.0 million, each of which would have expired in January 2021. As a result of terminating these interest rate swaps, we made total cash payments of \$0.9 million to the counterparties of the swap agreements.

Under derivatives and hedging guidance, the interest rate swap agreements are considered cash flow hedges for a portion of our variable rate debt, and we apply hedge accounting to account for these instruments. The notional amounts and all other significant terms of the swap agreements are matched to the provisions and terms of the variable rate debt being hedged.

We have performed sensitivity analyses to determine how market rate changes will affect the fair value of our unhedged floating rate debt. Such an analysis is inherently limited in that it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or earnings effect we would recognize from the assumed market rate movements. We are exposed to cash flow risk due to changes in interest rates with respect to the unhedged floating rate balances owed at September 30, 2020 and December 31, 2019, of \$3.7 million and \$766.2 million, respectively, including floating rate debt under our Credit Agreement. A one percentage point increase in interest rates on our variable-rate debt as of September 30, 2020 and December 31, 2019, would decrease our annual pre-tax income by approximately \$0.1 million and \$7.7 million, respectively. All of our remaining debt instruments are at fixed rates, or effectively fixed under the interest rate swap agreements described above; therefore, changes in market interest rates under these instruments would not significantly impact our cash flows or results of operations, subject to counterparty default risk.

The market price of diesel fuel is unpredictable and can fluctuate significantly. Because of the volume of fuel we purchase each year, a significant increase in the price of fuel could adversely affect our business and reduce our operating margins. To manage a portion of this risk, we periodically enter into fuel hedge agreements related to forecasted diesel fuel purchases, and we also enter into fixed price fuel purchase contracts. At September 30, 2020, we had no fuel hedge agreements in place; however, we have entered into fixed price fuel purchase contracts for 2020 as described below.

For the year ending December 31, 2020, we expect to purchase approximately 79.9 million gallons of fuel, of which 44.2 million gallons will be purchased at market prices and 35.7 million gallons will be purchased under our fixed price fuel purchase contracts. We have performed sensitivity analyses to determine how market rate changes will affect the fair value of our unhedged, market rate diesel fuel purchases. Such an analysis is inherently limited in that it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or earnings effect we would recognize from the assumed market rate movements. During the three month period of October 1, 2020 to December 31, 2020, we expect to purchase approximately 11.1 million gallons of fuel at market prices; therefore, a \$0.10 per gallon increase in the price of fuel over the remaining three months in 2020 would decrease our pre-tax income during this period by approximately \$1.1 million.

We market a variety of recyclable materials, including compost, cardboard, mixed paper, plastic containers, glass bottles and ferrous and aluminum metals. We own and operate recycling operations and market other collected recyclable materials to third parties for processing before resale. Where possible, to reduce our exposure to commodity price risk with respect to recycled materials, we have adopted a pricing strategy of charging collection and processing fees for recycling volume collected from third parties. In the event of a decline in recycled commodity prices, a 10% decrease in average recycled commodity prices from the average prices that were in effect during the nine months ended September 30, 2020 and 2019, would have had a \$5.8 million and \$4.9 million impact on revenues for the nine months ended September 30, 2020 and 2019, respectively.

We have operations in Canada and, where significant, we have quantified and described the impact of foreign currency translation on components of income, including operating revenue and operating costs. However, the impact of foreign currency has not materially affected our results of operations in 2019 or 2020. A \$0.01 change in the Canadian dollar to U.S. dollar exchange rate would impact our annual revenue and EBITDA by approximately \$9.4 million and \$3.4 million, respectively.

Item 4. Controls and Procedures

As required by Rule 13a-15(b) under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on this evaluation, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded as of September 30, 2020, that our disclosure controls and procedures were effective at the reasonable assurance level such that information required to be disclosed in our Exchange Act reports: (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (2) is accumulated and communicated to our management, including our President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 2020, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding our legal proceedings can be found in Note 19 of our Condensed Consolidated Financial Statements included in Part I, Item 1 of this report and is incorporated herein by reference.