

These financial statements for Waste Connections, Inc. are also included in the Form 10-Q for the quarterly period ended September 30, 2020 filed on SEDAR on October 29, 2020 in its entirety.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands of U.S. dollars, except share and per share amounts)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and equivalents	\$ 859,096	\$ 326,738
Accounts receivable, net of allowance for credit losses of \$20,657 and \$16,432 at September 30, 2020 and December 31, 2019, respectively	616,630	662,808
Prepaid expenses and other current assets	115,690	141,052
Total current assets	1,591,416	1,130,598
Restricted cash	96,519	96,483
Restricted investments	47,161	51,179
Property and equipment, net	5,193,378	5,516,347
Operating lease right-of-use assets	168,974	183,220
Goodwill	5,534,567	5,510,851
Intangible assets, net	1,127,279	1,163,063
Other assets, net	90,153	85,954
Total assets	<u>\$ 13,849,447</u>	<u>\$ 13,737,695</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 403,946	\$ 436,970
Book overdraft	15,092	15,954
Accrued liabilities	400,293	280,808
Current portion of operating lease liabilities	30,196	29,929
Current portion of contingent consideration	62,492	26,659
Deferred revenue	216,675	216,443
Current portion of long-term debt and notes payable	6,772	465
Total current liabilities	1,135,466	1,007,228
Long-term portion of debt and notes payable	4,680,219	4,353,782
Long-term portion of operating lease liabilities	145,642	160,033
Long-term portion of contingent consideration	26,030	42,825
Deferred income taxes	725,343	818,622
Other long-term liabilities	470,558	416,851
Total liabilities	7,183,258	6,799,341
Commitments and contingencies (Note 19)		
Equity:		
Common shares: 262,897,009 shares issued and 262,822,825 shares outstanding at September 30, 2020; 263,699,675 shares issued and 263,618,161 shares outstanding at December 31, 2019	4,030,368	4,135,343
Additional paid-in capital	162,606	154,917
Accumulated other comprehensive loss	(113,338)	(10,963)
Treasury shares: 74,184 and 81,514 shares at September 30, 2020 and December 31, 2019, respectively	—	—
Retained earnings	2,582,298	2,654,207
Total Waste Connections' equity	6,661,934	6,933,504
Noncontrolling interest in subsidiaries	4,255	4,850
Total equity	6,666,189	6,938,354
	<u>\$ 13,849,447</u>	<u>\$ 13,737,695</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME
(Unaudited)
(In thousands of U.S. dollars, except share and per share amounts)

	<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>
Revenues	\$ 1,389,552	\$ 1,412,444	\$ 4,047,739	\$ 4,026,719
Operating expenses:				
Cost of operations	828,822	835,098	2,429,957	2,384,607
Selling, general and administrative	136,003	137,883	404,213	410,132
Depreciation	157,590	157,994	459,641	461,616
Amortization of intangibles	32,653	31,934	96,062	93,821
Impairments and other operating items	3,805	12,935	442,582	32,949
Operating income	230,679	236,600	215,284	643,594
Interest expense	(40,636)	(36,780)	(119,562)	(111,313)
Interest income	903	2,056	4,396	7,186
Other income (expense), net	702	(19)	(3,046)	4,562
Income before income tax provision	191,648	201,857	97,072	544,029
Income tax provision	(33,657)	(42,783)	(23,654)	(110,539)
Net income	157,991	159,074	73,418	433,490
Plus: Net loss attributable to noncontrolling interests	58	35	594	89
Net income attributable to Waste Connections	<u>\$ 158,049</u>	<u>\$ 159,109</u>	<u>\$ 74,012</u>	<u>\$ 433,579</u>
Earnings per common share attributable to Waste Connections' common shareholders:				
Basic	<u>\$ 0.60</u>	<u>\$ 0.60</u>	<u>\$ 0.28</u>	<u>\$ 1.64</u>
Diluted	<u>\$ 0.60</u>	<u>\$ 0.60</u>	<u>\$ 0.28</u>	<u>\$ 1.64</u>
Shares used in the per share calculations:				
Basic	<u>262,998,317</u>	<u>263,853,681</u>	<u>263,253,087</u>	<u>263,768,258</u>
Diluted	<u>263,507,486</u>	<u>264,587,456</u>	<u>263,718,001</u>	<u>264,473,345</u>
Cash dividends per common share	<u>\$ 0.185</u>	<u>\$ 0.160</u>	<u>\$ 0.555</u>	<u>\$ 0.480</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(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>
Net income	\$ 157,991	\$ 159,074	\$ 73,418	\$ 433,490
Other comprehensive income (loss), before tax:				
Interest rate swap amounts reclassified into interest expense	2,893	(1,974)	4,595	(6,918)
Changes in fair value of interest rate swaps	1,846	(15,482)	(68,047)	(56,818)
Foreign currency translation adjustment	45,886	(24,911)	(55,738)	60,404
Other comprehensive income (loss), before tax	50,625	(42,367)	(119,190)	(3,332)
Income tax (expense) benefit related to items of other comprehensive income (loss)	(1,256)	4,626	16,815	16,890
Other comprehensive income (loss), net of tax	49,369	(37,741)	(102,375)	13,558
Comprehensive income (loss)	207,360	121,333	(28,957)	447,048
Plus: Comprehensive loss attributable to noncontrolling interests	58	35	594	89
Comprehensive income (loss) attributable to Waste Connections	<u>\$ 207,418</u>	<u>\$ 121,368</u>	<u>\$ (28,363)</u>	<u>\$ 447,137</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(In thousands of U.S. dollars, except share amounts)

WASTE CONNECTIONS' EQUITY

	COMMON SHARES		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE LOSS		TREASURY SHARES		RETAINED EARNINGS	NONCONTROLLING INTERESTS	TOTAL
	SHARES	AMOUNT		SHARES	AMOUNT					
	Balances at December 31, 2019	263,618,161		\$ 4,135,343	\$ 154,917	\$ (10,963)	81,514			
Sale of common shares held in trust	7,330	679	—	—	(7,330)	—	—	—	679	
Vesting of restricted share units	366,603	—	—	—	—	—	—	—	—	
Vesting of performance-based restricted share units	281,186	—	—	—	—	—	—	—	—	
Restricted share units released from deferred compensation plan	20,229	—	—	—	—	—	—	—	—	
Fair value adjustment for common shares in deferred compensation plan exchanged for other investment options	—	—	(533)	—	—	—	—	—	(533)	
Tax withholdings related to net share settlements of equity-based compensation	(226,766)	—	(23,090)	—	—	—	—	—	(23,090)	
Equity-based compensation	—	—	10,144	—	—	—	—	—	10,144	
Exercise of warrants	9,751	—	—	—	—	—	—	—	—	
Repurchase of common shares	(1,271,977)	(105,654)	—	—	—	—	—	—	(105,654)	
Cash dividends on common shares	—	—	—	—	—	—	(48,018)	—	(48,018)	
Amounts reclassified into earnings, net of taxes	—	—	—	(323)	—	—	—	—	(323)	
Changes in fair value of cash flow hedges, net of taxes	—	—	—	(42,649)	—	—	—	—	(42,649)	
Foreign currency translation adjustment	—	—	—	(184,717)	—	—	—	—	(184,717)	
Net income (loss)	—	—	—	—	—	—	143,035	(142)	142,893	
Balances at March 31, 2020	262,804,517	4,030,368	141,438	(238,652)	74,184	—	2,749,224	4,708	6,687,086	
Vesting of restricted share units	5,537	—	—	—	—	—	—	—	—	
Restricted share units released from deferred compensation plan	3,269	—	—	—	—	—	—	—	—	
Tax withholdings related to net share settlements of equity-based compensation	(2,398)	—	(201)	—	—	—	—	—	(201)	
Equity-based compensation	—	—	9,912	—	—	—	—	—	9,912	
Exercise of warrants	240	—	—	—	—	—	—	—	—	
Cash dividends on common shares	—	—	—	—	—	—	(48,894)	—	(48,894)	
Amounts reclassified into earnings, net of taxes	—	—	—	1,574	—	—	—	—	1,574	
Changes in fair value of cash flow hedges, net of taxes	—	—	—	(8,722)	—	—	—	—	(8,722)	
Foreign currency translation adjustment	—	—	—	83,093	—	—	—	—	83,093	
Net loss	—	—	—	—	—	—	(227,072)	(395)	(227,467)	
Balances at June 30, 2020	262,811,165	4,030,368	151,149	(162,707)	74,184	—	2,473,258	4,313	6,496,381	
Vesting of restricted share units	3,228	—	—	—	—	—	—	—	—	
Fair value adjustment for common shares in deferred compensation plan exchanged for other investment options	—	—	(145)	—	—	—	—	—	(145)	
Tax withholdings related to net share settlements of equity-based compensation	(1,003)	—	(99)	—	—	—	—	—	(99)	
Equity-based compensation	—	—	11,701	—	—	—	—	—	11,701	
Exercise of warrants	9,435	—	—	—	—	—	—	—	—	
Cash dividends on common shares	—	—	—	—	—	—	(49,009)	—	(49,009)	
Amounts reclassified into earnings, net of taxes	—	—	—	2,126	—	—	—	—	2,126	
Changes in fair value of cash flow hedges, net of taxes	—	—	—	1,357	—	—	—	—	1,357	
Foreign currency translation adjustment	—	—	—	45,886	—	—	—	—	45,886	
Net income (loss)	—	—	—	—	—	—	158,049	(58)	157,991	
Balances at September 30, 2020	262,822,825	\$ 4,030,368	\$ 162,606	\$ (113,338)	74,184	\$ —	\$ 2,582,298	\$ 4,255	\$ 6,666,189	

The accompanying notes are an integral part of these condensed consolidated financial statements.

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(In thousands of U.S. dollars, except share amounts)

WASTE CONNECTIONS' EQUITY

	COMMON SHARES		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY SHARES		RETAINED EARNINGS	NONCONTROLLING INTERESTS	TOTAL
	SHARES	AMOUNT			SHARES	AMOUNT			
Balances at December 31, 2018	263,141,413	\$ 4,131,307	\$ 133,577	\$ (74,786)	129,889	\$ —	\$ 2,264,510	\$ 5,580	\$ 6,460,188
Sale of common shares held in trust	43,637	3,610	—	—	(43,637)	—	—	—	3,610
Vesting of restricted share units	400,555	—	—	—	—	—	—	—	—
Vesting of performance-based restricted share units	180,258	—	—	—	—	—	—	—	—
Restricted share units released from deferred compensation plan	15,371	—	—	—	—	—	—	—	—
Tax withholdings related to net share settlements of equity-based compensation	(202,679)	—	(16,974)	—	—	—	—	—	(16,974)
Equity-based compensation	—	—	11,627	—	—	—	—	—	11,627
Exercise of warrants	8,690	—	—	—	—	—	—	—	—
Cash dividends on common shares	—	—	—	—	—	—	(42,084)	—	(42,084)
Amounts reclassified into earnings, net of taxes	—	—	—	(1,817)	—	—	—	—	(1,817)
Changes in fair value of cash flow hedges, net of taxes	—	—	—	(11,555)	—	—	—	—	(11,555)
Foreign currency translation adjustment	—	—	—	42,180	—	—	—	—	42,180
Cumulative effect adjustment from adoption of new accounting pronouncement	—	—	—	—	—	—	(2,078)	—	(2,078)
Net income (loss)	—	—	—	—	—	—	125,622	(45)	125,577
Balances at March 31, 2019	263,587,245	4,134,917	128,230	(45,978)	86,252	—	2,345,970	5,535	6,568,674
Sale of common shares held in trust	973	85	—	—	(973)	—	—	—	85
Vesting of restricted share units	6,495	—	—	—	—	—	—	—	—
Tax withholdings related to net share settlements of equity-based compensation	(3,081)	—	(290)	—	—	—	—	—	(290)
Equity-based compensation	—	—	10,254	—	—	—	—	—	10,254
Exercise of warrants	9,607	—	—	—	—	—	—	—	—
Cash dividends on common shares	—	—	—	—	—	—	(42,131)	—	(42,131)
Amounts reclassified into earnings, net of taxes	—	—	—	(1,817)	—	—	—	—	(1,817)
Changes in fair value of cash flow hedges, net of taxes	—	—	—	(18,827)	—	—	—	—	(18,827)
Foreign currency translation adjustment	—	—	—	43,135	—	—	—	—	43,135
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(117)	(117)
Net income (loss)	—	—	—	—	—	—	148,848	(9)	148,839
Balances at June 30, 2019	263,601,239	4,135,002	138,194	(23,487)	85,279	—	2,452,687	5,409	6,707,805
Sale of common shares held in trust	3,765	341	—	—	(3,765)	—	—	—	341
Vesting of restricted share units	6,827	—	—	—	—	—	—	—	—
Restricted share units released from deferred compensation plan	1,004	—	—	—	—	—	—	—	—
Tax withholdings related to net share settlements of equity-based compensation	(3,501)	—	(328)	—	—	—	—	—	(328)
Equity-based compensation	—	—	9,322	—	—	—	—	—	9,322
Exercise of warrants	6,770	—	—	—	—	—	—	—	—
Cash dividends on common shares	—	—	—	—	—	—	(42,133)	—	(42,133)
Amounts reclassified into earnings, net of taxes	—	—	—	(1,451)	—	—	—	—	(1,451)
Changes in fair value of cash flow hedges, net of taxes	—	—	—	(11,379)	—	—	—	—	(11,379)
Foreign currency translation adjustment	—	—	—	(24,911)	—	—	—	—	(24,911)
Net income (loss)	—	—	—	—	—	—	159,109	(35)	159,074
Balances at September 30, 2019	263,616,104	\$ 4,135,343	\$ 147,188	\$ (61,228)	81,514	\$ —	\$ 2,569,663	\$ 5,374	\$ 6,796,340

The accompanying notes are an integral part of these condensed consolidated financial statements.

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands of U.S. dollars)

	Nine Months Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 73,418	\$ 433,490
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of assets and impairments	423,832	31,852
Depreciation	459,641	461,616
Amortization of intangibles	96,062	93,821
Amortization of leases	14,281	17,661
Deferred income taxes, net of acquisitions	(77,613)	41,481
Amortization of debt issuance costs	6,146	3,708
Share-based compensation	38,316	35,510
Interest accretion	12,843	12,283
Adjustments to contingent consideration	16,852	1,466
Other	936	(1,316)
Net change in operating assets and liabilities, net of acquisitions	120,859	53,858
Net cash provided by operating activities	<u>1,185,573</u>	<u>1,185,430</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for acquisitions, net of cash acquired	(173,810)	(420,392)
Capital expenditures for property and equipment	(420,694)	(433,526)
Capital expenditures for undeveloped landfill property	(66,809)	(31,683)
Proceeds from disposal of assets	11,564	2,626
Other	(317)	(2,697)
Net cash used in investing activities	<u>(650,066)</u>	<u>(885,672)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	1,790,625	1,021,795
Principal payments on notes payable and long-term debt	(1,505,641)	(1,184,165)
Payment of contingent consideration recorded at acquisition date	(2,812)	(1,621)
Change in book overdraft	(862)	1,911
Payments for repurchase of common shares	(105,654)	—
Payments for cash dividends	(145,921)	(126,348)
Tax withholdings related to net share settlements of equity-based compensation	(23,390)	(17,592)
Debt issuance costs	(11,117)	(5,938)
Proceeds from sale of common shares held in trust	679	4,036
Distributions to noncontrolling interests	—	(117)
Net cash used in financing activities	<u>(4,093)</u>	<u>(308,039)</u>
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>
Non-cash financing activities:		
Liabilities assumed and notes payable issued to sellers of businesses acquired	\$ 67,791	\$ 94,009

The accompanying notes are an integral part of these condensed consolidated financial statements.

WASTE CONNECTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE, PER TON AND PER
GALLON AMOUNTS)

1. BASIS OF PRESENTATION AND SUMMARY

The accompanying condensed consolidated financial statements relate to Waste Connections, Inc. and its subsidiaries (the “Company”) for the three and nine month periods ended September 30, 2020 and 2019. In the opinion of management, the accompanying balance sheets and related interim statements of net income, comprehensive income (loss), cash flows and equity include all adjustments, consisting only of normal recurring items, necessary for their fair statement in conformity with U.S. generally accepted accounting principles (“GAAP”). Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Examples include accounting for landfills, self-insurance accruals, income taxes, allocation of acquisition purchase price, contingent consideration accruals and asset impairments. An additional area that involves estimation is when the Company estimates the amount of potential exposure it may have with respect to litigation, claims and assessments in accordance with the accounting guidance on contingencies. Actual results for all estimates could differ materially from the estimates and assumptions that the Company uses in the preparation of its condensed consolidated financial statements.

The challenges posed by the outbreak of coronavirus disease 2019 (“COVID-19”) on the global economy persisted through the third quarter of 2020 and continue to impact the demand for the Company’s services to varying degrees and in varying ways across the U.S. and Canada and across a variety of lines of business, including commercial collection and solid waste and exploration and production (“E&P”) waste disposal. In response to COVID-19, national and local governments around the world have instituted certain measures, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, curfews, shelter-in-place orders and recommendations to practice social distancing. In some markets where a portion of these measures have been curtailed, the impact to demand for the Company’s services has decreased as activity levels have increased. The impact of the COVID-19 pandemic on the Company’s 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, all of which are uncertain and cannot be predicted at this time.

Interim results are not necessarily indicative of results for a full year. These interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

2. REPORTING CURRENCY

The functional currency of the Company, as the parent corporate entity, and its operating subsidiaries in the United States, is the U.S. dollar. The functional currency of the Company’s Canadian operations is the Canadian dollar. The reporting currency of the Company is the U.S. dollar. The Company’s consolidated Canadian dollar financial position is translated to U.S. dollars by applying the foreign currency exchange rate in effect at the consolidated balance sheet date. The Company’s consolidated Canadian dollar results of operations and cash flows are translated to U.S. dollars by applying the average foreign currency exchange rate in effect during the reporting period. The resulting translation adjustments are included in other comprehensive income or loss. Gains and losses from foreign currency transactions are included in earnings for the period.

WASTE CONNECTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE, PER TON AND PER
GALLON AMOUNTS)

3. NEW ACCOUNTING STANDARDS

Accounting Standards Adopted

Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. In June 2016, the Financial Accounting Standards Board, (“FASB”) issued guidance introducing a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables, that requires entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. The standard became effective for public business entities that are U.S. Securities and Exchange Commission (“SEC”) filers for annual periods beginning after December 15, 2019 and interim periods within those years. The Company adopted the new standard on January 1, 2020. The adoption of the new standard did not have a material impact on the Company’s condensed consolidated financial statements as pre-existing processes for estimating expected credit losses for trade receivables aligned with the expected credit loss model. See Note 7 for additional information and disclosures related to the adoption of this new standard.

Accounting Standards Pending Adoption

Income Taxes – Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued guidance that simplifies the accounting for income taxes as part of its overall initiative to reduce complexity in applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. The amendments include removal of certain exceptions to the general principles of income taxes, and simplification in several other areas such as accounting for a franchise tax that is partially based on income. The standard will be effective for public business entities that are SEC filers for annual periods beginning after December 15, 2020, and interim periods within those reporting periods. Early adoption is permitted. The Company is currently assessing the impact that adopting this guidance will have on its condensed consolidated financial statements.

Reference Rate Reform – Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In March 2020, the FASB issued guidance to provide temporary optional expedients and exceptions to the guidance in GAAP on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (“LIBOR”), anticipated to be phased out by the end of 2021, and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate (“SOFR”). Under the new guidance, entities can elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Under the guidance, entities can also elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met.

The guidance is effective upon issuance. The guidance on contract modifications is applied prospectively from any date beginning March 12, 2020. It may also be applied to modifications of existing contracts made earlier in the interim period that includes the effective date. The guidance on hedging is applied to eligible hedging relationships existing as of the beginning of the interim period that includes the effective date and to new eligible hedging relationships entered into after the beginning of that interim period. The relief is temporary and generally cannot be applied to contract modifications that occur after December 31, 2022 or hedging relationships entered into or evaluated after that date. However, certain optional expedients can be applied to hedging relationships evaluated in periods after December 31, 2022. The Company is currently assessing the potential impact of implementing this new guidance on its condensed consolidated financial statements. To the extent that the transition away from the use of LIBOR might affect the Company’s ability to maintain cash flow hedge accounting as described in Note 13, the relief is expected to permit the Company to maintain that cash flow hedge accounting.

WASTE CONNECTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE, PER TON AND PER
GALLON AMOUNTS)

4. RECLASSIFICATION

As disclosed within other notes to the financial statements, segment information reported in the Company's prior year has been reclassified to conform to the 2020 presentation.

5. IMPAIRMENTS OF PROPERTY, EQUIPMENT, GOODWILL AND INTANGIBLE ASSETS

Property, equipment and finite-lived intangible assets are carried on the Company's consolidated financial statements based on their cost less accumulated depreciation or amortization. Finite-lived intangible assets consist of long-term franchise agreements, contracts, customer lists, permits and other agreements. The recoverability of these assets is tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Typical indicators that an asset may be impaired include, but are not limited to, the following:

- a significant adverse change in legal factors or in the business climate;
- an adverse action or assessment by a regulator;
- a more likely than not expectation that a segment or a significant portion thereof will be sold;
- the testing for recoverability of a significant asset group within a segment; or
- current period or expected future operating cash flow losses.

If any of these or other indicators occur, a test of recoverability is performed by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If the carrying value is in excess of the undiscounted expected future cash flows, impairment is measured by comparing the fair value of the asset to its carrying value. Fair value is determined by an internally developed discounted projected cash flow analysis of the asset. Cash flow projections are sometimes based on a group of assets, rather than a single asset. If cash flows cannot be separately and independently identified for a single asset, the Company will determine whether an impairment has occurred for the group of assets for which the projected cash flows can be identified. If the fair value of an asset is determined to be less than the carrying amount of the asset or asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs. Several impairment indicators are beyond the Company's control, and whether or not they will occur cannot be predicted with any certainty. Estimating future cash flows requires significant judgment and projections may vary from cash flows eventually realized. There are other considerations for impairments of landfills, as described below.

There are certain indicators listed above that require significant judgment and understanding of the waste industry when applied to landfill development or expansion projects. A regulator or court may deny or overturn a landfill development or landfill expansion permit application before the development or expansion permit is ultimately granted. Management may periodically divert waste from one landfill to another to conserve remaining permitted landfill airspace. Therefore, certain events could occur in the ordinary course of business and not necessarily be considered indicators of impairment due to the unique nature of the waste industry.

Goodwill and indefinite-lived intangible assets are tested for impairment on at least an annual basis in the fourth quarter of the year. In addition, the Company evaluates its reporting units for impairment if events or circumstances similar to the indicators listed above change between annual tests indicating a possible impairment.

The Company estimates the fair value of each of its reporting units using discounted cash flow analyses. Through June 30, 2020, the Company's reporting units consisted of its five geographic solid waste operating segments and its E&P segment. As of July 2020, the Company combined all operations of the E&P segment into the Southern segment, based

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on the Company's determination that the two operating segments met the aggregation criteria, and eliminated the E&P segment. Discounted cash flow analyses require significant assumptions and estimates about the future operations of each reporting unit and the future discrete cash flows related to each indefinite-lived intangible asset. Significant judgments inherent in these analyses include the determination of appropriate discount rates, the amount and timing of expected future cash flows, growth rates and income tax rates. The Company compares the fair value of each reporting unit with the carrying value of the net assets assigned to each reporting unit. If the fair value of a reporting unit is greater than the carrying value of the net assets, including goodwill, assigned to the reporting unit, then no impairment results. If the fair value is less than its carrying value, an impairment charge is recorded for the amount by which the carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. In testing indefinite-lived intangible assets for impairment, the Company compares the estimated fair value of each indefinite-lived intangible asset to its carrying value. If the fair value of the indefinite-lived intangible asset is less than its carrying value, an impairment charge would be recorded to earnings in the Company's Condensed Consolidated Statements of Net Income.

The demand for the Company's 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 the Company's E&P waste services. During the nine months ended September 30, 2020, total E&P revenue declined \$75,158, compared to the prior year period, 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 the Company's E&P segment. 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 the Company's E&P waste customers in the basins where the Company operates.

The decrease in exploration and production activity, together with market expectations of a likely slow recovery in oil prices, reduced the expected future period cash flows of the Company's E&P operations. Based on these events, the Company concluded that a triggering event occurred which required the Company to perform an impairment test of the property and equipment and intangible assets of its E&P operations as of June 30, 2020 using July 2020 industry projections for drilling activity by basin as the basis for expectations about future activity. Based upon the results of the impairment test, the Company concluded that the carrying value exceeded the projected undiscounted cash flows of four E&P landfills. The next step was to calculate the fair value of these four landfills using an income approach employing a discounted cash flow ("DCF") model over the lesser of 40 years or the remaining life of each landfill. Additional key assumptions used in the DCF model included a discount rate of 12% applied to the cash flows, annual revenue projections based on E&P waste resulting from projected levels of oil and natural gas exploration and production activity during the forecast period at each location, gross margins based on estimated operating expense requirements during the forecast period, estimated capital expenditures over the forecast period and income taxes based on the estimated federal and state income tax rates applicable during the cash flow periods. For each of the four landfills, the carrying value exceeded the calculated discounted fair value, resulting in the recording of an impairment charge of \$417,384 to Impairments and other operating items in the Condensed Consolidated Statements of Net Income during the nine months ended September 30, 2020. The four landfills had \$0 of intangible assets at June 30, 2020; therefore, no impairment charge was attributable to intangible assets. The impairment charge reduced the carrying value of property and equipment by \$417,384. If the estimated annual cash flows in the DCF model for each asset or asset group tested was changed by 10%, the resulting impairment charge would change by approximately \$3,000.

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The aforementioned impairment charges were partially offset by a \$4,145 adjustment to reduce the fair value of an amount payable in 2021 under a liability-classified contingent consideration arrangement calculated on future earnings and cash flows associated with the acquisition of an E&P business in 2014. Based upon the outlook for E&P waste services in the market where the acquired business operates, the payment of the contingent consideration was deemed unlikely and the carrying value was reduced to \$0 as of June 30, 2020, resulting in a credit to Impairments and other operating items in the Condensed Consolidated Statements of Net Income.

6. REVENUE

The Company's operations primarily consist of providing non-hazardous waste collection, transfer, disposal and recycling services, non-hazardous E&P waste treatment, recovery and disposal services, and intermodal services. The following table disaggregates the Company's revenues by service line for the periods indicated:

	<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	\$ 1,389,552	\$ 1,412,444	\$ 4,047,739	\$ 4,026,719

The factors that impact the timing and amount of revenue recognized for each service line may vary based on the nature of the service performed. Generally, the Company recognizes revenue at the time it performs a service. In the event that the Company bills for services in advance of performance, it recognizes deferred revenue for the amount billed and subsequently recognizes revenue at the time the service is provided. Substantially all of the deferred revenue recorded as of June 30, 2020 was recognized as revenue during the three months ended September 30, 2020 when the service was performed.

See Note 12 for additional information regarding revenue by reportable segment.

Contract Acquisition Costs

The incremental direct costs of obtaining a contract, which consist of sales incentives, are recognized as Other assets in the Company's Condensed Consolidated Balance Sheet, and are amortized to Selling, general and administrative expense over the estimated life of the relevant customer relationship, which ranges from one to five years. The Company recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity would have recognized is one year or less. The Company had \$19,669 and \$16,846 of deferred sales incentives at September 30, 2020 and December 31, 2019, respectively.

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7. ACCOUNTS RECEIVABLE

Accounts receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of the allowance for credit losses, represents their estimated net realizable value.

The allowance for credit losses is based on management's assessment of the collectability of assets pooled together with similar risk characteristics. The Company monitors the collectability of its trade receivables as one overall pool due to all trade receivables having similar risk characteristics. The Company estimates its allowance for credit losses based on historical collection trends, the age of outstanding receivables, geographical location of the customer, existing economic conditions and reasonable forecasts. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written off when the Company's internal collection efforts have been unsuccessful in collecting the amount due.

The following is a rollforward of the Company's allowance for credit losses from January 1, 2020 to September 30, 2020:

Beginning balance	\$	16,432
Current period provision for expected credit losses		13,092
Write-offs charged against the allowance		(13,540)
Recoveries collected		4,722
Impact of changes in foreign currency		(49)
Ending balance	\$	<u>20,657</u>

8. LANDFILL ACCOUNTING

At September 30, 2020, the Company's landfills consisted of 83 owned landfills, six landfills operated under life-of-site operating agreements, four landfills operated under limited-term operating agreements and one development stage landfill. The Company's landfills had site costs with a net book value of \$2,645,221 at September 30, 2020. For the Company's landfills operated under limited-term operating agreements and life-of-site operating agreements, the owner of the property (generally a municipality) usually owns the permit and the Company operates the landfill for a contracted term. Where the contracted term is not the life of the landfill, the property owner is generally responsible for final capping, closure and post-closure obligations. The Company is responsible for all final capping, closure and post-closure liabilities at the landfills it operates under life-of-site operating agreements.

The Company's internal and third-party engineers perform surveys at least annually to estimate the remaining disposal capacity at its landfills. Many of the Company's existing landfills have the potential for expanded disposal capacity beyond the amount currently permitted. The Company's landfill depletion rates are based on the remaining disposal capacity, considering both permitted and probable expansion airspace, at the landfills it owns and landfills it operates, but does not own, under life-of-site agreements. The Company's landfill depletion rate is based on the term of the operating agreement at its operated landfill that has capitalized expenditures. Expansion airspace consists of additional disposal capacity being pursued through means of an expansion that has not yet been permitted. Expansion airspace that meets certain criteria is included in the estimate of total landfill airspace.

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Based on remaining permitted capacity as of September 30, 2020, and projected annual disposal volumes, the average remaining landfill life for the Company's owned landfills and landfills operated under life-of-site operating agreements is estimated to be approximately 28 years. As of September 30, 2020, the Company is seeking to expand permitted capacity at ten of its owned landfills and three landfills that it operates under life-of-site operating agreements, and considers the achievement of these expansions to be probable. Although the Company cannot be certain that all future expansions will be permitted as designed, the average remaining life, when considering remaining permitted capacity, probable expansion capacity and projected annual disposal volume, of the Company's owned landfills and landfills operated under life-of-site operating agreements is approximately 32 years, with lives ranging from approximately 1 to 204 years.

During the nine months ended September 30, 2020 and 2019, the Company expensed \$149,988 and \$169,064, respectively, or an average of \$4.51 and \$4.77 per ton consumed, respectively, related to landfill depletion at owned landfills and landfills operated under life-of-site agreements.

The Company reserves for estimated final capping, closure and post-closure maintenance obligations at the landfills it owns and landfills it operates under life-of-site operating agreements. The Company calculates the net present value of its final capping, closure and post-closure liabilities by estimating the total obligation in current dollars, inflating the obligation based upon the expected date of the expenditure and discounting the inflated total to its present value using a credit-adjusted risk-free rate. Any changes in expectations that result in an upward revision to the estimated undiscounted cash flows are treated as a new liability and are inflated and discounted at rates reflecting current market conditions. Any changes in expectations that result in a downward revision (or no revision) to the estimated undiscounted cash flows result in a liability that is inflated and discounted at rates reflecting the market conditions at the time the cash flows were originally estimated. This policy results in the Company's final capping, closure and post-closure liabilities being recorded in "layers." The Company's discount rate assumption for purposes of computing 2020 and 2019 "layers" for final capping, closure and post-closure obligations was 4.75% for both years, which reflects the Company's long-term credit adjusted risk free rate. The Company's inflation rate assumption is 2.5% for the years ending December 31, 2020 and 2019. The resulting final capping, closure and post-closure obligations are recorded on the Condensed Consolidated Balance Sheet along with an offsetting addition to site costs which is amortized to depletion expense as the remaining landfill airspace is consumed. Interest is accreted on the recorded liability using the corresponding discount rate. During the nine months ended September 30, 2020 and 2019, the Company expensed \$11,174 and \$10,656, respectively, or an average of \$0.34 and \$0.30 per ton consumed, respectively, related to final capping, closure and post-closure accretion expense.

The following is a reconciliation of the Company's final capping, closure and post-closure liability balance from December 31, 2019 to September 30, 2020:

Final capping, closure and post-closure liability at December 31, 2019	\$ 291,474
Liability adjustments	(1,861)
Accretion expense associated with landfill obligations	11,174
Closure payments	(3,257)
Assumption of closure liabilities from acquisitions	2,135
Foreign currency translation adjustment	(1,178)
Final capping, closure and post-closure liability at September 30, 2020	<u>\$ 298,487</u>

Liability adjustments of \$1,861 for the nine months ended September 30, 2020, represent non-cash changes to final capping, closure and post-closure liabilities and are recorded on the Condensed Consolidated Balance Sheets along with an offsetting addition to site costs, which is amortized to depletion expense as the remaining landfill airspace is consumed. The final capping, closure and post-closure liability is included in Other long-term liabilities in the Condensed Consolidated Balance Sheets. The Company performs its annual review of its cost and capacity estimates in the first quarter of each year.

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At September 30, 2020 and December 31, 2019, \$17,589 and \$12,324, respectively, of the Company's restricted cash balance and \$44,558 and \$48,590, respectively, of the Company's restricted investments balance was for purposes of securing its performance of future final capping, closure and post-closure obligations.

9. ACQUISITIONS

The Company acquired 11 individually immaterial non-hazardous solid waste collection, transfer, recycling and disposal businesses during the nine months ended September 30, 2020. The total acquisition-related costs incurred during the nine months ended September 30, 2020 for these acquisitions were \$4,497. These expenses are included in Selling, general and administrative expenses in the Company's Condensed Consolidated Statements of Net Income.

The Company acquired 13 individually immaterial non-hazardous solid waste collection, transfer and disposal businesses during the nine months ended September 30, 2019. The total acquisition-related costs incurred during the nine months ended September 30, 2019 for these acquisitions were \$8,057. These expenses are included in Selling, general and administrative expenses in the Company's Condensed Consolidated Statements of Net Income.

The results of operations of the acquired businesses have been included in the Company's Condensed Consolidated Financial Statements from their respective acquisition dates. The Company expects these acquired businesses to contribute towards the achievement of the Company's strategy to expand through acquisitions. Goodwill acquired is attributable to the synergies and ancillary growth opportunities expected to arise after the Company's acquisition of these businesses.

Goodwill acquired during the nine months ended September 30, 2020 and 2019, totaling \$48,926 and \$81,903, respectively, is expected to be deductible for tax purposes.

The fair value of acquired working capital related to six individually immaterial acquisitions completed during the twelve months ended September 30, 2020, is provisional pending receipt of information from the acquirees to support the fair value of the assets acquired and liabilities assumed. Any adjustments recorded relating to finalizing the working capital for these six acquisitions are not expected to be material to the Company's financial position.

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10. INTANGIBLE ASSETS, NET

Intangible assets, exclusive of goodwill, consisted of the following at September 30, 2020:

	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Loss	Net Carrying Amount
Finite-lived intangible assets:				
Long-term franchise agreements and contracts	\$ 588,000	\$ (220,502)	\$ —	\$ 367,498
Customer lists	594,215	(360,264)	—	233,951
Permits and other	364,263	(74,120)	—	290,143
	<u>1,546,478</u>	<u>(654,886)</u>	<u>—</u>	<u>891,592</u>
Indefinite-lived intangible assets:				
Solid waste collection and transportation permits	172,056	—	—	172,056
Material recycling facility permits	42,283	—	—	42,283
E&P facility permits	59,855	—	(38,507)	21,348
	<u>274,194</u>	<u>—</u>	<u>(38,507)</u>	<u>235,687</u>
Intangible assets, exclusive of goodwill	<u>\$ 1,820,672</u>	<u>\$ (654,886)</u>	<u>\$ (38,507)</u>	<u>\$ 1,127,279</u>

The weighted-average amortization period of long-term franchise agreements and contracts acquired during the nine months ended September 30, 2020 was 14.1 years. The weighted-average amortization period of customer lists acquired during the nine months ended September 30, 2020 was 11.0 years.

Intangible assets, exclusive of goodwill, consisted of the following at December 31, 2019:

	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Loss	Net Carrying Amount
Finite-lived intangible assets:				
Long-term franchise agreements and contracts	\$ 550,340	\$ (192,462)	\$ —	\$ 357,878
Customer lists	587,562	(308,427)	—	279,135
Permits and other	367,127	(63,299)	—	303,828
	<u>1,505,029</u>	<u>(564,188)</u>	<u>—</u>	<u>940,841</u>
Indefinite-lived intangible assets:				
Solid waste collection and transportation permits	158,591	—	—	158,591
Material recycling facility permits	42,283	—	—	42,283
E&P facility permits	59,855	—	(38,507)	21,348
	<u>260,729</u>	<u>—</u>	<u>(38,507)</u>	<u>222,222</u>
Intangible assets, exclusive of goodwill	<u>\$ 1,765,758</u>	<u>\$ (564,188)</u>	<u>\$ (38,507)</u>	<u>\$ 1,163,063</u>

Estimated future amortization expense for the next five years relating to finite-lived intangible assets is as follows:

For the year ending December 31, 2020	\$ 128,665
For the year ending December 31, 2021	\$ 113,928
For the year ending December 31, 2022	\$ 98,516
For the year ending December 31, 2023	\$ 83,699
For the year ending December 31, 2024	\$ 72,100

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11. LONG-TERM DEBT

The following table presents the Company's long-term debt as of September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Revolver under Credit Agreement, bearing interest ranging from 1.35% to 1.68% ^(a)	\$ 178,749	\$ 916,247
Term loan under Credit Agreement, bearing interest at 1.35% ^(a)	650,000	700,000
4.64% Senior Notes due 2021 ^(b)	100,000	100,000
2.39% Senior Notes due 2021 ^(c)	150,000	150,000
3.09% Senior Notes due 2022	125,000	125,000
2.75% Senior Notes due 2023	200,000	200,000
3.24% Senior Notes due 2024	150,000	150,000
3.41% Senior Notes due 2025	375,000	375,000
3.03% Senior Notes due 2026	400,000	400,000
3.49% Senior Notes due 2027	250,000	250,000
4.25% Senior Notes due 2028	500,000	500,000
3.50% Senior Notes due 2029	500,000	500,000
2.60% Senior Notes due 2030	600,000	—
3.05% Senior Notes due 2050	500,000	—
Notes payable to sellers and other third parties, bearing interest ranging from 2.42% to 10.35%, principal and interest payments due periodically with due dates ranging from 2021 to 2036 ^(a)	43,160	9,638
	<u>4,721,909</u>	<u>4,375,885</u>
Less – current portion	(6,772)	(465)
Less – unamortized debt discount and issuance costs	(34,918)	(21,638)
	<u>\$ 4,680,219</u>	<u>\$ 4,353,782</u>

(a) Interest rates represent the interest rates incurred at September 30, 2020.

(b) The Company has recorded the 4.64% Senior Notes due 2021 (the “2021 Senior Notes”) in long-term in the table above as the Company has the intent and ability to redeem the 2021 Senior Notes on April 1, 2021 using borrowings under the Credit Agreement.

(c) The Company has recorded the 2.39% Senior Notes due 2021 (the “New 2021 Senior Notes”) in long-term in the table above as the Company has the intent and ability to redeem the New 2021 Senior Notes on June 1, 2021 using borrowings under the Credit Agreement.

Senior Notes due 2030 and 2050

On January 23, 2020, the Company completed an underwritten public offering of \$600,000 aggregate principal amount of 2.60% Senior Notes due 2030 (the “2030 Senior Notes”). The 2030 Senior Notes were issued under the Indenture, dated as of November 16, 2018 (the “Base Indenture”), by and between the Company and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by the Third Supplemental Indenture, dated as of January 23, 2020. The Company is amortizing \$5,435 of debt issuance costs through the maturity date.

The Company 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

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with the Company's other existing and future unsubordinated debt and senior to any of the Company's future subordinated debt. The 2030 Senior Notes are not guaranteed by any of the Company's subsidiaries.

The Company may redeem some or all of the 2030 Senior Notes at its option prior to November 1, 2029 (three months before the maturity date) at any time and from time to time at a redemption price equal to the greater of 100% of the principal amount of the 2030 Senior Notes redeemed, or the sum of the present values of the remaining scheduled payments of principal and interest on the 2030 Senior Notes redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Commencing on November 1, 2029 (three months before the maturity date), the Company may redeem some or all of the 2030 Senior Notes, at any time and from time to time, at a redemption price equal to the principal amount of the 2030 Senior Notes being redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

On March 13, 2020, the Company completed an underwritten public offering of \$500,000 aggregate principal amount of 3.05% Senior Notes due 2050 (the "2050 Senior Notes"). The 2050 Senior Notes were issued under the Base Indenture, as supplemented by the Fourth Supplemental Indenture, dated as of March 13, 2020 (the Base Indenture as so supplemented, the "Indenture"). The Company is amortizing a \$7,375 debt discount and \$5,682 of debt issuance costs through the maturity date.

The Company 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 the Company's other existing and future unsubordinated debt and senior to any of the Company's future subordinated debt. The 2050 Senior Notes are not guaranteed by any of the Company's subsidiaries.

The Company may redeem some or all of the 2050 Senior Notes at its option prior to October 1, 2049 (six months before the maturity date) at any time and from time to time at a redemption price equal to the greater of 100% of the principal amount of the 2050 Senior Notes redeemed, or the sum of the present values of the remaining scheduled payments of principal and interest on the 2050 Senior Notes redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Commencing on October 1, 2049 (six months before the maturity date), the Company may redeem some or all of the 2050 Senior Notes, at any time and from time to time, at a redemption price equal to the principal amount of the 2050 Senior Notes being redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

Under certain circumstances, the Company may become obligated to pay additional amounts (the "Additional Amounts") with respect to the 2030 and/or 2050 Senior Notes (the "Notes"), to ensure that the net amounts received by each holder of the Notes will not be less than the amount such holder would have received if withholding taxes or deductions were not incurred on a payment under or with respect to the Notes. If such payment of Additional Amounts is a result of a change in the laws or regulations, including a change in any official position, the introduction of an official position or a holding by a court of competent jurisdiction, of any jurisdiction from or through which payment is made by or on behalf of the Notes having power to tax, and the Company cannot avoid such payments of Additional Amounts through reasonable measures, then the Company may redeem the 2030 and/or 2050 Senior Notes then outstanding at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the redemption date).

If the Company experiences certain kinds of changes of control, each holder of the Notes may require the Company to repurchase all or a portion of the Notes for cash at a price equal to 101% of the aggregate principal amount of such Notes, plus any accrued but unpaid interest to, but excluding, the date of repurchase.

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The covenants in the Indenture include limitations on liens, sale-leaseback transactions and mergers and sales of all or substantially all of the Company's assets. The Indenture also includes customary events of default with respect to the Notes. As of September 30, 2020, the Company was in compliance with all applicable covenants in the Indenture.

Upon an event of default, the principal of and accrued and unpaid interest on all the 2030 and/or 2050 Senior Notes may be declared to be due and payable by the Trustee or the holders of not less than 25% in principal amount of the outstanding Notes of the applicable series. Upon such a declaration, such principal and accrued interest on all of the 2030 and/or 2050 Senior Notes will be due and payable immediately. In the case of an event of default resulting from certain events of bankruptcy, insolvency or reorganization, the principal (or such specified amount) of and accrued and unpaid interest, if any, on all outstanding 2030 and/or 2050 Senior Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder of the applicable series of the Notes. Under certain circumstances, the holders of a majority in principal amount of the outstanding Notes of any series may rescind any such acceleration with respect to the Notes of that series and its consequences.

Credit Agreement

Details of the Credit Agreement are as follows:

	September 30, 2020	December 31, 2019
<i>Revolver under Credit Agreement</i>		
Available	\$ 1,257,856	\$ 538,642
Letters of credit outstanding	\$ 125,895	\$ 107,611
Total amount drawn, as follows:	\$ 178,749	\$ 916,247
Amount drawn - U.S. LIBOR rate loan	\$ 175,000	\$ 897,000
Interest rate applicable - U.S. LIBOR rate loan	1.35 %	2.90 %
Amount drawn – Canadian bankers' acceptance	\$ 3,749	\$ 19,247
Interest rate applicable – Canadian bankers' acceptance	1.68 %	3.18 %
Commitment – rate applicable	0.15 %	0.12 %
<i>Term loan under Credit Agreement</i>		
Amount drawn – U.S. based LIBOR loan	\$ 650,000	\$ 700,000
Interest rate applicable – U.S. based LIBOR loan	1.35 %	2.90 %

12. SEGMENT REPORTING

The Company's revenues are generated from the collection, transfer, recycling and disposal of non-hazardous solid waste and the treatment, recovery and disposal of non-hazardous E&P waste. No single contract or customer accounted for more than 10% of the Company's total revenues at the consolidated or reportable segment level during the periods presented.

Prior to July 2020, the Company managed its operations through five geographic solid waste operating segments and its E&P segment, which were also its reportable segments. As of July 2020, the Company's chief operating decision maker determined that the Company's E&P and Southern operating segments met all the aggregation criteria and eliminated the E&P segment by combining all operations of the E&P segment into the Southern segment. After giving effect to this combination, the Company's reportable segments consist of its five geographic solid waste operating segments. 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

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reflected in this report have been reclassified to reflect the realignment of the Company's reportable segments for comparison with the same period in 2020.

Under the current orientation, the Company's 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; the Company's 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; the Company's Western segment services customers located in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming; the Company's 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 the Company's Canada segment services customers located in the state of Michigan and in the provinces of Alberta, British Columbia, Manitoba, Ontario, Québec and Saskatchewan.

The Company's 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. The Company defines 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. The Company's 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. A reconciliation of segment EBITDA to Income before income tax provision is included at the end of this Note 12.

Summarized financial information concerning the Company's reportable segments for the three and nine months ended September 30, 2020 and 2019, is shown in the following tables:

Three Months Ended September 30, 2020	Revenue	Intercompany Revenue ^(b)	Reported Revenue	Segment EBITDA ^(c)
Eastern	\$ 413,499	\$ (69,146)	\$ 344,353	\$ 90,991
Southern	375,636	(45,061)	330,575	81,394
Western	337,768	(36,547)	301,221	101,071
Central	262,458	(33,892)	228,566	82,887
Canada	210,577	(25,740)	184,837	72,516
Corporate ^(a)	—	—	—	(4,132)
	<u>\$ 1,599,938</u>	<u>\$ (210,386)</u>	<u>\$ 1,389,552</u>	<u>\$ 424,727</u>

Three Months Ended September 30, 2019	Revenue	Intercompany Revenue ^(b)	Reported Revenue	Segment EBITDA ^(c)
Eastern	\$ 399,936	\$ (69,049)	\$ 330,887	\$ 88,101
Southern	417,133	(45,678)	371,455	113,209
Western	324,859	(35,651)	289,208	90,059
Central	262,737	(32,663)	230,074	81,746
Canada	217,879	(27,059)	190,820	66,794
Corporate ^(a)	—	—	—	(446)
	<u>\$ 1,622,544</u>	<u>\$ (210,100)</u>	<u>\$ 1,412,444</u>	<u>\$ 439,463</u>

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Nine Months Ended September 30, 2020	Revenue	Intercompany Revenue ^(b)	Reported Revenue	Segment EBITDA ^(c)
Eastern	\$ 1,194,213	\$ (198,767)	\$ 995,446	\$ 258,333
Southern	1,171,709	(138,412)	1,033,297	276,844
Western	953,861	(105,122)	848,739	267,523
Central	749,093	(95,365)	653,728	235,742
Canada	586,514	(69,985)	516,529	185,589
Corporate ^(a)	—	—	—	(10,462)
	<u>\$ 4,655,390</u>	<u>\$ (607,651)</u>	<u>\$ 4,047,739</u>	<u>\$ 1,213,569</u>

Nine Months Ended September 30, 2019	Revenue	Intercompany Revenue ^(b)	Reported Revenue	Segment EBITDA ^(c)
Eastern	\$ 1,137,258	\$ (189,924)	\$ 947,334	\$ 250,106
Southern	1,214,125	(129,931)	1,084,194	327,139
Western	922,737	(101,552)	821,185	253,504
Central	715,997	(89,685)	626,312	219,280
Canada	624,470	(76,776)	547,694	193,702
Corporate ^(a)	—	—	—	(11,751)
	<u>\$ 4,614,587</u>	<u>\$ (587,868)</u>	<u>\$ 4,026,719</u>	<u>\$ 1,231,980</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.
- (b) Intercompany revenues reflect each segment's total intercompany sales, including intercompany sales within a segment and between segments. Transactions within and between segments are generally made on a basis intended to reflect the market value of the service.
- (c) For those items included in the determination of segment EBITDA, the accounting policies of the segments are the same as those described in the Company's most recent Annual Report on Form 10-K.

Total assets for each of the Company's reportable segments at September 30, 2020 and December 31, 2019, were as follows:

	September 30, 2020	December 31, 2019
Eastern	\$ 3,055,672	\$ 3,099,283
Southern	3,441,079	3,952,449
Western	1,860,596	1,718,015
Central	1,956,234	1,885,468
Canada	2,444,922	2,490,291
Corporate	1,090,944	592,189
Total Assets	<u>\$ 13,849,447</u>	<u>\$ 13,737,695</u>

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The following tables show changes in goodwill during the nine months ended September 30, 2020 and 2019, by reportable segment:

	Eastern	Southern	Western	Central	Canada	Total
Balance as of December 31, 2019	\$ 1,331,180	\$ 1,528,225	\$ 400,037	\$ 729,470	\$ 1,521,939	\$ 5,510,851
Goodwill acquired	6,228	3,648	43,151	10,450	174	63,651
Impact of changes in foreign currency	—	—	—	—	(39,935)	(39,935)
Balance as of September 30, 2020	<u>\$ 1,337,408</u>	<u>\$ 1,531,873</u>	<u>\$ 443,188</u>	<u>\$ 739,920</u>	<u>\$ 1,482,178</u>	<u>\$ 5,534,567</u>

	Eastern	Southern	Western	Central	Canada	Total
Balance as of December 31, 2018	\$ 1,126,486	\$ 1,517,610	\$ 398,174	\$ 540,435	\$ 1,448,980	\$ 5,031,685
Goodwill acquired	22,146	10,329	1,334	189,194	25	223,028
Goodwill divested	—	(845)	—	—	—	(845)
Impact of changes in foreign currency	—	—	—	—	43,688	43,688
Balance as of September 30, 2019	<u>\$ 1,148,632</u>	<u>\$ 1,527,094</u>	<u>\$ 399,508</u>	<u>\$ 729,629</u>	<u>\$ 1,492,693</u>	<u>\$ 5,297,556</u>

A reconciliation of the Company's primary measure of segment profitability (segment EBITDA) to Income before income tax provision in the Condensed Consolidated Statements of Net Income is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Eastern segment EBITDA	\$ 90,991	\$ 88,101	\$ 258,333	\$ 250,106
Southern segment EBITDA	81,394	113,209	276,844	327,139
Western segment EBITDA	101,071	90,059	267,523	253,504
Central segment EBITDA	82,887	81,746	235,742	219,280
Canada segment EBITDA	72,516	66,794	185,589	193,702
Subtotal reportable segments	428,859	439,909	1,224,031	1,243,731
Unallocated corporate overhead	(4,132)	(446)	(10,462)	(11,751)
Depreciation	(157,590)	(157,994)	(459,641)	(461,616)
Amortization of intangibles	(32,653)	(31,934)	(96,062)	(93,821)
Impairments and other operating items	(3,805)	(12,935)	(442,582)	(32,949)
Interest expense	(40,636)	(36,780)	(119,562)	(111,313)
Interest income	903	2,056	4,396	7,186
Other income (expense), net	702	(19)	(3,046)	4,562
Income before income tax provision	<u>\$ 191,648</u>	<u>\$ 201,857</u>	<u>\$ 97,072</u>	<u>\$ 544,029</u>

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company recognizes all derivatives on the Condensed Consolidated Balance Sheets at fair value. All of the Company's derivatives have been designated as cash flow hedges; therefore, the gain or loss on the derivatives will be recognized in accumulated other comprehensive income (loss) ("AOCIL") and reclassified into earnings in the same period during which the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item. The Company classifies cash inflows and outflows from derivatives within operating activities on the Condensed Consolidated Statements of Cash Flows.

One of the Company's objectives for utilizing derivative instruments is to reduce its exposure to fluctuations in cash flows due to changes in the variable interest rates of certain borrowings under the Credit Agreement. The Company's strategy to achieve that objective involves entering into interest rate swaps. The interest rate swaps outstanding at September 30, 2020 were specifically designated to the Credit Agreement and accounted for as cash flow hedges.

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At September 30, 2020, the Company's derivative instruments included 10 interest rate swap agreements as follows:

Date Entered	Notional Amount	Fixed Interest Rate Paid*	Variable Interest Rate Received	Effective Date	Expiration Date
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, the Company terminated four of its interest rate swaps with notional amounts of \$150,000, \$150,000, \$50,000 and \$50,000, each of which would have expired in January 2021. As a result of terminating these interest rate swaps, the Company made total cash payments of \$853 to the counterparties of the swap agreements.

The fair values of derivative instruments designated as cash flow hedges as of September 30, 2020, were as follows:

Derivatives Designated as Cash Flow Hedges	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	Prepaid expenses and other current assets ^(a)	\$ —	Accrued liabilities ^(a)	\$ (19,825)
			Other long-term liabilities	(83,429)
Total derivatives designated as cash flow hedges		\$ —		\$ (103,254)

(a) Represents the estimated amount of the existing unrealized losses, respectively, on interest rate swaps as of September 30, 2020 (based on the interest rate yield curve at that date), included in AOCIL expected to be reclassified into pre-tax earnings within the next 12 months. The actual amounts reclassified into earnings are dependent on future movements in interest rates.

The fair values of derivative instruments designated as cash flow hedges as of December 31, 2019, were as follows:

Derivatives Designated as Cash Flow Hedges	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	Prepaid expenses and other current assets	\$ 2,845	Accrued liabilities	\$ (3,680)
			Other long-term liabilities	(38,967)
Total derivatives designated as cash flow hedges		\$ 2,845		\$ (42,647)

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The following table summarizes the impact of the Company's cash flow hedges on the results of operations, comprehensive income (loss) and AOCIL for the three and nine months ended September 30, 2020 and 2019:

Derivatives Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized as AOCIL on Derivatives, Net of Tax ^(a)		Statement of Net Income Classification	Amount of (Gain) or Loss Reclassified from AOCIL into Earnings, Net of Tax ^(b)	
	Three Months Ended September 30,			Three Months Ended September 30,	
	2020	2019		2020	2019
Interest rate swaps	\$ 1,357	\$ (11,379)	Interest expense	\$ 2,126	\$ (1,451)

Derivatives Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized as AOCIL on Derivatives, Net of Tax ^(a)		Statement of Net Income Classification	Amount of (Gain) or Loss Reclassified from AOCIL into Earnings, Net of Tax ^{(b), (c)}	
	Nine Months Ended September 30,			Nine Months Ended September 30,	
	2020	2019		2020	2019
Interest rate swaps	\$ (50,014)	\$ (41,761)	Interest expense	\$ 3,377	\$ (5,085)

(a) In accordance with the derivatives and hedging guidance, the changes in fair values of interest rate swaps have been recorded in equity as a component of AOCIL. As the critical terms of the interest rate swaps match the underlying debt being hedged, all unrealized changes in fair value are recorded in AOCIL.

(b) Amounts reclassified from AOCIL into earnings related to realized gains and losses on interest rate swaps are recognized when interest payments or receipts occur related to the swap contracts, which correspond to when interest payments are made on the Company's hedged debt.

See Note 17 for further discussion on the impact of the Company's hedge accounting to its consolidated comprehensive income (loss) and AOCIL.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash and equivalents, trade receivables, restricted cash and investments, trade payables, debt instruments, contingent consideration obligations and interest rate swaps. As of September 30, 2020 and December 31, 2019, the carrying values of cash and equivalents, trade receivables, restricted cash and investments, trade payables and contingent consideration are considered to be representative of their respective fair values. The carrying values of the Company's debt instruments, excluding certain notes as listed in the table below, approximate their fair values as of September 30, 2020 and December 31, 2019, based on current borrowing rates, current remaining average life to maturity and borrower credit quality for similar types of borrowing arrangements, and are classified as Level 2 within the fair value hierarchy. The carrying values and fair values of the Company's debt instruments

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where the carrying values do not approximate their fair values as of September 30, 2020 and December 31, 2019, are as follows:

	Carrying Value at		Fair Value* at	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
4.64% Senior Notes due 2021	\$ 100,000	\$ 100,000	\$ 101,590	\$ 102,654
2.39% Senior Notes due 2021	\$ 150,000	\$ 150,000	\$ 150,928	\$ 149,823
3.09% Senior Notes due 2022	\$ 125,000	\$ 125,000	\$ 128,623	\$ 126,884
2.75% Senior Notes due 2023	\$ 200,000	\$ 200,000	\$ 205,995	\$ 201,121
3.24% Senior Notes due 2024	\$ 150,000	\$ 150,000	\$ 157,976	\$ 153,804
3.41% Senior Notes due 2025	\$ 375,000	\$ 375,000	\$ 402,757	\$ 389,127
3.03% Senior Notes due 2026	\$ 400,000	\$ 400,000	\$ 424,805	\$ 406,768
3.49% Senior Notes due 2027	\$ 250,000	\$ 250,000	\$ 271,516	\$ 259,789
4.25% Senior Notes due 2028	\$ 500,000	\$ 500,000	\$ 600,300	\$ 562,050
3.50% Senior Notes due 2029	\$ 500,000	\$ 500,000	\$ 568,850	\$ 533,500
2.60% Senior Notes due 2030	\$ 600,000	\$ —	\$ 648,060	\$ —
3.05% Senior Notes due 2050	\$ 500,000	\$ —	\$ 525,200	\$ —

*Senior Notes are classified as Level 2 within the fair value hierarchy. Fair value is based on quotes of bonds with similar ratings in similar industries.

For details on the fair value of the Company's interest rate swaps, restricted cash and investments and contingent consideration, refer to Note 16.

15. NET INCOME PER SHARE INFORMATION

The following table sets forth the calculation of the numerator and denominator used in the computation of basic and diluted net income per common share attributable to the Company's shareholders for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income attributable to Waste Connections for basic and diluted earnings per share	\$ 158,049	\$ 159,109	\$ 74,012	\$ 433,579
Denominator:				
Basic shares outstanding	262,998,317	263,853,681	263,253,087	263,768,258
Dilutive effect of equity-based awards	509,169	733,775	464,914	705,087
Diluted shares outstanding	<u>263,507,486</u>	<u>264,587,456</u>	<u>263,718,001</u>	<u>264,473,345</u>

16. FAIR VALUE MEASUREMENTS

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis in periods subsequent to their initial measurement. These tiers include: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets

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that are not active, model-based valuation techniques for which all significant assumptions are observable in the market, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs that are not corroborated by market data.

The Company's financial assets and liabilities recorded at fair value on a recurring basis include derivative instruments and restricted cash and investments. At September 30, 2020 and December 31, 2019, the Company's derivative instruments included pay-fixed, receive-variable interest rate swaps. The Company's interest rate swaps are recorded at their estimated fair values based on quotes received from financial institutions that trade these contracts. The Company verifies the reasonableness of these quotes using similar quotes from another financial institution as of each date for which financial statements are prepared. For the Company's interest rate swaps, the Company also considers the Company's creditworthiness in its determination of the fair value measurement of these instruments in a net liability position and the counterparties' creditworthiness in its determination of the fair value measurement of these instruments in a net asset position. The Company's restricted cash and investments are valued at quoted market prices in active markets for similar assets, which the Company receives from the financial institutions that hold such investments on its behalf. The Company's restricted cash and investments measured at fair value are invested primarily in money market accounts, bank time deposits, U.S. government and agency securities and Canadian bankers' acceptance notes.

The Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2020 and December 31, 2019, were as follows:

	Fair Value Measurement at September 30, 2020 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap derivative instruments – net liability position	\$ (103,254)	\$ —	\$ (103,254)	\$ —
Restricted cash and investments	\$ 143,931	\$ —	\$ 143,931	\$ —
Contingent consideration	\$ (88,522)	\$ —	\$ —	\$ (88,522)

	Fair Value Measurement at December 31, 2019 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap derivative instruments – net liability position	\$ (39,802)	\$ —	\$ (39,802)	\$ —
Restricted cash and investments	\$ 147,318	\$ —	\$ 147,318	\$ —
Contingent consideration	\$ (69,484)	\$ —	\$ —	\$ (69,484)

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The following table summarizes the changes in the fair value for Level 3 liabilities related to contingent consideration for the nine months ended September 30, 2020 and 2019:

	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 69,484	\$ 54,615
Contingent consideration recorded at acquisition date	3,677	1,003
Payment of contingent consideration recorded at acquisition date	(2,812)	(1,621)
Adjustments to contingent consideration	16,852	1,466
Interest accretion expense	1,422	1,383
Foreign currency translation adjustment	(101)	108
Ending balance	<u>\$ 88,522</u>	<u>\$ 56,954</u>

See Note 5 regarding non-recurring fair value measurements.

17. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes changes in the fair value of interest rate swaps that qualify for hedge accounting. The components of other comprehensive income (loss) and related tax effects for the three and nine months ended September 30, 2020 and 2019 are as follows:

	<u>Three Months Ended September 30, 2020</u>		
	<u>Gross</u>	<u>Tax Effect</u>	<u>Net of Tax</u>
Interest rate swap amounts reclassified into interest expense	\$ 2,893	\$ (767)	\$ 2,126
Changes in fair value of interest rate swaps	1,846	(489)	1,357
Foreign currency translation adjustment	45,886	—	45,886
	<u>\$ 50,625</u>	<u>\$ (1,256)</u>	<u>\$ 49,369</u>

	<u>Three Months Ended September 30, 2019</u>		
	<u>Gross</u>	<u>Tax Effect</u>	<u>Net of Tax</u>
Interest rate swap amounts reclassified into interest expense	\$ (1,974)	\$ 523	\$ (1,451)
Changes in fair value of interest rate swaps	(15,482)	4,103	(11,379)
Foreign currency translation adjustment	(24,911)	—	(24,911)
	<u>\$ (42,367)</u>	<u>\$ 4,626</u>	<u>\$ (37,741)</u>

	<u>Nine Months Ended September 30, 2020</u>		
	<u>Gross</u>	<u>Tax Effect</u>	<u>Net of Tax</u>
Interest rate swap amounts reclassified into interest expense	\$ 4,595	\$ (1,218)	\$ 3,377
Changes in fair value of interest rate swaps	(68,047)	18,033	(50,014)
Foreign currency translation adjustment	(55,738)	—	(55,738)
	<u>\$ (119,190)</u>	<u>\$ 16,815</u>	<u>\$ (102,375)</u>

	<u>Nine Months Ended September 30, 2019</u>		
	<u>Gross</u>	<u>Tax Effect</u>	<u>Net of Tax</u>
Interest rate swap amounts reclassified into interest expense	\$ (6,918)	\$ 1,833	\$ (5,085)
Changes in fair value of interest rate swaps	(56,818)	15,057	(41,761)
Foreign currency translation adjustment	60,404	—	60,404
	<u>\$ (3,332)</u>	<u>\$ 16,890</u>	<u>\$ 13,558</u>

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A rollforward of the amounts included in AOCIL, net of taxes, for the nine months ended September 30, 2020 and 2019, is as follows:

	<u>Interest Rate Swaps</u>	<u>Foreign Currency Translation Adjustment</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>
Balance at December 31, 2019	\$ (29,255)	\$ 18,292	\$ (10,963)
Amounts reclassified into earnings	3,377	—	3,377
Changes in fair value	(50,014)	—	(50,014)
Foreign currency translation adjustment	—	(55,738)	(55,738)
Balance at September 30, 2020	<u>\$ (75,892)</u>	<u>\$ (37,446)</u>	<u>\$ (113,338)</u>

	<u>Interest Rate Swaps</u>	<u>Foreign Currency Translation Adjustment</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>
Balance at December 31, 2018	\$ 8,892	\$ (83,678)	\$ (74,786)
Amounts reclassified into earnings	(5,085)	—	(5,085)
Changes in fair value	(41,761)	—	(41,761)
Foreign currency translation adjustment	—	60,404	60,404
Balance at September 30, 2019	<u>\$ (37,954)</u>	<u>\$ (23,274)</u>	<u>\$ (61,228)</u>

See Note 13 for further discussion on the Company's derivative instruments.

18. SHAREHOLDERS' EQUITY

Share-Based Compensation

Employee Share Purchase Plan

On May 15, 2020, the Company's shareholders approved the 2020 Employee Share Purchase Plan (the "ESPP"). Under the ESPP, qualified employees may elect to have payroll deductions withheld from their eligible compensation on each payroll date in amounts equal to or greater than one percent (1%) but not in excess of ten percent (10%) of eligible compensation in order to purchase the Company's common shares under certain terms and subject to certain restrictions set forth in the ESPP. The exercise price is equal to 95% of the closing price of the Company's common shares on the last day of the relevant offering period; provided, however, that such exercise price will not be less than 85% of the volume weighted average price of the Company's common shares as reflected on the Toronto Stock Exchange (the "TSX") over the final five trading days of such offering period. The maximum number of shares that may be issued under the ESPP is 1,000,000. As of September 30, 2020, none of the Company's common shares have been purchased under the ESPP.

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Restricted Share Units

A summary of activity related to restricted share units (“RSUs”) during the nine-month period ended September 30, 2020, is presented below:

	<u>Unvested Shares</u>
Outstanding at December 31, 2019	861,012
Granted	326,045
Forfeited	(33,181)
Vested and issued	(375,368)
Outstanding at September 30, 2020	<u>778,508</u>

The weighted average grant-date fair value per share for the common shares underlying the RSUs granted during the nine-month period ended September 30, 2020 was \$101.80.

Recipients of the Company’s RSUs who participate in the Company’s Nonqualified Deferred Compensation Plan may have elected in years prior to 2015 to defer some or all of their RSUs as they vest until a specified date or dates they choose. At the end of the deferral periods, unless a qualified participant makes certain other elections, the Company issues to recipients who deferred their RSUs common shares of the Company underlying the deferred RSUs. At September 30, 2020 and 2019, the Company had 178,119 and 247,999 vested deferred RSUs outstanding, respectively.

Performance-Based Restricted Share Units

A summary of activity related to performance-based restricted share units (“PSUs”) during the nine-month period ended September 30, 2020, is presented below:

	<u>Unvested Shares</u>
Outstanding at December 31, 2019	504,484
Granted	211,987
Forfeited	(727)
Vested and issued	(281,186)
Outstanding at September 30, 2020	<u>434,558</u>

During the nine months ended September 30, 2020, the Company’s Compensation Committee granted PSUs with three-year performance-based metrics that the Company must meet before those awards may be earned, and the performance period for those grants ends on December 31, 2022. During the same period, the Company’s Compensation Committee also granted PSUs with a one-year performance-based metric that the Company must meet before those awards may be earned, with the awards then subject to time-based vesting for the remaining three years of their four-year vesting period. The Compensation Committee will determine the achievement of performance results and corresponding vesting of PSUs for each performance period. The weighted average grant-date fair value per share for the common shares underlying all PSUs granted during the nine-month period ended September 30, 2020 was \$87.19.

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Deferred Share Units

A summary of activity related to deferred share units (“DSUs”) during the nine-month period ended September 30, 2020, is presented below:

	<u>Vested Shares</u>
Outstanding at December 31, 2019	18,970
Granted	2,616
Outstanding at September 30, 2020	<u>21,586</u>

The DSUs consist of a combination of DSU grants outstanding under the Progressive Waste share-based compensation plans that were continued by the Company following the Progressive Waste acquisition and DSUs granted by the Company since the Progressive Waste acquisition. The weighted average grant-date fair value per share for the common shares underlying the DSUs granted during the nine-month period ended September 30, 2020 was \$103.81.

Other Restricted Share Units

RSU grants outstanding under the Progressive Waste share-based compensation plans were continued by the Company following the Progressive Waste acquisition and allow for the issuance of shares or cash settlement to employees upon vesting. A summary of activity related to Progressive Waste RSUs during the nine-month period ended September 30, 2020, is presented below:

Outstanding at December 31, 2019	73,884
Cash settled	(7,330)
Outstanding at September 30, 2020	<u>66,554</u>

No RSUs under the Progressive Waste share-based compensation plans were granted subsequent to June 1, 2016. All remaining RSUs were vested as of March 31, 2019.

Share Based Options

Share based options outstanding under the Progressive Waste share-based compensation plans were continued by the Company following the Progressive Waste acquisition and allow for the issuance of shares or cash settlement to employees upon vesting. A summary of activity related to Progressive Waste share based options during the nine-month period ended September 30, 2020, is presented below:

Outstanding at December 31, 2019	126,161
Cash settled	(74,461)
Outstanding at September 30, 2020	<u>51,700</u>

No share based options under the Progressive Waste share-based compensation plans were granted subsequent to June 1, 2016. All outstanding share based options were vested as of December 31, 2017.

Normal Course Issuer Bid

On July 23, 2020, the Board of Directors of the Company approved, subject to receipt of regulatory approvals, the annual renewal of the Company’s normal course issuer bid (the “NCIB”) to purchase up to 13,144,773 of the Company’s

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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 the option of the Company. The renewal followed the conclusion of the Company's NCIB that expired August 7, 2020. The Company received TSX approval for its annual renewal of the NCIB on August 5, 2020. Under the NCIB, the Company may make share repurchases only in the open market, including on the New York Stock Exchange (the "NYSE"), the TSX, and/or alternative Canadian trading systems, at the prevailing market price at the time of the transaction.

In accordance with TSX rules, any daily repurchases made through the TSX and alternative Canadian trading systems is limited to a maximum of 112,638 common shares, which represents 25% of the average daily trading volume on the TSX of 450,555 common shares for the period from February 1, 2020 to July 31, 2020. The TSX rules also allow the Company to purchase, once a week, a block of common shares not owned by any insiders, which may exceed such daily limit. The maximum number of shares that can be purchased per day on the NYSE will be 25% of the average daily trading volume for the four calendar weeks preceding the date of purchase, subject to certain exceptions for block purchases.

The timing and amounts of any repurchases pursuant to the NCIB will depend on many factors, including the Company's capital structure, the market price of the common shares and overall market conditions. All common shares purchased under the NCIB shall be immediately cancelled following their repurchase.

For the nine months ended September 30, 2020, the Company repurchased 1,271,977 common shares pursuant to the NCIB at an aggregate cost of \$105,654. During the nine months ended September 30, 2019, the Company did not repurchase any common shares pursuant to the NCIB. As of September 30, 2020, the remaining maximum number of shares available for repurchase under the current NCIB was 11,912,497.

Cash Dividend

In October 2019, the Company announced that its Board of Directors increased its regular quarterly cash dividend by \$0.025, from \$0.16 to \$0.185 per Company common share. Cash dividends of \$145,921 and \$126,348 were paid during the nine months ended September 30, 2020 and 2019, respectively.

19. COMMITMENTS AND CONTINGENCIES

In the normal course of its business and as a result of the extensive governmental regulation of the solid waste and E&P waste industries, the Company is subject to various judicial and administrative proceedings involving Canadian regulatory authorities as well as U.S. federal, state and local agencies. In these proceedings, an agency may subpoena the Company for records, or seek to impose fines on the Company or revoke or deny renewal of an authorization held by the Company, including an operating permit. From time to time, the Company may also be subject to actions brought by special interest or other groups, adjacent landowners or residents in connection with the permitting and licensing of landfills, transfer stations, and E&P waste treatment, recovery and disposal operations, or alleging environmental damage or violations of the permits and licenses pursuant to which the Company operates.

In addition, the Company is a party to various claims and suits pending for alleged damages to persons and property, alleged violations of certain laws and alleged liabilities arising out of matters occurring during the normal operation of the Company's business. Except as noted in the matters described below, as of September 30, 2020, there is no current proceeding or litigation involving the Company or its property that the Company believes could have a material adverse effect on its business, financial condition, results of operations or cash flows.

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Lower Duwamish Waterway Superfund Site Allocation Process

In November 2012, the Company's subsidiary, Northwest Container Services, Inc. ("NWCS"), was named by the U.S. Environmental Protection Agency, Region 10 (the "EPA") as a potentially responsible party ("PRP"), along with more than 100 others, under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or the "Superfund" law) with respect to the Lower Duwamish Waterway Superfund Site (the "LDW Site"). Listed on the National Priorities List in 2001, the LDW Site is a five-mile stretch of the Duwamish River flowing into Elliott Bay in Seattle, Washington. A group of PRPs known as the Lower Duwamish Working Group ("LDWG") and consisting of the City of Seattle, King County, the Port of Seattle, and Boeing Company conducted a Remedial Investigation/Feasibility Study for the LDW Site. On December 2, 2014, the EPA issued its Record of Decision (the "ROD") describing the selected clean-up remedy, and therein estimated that clean-up costs (in present value dollars as of November 2014) would total approximately \$342,000. However, it is possible that additional costs could be incurred based upon various factors. The EPA estimates that it will take seven years to implement the clean-up. The ROD also requires ten years of monitoring following the clean-up, and provides that if clean-up goals have not been met by the end of this period, then additional clean-up activities, at additional cost, may be required at that time. Implementation of the clean-up will not begin until after the ongoing Early Action Area ("EAA") clean-ups have been completed. Typically, costs for monitoring may be in addition to those expended for the clean-up. While three of the EAA clean-ups have been completed to date, some work remains to be done on three other EAAs. Implementation of the clean-up also must await additional baseline sampling throughout the LDW Site and the preparation of a remedial design for performing the clean-up. On April 27, 2016, the LDWG entered into a third amendment of its Administrative Order on Consent with the EPA (the "AOC 3") in which it agreed to perform the additional baseline sediment sampling and certain technical studies needed to prepare the actual remedial design. The LDWG and the EPA entered into a fourth amendment to the AOC in July 2018 primarily addressing development of a proposed remedy for the upper reach of the LDW Site, river mile 3 to river mile 5. At the April 24, 2019 stakeholders meeting the LDWG projected completion of the remedial design for the upper reach could be completed by August 2024. In late September 2020, the EPA informed attorneys for several PRPs that the work may be completed by late 2023 or early 2024.

On August 16, 2016, the EPA sent individual letters to each of the PRPs for the LDW Site, including NWCS, stating that it expected to initiate negotiations with all PRPs in early 2018 relating to a Remedial Design/Remedial Action ("RD/RA") Consent Decree. An RD/RA Consent Decree provides for the cleanup of the entire site and is often referred to as a "global settlement." In August 2014, NWCS entered into an Alternative Dispute Resolution Memorandum of Agreement with several dozen other PRPs and a neutral allocator to conduct a confidential and non-binding allocation of certain past response costs allegedly incurred at the LDW Site as well as the anticipated future response costs associated with the clean-up. The pre-remedial design work under the AOC 3 was not expected to conclude until the end of 2019, and in March 2017, the PRPs provided the EPA with notice that the allocation was not scheduled to conclude until mid-2019. Later extensions pushed the allocation conclusion date to early 2020 and the EPA was informed of that schedule. The allocation participants voted in June 2019 to extend the final allocation report deadline to July 2020. The EPA was informed of that change. In January 2020, the allocator informed the parties that the preliminary allocation report will be delayed and in May 2020 he advised the parties that he hoped to issue the preliminary report by the end of June 2020, but the report has not yet been issued. The final allocation report will be issued only after the allocator considers comments of the parties on the preliminary report. In June 2017, attorneys for the EPA informed attorneys for several PRPs that the EPA expected to begin RD/RA negotiations in the late summer or early fall of 2018. Those negotiations did not occur. In September 2020, the EPA informed attorneys for several PRPs that the EPA intends to initiate settlement negotiations in 2021, and the EPA was informed of the delay in the issuance of the preliminary allocation report. NWCS is defending itself vigorously in this confidential allocation process. At this point, the Company is not able to determine the likelihood of the allocation process being completed as intended by the participating PRPs, its specific allocation, or the likelihood of the parties then negotiating a global settlement with the EPA. Thus, NWCS cannot reasonably determine the likelihood of any outcome in this matter, including its potential liability.

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On February 11, 2016, NWCS received a letter (the “Letter”) from the United States Department of Commerce, National Oceanic and Atmospheric Administration (“NOAA”), describing certain investigatory activities conducted by the Elliott Bay Trustee Council (the “Council”). The Council consists of all of the natural resources trustees for the LDW Site as well as two nearby Superfund sites, the Harbor Island site and the Lockheed West site. The members of the Council include the United States, on behalf of the U.S. National Oceanic and Atmospheric Administration and the U.S. Department of the Interior, the Washington State Department of Ecology, and the Suquamish and Muckleshoot Indian Tribes (together, the “Trustees”). The Letter appears to allege that NWCS may be a potentially liable party that allegedly contributed to the release of hazardous substances that have injured natural resources at the LDW Site. Damages to natural resources are in addition to clean-up costs. The Letter, versions of which NWCS believes were sent to all or a group of the PRPs for the LDW Site, also notified its recipients of their opportunity to participate in the Trustees’ development of an Assessment Plan and the performance of a Natural Resources Damages Assessment (“NRDA”) in accordance with the Assessment Plan for both the LDW Site and the east and west waterways of the Harbor Island site. NWCS timely responded with correspondence to the NOAA Office of General Counsel, in which it declined the invitation at that time. NWCS does not know how other PRPs responded to the Letter, and has not received any further communication from NOAA or the Trustees. The Trustees have not responded to NWCS’ letter. The Trustees released their Assessment Plan in March 2019. The Assessment Plan does not set forth a timeline for implementation. At this point, the Company is not able to determine the likelihood or amount of an assessment of natural resource damages against NWCS in connection with this matter.

Los Angeles County, California Landfill Expansion Litigation

A. Chiquita Canyon, LLC Lawsuit Against Los Angeles County

In October 2004, the Company’s subsidiary, Chiquita Canyon, LLC (“CCL”), then under prior ownership, filed an application (the “Application”) with the County of Los Angeles (the “County”) Department of Regional Planning (“DRP”) for a conditional use permit (the “CUP”) to authorize the continued operation and expansion of the Chiquita Canyon Landfill (the “Landfill”). The Landfill has operated since 1972, and as a regional landfill, accepted approximately two million tons of materials for disposal and beneficial use in 2018. The Application requested expansion of the existing waste footprint on CCL’s contiguous property, an increase in maximum elevation, creation of a new entrance and new support facilities, construction of a facility for the County or another third-party operator to host household hazardous waste collection events, designation of an area for mixed organics/composting, and other modifications.

After many years of reviews and delays, upon the recommendation of County staff, the County’s Regional Planning Commission (the “Commission”) approved the Application on April 19, 2017, but imposed operating conditions, fees and exactions that substantially reduce the historical landfill operations and represent a large increase in aggregate taxes and fees. CCL objected to many of the requirements imposed by the Commission. Current estimates for new costs imposed on CCL under the CUP are in excess of \$300,000.

CCL appealed the Commission’s decision to the County Board of Supervisors, but the appeal was not successful. At a subsequent hearing, on July 25, 2017, the Board of Supervisors approved the CUP. On October 20, 2017, CCL filed in the Superior Court of California, County of Los Angeles a verified petition for writ of mandate and complaint against the County and the County Board of Supervisors captioned Chiquita Canyon, LLC v. County of Los Angeles, No. BS171262 (Los Angeles Co. Super Ct.) (the “Complaint”). The Complaint challenges the terms of the CUP in 13 counts generally alleging that the County violated multiple California and federal statutes and California and federal constitutional protections. CCL seeks the following relief: (a) an injunction and writ of mandate against certain of the CUP’s operational restrictions, taxes and fees, (b) a declaration that the challenged conditions are unconstitutional and in violation of state and federal statutes, (c) reimbursement for any such illegal fees paid under protest, (d) damages, (e) an award of just compensation for a taking, (f) attorney fees, and (g) all other appropriate legal and equitable relief.

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On December 6, 2017, the County filed a demurrer to and motion to strike regarding portions of the Complaint, arguing that the Complaint was legally insufficient to proceed. After full briefing, the hearing on the demurrer and motion to strike regarding CCL's First Amended Complaint took place on July 17, 2018. The Superior Court sustained the demurrer and granted the motion to strike. The effect of the Court's rulings was to bar CCL from proceeding with its challenges to 14 of the 29 CUP conditions at issue in the litigation, including 13 operational conditions and CCL's challenge to the \$11,600 B&T Fee discussed below. The Superior Court granted CCL leave to amend its Complaint if CCL chose to pay the \$11,600 B&T fee to allow a challenge to the B&T fee to proceed under the Mitigation Fee Act. CCL paid the \$11,600 B&T fee on August 10, 2018 and filed its Second Amended Complaint on August 16, 2018, reflecting that the B&T fee had been paid under protest and allowing the challenges to the B&T fee to go forward.

On September 14, 2018, CCL sought discretionary review by the California Court of Appeal of the Superior Court's July 17, 2018 decision barring the challenge to 13 operational conditions. The Court of Appeal agreed to hear CCL's appeal and on February 25, 2019, the Court of Appeal issued its decision, reversing the trial court orders that granted the County's motion to strike and demurrer. The Court of Appeal ruled that CCL had adequately pled a claim that the County was equitably estopped from contending that CCL had forfeited its rights to challenge the legality of the 13 operational conditions. CCL's Complaint sets forth that CCL relied on representations made by the County in 2017 that CCL could reserve its legal rights to challenge the CUP in a separate reservation of rights letter rather than the affidavit of acceptance of the CUP that the County compelled Chiquita to file.

The Superior Court set an evidentiary hearing on the equitable estoppel issues for November 12, 2019. Discovery occurred on these issues in July through September 2019. Following full briefing and oral argument on November 12, 2019, the Superior Court issued its decision on November 13, 2019, finding that the County was estopped from contending that CCL has waived its rights to challenge the legality of the 13 operational conditions. The County sought interlocutory review of the Superior Court's decision in the Court of Appeal, which denied the County's petition on February 7, 2020.

Following full briefing and oral argument on June 22, 2020 on six of CCL's causes of action, the Superior Court issued its decision on July 2, 2020, granting CCL's petition for writ of mandate in part and denying it in part. CCL prevailed with respect to 12 of the challenged conditions, many of which imposed new fees and exactions on the Landfill. Before entry of final judgment, the Superior Court will hear CCL's remaining causes of action. A cause of action for a taking under the Fifth Amendment of the U.S. Constitution is the subject of a pending motion for leave to amend the Complaint. CCL is awaiting assignment to an individual calendar court for its remaining causes of action. Once the Superior Court has entered final judgment, CCL and the County will be permitted to appeal any adverse ruling to the California Court of Appeal. After entry of final judgment and resolution of any appeals, the Superior Court will issue a writ directing the County Board of Supervisors to set aside its decision on the permit with respect to 12 of the challenged conditions. The Board will be allowed to make additional findings to support four of those conditions and reconsider its permit decision in light of the Superior Court's writ. CCL will continue to vigorously prosecute the lawsuit. However, at this point, the Company is not able to determine the likelihood of any outcome in this matter.

B. CEQA Lawsuit Against Los Angeles County Challenging Environmental Review for Landfill Expansion

A separate lawsuit involving CCL and the Landfill was filed on August 24, 2017 by community activists alleging that the environmental review underlying the CUP was inadequate under state law. The Val Verde Civic Association, Citizens for Chiquita Canyon Landfill Compliance, and the Santa Clarita Organization for Planning and the Environment filed a petition for writ of mandate in the Superior Court of California, County of Los Angeles against the County, naming CCL as the real party in interest. The lawsuit seeks to overturn the County's approval of the CUP for the expansion of the Landfill and the certification of the final Environmental Impact Report, arguing that the report violates the California Environmental Quality Act. Pursuant to Condition No. 6 of the CUP, which requires CCL to defend, indemnify, and hold harmless the County, its agents, officers, and employees from any claim or proceeding against the County brought by any

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third party to attack, set aside, void, or annul the CUP approval, CCL agreed to reimburse the County for its legal costs associated with defense of the lawsuit. As the real party in interest, CCL has a right to notice and an opportunity to be heard in opposition to the petition for writ of mandate. Initial briefs were filed in 2018 and a trial date was set in February 2019, which was later rescheduled and held in August 2019. The court issued a final ruling on October 10, 2019 and a final judgment on December 4, 2019, denying the writ petition in full. One petitioner, Santa Clarita Organization for Planning and the Environment, appealed the judgment. All interested parties filed their briefs by July 1, 2020 and the County did not file an opposition brief. No amicus or “friend of the court” briefs were filed, so the case was fully briefed on July 1, 2020. The court has set oral argument for November 18, 2020.

C. December 11, 2017 Notice of Violation Regarding Certain CUP Conditions.

The County, through its DRP, issued a Notice of Violation, dated December 11, 2017 (the “NOV”), alleging that CCL violated certain conditions of the CUP, including Condition 79(B)(6) of the CUP by failing to pay an \$11,600 Bridge & Thoroughfare Fee (“B&T Fee”) that was purportedly due on July 25, 2017. The alleged B&T fee was ostensibly to fund the construction of transportation infrastructure in the area of the Landfill. At the time the NOV was issued, CCL had already contested the legality of the B&T fee in the October 20, 2017 Complaint filed against the County in Los Angeles County Superior Court.

On January 12, 2018, CCL filed an appeal of the alleged violations in the NOV. Subsequently, CCL filed additional legal arguments and exhibits contesting the NOV. On March 6, 2018, a DRP employee designated as hearing officer sustained the NOV, including the \$11,600 B&T fee, and imposed an administrative penalty in the amount of \$83 and a noncompliance fee of \$0.75. A written decision memorializing the hearing officer’s findings and order, dated July 10, 2018, was received by CCL on July 12, 2018. On April 13, 2018, CCL filed in the Superior Court of California, County of Los Angeles a Petition for Writ of Administrative Mandamus against the County seeking to overturn the decision sustaining the NOV, contending that the NOV and decision are not supported by the facts or law. On June 22, 2018, Chiquita filed a Motion for Stay seeking to halt enforcement of the B&T fee and penalty and the accrual of any further penalties pending the resolution of the Petition for Writ of Mandamus. The motion was heard and denied by the Court on July 17, 2018. As explained above, the Court granted CCL leave to pay the \$11,600 B&T fee and to amend its Complaint to reflect the payment under protest, allowing the challenge to the B&T fee to proceed. CCL paid the B&T fee on August 10, 2018, and also paid on that date the administrative penalty of \$83 and a noncompliance fee of \$0.75. As directed by the Court, CCL amended its Complaint in a Second Amended Complaint filed in the CUP action on August 16, 2018. The Court indicated that the NOV case would likely be tried in conjunction with the CUP case, set for June 18, 2019, and that the cases would be coordinated. At the May 28, 2019 trial setting conference referenced above where the trial of the CUP case was set for April 23, 2020, the Superior Court set the trial for the B&T fee/NOV case for June 25, 2020. However, following the rescheduling of the trial date for the CUP case, the Superior Court agreed to continue the trial date for the B&T fee/NOV case to October 20, 2020. At an August 20, 2020 status conference, the Superior Court again continued the trial date for the B&T fee/NOV case to January 14, 2021. The Superior Court’s July 2, 2020 decision in the CUP case upheld the B&T fee and addressed two other conditions that were also the subject of the NOV, which may impact the scope of the B&T fee/NOV case. CCL will continue to vigorously prosecute the lawsuit. However, at this point, the Company is not able to determine the likelihood of any outcome in this matter.

Town of Colonie, New York Landfill Expansion Litigation

On April 16, 2014, the Town of Colonie (the “Town”) filed an application (the “Application”) with the New York State Department of Environmental Conservation (“DEC”) to modify the Town’s then-current Solid Waste Management Facility Permit and for other related permits to authorize the development and operation of Area 7 of the Town of Colonie Landfill (the “Landfill”), which is located in Albany County, New York. DEC issued the requested permits on April 5,

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2018 (the “Permits”). The Company’s subsidiary, Capital Region Landfills, Inc. (“CRL”), has been the sole operator of the Landfill since September 2011 pursuant to an operating agreement between CRL and the Town.

On May 7, 2018, the Town of Halfmoon, New York, and five of its residents, commenced an Article 78 special proceeding in the Supreme Court of the State of New York, Saratoga County, against DEC, the Town, CRL, and the Company (the “Halfmoon Proceeding”). On that same date, the Town of Waterford, New York, and eleven of its residents, also commenced an Article 78 special proceeding in the Supreme Court of the State of New York, Saratoga County, against the same respondents (the “Waterford Proceeding”). On June 4, 2018, the Town and CRL filed Verified Answers, including motions to dismiss the petitions, and the Company separately moved to dismiss the petitions. The Waterford Petitioners stipulated to removing the Company as a respondent when they filed an Amended Verified Petition on June 15, 2018. The Halfmoon Petitioners served an Amended Verified Petition on July 5, 2018, retaining all originally named parties, including the Company.

The Petitioners alleged that, in granting the Permits, DEC failed to comply with the procedural and substantive requirements of New York’s Environmental Conservation Law and State Environmental Quality Review Act, and their implementing regulations. The Petitioners asked the court to: annul the Permits and invalidate DEC’s Findings Statement, enjoin the Town and CRL from taking any action authorized by the Permits, require an issues conference and possibly an adjudicatory hearing before DEC can re-consider the Town’s permit application; remand all regulatory issues to a DEC Administrative Law Judge; and award costs and disbursements. The Waterford Petitioners also requested reasonable attorneys’ fees.

On July 13, 2018, the Honorable Ann C. Crowell granted a venue change motion filed by DEC, and ordered that the Halfmoon Proceeding and the Waterford Proceeding be transferred to the Supreme Court, Albany County. CRL’s opposition submissions, including its responsive pleadings, Memorandum of Law, and supporting Affidavits, were filed and served on or before July 25, 2018. On August 28, 2018, the Towns of Waterford and Halfmoon filed a motion seeking an order preliminarily enjoining during the pendency of the proceedings all activities relating to the expansion of the Landfill which are authorized by the Permits. On September 18, 2018, CRL and the Company filed and served Memoranda of Law in opposition to the preliminary injunction motion, with supporting Affidavits, and, on September 24, 2018, the Towns of Waterford and Halfmoon filed a Reply Memorandum of Law in further support of their injunctive motion. The Honorable Debra J. Young denied the Petitioners’ motion for preliminary injunction on November 30, 2018.

On January 23, 2019, the court held that the Petitioners lacked standing to maintain the proceedings and dismissed both the Waterford and Halfmoon Amended Verified Petitions in their entirety. In late February and early March 2019, the Waterford and Halfmoon Petitioners filed notices of appeal to the Appellate Division, Third Department, of both Judge Crowell’s decision to transfer the proceedings to Albany County and of Judge Young’s dismissal of the Amended Verified Petitions.

On March 7, 2019, the Waterford Petitioners moved, with consent of the Halfmoon Petitioners, to consolidate the appeals. Respondents opposed the consolidation motion to the extent that it may result in inequitable briefing under the Appellate Division rules. On April 4, 2019, the Appellate Division, Third Department granted the consolidation motion “to the extent that the appeals shall be heard together and may be perfected upon a joint record on appeal.”

On April 26, 2019, the Waterford Petitioners filed a motion with the Appellate Division, Third Department, seeking an order preliminarily enjoining construction activities or the acceptance of waste at the Landfill. The Company, CRL, and the Town of Colonie opposed the motion, which was summarily denied by the Third Department, Appellate Division on June 20, 2019.

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On June 25, 2019, the Waterford Petitioners filed their appellate brief and the joint record on appeal. The Halfmoon Petitioners filed their appellate brief on August 21, 2019. The Company, CRL, and the Town filed their joint appellee brief and supplemental appendix on November 20, 2019. On February 24, 2020, after receiving multiple filing extensions, DEC filed its appellee brief and supplemental appendix. The Waterford and Halfmoon Petitioners filed their reply briefs on March 10, 2020 and March 13, 2020, respectively.

The Appellate Division, Third Department originally scheduled the appeals to be argued during the court's May 2020 term. The appeals were adjourned as a result of the COVID-19 pandemic. On September 14, 2020, the Appellate Division, Third Department held virtual oral argument in the appeals. The Company anticipates that the Appellate Division, Third Department will issue a decision in the appeals by the end of 2020 or shortly thereafter.

20. SUBSEQUENT EVENT

On October 28, 2020, the Company announced that its Board of Directors increased its regular quarterly cash dividend by \$0.02, from \$0.185 to \$0.205 per Company common share, and then declared a regular quarterly cash dividend of \$0.205 per Company common share. The dividend will be paid on November 25, 2020, to shareholders of record on the close of business on November 10, 2020.