

The Management's Discussion and Analysis of Financial Condition and Results of Operations for Waste Connections, Inc. is also included in the Form 10-Q for the period ended June 30, 2020 filed on SEDAR on August 7, 2020 in its entirety. All references to \$ are to U.S. dollars unless otherwise indicated.

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

FORWARD-LOOKING STATEMENTS

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

OVERVIEW OF OUR BUSINESS

We are an integrated solid waste services company that provides non-hazardous waste collection, transfer, disposal and recycling services in mostly exclusive and secondary markets in the U.S. and Canada. Through our R360 Environmental Solutions subsidiary, we are also a leading provider of non-hazardous exploration and production, or E&P, waste treatment, recovery and disposal services in several of the most active natural resource producing areas in the U.S. We also provide intermodal services for the rail haul movement of cargo and solid waste containers in the Pacific Northwest through a network of intermodal facilities.

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

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

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

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

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

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

The demand for our E&P waste services depends on the continued demand for, and production of, oil and natural gas. Crude oil and natural gas prices historically have been volatile. Macroeconomic and geopolitical conditions, including a significant decline in oil prices driven by both surplus production and supply, as well as the decrease in demand caused by factors including the COVID-19 pandemic, have resulted in decreased levels of oil and natural gas exploration and production activity and a corresponding decrease in demand for our E&P waste services. During the three months ended June 30, 2020, total revenue for our E&P segment declined 43.3%, compared to the prior year period, on oil rig count declines of over 60% 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 our E&P segment customers. These companies have written down the values of their oil and gas assets in anticipation of the potential for the decarbonization of their energy product mix given an increased global focus on reducing greenhouse gases and addressing climate change. Such uncertainty regarding global demand has had a significant impact on the investment and operating plans of our E&P waste customers in the basins where we operate. Based on these events and the outlook for future drilling activity and resulting demand for our E&P waste services not showing significant improvement, we concluded that the carrying value of property and equipment at four landfills in our E&P segment exceeded their estimated fair value, resulting in an impairment charge of \$417.4 million. See Note 4 to our Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q for a further discussion of this impairment charge.

THE IMPACT OF COVID-19 ON OUR RESULTS OF OPERATIONS

During the first quarter of 2020, the coronavirus disease 2019 (“COVID-19”) emerged across North America. According to media reports, the first cases of COVID-19 were identified in the United States on January 20, 2020 in Washington State and in Canada on January 27, 2020 in the Province of Ontario. The World Health Organization declared COVID-19 a global pandemic on March 11, 2020.

The COVID-19 outbreak did not significantly impact our financial results for the quarter ended March 31, 2020. However, the outbreak did begin to cause adverse impacts on our business during March 2020, when we experienced decreasing revenues associated with declines primarily in commercial collection, transfer station and landfill volumes as a result of COVID-19 economic disruptions. In addition, and to a lesser extent, solid waste roll off revenue was impacted in some markets, and year-over-year revenue reductions in our E&P segment resulting primarily from the drop in the value of crude oil were driven by both surplus production and supply, as well as the decrease in demand caused by factors including the COVID-19 pandemic. In late February we formed a task force to commence preparedness in the event the scope of the COVID-19 outbreak expanded. Protecting the health, safety and welfare of our employees was and remains our first priority, which led to our introduction of various health and safety protocols in early March, including the distribution of safety and preparedness updates, revised policies on employee time off, leaves of absence and short-term disability, modifications to our operations to minimize community spread of COVID-19, and enhanced resources to enable remote working, communications and digital connectivity to help non-frontline employees work from home more efficiently.

In recognition of the Company's status as an essential services provider, and to reduce employee concerns regarding income, healthcare and family obligations, we implemented a supplemental pay bonus for frontline employees representing 80% of our workforce, emergency wages for employees out-of-work due to COVID-19 and extended benefits coverage in markets where reductions in customer activity have impacted employee hours. In addition, we expanded our Employee Relief Fund and initiated the Waste Connections Scholarship Program to help employee children achieve their vocational, technical and university education goals. These actions increased our cost of operations nominally in the quarter and further impacted the second quarter of 2020 as discussed below. We also implemented a number of measures to reduce our operating costs and preserve cash, which included hiring limitations, wage freezes for all managers and region and corporate personnel, restrictions on travel, group meetings and other discretionary spending, and the suspension of the Company's 401(k) match effective June 1. In addition, we began and intend to continue deferring qualified U.S. payroll and other tax payments as permitted by the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, which the U.S. government enacted on March 27, 2020. Through the second quarter of 2020, we deferred \$13.7 million in payroll taxes in conjunction with the CARES Act of which 50% are due by December 31, 2021 and 50% are due by December 31, 2022. To the extent available, we may utilize similar programs being offered by the federal and provincial governments in Canada. With respect to our liquidity and capital resources, as of June 30, 2020, the Company had \$790.6 million of cash and equivalents and \$1.26 billion of remaining borrowing capacity under our Credit Agreement, which matures in March 2023.

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

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

The ultimate impact of the COVID-19 outbreak on our business, results of operations, financial condition and cash flows will depend largely on future developments, including the duration and spread of the outbreak in the U.S. and

Canada, its severity, the actions to contain the novel coronavirus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

NEW ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
Revenues	\$ 1,305,782	100.0 %	\$ 1,369,639	100.0 %	\$ 2,658,187	100.0 %	\$ 2,614,275	100.0 %
Cost of operations	785,710	60.2	815,819	59.6	1,601,134	60.2	1,549,508	59.3
Selling, general and administrative	132,158	10.1	139,664	10.2	268,210	10.1	272,249	10.4
Depreciation	151,230	11.6	156,776	11.4	302,051	11.4	303,623	11.6
Amortization of intangibles	31,771	2.4	31,344	2.3	63,409	2.4	61,886	2.4
Impairments and other operating items	437,270	33.5	3,902	0.3	438,777	16.5	20,014	0.7
Operating income (loss)	(232,357)	(17.8)	222,134	16.2	(15,394)	(0.6)	406,995	15.6
Interest expense	(40,936)	(3.1)	(37,245)	(2.7)	(78,926)	(3.0)	(74,533)	(2.9)
Interest income	1,317	0.1	1,818	0.1	3,493	0.1	5,129	0.2
Other income (expense), net	5,772	0.4	1,920	0.2	(3,749)	(0.1)	4,581	0.2
Income tax (provision) benefit	38,737	3.0	(39,788)	(2.9)	10,003	0.4	(67,756)	(2.6)
Net income (loss)	(227,467)	(17.4)	148,839	10.9	(84,573)	(3.2)	274,416	10.5
Net loss attributable to noncontrolling interests	395	0.0	9	0.0	536	0.0	54	0.0
Net income (loss) attributable to Waste Connections	\$ (227,072)	(17.4)%	\$ 148,848	10.9 %	\$ (84,037)	(3.2)%	\$ 274,470	10.5 %

Revenues. Total revenues decreased \$63.8 million, or 4.7%, to \$1.306 billion for the three months ended June 30, 2020, from \$1.370 billion for the three months ended June 30, 2019. Total revenues increased \$43.9 million, or 1.7%, to \$2.658 billion for the six months ended June 30, 2020, from \$2.614 billion for the six months ended June 30, 2019.

During the three months ended June 30, 2020, incremental revenue from acquisitions closed during, or subsequent to, the three months ended June 30, 2019, increased revenues by approximately \$45.0 million. During the six months ended June 30, 2020, incremental revenue from acquisitions closed during, or subsequent to, the six months ended June 30, 2019, increased revenues by approximately \$109.1 million.

Operations that were divested subsequent to June 30, 2019 decreased revenues by approximately \$4.3 million and \$8.8 million, respectively, for the three and six months ended June 30, 2020.

During the three months ended June 30, 2020, the net increase in prices charged to our customers at our existing operations was \$54.4 million, consisting of \$57.1 million of core price increases, partially offset by a decrease from surcharges of \$2.7 million. During the six months ended June 30, 2020, the net increase in prices charged to our customers at our existing operations was \$118.9 million, consisting of \$120.1 million of core price increases, partially offset by a decrease in surcharges of \$1.2 million.

During the three months and six months ended June 30, 2020, volume decreases in our existing business decreased solid waste revenues by \$121.2 million and \$125.2 million, respectively, due primarily to the economic disruptions resulting from COVID-19 that began in March 2020 and continued throughout the second quarter of 2020. The decreases during the six months ended June 30, 2020 resulting from COVID-19 were partially offset by increased landfill special waste volumes in certain markets and the impact of one additional business day resulting from leap year.

E&P revenues at facilities owned and fully-operated during the three and six months ended June 30, 2020 and 2019 decreased \$28.5 million and \$32.4 million, respectively. Decreases in the demand for crude oil as a result of economic disruptions from COVID-19 resulted in a drop in the value of crude oil, decreases in drilling and production activity levels

and decreases in overall demand for our E&P waste services. Drilling and production activity was also adversely impacted by the drop in the value of crude oil due to the increased supply of oil resulting from Saudi Arabia and Russia abandoning production quotas and increasing production levels, which was exacerbated by the impact of COVID-19.

A decrease in the average Canadian dollar to U.S. dollar currency exchange rate resulted in a decrease in revenues of \$6.3 million and \$8.0 million, respectively, for the three and six months ended June 30, 2020. The average Canadian dollar to U.S. dollar exchange rates on our Canadian revenues were 0.7226 and 0.7476 in the three months ended June 30, 2020 and 2019, respectively. The average Canadian dollar to U.S. dollar exchange rates on our Canadian revenues were 0.7338 and 0.7498 in the six months ended June 30, 2020 and 2019, respectively.

Revenues from sales of recyclable commodities at facilities owned during the three and six months ended June 30, 2020 and 2019 decreased \$0.5 million and \$4.9 million, respectively, due primarily to decreased collected commercial recycling volumes caused by economic disruptions resulting from COVID-19 and decreased prices for plastic and aluminum, partially offset by increased prices for old corrugated cardboard and increased residential collection volumes.

Other revenues decreased by \$2.4 million and \$4.8 million, respectively, during the three and six months ended June 30, 2020, due primarily to a reduction in intermodal cargo volumes and a reduction in the price for natural gas associated with the generation of landfill gas at our Canada segment.

Cost of Operations. Total cost of operations decreased \$30.1 million, or 3.7%, to \$785.7 million for the three months ended June 30, 2020, from \$815.8 million for the three months ended June 30, 2019. The decrease was primarily the result of a decrease in operating costs at our existing operations of \$50.9 million, assuming foreign currency parity, a decrease in operating costs of \$4.3 million at operations divested during, or subsequent to, the three months ended June 30, 2019 and a decrease of \$3.5 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by \$28.6 million of additional operating costs from acquisitions closed during, or subsequent to, the three months ended June 30, 2019.

The decrease in operating costs at our existing operations for the three months ended June 30, 2020 of \$50.9 million, assuming foreign currency parity, included the following decreases totaling \$44.1 million which were directly attributable to solid waste and E&P volume losses: a decrease in third-party disposal expenses of \$15.3 million, a decrease in third-party trucking and transportation expenses of \$10.6 million, a decrease in direct labor expenses of \$8.3 million, a decrease in truck, container, equipment and facility maintenance and repair expenses of \$4.2 million, a decrease in taxes on revenues of \$1.8 million, a decrease in subcontracted E&P operating and subcontracted solid waste hauling expenses of \$1.8 million, a decrease in expenses for processing recyclable commodities of \$1.1 million and a decrease in intermodal rail expenses of \$1.0 million. The remaining decrease in operating costs of \$6.8 million for the three months ended June 30, 2020 consisted of a decrease in fuel expense of \$10.9 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in employee medical benefits expenses of \$10.8 million due to a reduction in routine medical visits, a decrease in 401(k) matching expenses of \$1.2 million as we suspended our 401(k) match as of June 1, 2020 and \$0.5 million of other net expense decreases, partially offset by an increase of \$10.1 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, an increase in other cash incentive compensation to non-management personnel of \$3.9 million to recognize the services they are providing during the COVID-19 pandemic and an increase in expenses for auto and workers' compensation claims of \$2.6 million due primarily to higher adjustments recorded in the prior year period to decrease projected losses on outstanding claims.

Total cost of operations increased \$51.6 million, or 3.3%, to \$1.601 billion for the six months ended June 30, 2020, from \$1.550 billion for the six months ended June 30, 2019. The increase was primarily the result of \$68.5 million of additional operating costs from acquisitions closed during, or subsequent to, the six months ended June 30, 2019, partially offset by a decrease in operating costs of \$9.2 million at operations divested during, or subsequent to, the six months ended June 30, 2019, a decrease of \$4.2 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods and a decrease in operating costs at our existing operations of \$3.5 million, assuming foreign currency parity.

The decrease in operating costs at our existing operations of \$3.5 million for the six months ended June 30, 2020, assuming foreign currency parity, was comprised of a decrease in third-party disposal expenses of \$11.5 million due to declines in our collection and transfer station volumes resulting from COVID-19 economic disruptions exceeding increases occurring in the first quarter of 2020 due primarily to disposal rate increases and roll off collection volume increases in certain markets, a decrease in employee medical benefits expenses of \$10.8 million due to a reduction in routine medical visits, a decrease in fuel expense of \$9.9 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in third-party trucking and transportation expenses of \$9.0 million due to decreases in disposal volumes resulting from COVID-19 economic disruptions exceeding increases occurring in the first quarter of 2020 due primarily to increased landfill special waste volumes we received requiring outsourced transportation services, a decrease in insurance premiums of \$2.2 million due primarily to the prior year amount including the impact of additional expenses resulting from premium audits, a decrease in compressed natural gas expense of \$2.1 million due primarily to the recognition in 2020 of tax credits associated with the purchase of compressed natural gas and a decrease in intermodal rail expenses of \$2.0 million due to a reduction in cargo volume, partially offset by an increase in expenses for auto and workers' compensation claims of \$12.8 million due primarily to higher claims severity in the current year period and non-recurring adjustments recorded in the prior year period to decrease projected losses on outstanding claims, an increase of \$11.5 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, an increase in labor expenses of \$6.8 million due primarily to employee pay rate increases, an additional calendar and business day in the current year period due to leap year, as well as emergency wages and other COVID-19-related employee costs exceeding decreases in headcount and hours worked attributable to solid waste and E&P volume reductions resulting from COVID-19 economic disruptions, an increase in expenses for other cash incentive compensation to non-management personnel of \$5.3 million to recognize the services they are providing during the COVID-19 pandemic, an increase in truck, container, equipment and facility maintenance and repair expenses of \$5.0 million due to parts and service rate increases and variability impacting the timing of major repairs and \$2.6 million of other net expense increases.

Cost of operations as a percentage of revenues increased 0.6 percentage points to 60.2% for the three months ended June 30, 2020, from 59.6% for the three months ended June 30, 2019. The increase as a percentage of revenues consisted of a combined 1.1 percentage point increase from labor expenses, maintenance and repair expenses and taxes on revenues not declining at the same rate as the decline in our revenues at locations owned in the comparable periods due primarily to the economic disruptions resulting from COVID-19, a 0.8 percentage point increase resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, a 0.3 percentage point increase resulting from the accrual of other cash incentive compensation to non-management personnel, a 0.3 percentage point increase from an increase in expenses for auto and workers' compensation claims, a 0.3 percentage point increase from the net impact of cost of operations expenses from acquisitions closed during, or subsequent to, the three months ended June 30, 2019 and a 0.3 percentage point increase from all other net changes, partially offset by a 0.8 percentage point decrease from lower employee medical benefits expenses, a 0.6 percentage point decrease from lower disposal expenses, a 0.6 percentage point decrease from lower diesel fuel expenses and a 0.5 percentage point decrease from lower trucking and transportation expenses.

Cost of operations as a percentage of revenues increased 0.9 percentage points to 60.2% for the six months ended June 30, 2020, from 59.3% for the six months ended June 30, 2019. The increase as a percentage of revenues consisted of a 0.5 percentage point increase from an increase in expenses for auto and workers' compensation claims, a 0.5 percentage point increase from higher labor expenses, a 0.4 percentage point increase resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, a 0.3 percentage point increase from the net impact of cost of operations expenses from acquisitions closed during, or subsequent to, the six months ended June 30, 2019, a 0.2 percentage point increase from the impact of an additional calendar and business day in the current year period due to leap year, a 0.2 percentage point increase resulting from the accrual of other cash incentive compensation to non-management personnel and a 0.2 percentage point increase from higher maintenance and repair expenses, partially offset by a 0.4 percentage point decrease from lower employee medical benefits expenses, a 0.4 percentage point decrease from lower trucking and transportation expenses, a 0.3 percentage point decrease from lower disposal expenses and a 0.3 percentage point decrease from lower diesel fuel expenses.

SG&A. SG&A expenses decreased \$7.5 million, or 5.4%, to \$132.2 million for the three months ended June 30, 2020, from \$139.7 million for the three months ended June 30, 2019. The decrease was comprised of a decline of \$10.1

million in SG&A expenses at our existing operations, assuming foreign currency parity, and a decline of \$0.6 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by \$3.2 million of additional SG&A expenses from operating locations at acquisitions closed during, or subsequent to, the three months ended June 30, 2019.

The decrease in SG&A expenses at our existing operations, assuming foreign currency parity, of \$10.1 million for the three months ended June 30, 2020 was comprised of a collective decrease in travel, meeting, training and community activity expenses of \$11.2 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, a decrease in direct acquisition expenses of \$5.2 million due to a decline in acquisition activity, a decrease in employee medical benefits expenses of \$2.6 million due to a reduction in routine medical visits and a decrease in legal expenses of \$1.3 million due to the net impact of work on legal matters being postponed resulting from temporary court closures exceeding our benefit in the prior year period from receiving non-recurring insurance reimbursements for legal expenses, partially offset by an increase in expenses for uncollectible accounts receivable of \$5.0 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19, an increase in deferred compensation expenses of \$2.3 million as a result of increases in the market value of investments to which employee deferred compensation liability balances are tracked, an increase in accrued recurring cash incentive compensation expense to our management of \$1.7 million, an increase of \$1.1 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19 and \$0.1 million of other net expense increases.

SG&A expenses decreased \$4.0 million, or 1.5%, to \$268.2 million for the six months ended June 30, 2020, from \$272.2 million for the six months ended June 30, 2019. The decrease was comprised of a decline of \$9.9 million in SG&A expenses at our existing operations, assuming foreign currency parity, and a decline of \$0.8 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by \$6.7 million of additional SG&A expenses from operating locations at acquisitions closed during, or subsequent to, the six months ended June 30, 2019.

The decrease in SG&A expenses at our existing operations, assuming foreign currency parity, of \$9.9 million for the six months ended June 30, 2020 was comprised of a collective decrease in travel, meeting, training and community activity expenses of \$12.3 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, a decrease in direct acquisition expenses of \$4.9 million due to a decline in acquisition activity, a decrease in deferred compensation expenses of \$4.2 million as a result of decreases in the market value of investments to which employee deferred compensation liability balances are tracked, a decrease in employee medical benefits expenses of \$2.8 million due to a reduction in routine medical visits, a decrease in equity-based compensation expenses of \$1.3 million resulting primarily from non-recurring prior year period adjustments to the amount of performance-based restricted share units granted in 2017 that were estimated to ultimately vest and \$1.5 million of other net expense decreases, partially offset by an increase in expenses for uncollectible accounts receivable of \$6.2 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19, an increase in accrued recurring cash incentive compensation expense to our management of \$4.7 million, an increase in payroll expenses of \$3.5 million as a result of annual pay increases, additional paid time off benefits and the impact of an additional working day during the six months ended June 30, 2020, an increase in software licenses and subscriptions expenses of \$1.5 million due primarily to the addition of new sales and customer service applications and an increase of \$1.2 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19.

SG&A expenses as a percentage of revenues decreased 0.1 percentage points to 10.1% for the three months ended June 30, 2020, from 10.2% for the three months ended June 30, 2019. The decrease as a percentage of revenues consisted of a 0.9 percentage point decrease from a reduction in travel, meeting, training and community activity expenses, a 0.4 percentage point decrease from lower direct acquisition expenses and a 0.2 percentage point decrease from lower employee medical benefits expenses, partially offset by our administrative headcount staying relatively constant while our revenues declined due to economic disruptions resulting from COVID-19 contributing to a 0.5 percentage point increase associated with administrative salaries and wages, a 0.4 percentage point increase due to higher expenses for uncollectible accounts receivable, a 0.3 percentage point increase from higher cash incentive compensation expense and a 0.2 percentage point increase from higher deferred compensation expense.

SG&A expenses as a percentage of revenues decreased 0.3 percentage points to 10.1% for the six months ended June 30, 2020, from 10.4% for the six months ended June 30, 2019. The decrease as a percentage of revenues consisted of a 0.5 percentage point decrease from a reduction in travel, meeting, training and community activity expenses, a 0.2 percentage point decrease from lower direct acquisition expenses, a 0.2 percentage point decrease from reduced deferred compensation expense and a 0.1 percentage point decrease from lower employee medical benefits expenses, partially offset by a 0.3 percentage point increase associated with administrative salaries and wages, a 0.2 percentage point increase due to higher expenses for uncollectible accounts receivable and a 0.2 percentage point increase from higher cash incentive compensation expense.

Depreciation. Depreciation expense decreased \$5.6 million, or 3.5%, to \$151.2 million for the three months ended June 30, 2020, from \$156.8 million for the three months ended June 30, 2019. The decrease was comprised of a decrease in depletion expense of \$10.5 million at our existing landfills due primarily to economic disruptions resulting from COVID-19 causing a decrease in E&P and municipal solid waste volumes and a decrease of \$0.8 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by an increase in depreciation and depletion expense of \$4.4 million from acquisitions closed during, or subsequent to, the three months ended June 30, 2019 and an increase in depreciation expense at our existing operations of \$1.3 million due primarily to the impact of additions to our fleet and equipment purchased to support our existing operations exceeding certain equipment acquired from the Progressive Waste acquisition becoming fully depreciated subsequent to June 30, 2019.

Depreciation expense decreased \$1.5 million, or 0.5%, to \$302.1 million for the six months ended June 30, 2020, from \$303.6 million for the six months ended June 30, 2019. The decrease was comprised of a decrease in depletion expense of \$11.0 million at our existing landfills due primarily to economic disruptions resulting from COVID-19 causing a decrease in E&P and municipal solid waste and a decrease of \$1.0 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, partially offset by an increase in depreciation and depletion expense of \$10.5 million from acquisitions closed during, or subsequent to, the six months ended June 30, 2019.

Depreciation expense as a percentage of revenues increased 0.2 percentage points to 11.6% for the three months ended June 30, 2020, from 11.4% for the three months ended June 30, 2019. The decrease in our revenues due to economic disruptions resulting from COVID-19 contributed to a 0.6 percentage point increase and depreciation and depletion expense from acquisitions closed during, or subsequent to, the three months ended June 30, 2019, contributed to a 0.1 percentage point increase. These increases were partially offset by a 0.5 percentage point reduction attributable to reduced E&P and municipal solid waste depletion.

Depreciation expense as a percentage of revenues decreased 0.2 percentage points to 11.4% for the six months ended June 30, 2020, from 11.6% for the six months ended June 30, 2019. The decrease as a percentage of revenues consisted of a 0.3 percentage point decrease resulting from declines in E&P and landfill municipal solid waste volumes, partially offset by a 0.1 percentage point increase from acquisitions closed during, or subsequent to, the six months ended June 30, 2019.

Amortization of Intangibles. Amortization of intangibles expense increased \$0.5 million, or 1.4%, to \$31.8 million for the three months ended June 30, 2020, from \$31.3 million for the three months ended June 30, 2019. The increase was the result of \$3.8 million from intangible assets acquired in acquisitions closed during, or subsequent to, the three months ended June 30, 2019, partially offset by a decrease of \$3.1 million from certain intangible assets becoming fully amortized subsequent to June 30, 2019 and a decrease of \$0.2 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods.

Amortization of intangibles expense increased \$1.5 million, or 2.5%, to \$63.4 million for the six months ended June 30, 2020, from \$61.9 million for the six months ended June 30, 2019. The increase was the result of \$8.2 million from intangible assets acquired in acquisitions closed during, or subsequent to, the six months ended June 30, 2019, partially offset by a decrease of \$6.4 million from certain intangible assets becoming fully amortized subsequent to June 30, 2019 and a decrease of \$0.3 million resulting from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods.

Amortization expense as a percentage of revenues increased 0.1 percentage points to 2.4% for the three months ended June 30, 2020, from 2.3% for the three months ended June 30, 2019. Amortization expense as a percentage of revenues was unchanged at 2.4% for the six months ended June 30, 2020 and 2019.

Impairments and Other Operating Items. Impairments and other operating items increased \$433.4 million, to net losses totaling \$437.3 million for the three months ended June 30, 2020, including an impairment charge at our E&P segment of \$417.4 million, from net losses totaling \$3.9 million for the three months ended June 30, 2019.

Macroeconomic and geopolitical conditions, including a significant decline in oil prices driven by both surplus production and supply, as well as the decrease in demand caused by factors including the COVID-19 pandemic, have resulted in decreased levels of oil and natural gas exploration and production activity and a corresponding decrease in demand for our E&P waste services. During the three months ended June 30, 2020, total revenue for our E&P segment declined 43.3%, compared to the prior year period, on oil rig count declines of over 60% 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 our E&P segment customers. These companies have written down the values of their oil and gas assets in anticipation of the potential for the decarbonization of their energy product mix given an increased global focus on reducing greenhouse gases and addressing climate change. Such uncertainty regarding global demand has had a significant impact on the investment and operating plans of our E&P waste customers in the basins where we operate.

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

The remaining net losses of \$19.9 million recorded during the three months ended June 30, 2020 consisted of \$16.8 million of expenses associated with adjusting the carrying value of liabilities for contingent consideration associated with acquisitions closed in prior periods, \$1.7 million of losses on property and equipment that were disposed of through sales or as a result of being damaged in operations and \$1.6 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated termination date, partially offset by \$0.2 million of other net credits to expense.

The net losses of \$3.9 million recorded during the three months ended June 30, 2019 consisted of \$1.7 million of losses on property and equipment that were disposed of through sales or as a result of being damaged in operations, \$1.3 million of expenses associated with the settlement of various litigation claims and \$0.9 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated termination date.

Impairments and other operating items increased \$418.8 million, to net losses totaling \$438.8 million for the six months ended June 30, 2020, from net losses totaling \$20.0 million for the six months ended June 30, 2019.

The net losses of \$438.8 million recorded during the six months ended June 30, 2020 consisted of the aforementioned charges of \$417.4 million at our E&P segment and \$16.8 million to adjust the carrying value of liabilities for contingent consideration, as well as \$2.5 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated termination date, \$1.5 million of losses on property and equipment that were disposed of through sales or as a result of being damaged in operations and \$0.6 million of other net charges.

The net losses of \$20.0 million recorded during the six months ended June 30, 2019 consisted of \$13.1 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated termination date, \$4.2 million of losses on property and equipment that were disposed of through sales or as a result of being damaged in operations, \$1.7 million of expenses associated with the settlement of

various litigation claims and a \$1.5 million expense charge to increase the fair value of amounts payable under liability-classified contingent consideration arrangements from acquisitions closed in periods prior to 2018, partially offset by \$0.5 million of other gains.

Operating Income (Loss). Operating income (loss) decreased \$454.5 million to an operating loss of \$232.4 million for the three months ended June 30, 2020, from operating income of \$222.1 million for the three months ended June 30, 2019. Operating income (loss) decreased \$422.4 million to an operating loss of \$15.4 million for the six months ended June 30, 2020, from operating income of \$407.0 million for the six months ended June 30, 2019. The decreases were primarily attributable to declines in our existing solid waste and E&P disposal businesses resulting from the impact of COVID-19 and an increase in impairments and other operating charges, partially offset by solid waste price increases and operating income generated from acquisitions.

Operating income (loss) as a percentage of revenues decreased 34.0 percentage points to a loss of 17.8% for the three months ended June 30, 2020, from income of 16.2% for the three months ended June 30, 2019. The decrease as a percentage of revenues was comprised of a 33.2 percentage point increase in impairments and other operating items, a 0.6 percentage point increase in cost of operations, a 0.2 percentage point increase in depreciation expense and a 0.1 percentage point increase in amortization expense, partially offset by a 0.1 percentage point decrease in SG&A expense.

Operating income as a percentage of revenues decreased 16.2 percentage points to a loss of 0.6% for the six months ended June 30, 2020, from income of 15.6% for the six months ended June 30, 2019. The decrease as a percentage of revenues was comprised of a 15.8 percentage point increase in impairments and other operating items and a 0.9 percentage point increase in cost of operations, partially offset by a 0.3 percentage point decrease in SG&A expense and a 0.2 percentage point decrease in depreciation expense.

Interest Expense. Interest expense increased \$3.7 million, or 9.9%, to \$40.9 million for the three months ended June 30, 2020, from \$37.2 million for the three months ended June 30, 2019. The increase was primarily attributable to an increase of \$3.9 million from the January 2020 issuance of our 2030 Senior Notes, an increase of \$3.8 million from the March 2020 issuance of our 2050 Senior Notes, an increase of \$0.7 million from the April 2019 issuance of our 2029 Senior Notes and \$0.3 million of other net increases, partially offset by a decrease of \$2.7 million due to a decrease in the average borrowings outstanding under our Credit Agreement and a decrease of \$2.3 million from the repayment of \$175.0 million of our 5.25% Senior Notes due 2019, or the 2019 Senior Notes.

Interest expense increased \$4.4 million, or 5.9%, to \$78.9 million for the six months ended June 30, 2020, from \$74.5 million for the six months ended June 30, 2019. The increase was primarily attributable to an increase of \$6.9 million from the January 2020 issuance of our 2030 Senior Notes, an increase of \$5.1 million from the April 2019 issuance of our 2029 Senior Notes, an increase of \$4.6 million from the March 2020 issuance of our 2050 Senior Notes and \$0.2 million of other net increases, partially offset by a decrease of \$7.8 million due to a decrease in the average borrowings outstanding under our Credit Agreement and a decrease of \$4.6 million from the repayment of our 2019 Senior Notes.

Interest Income. Interest income decreased \$0.5 million, to \$1.3 million for the three months ended June 30, 2020, from \$1.8 million for the three months ended June 30, 2019. Interest income decreased \$1.6 million, to \$3.5 million for the six months ended June 30, 2020, from \$5.1 million for the six months ended June 30, 2019. The decreases were primarily attributable to lower reinvestment rates in the current period.

Other Income (Expense). Other income (expense) increased \$3.9 million, to an income total of \$5.8 million for the three months ended June 30, 2020, from an income total of \$1.9 million for the three months ended June 30, 2019. The increase was due primarily to a \$2.6 million increase in the value of investments purchased to fund our employee deferred compensation obligations due to stock market valuation increases and \$1.3 million of other net income increases.

Other income (expense) decreased \$8.3 million, to an expense total of \$3.7 million for the six months ended June 30, 2020, from an income total of \$4.6 million for the six months ended June 30, 2019. The decrease was due primarily to a \$4.1 million decrease in the value of investments purchased to fund our employee deferred compensation obligations due to stock market valuation declines, a \$3.0 million adjustment to increase certain accrued liabilities acquired in the 2016 Progressive Waste acquisition and \$1.2 million of other net expense increases.

Income Tax (Provision) Benefit. Income taxes decreased \$78.5 million, to a benefit total of \$38.7 million for the three months ended June 30, 2020, from an expense total of \$39.8 million for the three months ended June 30, 2019. Our effective tax benefit rate for the three months ended June 30, 2020 was 14.6%. Our effective tax expense rate for the three months ended June 30, 2019 was 21.1%. Income taxes decreased \$77.8 million, to a benefit total of \$10.0 million for the six months ended June 30, 2020, from an expense total of \$67.8 million for the six months ended June 30, 2019. Our effective tax benefit rate for the six months ended June 30, 2020 was 10.6%. Our effective tax expense rate for the six months ended June 30, 2019 was 19.8%.

The income tax benefit for the three and six months ended June 30, 2020 included a \$27.4 million expense associated with certain 2019 related-party payments no longer being deductible for tax purposes due to the finalization of tax regulations on April 7, 2020 under Internal Revenue Code section 267A and a \$4.1 million expense related to an increase in our deferred income tax liabilities resulting from the impairment of certain assets within our E&P segment, which impacted the geographical apportionment of our state income taxes. Additionally, the income tax benefit for the three and six months ended June 30, 2020 included a benefit of \$0.2 million and \$5.3 million, respectively, from share-based payment awards being recognized in the income statement when settled, as well as a portion of our internal financing being taxed at effective rates substantially lower than the U.S. federal statutory rate.

The income tax provision for the three and six months ended June 30, 2019 included a benefit of \$0.3 million and \$5.3 million, respectively, from share-based payment awards being recognized in the income statement when settled and a portion of our internal financing being taxed at effective rates substantially lower than the U.S. federal statutory rate.

SEGMENT RESULTS

General

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Commercial	\$ 375,427	\$ 396,641	\$ 791,935	\$ 778,150
Residential	378,188	346,128	743,919	668,532
Industrial and construction roll off	194,457	215,355	401,228	402,795
Total collection	948,072	958,124	1,937,082	1,849,477
Landfill	280,619	296,840	546,836	541,440
Transfer	189,085	204,561	369,851	365,752
Recycling	20,217	16,730	38,324	36,534
E&P	40,152	68,039	105,530	134,869
Intermodal and other	27,811	31,134	57,829	63,971
Intercompany	(200,174)	(205,789)	(397,265)	(377,768)
Total	\$ 1,305,782	\$ 1,369,639	\$ 2,658,187	\$ 2,614,275

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

We manage our operations through five geographic solid waste operating segments and our E&P segment, which includes the majority of our E&P waste treatment and disposal operations. Our five geographic solid waste operating

segments and our E&P segment comprise our reportable segments. Each operating segment is responsible for managing several vertically integrated operations, which are comprised of districts.

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

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
Eastern	\$ 318,891	24.4 %	\$ 323,621	23.6 %	\$ 651,093	24.5 %	\$ 616,448	23.6 %
Southern	297,099	22.8	298,015	21.8	606,486	22.8	585,343	22.4
Western	275,536	21.1	276,998	20.2	547,518	20.6	531,977	20.3
Central	216,620	16.6	218,361	15.9	425,162	16.0	396,238	15.2
Canada	161,269	12.3	188,527	13.8	331,692	12.5	356,874	13.6
E&P	36,367	2.8	64,117	4.7	96,236	3.6	127,395	4.9
	<u>\$ 1,305,782</u>	<u>100.0 %</u>	<u>\$ 1,369,639</u>	<u>100.0 %</u>	<u>\$ 2,658,187</u>	<u>100.0 %</u>	<u>\$ 2,614,275</u>	<u>100.0 %</u>

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
Western	\$ 85,423	31.0 %	\$ 86,440	31.2 %	\$ 166,451	30.4 %	\$ 163,444	30.7 %
Eastern	82,680	25.9 %	85,048	26.3 %	167,342	25.7 %	162,005	26.3 %
Central	79,705	36.8 %	74,506	34.1 %	152,856	36.0 %	137,534	34.7 %
Southern	76,119	25.6 %	74,511	25.0 %	150,637	24.8 %	148,889	25.4 %
Canada	53,675	33.3 %	67,664	35.9 %	113,073	34.1 %	126,908	35.6 %
E&P	13,011	35.8 %	33,433	52.1 %	44,813	46.6 %	65,042	51.1 %
Corporate ^(a)	(2,699)	—	(7,446)	—	(6,329)	—	(11,304)	—
	<u>\$ 387,914</u>	<u>29.7 %</u>	<u>\$ 414,156</u>	<u>30.2 %</u>	<u>\$ 788,843</u>	<u>29.7 %</u>	<u>\$ 792,518</u>	<u>30.3 %</u>

(a) Corporate functions include accounting, legal, tax, treasury, information technology, risk management, human resources, training, direct acquisition expenses, other administrative functions and share-based compensation expense 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 six operating segments.

A reconciliation of segment EBITDA to Income (loss) before income tax provision is included in Note 11 to our Condensed Consolidated Financial Statements included in Part 1, Item 1 of this report.

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

Segment Revenue

Revenue in our Eastern segment decreased \$4.7 million, or 1.5%, to \$318.9 million for the three months ended June 30, 2020, from \$323.6 million for the three months ended June 30, 2019. The components of the decrease consisted of solid waste volume decreases of \$50.3 million attributable primarily to COVID-19 economic disruptions driving declines in commercial collection, roll off collection, transfer station and landfill volumes, net revenue reductions from divestitures closed subsequent to June 30, 2019 of \$4.3 million, decreased recyclable commodity sales of \$1.1 million resulting from a decrease in recycling volumes collected and declines in prices for plastic and aluminum and other revenue decreases of \$0.4 million, partially offset by net revenue growth from acquisitions closed during, or subsequent to, the three months ended June 30, 2019, of \$36.2 million and net price increases of \$15.2 million.

Revenue in our Eastern segment increased \$34.7 million, or 5.6%, to \$651.1 million for the six months ended June 30, 2020, from \$616.4 million for the six months ended June 30, 2019. The components of the increase consisted of net revenue growth from acquisitions closed during, or subsequent to, the six months ended June 30, 2019, of \$75.3 million and net price increases of \$31.6 million, partially offset by solid waste volume decreases of \$60.2 million attributable primarily to COVID-19 economic disruptions driving declines in commercial collection, roll off collection, transfer station and landfill volumes, net revenue reductions from divestitures closed subsequent to June 30, 2019 of \$8.2 million, decreased recyclable commodity sales of \$2.6 million resulting from a decrease in recycling volumes collected and declines in prices for plastic and aluminum and other revenue decreases of \$1.2 million.

Revenue in our Southern segment decreased \$0.9 million, or 0.3%, to \$297.1 million for the three months ended June 30, 2020, from \$298.0 million for the three months ended June 30, 2019. The components of the decrease consisted of solid waste volume decreases of \$19.2 million attributable primarily to COVID-19 economic disruptions driving declines in commercial collection, roll off collection, transfer station and municipal solid waste landfill volumes and other revenue decreases of \$0.7 million, partially offset by net price increases of \$13.9 million and net revenue growth from acquisitions closed during, or subsequent to, the three months ended June 30, 2019, of \$5.1 million.

Revenue in our Southern segment increased \$21.2 million, or 3.6%, to \$606.5 million for the six months ended June 30, 2020, from \$585.3 million for the six months ended June 30, 2019. The components of the increase consisted of net price increases of \$30.8 million and net revenue growth from acquisitions closed during, or subsequent to, the six months ended June 30, 2019, of \$12.2 million, partially offset by solid waste volume decreases of \$19.2 million attributable primarily to COVID-19 economic disruptions driving declines in commercial collection, roll off collection, transfer station and municipal solid waste landfill volumes, decreased recyclable commodity sales of \$1.5 million resulting primarily from the impact of declines in prices for plastic and aluminum and \$1.1 million of other revenue decreases.

Revenue in our Western segment decreased \$1.5 million, or 0.5%, to \$275.5 million for the three months ended June 30, 2020, from \$277.0 million for the three months ended June 30, 2019. The components of the decrease consisted of solid waste volume decreases of \$9.9 million due to the net impact of COVID-19 economic disruptions driving decreases in commercial collection, roll off collection and landfill volumes and other revenue decreases of \$1.2 million, partially offset by net price increases of \$8.2 million and net revenue growth from acquisitions closed during, or subsequent to, the three months ended June 30, 2019, of \$1.4 million.

Revenue in our Western segment increased \$15.5 million, or 2.9%, to \$547.5 million for the six months ended June 30, 2020, from \$532.0 million for the six months ended June 30, 2019. The components of the increase consisted of net price increases of \$16.2 million and net revenue growth from acquisitions closed during, or subsequent to, the three months ended June 30, 2019, of \$2.1 million, partially offset by intermodal revenue decreases of \$1.5 million due to a reduction in intermodal cargo volumes, solid waste volume decreases of \$0.6 million due to the net impact of COVID-19 economic disruptions driving decreases in commercial collection, roll off collection and landfill waste volumes exceeding positive volumes generated during the first quarter of 2020 associated with landfill municipal solid waste, residential collection and commercial collection and other revenue decreases of \$0.7 million.

Revenue in our Central segment decreased \$1.8 million, or 0.8%, to \$216.6 million for the three months ended June 30, 2020, from \$218.4 million for the three months ended June 30, 2019. The components of the decrease consisted of solid waste volume decreases of \$13.1 million due to the net impact of COVID-19 economic disruptions driving decreases in commercial collection, roll off collection and landfill municipal solid waste volumes and other revenue decreases of \$0.7 million, partially offset by net price increases of \$9.9 million and net revenue growth from acquisitions closed during, or subsequent to, the three months ended June 30, 2019, of \$2.1 million.

Revenue in our Central segment increased \$29.0 million, or 7.3%, to \$425.2 million for the six months ended June 30, 2020, from \$396.2 million for the six months ended June 30, 2019. The components of the increase consisted of net price increases of \$21.0 million and revenue growth from acquisitions closed during, or subsequent to, the six months ended June 30, 2019, of \$19.1 million, partially offset by solid waste volume decreases of \$10.5 million due to the net impact of COVID-19 economic disruptions driving decreases in commercial collection, roll off collection and landfill municipal waste volumes exceeding positive volumes generated during the first quarter of 2020 associated with roll off collection and landfill special waste and other revenue decreases of \$0.6 million.

Revenue in our Canada segment decreased \$27.2 million, or 14.5%, to \$161.3 million for the three months ended June 30, 2020, from \$188.5 million for the three months ended June 30, 2019. The components of the decrease consisted of solid waste volume decreases of \$28.6 million due to the net impact of COVID-19 economic disruptions driving decreases in all solid waste collection and disposal lines of business, a decrease of \$6.3 million resulting from a lower average foreign currency exchange rate in effect during the comparable reporting periods and a decrease of \$1.4 million resulting from a reduction in natural gas prices associated with the generation of landfill gas, partially offset by net price increases of \$7.1 million, increased recyclable commodity sales of \$1.1 million resulting primarily from increases in the price for old corrugated cardboard and other revenue increases of \$0.9 million.

Revenue in our Canada segment decreased \$25.2 million, or 7.1%, to \$331.7 million for the six months ended June 30, 2020, from \$356.9 million for the six months ended June 30, 2019. The components of the decrease consisted of solid waste volume decreases of \$34.7 million due to the net impact of COVID-19 economic disruptions driving decreases in all solid waste collection and disposal lines of business, a decrease of \$8.0 million resulting from a lower average foreign currency exchange rate in effect during the comparable reporting periods and a decrease of \$2.7 million resulting from reduced demand causing a reduction in the prices for renewable energy credits and natural gas associated with the generation of landfill gas, partially offset by net price increases of \$19.3 million and other revenue increases of \$0.9 million.

Revenue in our E&P segment decreased \$27.7 million, or 43.3%, to \$36.4 million for the three months ended June 30, 2020, from \$64.1 million for the three months ended June 30, 2019. Revenue in our E&P segment decreased \$31.2 million, or 24.5%, to \$96.2 million for the six months ended June 30, 2020, from \$127.4 million for the six months ended June 30, 2019. Decreases in the demand for crude oil as a result of economic disruptions from COVID-19 resulted in a drop in the value of crude oil, decreases in drilling and production activity levels and decreases in overall demand for our E&P waste services. Drilling and production activity were also adversely impacted by the drop in the value of crude oil due to the increased supply of oil resulting from Saudi Arabia and Russia abandoning production quotas and increasing production levels, which was exacerbated by the impact of COVID-19.

Segment EBITDA

Segment EBITDA in our Western segment decreased \$1.0 million, or 1.2%, to \$85.4 million for the three months ended June 30, 2020, from \$86.4 million for the three months ended June 30, 2019. The decrease was due primarily to an increase of \$2.1 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, a decrease in revenues of \$1.5 million, an increase in professional fees of \$1.0 million due to non-recurring insurance reimbursements for legal expenses recognized in the prior year period, an increase in corporate overhead expense allocations of \$0.9 million due to an increase in the overhead allocation rate, a net \$0.8 million increase in cost of operations and SG&A expenses attributable to acquired operations and other expense increases of \$0.7 million, partially offset by a decrease in employee medical benefits expenses of \$2.2 million due to a reduction in routine medical visits, a decrease in fuel expense of \$1.7 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, a decrease in truck, container, equipment and

facility maintenance and repair expenses of \$1.1 million due to reductions in equipment operating hours attributable to declines in solid waste volumes resulting from economic disruptions caused by COVID-19 and a decrease in intermodal rail expenses of \$1.0 million due to a reduction in cargo volume.

Segment EBITDA in our Western segment increased \$3.1 million, or 1.8%, to \$166.5 million for the six months ended June 30, 2020, from \$163.4 million for the six months ended June 30, 2019. The increase was due primarily to an increase in revenues of \$15.5 million, a decrease in intermodal rail expenses of \$2.0 million due to a reduction in cargo volume, a decrease in employee medical benefits expenses of \$1.8 million due to a reduction in routine medical visits and a decrease in fuel expense of \$1.2 million due to a decrease in the price of diesel fuel, partially offset by an increase in labor expenses of \$3.9 million due primarily to employee pay rate increases, an additional calendar and business day in the current year period due to leap year, as well as emergency wages and other COVID-19-related employee costs exceeding decreases in headcount and hours worked attributable to solid waste volume reductions resulting from COVID-19 economic disruptions, an increase of \$2.4 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, an increase in taxes on revenues of \$2.3 million due primarily to price-led increases in revenues, an increase in expenses for auto and workers' compensation claims of \$1.9 million due primarily to non-recurring adjustments recorded in the prior year period to decrease projected losses on outstanding claims, an increase in third party disposal expenses of \$1.7 million due primarily to disposal rate increases and higher residential collection tonnage, an increase of \$1.2 million resulting from higher costs per ton charged by third party processors of recyclable commodities, an increase in third-party trucking and transportation expenses of \$1.1 million due primarily to increased rates charged by third parties to provide trucking and an increase in landfill special waste volumes for which we are responsible for providing transportation services, an increase in professional fees of \$0.9 million due to non-recurring insurance reimbursements for legal expenses recognized in the prior year period, a net \$0.8 million increase in cost of operations and SG&A expenses attributable to acquired operations and other expense increases of \$1.2 million.

Segment EBITDA in our Eastern segment decreased \$2.3 million, or 2.8%, to \$82.7 million for the three months ended June 30, 2020, from \$85.0 million for the three months ended June 30, 2019. The decrease was due primarily to a decrease in employee medical benefits expenses of \$3.7 million due to a reduction in routine medical visits, a decrease in fuel expense of \$3.1 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, other expense decreases of \$3.1 million and the following decreases totaling \$21.1 million which were directly attributable to our solid waste volume losses due to economic disruptions resulting from COVID-19: a decrease in third-party trucking and transportation expenses of \$6.1 million; a decrease in direct labor expenses of \$5.3 million; a decrease in third-party disposal expenses of \$4.1 million; a decrease in truck, container, equipment and facility maintenance and repair expenses of \$2.5 million; a decrease in expenses for processing recyclable commodities of \$1.7 million and a decrease in taxes on revenues of \$1.4 million, partially offset by a net \$26.2 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase of \$2.4 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, an increase in corporate overhead expense allocations of \$2.2 million due to an increase in the overhead allocation rate and an increase in expenses for uncollectible accounts receivable of \$2.1 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19 and a decrease in revenues of \$0.4 million from operations owned in the comparable periods and recognized from acquisitions closed during, or subsequent to, the three months ended June 30, 2019.

Segment EBITDA in our Eastern segment increased \$5.3 million, or 3.3%, to \$167.3 million for the six months ended June 30, 2020, from \$162.0 million for the six months ended June 30, 2019. The increase was due primarily to an increase in revenues of \$42.9 million from organic growth and acquisitions, collective decreases totaling \$15.6 million in third-party disposal expenses, third-party trucking expenses, labor expenses, expenses for processing recyclable commodities and taxes on revenues attributable to declines in solid waste volumes resulting primarily from economic disruptions caused by COVID-19, a decrease in employee medical benefits expenses of \$3.8 million due to a reduction in routine medical visits, a decrease in fuel expense of \$3.4 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations, an increase to EBITDA of \$0.6 million from the impact of operations disposed of during the six months ended June 30, 2020 and other expense decreases of \$0.4 million, partially offset by a net \$54.3 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase of \$2.7 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the

impact of COVID-19, an increase in expenses for uncollectible accounts receivable of \$2.7 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19 and an increase in expenses for auto and workers' compensation claims of \$1.7 million due primarily to non-recurring adjustments recorded in the prior year period to decrease projected losses on outstanding claims.

Segment EBITDA in our Central segment increased \$5.2 million, or 7.0%, to \$79.7 million for the three months ended June 30, 2020, from \$74.5 million for the three months ended June 30, 2019. The increase was due primarily to a collective decrease in third-party disposal expenses and third-party trucking expenses totaling \$4.0 million attributable to declines in solid waste volumes resulting from economic disruptions caused by COVID-19, a decrease in employee medical benefits expenses of \$2.6 million due to a reduction in routine medical visits, a decrease in fuel expense of \$1.4 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations and other expense decreases of \$2.0 million, partially offset by an increase of \$2.1 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, a decrease in revenues of \$1.8 million and a net \$0.9 million increase in cost of operations and SG&A expenses attributable to acquired operations.

Segment EBITDA in our Central segment increased \$15.4 million, or 11.1%, to \$152.9 million for the six months ended June 30, 2020, from \$137.5 million for the six months ended June 30, 2019. The increase was due primarily to an increase in revenues of \$29.0 million, a decrease in employee medical benefits expenses of \$2.8 million due to a reduction in routine medical visits, a decrease in third-party disposal expenses of \$1.6 million primarily attributable to declines in solid waste volumes resulting from economic disruptions caused by COVID-19, a decrease in fuel expense of \$0.8 million due to a decrease in the price of diesel fuel and other expense decreases of \$1.3 million, partially offset by a net \$11.9 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in labor expenses of \$4.5 million due primarily to employee pay rate increases, an additional calendar and business day in the current year period due to leap year, as well as emergency wages and other COVID-19-related employee costs exceeding decreases in headcount and hours worked attributable to solid waste volume reductions resulting from COVID-19 economic disruptions, an increase of \$2.3 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19 and an increase in expenses for auto and workers' compensation claims of \$1.4 million due primarily to non-recurring adjustments recorded in the prior year period to decrease projected losses on outstanding claims.

Segment EBITDA in our Southern segment increased \$1.6 million, or 2.2%, to \$76.1 million for the three months ended June 30, 2020, from \$74.5 million for the three months ended June 30, 2019. The increase was due to a decrease in third-party disposal expenses of \$4.6 million attributable to declines in solid waste volumes resulting from economic disruptions caused by COVID-19, a decrease in employee medical benefits expenses of \$4.2 million due to a reduction in routine medical visits, a decrease in fuel expense of \$1.4 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations and a decrease in 401(k) matching expenses of \$0.6 million as we suspended our 401(k) match as of June 1, 2020, partially offset by a net \$3.6 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase of \$3.1 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19, an increase in truck, container, equipment and facility maintenance and repair expenses of \$1.4 million due to variability impacting the timing of major repairs, a decrease in revenues of \$0.9 million and other expense increases of \$0.2 million.

Segment EBITDA in our Southern segment increased \$1.7 million, or 1.2%, to \$150.6 million for the six months ended June 30, 2020, from \$148.9 million for the six months ended June 30, 2019. The increase was due primarily to an increase in revenues of \$21.2 million, a decrease in third-party disposal expenses of \$4.9 million primarily attributable to declines in solid waste volumes resulting from economic disruptions caused by COVID-19, a decrease in employee medical benefits expenses of \$4.1 million due to a reduction in routine medical visits, a decrease in compressed natural gas expense of \$1.0 million due primarily to the recognition in 2020 of tax credits associated with the purchase of compressed natural gas, a decrease in 401(k) matching expenses of \$0.6 million as we suspended our 401(k) match as of June 1, 2020, a decrease in fuel expense of \$0.6 million due to a decrease in the price of diesel fuel and other expense decreases of \$0.3 million, partially offset by a net \$8.3 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in expenses for auto and workers' compensation claims of \$7.5 million due primarily to higher claims severity in the current year period and non-recurring adjustments recorded in the prior year period to decrease projected losses on outstanding claims, an increase in truck, container, equipment and facility

maintenance and repair expenses of \$5.4 million due to parts and service rate increases and variability impacting the timing of major repairs, an increase in labor expenses of \$4.4 million due primarily to employee pay rate increases, an additional calendar and business day in the current year period due to leap year, as well as emergency wages and other COVID-19-related employee costs exceeding decreases in headcount and hours worked attributable to solid waste volume reductions resulting from COVID-19 economic disruptions, an increase of \$3.6 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19 and an increase in third-party trucking and transportation expenses of \$1.8 million due primarily to transportation associated with increased landfill special waste volumes.

Segment EBITDA in our Canada segment decreased \$14.0 million, or 20.7%, to \$53.7 million for the three months ended June 30, 2020, from \$67.7 million for the three months ended June 30, 2019. The decrease was comprised of a decrease of \$11.8 million assuming foreign currency parity during the comparable reporting periods and a decrease of \$2.2 million from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods. The \$11.8 million decrease, which assumes foreign currency parity, was due primarily to a decrease in revenues of \$20.9 million, an increase of \$1.1 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19 and an increase in expenses for uncollectible accounts receivable of \$0.9 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19, partially offset by collective decreases totaling \$7.2 million in third-party disposal expenses, third-party trucking expenses and labor expenses attributable to declines in solid waste volumes resulting from economic disruptions caused by COVID-19, a decrease in fuel expense of \$2.4 million due to a decrease in the price of diesel fuel and declines in the volume of fuel used in our operations and \$1.5 million of other net expense decreases.

Segment EBITDA in our Canada segment decreased \$13.8 million, or 10.9%, to \$113.1 million for the six months ended June 30, 2020, from \$126.9 million for the six months ended June 30, 2019. The decrease was comprised of a decrease of \$11.0 million assuming foreign currency parity during the comparable reporting periods and a decrease of \$2.8 million from a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods. The \$11.0 million decrease, which assumes foreign currency parity, was due primarily to a decrease in revenues of \$17.2 million, an increase of \$1.2 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of COVID-19 and an increase in expenses for uncollectible accounts receivable of \$1.1 million due to customers experiencing financial difficulties resulting from the economic impact of COVID-19, partially offset by collective decreases totaling \$4.9 million in third-party disposal expenses and third-party trucking expenses attributable to declines in solid waste volumes resulting primarily from economic disruptions caused by COVID-19, a decrease in fuel expense of \$2.9 million due to declines in the market price of diesel fuel and \$0.7 million of other net expense decreases.

Segment EBITDA in our E&P segment decreased \$20.4 million, or 61.1%, to \$13.0 million for the three months ended June 30, 2020, from \$33.4 million for the three months ended June 30, 2019. The decrease was due primarily to a decrease in revenues of \$27.7 million, partially offset by the following expense decreases which were directly attributable to the decline in revenues: a decrease in operating activities outsourced to third-parties of \$1.2 million; a decrease in equipment and property repair and maintenance expenses of \$1.1 million; a decrease in third-party trucking and transportation services of \$1.0 million; a decrease in fuel expense of \$0.9 million; a decrease in labor expenses of \$0.7 million; a decrease in royalty expenses paid on revenues of \$0.7 million and \$1.7 million of other net expense decreases.

Segment EBITDA in our E&P segment decreased \$20.2 million, or 31.1%, to \$44.8 million for the six months ended June 30, 2020, from \$65.0 million for the six months ended June 30, 2019. The decrease was due primarily to a decrease in revenues of \$31.2 million, partially offset by the following expense decreases which were directly attributable to the decline in revenues: a decrease in third-party trucking and transportation services of \$2.7 million; a decrease in operating activities outsourced to third-parties of \$1.6 million; a decrease in equipment and property repair and maintenance expenses of \$1.4 million; a decrease in disposal cell processing expenses of \$1.2 million; a decrease in fuel expense of \$1.1 million; a decrease in royalty expenses paid on revenues of \$1.0 million and \$2.0 million of other net expense decreases.

Segment EBITDA at Corporate increased \$4.7 million, to a loss of \$2.7 million for the three months ended June 30, 2020, from a loss of \$7.4 million for the three months ended June 30, 2019. The increase was due to a decrease in direct

acquisition expenses of \$5.2 million due to a decline in acquisition activity, a collective decrease in travel, meeting, training and community activity expenses of \$4.1 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, an increase in corporate overhead allocated through charges to our segments of \$3.3 million due to an increase in expenses qualifying for allocation resulting in an increase in the overhead allocation rates and a decrease in professional fees of \$2.3 million due primarily to reduced legal expenses due to work on legal matters being postponed resulting from temporary court closures, partially offset by an increase in accrued recurring cash incentive compensation expense to our management and non-management employees of \$6.3 million, an increase in deferred compensation expenses of \$2.3 million as a result of increases in the market value of investments to which employee deferred compensation liability balances are tracked and \$1.6 million of other net expense increases.

Segment EBITDA at Corporate increased \$5.0 million, to a loss of \$6.3 million for the six months ended June 30, 2020, from a loss of \$11.3 million for the six months ended June 30, 2019. The increase was due to a decrease in direct acquisition expenses of \$4.9 million due to a decline in acquisition activity, a collective decrease in travel, meeting, training and community activity expenses of \$4.2 million due to shelter at home and other restrictions on our employees due to COVID-19 resulting in the cancellation of non-essential off-site activities, a decrease in deferred compensation expenses of \$4.2 million as a result of decreases in the market value of investments to which employee deferred compensation liability balances are tracked, a decrease in professional fees of \$2.5 million due primarily to reduced legal expenses due to work on legal matters being postponed resulting from temporary court closures and a decrease in equity-based compensation expenses of \$1.3 million resulting primarily from non-recurring prior year period adjustments to the amount of performance-based restricted share units granted in 2017 that were estimated to ultimately vest, partially offset by an increase in accrued recurring cash incentive compensation expense to our management and non-management employees of \$8.9 million, an increase in payroll and payroll related expenses of \$1.6 million due to annual pay increases and increased employee termination pay, an increase in software licenses and subscriptions expenses of \$1.4 million due primarily to the addition of new sales and customer service applications and \$0.2 million of other net expense increases.

LIQUIDITY AND CAPITAL RESOURCES

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

	Six Months Ended June 30,	
	2020	2019
Net cash provided by operating activities	\$ 753,185	\$ 753,048
Net cash used in investing activities	(359,956)	(640,290)
Net cash provided by (used) in financing activities	67,515	(223,258)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(541)	270
Net increase (decrease) in cash, cash equivalents and restricted cash	460,203	(110,230)
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>\$ 883,424</u>	<u>\$ 293,736</u>

Operating Activities Cash Flows

For the six months ended June 30, 2020, net cash provided by operating activities was \$753.2 million. For the six months ended June 30, 2019, net cash provided by operating activities was \$753.0 million. The \$0.2 million increase was due primarily to the following:

- 1) *Accounts receivable* — Our increase in net cash provided by operating activities was favorably impacted by \$87.8 million from collections of accounts receivable. Although our revenues were adversely impacted by COVID-19, our operating cash flows benefit from the collection of outstanding accounts receivable existing prior to the recent economic downturn, with accounts receivable at June 30, 2020 reflecting the impact of lower uncollected revenues.

- 2) *Accounts payable and accrued liabilities* — Our increase in net cash provided by operating activities was unfavorably impacted by \$51.1 million from accounts payable and accrued liabilities. Although certain operating expenses declined as a result of solid waste and E&P volume losses due to economic disruptions resulting from COVID-19, our operating cash flows are adversely impacted from the payment of outstanding liabilities existing prior to the recent economic downturn, with accounts payable and accrued liabilities at June 30, 2020 reflecting the impact of lower unpaid expenses. This decrease was partially offset by an increase in accrued payroll tax liabilities of \$13.7 million associated with our deferral of qualifying U.S. payroll and other tax payments as permitted by the CARES Act.
- 3) *Decrease in earnings* — Our increase in net cash provided by operating activities was unfavorably impacted by \$33.6 million from a decrease in net income (loss), excluding depreciation, amortization of intangibles, amortization of leases, deferred income taxes, share-based compensation, adjustments to and payments of contingent consideration recorded in earnings and loss on disposal of assets and impairments, due primarily to economic disruptions resulting from COVID-19.

As of June 30, 2020, we had a working capital surplus of \$465.6 million, including cash and equivalents of \$790.6 million. Our working capital surplus increased \$342.2 million from a working capital surplus of \$123.4 million at December 31, 2019, including cash and equivalents of \$326.7 million, due primarily to the impact of increased cash balances and higher short-term contingent consideration liabilities being partially offset by reductions in accounts receivable and prepaid income taxes. To date, we have experienced no loss or lack of access to our cash and equivalents; however, we can provide no assurances that access to our cash and equivalents will not be impacted by adverse conditions in the financial markets. Our strategy in managing our working capital is generally to apply the cash generated from our operations that remains after satisfying our working capital and capital expenditure requirements, along with share repurchase and dividend programs, to reduce the unhedged portion of our indebtedness under our Credit Agreement and to minimize our cash balances.

Investing Activities Cash Flows

Net cash used in investing activities decreased \$280.3 million to \$360.0 million for the six months ended June 30, 2020, from \$640.3 million for the six months ended June 30, 2019. The significant components of the decrease included the following:

- 1) A decrease in cash paid for acquisitions of \$295.1 million due primarily to a decrease in acquisitions closed during the six months ended June 30, 2020;
- 2) An increase from higher draws on restricted asset accounts of \$10.7 million;
- 3) An increase from increased proceeds from the sale of property and equipment of \$9.4 million; less
- 4) An increase in capital expenditures for undeveloped landfill property of \$16.4 million associated with expansion land at certain existing landfill facilities; less
- 5) An increase in capital expenditures of \$14.9 million due to an increase in vehicles for operations owned in the comparable periods and additional trucks, landfill sites costs and buildings for operations acquired subsequent to December 31, 2018.

Financing Activities Cash Flows

Net cash provided by financing activities increased \$290.8 million to \$67.5 million for the six months ended June 30, 2020, from net cash used in financing activities of \$223.3 million for the six months ended June 30, 2019. The significant components of the increase included the following:

- 1) An increase from the net change in long-term borrowings of \$424.9 million (long-term borrowings increased \$306.5 million during the six months ended June 30, 2020 and decreased \$118.4 million during the six months ended June 30, 2019) due primarily to maintaining a portion of the proceeds from our 2050 Senior Notes in cash; less
- 2) An increase in payments to repurchase our common shares of \$105.7 million as we resumed our share repurchase activity during the six months ended June 30, 2020; less

- 3) An increase in debt issuance costs of \$5.1 million due to costs incurred during the six months ended June 30, 2020 for our 2030 Senior Notes and 2050 Senior Notes exceeding costs incurred during the six months ended June 30, 2019 for our 2029 Senior Notes; less
- 4) An increase in tax withholdings related to net share settlements of equity-based compensation of \$6.0 million due to an increase in the value of equity-based compensation awards vesting; less
- 5) An increase in cash dividends paid of \$12.7 million due primarily to an increase in our quarterly dividend rate for the six months ended June 30, 2020 to \$0.185 per share, from \$0.16 per share for the six months ended June 30, 2019.

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

On July 25, 2019, our Board of Directors approved, subject to receipt of regulatory approvals, the annual renewal of our normal course issuer bid, or the NCIB, to purchase up to 13,184,474 of our common shares during the period of August 8, 2019 to August 7, 2020 or until such earlier time as the NCIB is completed or terminated at our option. Shareholders may obtain a copy of our TSX Form 12 – Notice of Intention to Make a Normal Course Issuer Bid, without charge, by request directed to our Senior Vice President and Chief Financial Officer at (832) 442-2200. The timing and amounts of any repurchases pursuant to the NCIB will depend on many factors, including our capital structure, the market price of our common shares and overall market conditions. All common shares purchased under the NCIB will be immediately cancelled following their repurchase. Information regarding our NCIB can be found under the “Shareholders’ Equity” section in Note 17 to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

On July 23, 2020, our Board of Directors approved, subject to receipt of regulatory approvals, the annual renewal of our NCIB. The Company received TSX approval for its annual renewal of the NCIB on August 5, 2020. The renewal will follow on the conclusion of our current NCIB expiring August 7, 2020. We are authorized to make purchases during the period of August 10, 2020 to August 9, 2021 or until such earlier time as the NCIB is completed or terminated at our option.

Our Board of Directors authorized the initiation of a quarterly cash dividend in October 2010 and has increased it on an annual basis. In October 2019, our Board of Directors authorized an increase to our regular quarterly cash dividend of \$0.025, from \$0.16 to \$0.185 per share. Cash dividends of \$96.9 million and \$84.2 million were paid during the six months ended June 30, 2020 and 2019, respectively. We cannot assure you as to the amounts or timing of future dividends.

We made \$268.7 million in capital expenditures for property and equipment during the six months ended June 30, 2020, and we expect to make total capital expenditures for property and equipment of approximately \$550 million in 2020. In addition, we made \$16.4 million in capital expenditures for undeveloped landfill property during the six months ended June 30, 2020 and may opportunistically make other capital expenditures for undeveloped landfill property in 2020. We have funded and intend to fund the balance of our planned 2020 capital expenditures principally through cash on hand, internally generated funds and borrowings under our Credit Agreement. In addition, we may make substantial additional capital expenditures in acquiring land and municipal solid waste and E&P waste businesses. If we acquire additional landfill disposal facilities, we may also have to make significant expenditures to bring them into compliance with applicable regulatory requirements, obtain permits or expand our available disposal capacity. We cannot currently determine the amount of these expenditures because they will depend on the number, nature, condition and permitted status of any acquired landfill disposal facilities. We believe that our cash and equivalents, Credit Agreement and the funds we expect to generate from operations will provide adequate cash to fund our working capital and other cash needs for the foreseeable future. However, disruptions in the capital and credit markets could adversely affect our ability to draw on our Credit Agreement or raise other capital. Our access to funds under the Credit Agreement is dependent on the ability of the banks that are parties to the agreement to meet their funding commitments. Those banks may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time.

As of June 30, 2020, \$650.0 million under the term loan and \$193.3 million under the revolving credit facility were outstanding under our Credit Agreement, exclusive of outstanding standby letters of credit of \$108.3 million. Our Credit Agreement matures in March 2023.

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

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

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

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

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

We are a well-known seasoned issuer with an effective shelf registration statement on Form S-3 filed in May 2018, which registers an unspecified amount of debt securities, including debentures, notes or other types of debt. In the future, we may issue debt securities under our shelf registration statement or in private placements from time to time on an opportunistic basis, based on market conditions and available pricing. Unless otherwise indicated in the relevant offering documents, we expect to use the proceeds from any such offerings for general corporate purposes, including repaying, redeeming or repurchasing debt, acquiring additional assets or businesses, capital expenditures and increasing our working capital.

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

Recorded Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Long-term debt	\$ 4,730,904	\$ 7,658	\$ 1,425,789	\$ 157,876	\$ 3,139,581
Cash interest payments	\$ 1,251,156	\$ 151,164	\$ 276,389	\$ 194,395	\$ 629,208
Contingent consideration	\$ 109,041	\$ 62,213	\$ 7,077	\$ 3,224	\$ 36,527
Operating leases	\$ 215,602	\$ 19,214	\$ 66,686	\$ 49,968	\$ 79,734
Final capping, closure and post-closure	\$ 1,529,338	\$ 6,514	\$ 65,995	\$ 13,750	\$ 1,443,079

Long-term debt payments include:

- 1) \$193.3 million in principal payments due March 2023 related to our revolving credit facility under our Credit Agreement. We may elect to draw amounts on our Credit Agreement in U.S. dollar LIBOR rate loans, U.S. dollar base rate loans, Canadian-based bankers' acceptances, and Canadian dollar prime rate loans. At June 30, 2020, \$175.0 million of the outstanding borrowings drawn under the revolving credit facility were in U.S. LIBOR rate loans, which bear interest at the LIBOR rate plus the applicable margin (for a total rate of 1.38% on such date)

and \$18.3 million of the outstanding borrowings drawn under the revolving credit facility were in Canadian-based bankers' acceptances, which bear interest at the Canadian Dollar Offered Rate plus the applicable acceptance fee (for a total rate of 1.71% on such date).

- 2) \$650.0 million in principal payments due March 2023 related to our term loan under our Credit Agreement. Outstanding amounts on the term loan can be either base rate loans or LIBOR loans. At June 30, 2020, all amounts outstanding under the term loan were in LIBOR loans which bear interest at the LIBOR rate plus the applicable margin (for a total rate of 1.38% on such date).
- 3) \$100.0 million in principal payments due 2021 related to our 2021 Senior Notes. The 2021 Senior Notes bear interest at a rate of 4.64%. We have recorded this obligation in the payments due in 1 to 3 years category in the table above as we have the intent and ability to redeem the 2021 Senior Notes on April 1, 2021 using borrowings under our Credit Agreement.
- 4) \$150.0 million in principal payments due 2021 related to our New 2021 Senior Notes. The New 2021 Senior Notes bear interest at a rate of 2.39%. We have recorded this obligation in the payments due in 1 to 3 years category in the table above as we have the intent and ability to redeem the New 2021 Senior Notes on June 1, 2021 using borrowings under our Credit Agreement.
- 5) \$125.0 million in principal payments due 2022 related to our 2022 Senior Notes. The 2022 Senior Notes bear interest at a rate of 3.09%.
- 6) \$200.0 million in principal payments due 2023 related to our 2023 Senior Notes. The 2023 Senior Notes bear interest at a rate of 2.75%.
- 7) \$150.0 million in principal payments due 2024 related to our 2024 Senior Notes. The 2024 Senior Notes bear interest at a rate of 3.24%.
- 8) \$375.0 million in principal payments due 2025 related to our 2025 Senior Notes. The 2025 Senior Notes bear interest at a rate of 3.41%.
- 9) \$400.0 million in principal payments due 2026 related to our 2026 Senior Notes. The 2026 Senior Notes bear interest at a rate of 3.03%.
- 10) \$250.0 million in principal payments due 2027 related to our 2027 Senior Notes. The 2027 Senior Notes bear interest at a rate of 3.49%.
- 11) \$500.0 million in principal payments due 2028 related to our 2028 Senior Notes. The 2028 Senior Notes bear interest at a rate of 4.25%.
- 12) \$500.0 million in principal payments due 2029 related to our 2029 Senior Notes. The 2029 Senior Notes bear interest at a rate of 3.50%.
- 13) \$600.0 million in principal payments due 2030 related to our 2030 Senior Notes. The 2030 Senior Notes bear interest at a rate of 2.60%.
- 14) \$500.0 million in principal payments due 2050 related to our 2050 Senior Notes. The 2050 Senior Notes bear interest at a rate of 3.05%.
- 15) \$44.9 million in principal payments related to our notes payable to sellers and other third parties. Our notes payable to sellers and other third parties bear interest at rates between 2.42% and 10.35% at June 30, 2020, and have maturity dates ranging from 2021 to 2036.

The following assumptions were made in calculating cash interest payments:

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

Contingent consideration payments include \$88.0 million recorded as liabilities in our Condensed Consolidated Financial Statements at June 30, 2020, and \$21.0 million of future interest accretion on the recorded obligations.

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

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

	Amount of Commitment Expiration Per Period				
	(amounts in thousands of U.S. dollars)				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Unrecorded Obligations⁽¹⁾					
Unconditional purchase obligations	\$ 140,533	\$ 82,728	\$ 57,805	\$ —	\$ —

- (1) We are party to unconditional purchase obligations. These purchase obligations are established in the ordinary course of our business and are designed to provide us with access to products at competitive, market-driven prices. At June 30, 2020, our unconditional purchase obligations consisted of multiple fixed-price fuel purchase contracts under which we have 60.0 million gallons remaining to be purchased for a total of \$140.5 million. The current fuel purchase contracts expire on or before December 31, 2022. These arrangements have not materially affected our financial position, results of operations or liquidity during the six months ended June 30, 2020, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

We have obtained financial surety bonds, primarily to support our financial assurance needs and landfill and E&P operations. We provided customers and various regulatory authorities with surety bonds in the aggregate amounts of approximately \$1.140 billion and \$1.081 billion at June 30, 2020 and December 31, 2019, respectively. These arrangements have not materially affected our financial position, results of operations or liquidity during the six months ended June 30, 2020, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

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

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

	Six Months Ended June 30,			
	2020		2019	
	Number of Sites	Total Tons	Number of Sites	Total Tons
Owned operational landfills and landfills operated under life-of-site agreements	88	21,522	92	22,487
Operated landfills	4	274	4	278
	92	21,796	96	22,765

NON-GAAP FINANCIAL MEASURES

Adjusted Free Cash Flow

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

	Six Months Ended	
	June 30,	
	2020	2019
Net cash provided by operating activities	\$ 753,185	\$ 753,048
Less: Change in book overdraft	(606)	(534)
Plus: Proceeds from disposal of assets	10,642	1,198
Less: Capital expenditures for property and equipment	(268,711)	(253,790)
Less: Distributions to noncontrolling interests	—	(117)
Adjustments:		
Cash received for divestitures ^(a)	(4,974)	(2,376)
Transaction-related expenses ^(b)	2,162	7,021
Pre-existing Progressive Waste share-based grants ^(c)	6,440	2,371
Tax effect ^(d)	(3,569)	(2,910)
Adjusted free cash flow	<u>\$ 494,569</u>	<u>\$ 503,911</u>

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

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

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

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

Adjusted EBITDA

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net income (loss) attributable to Waste Connections	\$ (227,072)	\$ 148,848	\$ (84,037)	\$ 274,470
Less: Net loss attributable to noncontrolling interests	(395)	(9)	(536)	(54)
Plus (less): Income tax provision (benefit)	(38,737)	39,788	(10,003)	67,756
Plus: Interest expense	40,936	37,245	78,926	74,533
Less: Interest income	(1,317)	(1,818)	(3,493)	(5,129)
Plus: Depreciation and amortization	183,001	188,120	365,460	365,509
Plus: Closure and post-closure accretion	3,709	3,682	7,617	7,172
Plus: Impairments and other operating items	437,270	3,902	438,777	20,014
Plus (less): Other expense (income), net	(5,772)	(1,920)	3,749	(4,581)
Adjustments:				
Plus: Transaction-related expenses ^(a)	1,016	6,184	2,162	7,021
Plus: Fair value changes to certain equity awards ^(b)	1,683	1,262	4,223	4,283
Adjusted EBITDA	\$ 394,322	\$ 425,284	\$ 802,845	\$ 810,994

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Reported net income (loss) attributable to Waste Connections	\$ (227,072)	\$ 148,848	\$ (84,037)	\$ 274,470
Adjustments:				
Amortization of intangibles ^(a)	31,771	31,344	63,409	61,886
Impairments and other operating items ^(b)	437,270	3,902	438,777	20,014
Transaction-related expenses ^(c)	1,016	6,184	2,162	7,021
Fair value changes to equity awards ^(d)	1,683	1,262	4,223	4,283
Tax effect ^(e)	(118,220)	(10,272)	(127,523)	(22,469)
Tax items ^(f)	31,508	—	31,508	—
Adjusted net income attributable to Waste Connections	<u>\$ 157,956</u>	<u>\$ 181,268</u>	<u>\$ 328,519</u>	<u>\$ 345,205</u>
Diluted earnings (loss) per common share attributable to Waste Connections' common shareholders:				
Reported net income (loss)	<u>\$ (0.86)</u>	<u>\$ 0.56</u>	<u>\$ (0.32)</u>	<u>\$ 1.04</u>
Adjusted net income	<u>\$ 0.60</u>	<u>\$ 0.69</u>	<u>\$ 1.25</u>	<u>\$ 1.31</u>
Shares used in the per share calculations:				
Reported diluted shares	<u>262,994,275</u>	<u>264,494,943</u>	<u>263,390,685</u>	<u>264,416,610</u>
Adjusted diluted shares ^(g)	<u>263,317,054</u>	<u>264,494,943</u>	<u>263,833,471</u>	<u>264,416,610</u>

(a) Reflects the elimination of the non-cash amortization of acquisition-related intangible assets.

(b) Reflects the addback of impairments and other operating items.

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

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

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

(f) Reflects the impact of a portion of our 2019 related-party payments no longer being deductible for tax purposes due to the finalization of tax regulations on April 7, 2020 under Internal Revenue Code section 267A and an increase in deferred tax liabilities resulting from the E&P impairment.

(g) Reflects reported diluted shares adjusted for shares that were excluded from the reported diluted shares calculation due to our reporting of a net loss during the three and six months ended June 30, 2020.

INFLATION

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

SEASONALITY

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

At June 30, 2020, our derivative instruments included 14 interest rate swap agreements that effectively fix the interest rate on the applicable notional amounts of our variable rate debt as follows (dollars in thousands of U.S. dollars):

<u>Date Entered</u>	<u>Notional Amount</u>	<u>Fixed Interest Rate Paid*</u>	<u>Variable Interest Rate Received</u>	<u>Effective Date</u>	<u>Expiration Date</u>
May 2014	\$ 50,000	2.344 %	1-month LIBOR	October 2015	October 2020
May 2014	\$ 25,000	2.326 %	1-month LIBOR	October 2015	October 2020
May 2014	\$ 50,000	2.350 %	1-month LIBOR	October 2015	October 2020
May 2014	\$ 50,000	2.350 %	1-month LIBOR	October 2015	October 2020
June 2016	\$ 150,000	0.950 %	1-month LIBOR	January 2018	January 2021
June 2016	\$ 150,000	0.950 %	1-month LIBOR	January 2018	January 2021
July 2016	\$ 50,000	0.900 %	1-month LIBOR	January 2018	January 2021
July 2016	\$ 50,000	0.890 %	1-month LIBOR	January 2018	January 2021
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.

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

We have performed sensitivity analyses to determine how market rate changes will affect the fair value of our unhedged floating rate debt. Such an analysis is inherently limited in that it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or earnings effect we would recognize from the assumed market rate movements. We are exposed to cash flow risk due to changes in interest rates with respect to the unhedged floating rate balances owed at June 30, 2020 and December 31, 2019, of \$18.3 million and \$766.2 million, respectively, including floating rate debt under our Credit Agreement. A one percentage point increase in interest rates on our variable-rate debt as of June 30, 2020 and December 31, 2019, would decrease our annual pre-tax income by approximately \$0.2 million and \$7.7 million, respectively. All of our remaining debt instruments are at fixed rates, or effectively fixed under the interest rate swap agreements described above; therefore, changes in market interest rates under these instruments would not significantly impact our cash flows or results of operations, subject to counterparty default risk.

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

For the year ending December 31, 2020, we expect to purchase approximately 79.3 million gallons of fuel, of which 45.4 million gallons will be purchased at market prices and 33.9 million gallons will be purchased under our fixed price fuel purchase contracts. We have performed sensitivity analyses to determine how market rate changes will affect the fair value of our unhedged, market rate diesel fuel purchases. Such an analysis is inherently limited in that it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or earnings effect we would recognize from the assumed market rate movements. During the six month period of July 1, 2020 to December 31, 2020, we expect to purchase approximately 22.7 million gallons of fuel at market prices; therefore, a \$0.10 per gallon increase in the price of fuel over the remaining six months in 2020 would decrease our pre-tax income during this period by approximately \$2.3 million.

We market a variety of recyclable materials, including compost, cardboard, mixed paper, plastic containers, glass bottles and ferrous and aluminum metals. We own and operate recycling operations and market other collected recyclable materials to third parties for processing before resale. Where possible, to reduce our exposure to commodity price risk with respect to recycled materials, we have adopted a pricing strategy of charging collection and processing fees for recycling volume collected from third parties. In the event of a decline in recycled commodity prices, a 10% decrease in average recycled commodity prices from the average prices that were in effect during the six months ended June 30, 2020 and 2019, would have had a \$3.7 million and \$3.6 million impact on revenues for the six months ended June 30, 2020 and 2019, respectively.

We have operations in Canada and, where significant, we have quantified and described the impact of foreign currency translation on components of income, including operating revenue and operating costs. However, the impact of foreign currency has not materially affected our results of operations in 2019 or 2020. A \$0.01 change in the Canadian dollar to U.S. dollar exchange rate would impact our annual revenue and EBITDA by approximately \$9.0 million and \$3.0 million, respectively.

Item 4. Controls and Procedures

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

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

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding our legal proceedings can be found in Note 18 of our Condensed Consolidated Financial Statements included in Part I, Item 1 of this report and is incorporated herein by reference.