

The Management's Discussion and Analysis of Financial Condition and Results of Operations for Waste Connections, Inc. is also included in the Form 10-Q for the period ended September 30, 2022 filed on SEDAR on November 3, 2022 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

The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and the related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We make statements in this Quarterly Report on Form 10-Q that are forward-looking in nature. These include:

- Statements regarding our landfills, including capacity, duration, special projects, demand for and pricing of recyclables, landfill alternatives and related capital expenditures;
- Discussion of competition, loss of contracts, price increases and additional exclusive and/or long-term collection service arrangements;
- Forecasts of cash flows necessary for operations and free cash flow to reduce leverage as well as our ability to draw on our credit facility and access the capital markets to refinance or expand;
- Statements regarding our ability to access capital resources or credit markets at all or on favorable terms;
- Plans for, and the amounts of, certain capital expenditures for our existing and newly acquired properties and equipment;
- Statements regarding fuel, oil and natural gas demand, prices, and price volatility;
- Assessments of regulatory developments and potential changes in environmental, health, safety and tax laws and regulations; and
- Other statements on a variety of topics such as the coronavirus disease 2019 ("COVID-19") pandemic, inflation, credit risk of customers, seasonality, labor/pension costs and labor union activity, operational and safety risks, acquisitions, litigation results, goodwill impairments, insurance costs and cybersecurity threats.

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, risk factors detailed from time to time in our filings with the SEC and the securities commissions or similar regulatory authorities in Canada.

There may be additional risks of which we are not presently aware or that we currently believe are immaterial that could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements to reflect events or circumstances that may change, unless required under applicable securities laws.

OVERVIEW OF OUR BUSINESS

We are an integrated solid waste services company that provides non-hazardous waste collection, transfer and disposal services, along with resource recovery primarily through recycling and renewable fuels generation, in mostly exclusive and secondary markets across 43 states in the U.S. and six provinces in Canada. Waste Connections also provides non-hazardous oil and natural gas exploration and production ("E&P") waste treatment, recovery and disposal services in several basins across the U.S., as well as intermodal services for the movement of cargo and solid waste containers in the Pacific Northwest.

Environmental, organizational and financial sustainability initiatives have been key components of our success since we were founded in 1997. We remain committed to growing and expanding these efforts as our industry and technology continue to evolve. To that end, in 2020, we introduced long-term, aspirational ESG targets and committed over \$500 million for investments to meet or exceed such sustainability targets. These investments primarily focus on reducing emissions, increasing resource recovery of both recyclable commodities and clean energy fuels, reducing reliance on off-site disposal for landfill leachate, further improving safety through reduced incidents and enhancing employee engagement through improved voluntary turnover and Servant Leadership scores. Our 2022 Sustainability Report provides progress updates on its targets and investments towards their achievement. This report can be found at www.wasteconnections.com/sustainability but does not constitute a part of, and is not incorporated by reference into, this Quarterly Report on Form 10-Q.

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 non-hazardous E&P waste treatment, recovery and disposal services.

The solid waste industry is local and highly competitive in nature, requiring substantial labor and capital resources. We 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 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. Subject to certain recent developments discussed below, 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 E&P activity and a corresponding decrease in demand for our E&P waste services. Additionally, across the industry there is uncertainty regarding future demand for oil and related services, as noted by several energy companies, many of whom are customers of our E&P operations. These companies have written down the values of their oil and gas assets in anticipation of the potential for the decarbonization of their energy product mix given an increased global focus on reducing greenhouse gases and addressing climate change. Such uncertainty regarding global demand has had a significant impact on the investment and operating plans of our E&P waste customers in the basins where we operate. If the prices of crude oil and natural gas substantially decline, it could lead to declines in the level of production activity and demand for our E&P waste services, which could result in the recognition of impairment charges on our intangible assets and property and equipment associated with our E&P operations. Conversely, sustained increases in prices of crude oil as a result of inflationary pressures, the uncertainty associated with the Ukrainian conflict and any related bans on oil sales from Russia or supply chain disruptions as recently experienced could result in increasing levels of production activity and demand for our E&P waste services.

THE COVID-19 PANDEMIC'S IMPACT ON OUR RESULTS OF OPERATIONS

March 11, 2022 marked the two-year anniversary of COVID-19 being declared a global pandemic by the World Health Organization. The related economic disruptions largely associated with closures or restrictions put into effect following the onset of the COVID-19 pandemic in the first quarter of 2020 resulted in declines in solid waste commercial collection, transfer station and landfill volumes, and roll off activity. Throughout the remaining fiscal year 2020 and during 2021, solid waste revenue and reported volumes largely reflected the pace and shape of the closures and subsequent reopening activity, with the timing and magnitude of recovery varying by market. Most of the impacts to solid waste volumes associated with the pandemic have largely abated, with landfill volumes and roll off pulls returning to pre-pandemic levels. In certain markets, commercial collection volumes have not returned to pre-pandemic levels.

The COVID-19 pandemic also contributed to a decline in demand for and the value of crude oil, which impacted E&P drilling activity and resulted in lower E&P waste revenue. In recent quarters, E&P waste revenue has improved sequentially on increased drilling activity in several of the major basins.

Since the onset of the COVID-19 pandemic, protecting the health, welfare and safety of our employees has been our top priority. Recognizing the potential for financial hardship and other challenges, we have looked to provide a safety net for our employees on issues of income and family health. To that end, since the onset of the pandemic through year-end 2021, we incurred over \$40 million in incremental COVID-19-related costs, primarily supplemental pay for frontline employees. Through the nine months ended September 30, 2022, we have continued to provide support for our employees and their families, including approximately \$10 million in supplemental pay and benefits due to surges in cases related to certain variants of COVID-19.

As a result of the COVID-19 pandemic and subsequent reopening activity, we have also experienced an impact to our operating costs as a result of factors including supply chain disruptions and labor constraints, as demand has recovered and competition has increased. As a result, we have incurred incremental costs associated with higher wages, increased overtime as a result of higher turnover, and increased reliance on third-party services.

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

NEW ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
Revenues	\$ 1,879,868	100.0 %	\$ 1,597,168	100.0 %	\$ 5,342,558	100.0 %	\$ 4,527,042	100.0 %
Cost of operations	1,120,629	59.6	946,098	59.2	3,198,039	59.9	2,673,209	59.1
Selling, general and administrative	186,887	9.9	155,520	9.7	518,705	9.7	454,885	10.0
Depreciation	193,287	10.3	171,965	10.8	562,174	10.5	498,588	11.0
Amortization of intangibles	38,859	2.1	35,337	2.2	113,956	2.1	100,237	2.2
Impairments and other operating items	13,438	0.7	3,104	0.2	19,467	0.4	9,819	0.2
Operating income	326,768	17.4	285,144	17.9	930,217	17.4	790,304	17.5
Interest expense	(51,161)	(2.7)	(40,418)	(2.5)	(137,565)	(2.6)	(124,171)	(2.7)
Interest income	1,784	0.1	495	0.0	2,574	0.1	2,342	0.0
Other income (expense), net	8,487	0.4	3,140	0.2	2,373	0.0	5,452	0.1
Loss on early extinguishment of debt	—	—	(115,288)	(7.2)	—	—	(115,288)	(2.6)
Income tax provision	(48,753)	(2.6)	(18,419)	(1.2)	(155,899)	(2.9)	(106,578)	(2.3)
Net income	237,125	12.6	114,654	7.2	641,700	12.0	452,061	10.0
Net loss (income) attributable to noncontrolling interests	(213)	(0.0)	(273)	(0.0)	(390)	(0.0)	(325)	(0.0)
Net income attributable to Waste Connections	\$ 236,912	12.6 %	\$ 114,381	7.2 %	\$ 641,310	12.0 %	\$ 451,736	10.0 %

Revenues. Total revenues increased \$282.7 million, or 17.7%, to \$1.880 billion for the three months ended September 30, 2022, from \$1.597 billion for the three months ended September 30, 2021. Total revenues increased \$815.5 million, or 18.0%, to \$5.343 billion for the nine months ended September 30, 2022, from \$4.527 billion for the nine months ended September 30, 2021.

Acquisitions closed during, or subsequent to, the comparable periods increased revenues for the three and nine months ended September 30, 2022 by \$154.1 million and \$410.6 million, respectively.

Operations that were divested subsequent to September 30, 2021 decreased revenues for the three and nine months ended September 30, 2022 by \$3.4 million and \$8.6 million, respectively.

During the three months ended September 30, 2022, the net increase in prices charged to our customers at our existing operations was \$154.2 million, consisting of \$126.3 million of core price increases and surcharges of \$27.9 million. During the nine months ended September 30, 2022, the net increase in prices charged to our customers at our existing operations was \$376.9 million, consisting of \$315.3 million of core price increases and surcharges of \$61.6 million.

During the three months ended September 30, 2022, we recognized volume losses totaling \$22.3 million, which were comprised of \$14.5 million of declines primarily associated with the nonrenewal of two residential collection contracts subsequent to September 30, 2021 and \$7.8 million of declines primarily attributable to decreases in landfill disposal volumes, partially offset by increases in roll off collection. During the nine months ended September 30, 2022, we recognized volume losses totaling \$24.3 million, which was comprised of \$39.2 million of declines associated with the aforementioned residential collection contracts, partially offset by \$14.9 million of increases primarily attributable to commercial and roll off collection.

E&P waste revenues at facilities owned during the three and nine months ended September 30, 2022 and 2021 increased \$19.3 million and \$55.7 million, respectively, due to increases in overall demand for our E&P waste services resulting from higher demand for crude oil contributing to increases in drilling and production activity levels.

Revenues from sales of recyclable commodities at facilities owned during the three and nine months ended September 30, 2022 and 2021 decreased \$19.5 million and \$0.3 million, respectively. Prices for old corrugated cardboard, aluminum, plastics and other paper products increased from the prior period during the six months ended June 30, 2022 before

declining during the three months ended September 30, 2022. The impact of lower prices on revenues from sales of recyclable commodities was partially offset by the impact of recognizing certain recyclable commodity sales gross of selling and processing expenses.

A decrease in the average Canadian dollar to U.S. dollar currency exchange rate resulted in a decrease in revenues for the three and nine months ended September 30, 2022 of \$7.8 million and \$16.2 million, respectively. The average Canadian dollar to U.S. dollar exchange rates on our Canadian revenues during the three months ended September 30, 2022 and 2021 were 0.7660 and 0.7936, respectively. The average Canadian dollar to U.S. dollar exchange rates on our Canadian revenues during the nine months ended September 30, 2022 and 2021 were 0.7792 and 0.7996, respectively.

Other revenues increased \$8.1 million during the three months ended September 30, 2022, due primarily to a \$3.6 million increase in intermodal revenues due primarily to reductions in shipping port logistical constraints which decreased intermodal cargo volumes in the prior year period, a \$3.5 million increase in landfill gas revenue resulting from increased volumes generated and higher prices for renewable energy credits and a \$1.0 million increase in other non-core revenue sources. Other revenues increased \$21.7 million during the nine months ended September 30, 2022, due primarily to a \$9.6 million increase in landfill gas revenues and renewable energy credits, an \$8.2 million increase in intermodal revenues and a \$3.9 million increase in other non-core revenue sources.

Cost of Operations. Total cost of operations increased \$174.5 million, or 18.4%, to \$1.121 billion for the three months ended September 30, 2022, from \$946.1 million for the three months ended September 30, 2021. The increase was primarily the result of \$101.8 million of additional operating costs from acquisitions closed during, or subsequent to, the three months ended September 30, 2021 and an increase in operating costs at our existing operations of \$79.1 million, assuming foreign currency parity, partially offset by a decrease in operating costs of \$4.0 million resulting from a lower average foreign currency exchange rate in effect during the current period and a decrease of \$2.4 million from operations divested subsequent to the three months ended September 30, 2021.

The increase in operating costs of \$79.1 million, assuming foreign currency parity, at our existing operations for the three months ended September 30, 2022 consisted of an increase in labor and recurring incentive compensation expenses of \$24.0 million due primarily to employee pay increases, an increase in fuel expense of \$16.8 million due to higher diesel and natural gas prices, an increase in third-party trucking and transportation expenses of \$15.2 million due primarily to higher rates charged by third-party providers, an increase in truck, container, equipment and facility maintenance and repair expenses of \$7.6 million due primarily to increased collection routes and equipment operating hours and parts and service rate increases, an increase in expenses for purchasing and processing recyclable commodities of \$4.3 million due to processing expenses charged by third parties increasing as recyclable commodity values decline in certain of our regulated operating markets and the impact of recognizing certain recyclable commodity sales gross of selling and processing expenses, an increase in third-party disposal expenses of \$4.0 million due primarily to disposal rate increases and higher roll off collection volumes, an increase in intermodal rail expenses of \$2.0 million due to higher cargo volumes, an increase in subcontracted hauling services at our solid waste operations of \$1.6 million due to higher costs charged by third-party providers, an increase in taxes on revenues of \$1.2 million due primarily to increased revenues and \$2.4 million of other net expense increases.

Total cost of operations increased \$524.8 million, or 19.6%, to \$3.198 billion for the nine months ended September 30, 2022, from \$2.673 billion for the nine months ended September 30, 2021. The increase was primarily the result of \$271.5 million of additional operating costs from acquisitions closed during, or subsequent to, the nine months ended September 30, 2021 and an increase in operating costs at our existing operations of \$268.4 million, assuming foreign currency parity, partially offset by a decrease in operating costs of \$8.4 million resulting from a lower average foreign currency exchange rate in effect during the current period and a decrease of \$6.7 million from operations divested subsequent to the nine months ended September 30, 2021.

The increase in operating costs of \$268.4 million, assuming foreign currency parity, at our existing operations for the nine months ended September 30, 2022 consisted of an increase in labor and recurring incentive compensation expenses of \$71.0 million due primarily to employee pay increases, an increase in fuel expense of \$57.4 million due to higher diesel and natural gas prices, an increase in third-party trucking and transportation expenses of \$40.6 million due primarily to increased landfill special waste volumes requiring trucking and transportation services to our landfills and higher rates

charged by third-party providers, an increase in truck, container, equipment and facility maintenance and repair expenses of \$31.5 million due primarily to increased collection routes and equipment operating hours and parts and service rate increases, an increase in third-party disposal expenses of \$18.5 million due primarily to increased solid waste collection volumes, an increase in expenses for purchasing and processing recyclable commodities of \$11.4 million due to processing expenses charged by third parties increasing as recyclable commodity values decline in certain of our regulated operating markets and the impact of recognizing certain recyclable commodity sales gross of selling and processing expenses, an increase in supplemental compensation to non-management personnel of \$9.0 million to provide financial assistance associated with the impact of the COVID-19 pandemic, an increase in taxes on revenues of \$7.4 million due primarily to increased revenues, an increase in intermodal rail expenses of \$4.2 million due to higher cargo volumes, an increase in subcontracted hauling services at our solid waste operations of \$3.3 million due to higher costs charged by third-party providers, an increase in leachate expense of \$2.8 million due primarily to higher precipitation in certain markets where our landfills are located and higher costs charged by third parties to transport and treat leachate, an increase in landfill maintenance, environmental compliance and daily cover expenses of \$1.7 million due to increased compliance requirements under our landfill operating permits, an increase in expenses for auto and workers' compensation claims of \$1.5 million due primarily to increased claim severity, an increase in 401(k) matching expenses of \$1.5 million due to higher employee earnings and \$6.6 million of other net expense increases.

Cost of operations as a percentage of revenues increased 0.4 percentage points to 59.6% for the three months ended September 30, 2022, from 59.2% for the three months ended September 30, 2021. The increase as a percentage of revenues consisted of a 0.8 percentage point increase from higher diesel and natural gas expenses, a 0.6 percentage point increase from higher third-party trucking and transportation expenses and a 0.6 percentage point increase from acquisitions closed during, or subsequent to, the three months ended September 30, 2021 having operating margins lower than our company average, partially offset by a combined 1.4 percentage point decrease from disposal, taxes on revenues, labor and repairs and maintenance due to price-driven revenue increases and a 0.2 percentage point decrease from all other net changes.

Cost of operations as a percentage of revenues increased 0.8 percentage points to 59.9% for the nine months ended September 30, 2022, from 59.1% for the nine months ended September 30, 2021. The increase as a percentage of revenues consisted of a 0.8 percentage point increase from higher fuel expense, a 0.5 percentage point increase from higher third-party trucking and transportation expenses, a 0.5 percentage point increase from acquisitions closed during, or subsequent to, the nine months ended September 30, 2021 having operating margins lower than our company average and a 0.2 percentage point increase from supplemental compensation to provide financial assistance associated with the impact of the COVID-19 pandemic, partially offset by a combined 1.2 percentage point decrease from disposal, taxes on revenues, labor and employee benefits due to price-driven revenue increases.

SG&A. SG&A expenses increased \$31.4 million, or 20.2%, to \$186.9 million for the three months ended September 30, 2022, from \$155.5 million for the three months ended September 30, 2021. The increase was comprised of an increase of \$21.7 million, assuming foreign currency parity, at our existing operations and \$10.7 million from acquisitions closed during, or subsequent to, the three months ended September 30, 2021, partially offset by a decrease of \$0.7 million resulting from a lower average foreign currency exchange rate in effect during the current period and a decrease of \$0.3 million from operations divested subsequent to the three months ended September 30, 2021.

The increase in SG&A expenses at our existing operations of \$21.7 million, assuming foreign currency parity, for the three months ended September 30, 2022 was comprised of a collective increase in travel, meetings, training and community activity expenses of \$6.6 million due to increased travel and social gatherings in the current year period due to a reduction in restrictions associated with the COVID-19 pandemic, an increase in direct acquisition expenses of \$4.8 million due to an increase in acquisition activity in the current period, an increase in administrative payroll expenses of \$4.7 million due primarily to annual pay increases, an increase in equity-based compensation expenses of \$3.3 million associated with our annual recurring grant of restricted share units to our personnel, an increase in software license fees of \$1.2 million associated with new information technology applications and an increase in professional fees of \$1.1 million due primarily to increased legal services.

SG&A expenses increased \$63.8 million, or 14.0%, to \$518.7 million for the nine months ended September 30, 2022, from \$454.9 million for the nine months ended September 30, 2021. The increase was comprised of an increase of \$36.2 million, assuming foreign currency parity, at our existing operations and \$29.9 million from acquisitions closed during, or subsequent to, the nine months ended September 30, 2021, partially offset by a decrease of \$1.4 million resulting from a lower average foreign currency exchange rate in effect during the current period and a decrease of \$0.9 million from operations divested subsequent to the nine months ended September 30, 2021.

The increase in SG&A expenses at our existing operations of \$36.2 million, assuming foreign currency parity, for the nine months ended September 30, 2022 was comprised of a collective increase in travel, meetings, training and community activity expenses of \$19.8 million due to increased travel and social gatherings in the current year period due to a reduction in restrictions associated with the COVID-19 pandemic, an increase in direct acquisition expenses of \$12.5 million due to an increase in acquisition activity in the current period, an increase in administrative payroll expenses of \$10.8 million due primarily to annual pay increases, an increase in equity-based compensation expenses of \$6.0 million associated with our annual recurring grant of restricted share units to our personnel, an increase in professional fees of \$2.8 million due primarily to increased legal services, an increase in software license fees of \$2.3 million associated with new information technology applications, an increase of \$0.8 million resulting from the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of the COVID-19 pandemic and \$1.3 million of other net expense increases, partially offset by a decrease in deferred compensation expenses of \$9.7 million as a result of decreases in the market value of investments to which employee deferred compensation liability balances are tracked, a decrease of \$5.2 million in equity-based compensation expenses associated with the prior year period including adjustments to increase the fair value of our common shares held in our deferred compensation plan by certain key executives as a result of the shares being exchanged for other investment options, a decrease in accrued recurring cash incentive compensation expense to our management of \$3.1 million and a decrease in equity-based compensation expenses of \$2.1 million associated with changes in our share price resulting in fair value measurement decreases to equity awards accounted for as liabilities that were granted to employees of Progressive Waste prior to June 1, 2016, which are subject to valuation adjustments each period.

SG&A expenses as a percentage of revenues increased 0.2 percentage points to 9.9% for the three months ended September 30, 2022, from 9.7% for the three months ended September 30, 2021. The increase as a percentage of revenues was primarily attributable to increased travel, meetings, training and community activity expenses and higher direct acquisition expenses, partially offset by the impact of price-driven revenue increases in our solid waste services and acquisitions closed during, or subsequent to, the three months ended September 30, 2021 having lower SG&A expenses as a percentage of revenues than our company average.

SG&A expenses as a percentage of revenues decreased 0.3 percentage points to 9.7% for the nine months ended September 30, 2022, from 10.0% for the nine months ended September 30, 2021. The decrease as a percentage of revenues was primarily attributable to lower equity compensation expenses, lower cash incentive compensation expense, lower deferred compensation expense, acquisitions closed during, or subsequent to, the nine months ended September 30, 2021 having lower SG&A expenses as a percentage of revenues than our company average and the impact of price-driven revenue increases in our solid waste services, partially offset by increased travel, meetings, training and community activity expenses and higher direct acquisition expenses.

Depreciation. Depreciation expense increased \$21.3 million, or 12.4%, to \$193.3 million for the three months ended September 30, 2022, from \$172.0 million for the three months ended September 30, 2021. The increase was comprised of an increase in depreciation and depletion expense of \$16.5 million from acquisitions closed during, or subsequent to, the three months ended September 30, 2021 and an increase in depreciation expense of \$7.7 million from the impact of additions to our fleet and equipment purchased to support our existing operations, partially offset by a decrease in depletion expense of \$1.3 million resulting primarily from non-recurring charges recorded in the prior year period to adjust landfill closure liabilities, a decrease in depreciation and depletion expense of \$0.8 million from operations divested subsequent to the three months ended September 30, 2021 and a decrease of \$0.8 million resulting from a lower average foreign currency exchange rate in effect during the current period.

Depreciation expense increased \$63.6 million, or 12.8%, to \$562.2 million for the nine months ended September 30, 2022, from \$498.6 million for the nine months ended September 30, 2021. The increase was comprised of an increase in depreciation and depletion expense of \$41.9 million from acquisitions closed during, or subsequent to, the nine months ended September 30, 2021, an increase in depreciation expense of \$19.0 million from the impact of additions to our fleet and equipment purchased to support our existing operations and an increase in depletion expense of \$6.9 million resulting

from increased landfill special waste and E&P volumes and higher landfill development costs increasing our per ton landfill depletion rates, partially offset by a decrease in depreciation and depletion expense of \$2.5 million from operations divested subsequent to the nine months ended September 30, 2021 and a decrease of \$1.7 million resulting from a lower average foreign currency exchange rate in effect during the current period.

Depreciation expense as a percentage of revenues decreased 0.5 percentage points to 10.3% for the three months ended September 30, 2022, from 10.8% for the three months ended September 30, 2021. Depreciation expense as a percentage of revenues decreased 0.5 percentage points to 10.5% for the nine months ended September 30, 2022, from 11.0% for the nine months ended September 30, 2021. The decreases as a percentage of revenues were primarily attributable to the impact of price-driven revenue increases in our solid waste services.

Amortization of Intangibles. Amortization of intangibles expense increased \$3.6 million, or 10.0%, to \$38.9 million for the three months ended September 30, 2022, from \$35.3 million for the three months ended September 30, 2021. The increase was the result of \$9.7 million from intangible assets acquired in acquisitions closed during, or subsequent to, the three months ended September 30, 2021, partially offset by a decrease of \$5.9 million from certain intangible assets becoming fully amortized subsequent to September 30, 2021 and a decrease of \$0.2 million resulting from a lower average foreign currency exchange rate in effect during the current period.

Amortization of intangibles expense increased \$13.8 million, or 13.7%, to \$114.0 million for the nine months ended September 30, 2022, from \$100.2 million for the nine months ended September 30, 2021. The increase was the result of \$28.7 million from intangible assets acquired in acquisitions closed during, or subsequent to, the nine months ended September 30, 2021, partially offset by a decrease of \$14.5 million from certain intangible assets becoming fully amortized subsequent to September 30, 2021 and a decrease of \$0.4 million resulting from a lower average foreign currency exchange rate in effect during the current period.

Amortization of intangibles expense as a percentage of revenues was 2.2% for the three and nine months ended September 30, 2021 and 2.1% for the three and nine months ended September 30, 2022. The decrease was attributable to the impact of price-driven revenue increases in our solid waste services.

Impairments and Other Operating Items. Impairments and other operating items increased \$10.3 million, to net losses totaling \$13.4 million for the three months ended September 30, 2022, from net losses totaling \$3.1 million for the three months ended September 30, 2021.

The net losses of \$13.4 million recorded during the three months ended September 30, 2022 consisted of an \$8.4 million lawsuit judgment accrual and \$5.5 million of charges to write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to the original estimated termination date, partially offset by \$0.5 million of other net credits.

The net losses of \$3.1 million recorded during the three months ended September 30, 2021 consisted of \$2.0 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated termination date and \$1.1 million of losses on property and equipment that were disposed of through sales or as a result of being damaged in operations.

Impairments and other operating items increased \$9.7 million, to net losses totaling \$19.5 million for the nine months ended September 30, 2022, from net losses totaling \$9.8 million for the nine months ended September 30, 2021.

The net losses of \$19.5 million recorded during the nine months ended September 30, 2022 consisted of \$10.5 million of charges to write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to the original estimated termination date, an \$8.4 million lawsuit judgment accrual and \$0.6 million of other net charges.

The net losses of \$9.8 million recorded during the nine months ended September 30, 2021 consisted of a \$4.6 million loss resulting from property and equipment damaged in a facility fire, \$3.2 million of charges to terminate or write off the carrying cost of certain contracts that were not, or are not expected to be, renewed prior to their original estimated

termination date, \$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 \$0.5 million of other net charges.

Operating Income. Operating income increased \$41.7 million, or 14.6%, to \$326.8 million for the three months ended September 30, 2022, from \$285.1 million for the three months ended September 30, 2021.

The increase in our operating income for the three months ended September 30, 2022 was due primarily to price increases for our solid waste services, operating income generated from acquisitions closed during, or subsequent to, the three months ended September 30, 2021 and an increase in earnings at our E&P waste operations.

Operating income increased \$139.9 million, or 17.7%, to \$930.2 million for the nine months ended September 30, 2022, from \$790.3 million for the nine months ended September 30, 2021.

The increase in our operating income for the nine months ended September 30, 2022 was due primarily to price increases for our solid waste services, operating income contributions from increased sales of renewable energy credits associated with the generation of landfill gas, operating income generated from acquisitions closed during, or subsequent to, the nine months ended September 30, 2021 and an increase in earnings at our E&P waste operations.

Operating income as a percentage of revenues decreased 0.5 percentage points to 17.4% for the three months ended September 30, 2022, from 17.9% for the three months ended September 30, 2021. The decrease in operating income as a percentage of revenues was comprised of a 0.4 percentage point increase in cost of operations, a 0.5 percentage point increase in impairments and other operating items and a 0.2 percentage point increase in SG&A expense, partially offset by a 0.5 percentage point decrease in depreciation expense and a 0.1 percentage point decrease in amortization expense.

Operating income as a percentage of revenues decreased 0.1 percentage points to 17.4% for the nine months ended September 30, 2022, from 17.5% for the nine months ended September 30, 2021. The decrease in operating income as a percentage of revenues was comprised of a 0.8 percentage point increase in cost of operations and a 0.2 percentage point increase in impairments and other operating items, partially offset by a 0.5 percentage point decrease in depreciation expense, a 0.3 percentage point decrease in SG&A expense and a 0.1 percentage point decrease in amortization expense.

Interest Expense. Interest expense increased \$10.8 million, or 26.6%, to \$51.2 million for the three months ended September 30, 2022, from \$40.4 million for the three months ended September 30, 2021. The increase was primarily attributable to an increase of \$16.5 million from the issuance of \$2.75 billion of senior unsecured notes during, or subsequent to, the three months ended September 30, 2021, an increase of \$4.0 million from higher interest rates on borrowings outstanding under our Credit Agreement and an increase of \$0.9 million due to an increase in the average borrowings outstanding under our Credit Agreement, partially offset by a decrease of \$10.5 million from the repayment of \$1.5 billion of senior unsecured notes in September 2021 and \$0.1 million of other net decreases.

Interest expense increased \$13.4 million, or 10.8%, to \$137.6 million for the nine months ended September 30, 2022, from \$124.2 million for the nine months ended September 30, 2021. The increase was primarily attributable to an increase of \$41.5 million from the issuance of \$2.75 billion of senior unsecured notes during, or subsequent to, the nine months ended September 30, 2021, an increase of \$6.2 million due to an increase in the average borrowings outstanding under our Credit Agreement and an increase of \$3.6 million from higher interest rates on borrowings outstanding under our Credit Agreement, partially offset by a decrease of \$37.1 million from the repayment of \$1.75 billion of senior unsecured notes during the nine months ended September 30, 2021 and \$0.8 million of other net decreases.

Other Income. Other income increased \$5.4 million, to \$8.5 million for the three months ended September 30, 2022, from \$3.1 million for the three months ended September 30, 2021. Other income decreased \$3.1 million, to \$2.4 million for the nine months ended September 30, 2022, from \$5.5 million for the nine months ended September 30, 2021.

Other income of \$8.5 million recorded during the three months ended September 30, 2022 consisted of income from transactions primarily as a result of the impact from changes in foreign currency exchange rates on certain debt of \$6.0 million and \$2.5 million of other income.

Other income of \$3.1 million recorded during the three months ended September 30, 2021 consisted of \$2.0 million of adjustments to certain current assets acquired in prior period acquisitions and a \$1.1 million increase in other income.

Other income of \$2.4 million recorded during the nine months ended September 30, 2022 consisted of income from transactions primarily as a result of the impact from changes in foreign currency exchange rates on certain debt of \$7.9 million and \$0.7 million of other income, partially offset by \$6.2 million from a decline in the value of investments purchased to fund our employee deferred compensation obligations.

Other income of \$5.5 million recorded during the nine months ended September 30, 2021 consisted of \$2.0 million of income earned on investments purchased to fund our employee deferred compensation obligations, income from transactions primarily as a result of the impact from changes in foreign currency exchange rates on certain debt of \$0.9 million and \$2.6 million of other income sources.

Loss on Early Extinguishment of Debt. Loss on early extinguishment of debt was \$115.3 million for the three and nine months ended September 30, 2021 and consisted of the payment of a make-whole premium and the write-off of remaining unamortized loan fees associated with the early repayment of the outstanding senior notes under our master note purchase agreements.

Income Tax Provision. Income taxes increased \$30.4 million, to \$48.8 million for the three months ended September 30, 2022, from \$18.4 million for the three months ended September 30, 2021. Our effective tax rate for the three months ended September 30, 2022 was 17.1%. Our effective tax rate for the three months ended September 30, 2021 was 13.8%. Income taxes increased \$49.3 million, to \$155.9 million for the nine months ended September 30, 2022, from \$106.6 million for the nine months ended September 30, 2021. Our effective tax rate for the nine months ended September 30, 2022 was 19.5%. Our effective tax rate for the nine months ended September 30, 2021 was 19.1%.

The income tax provision for the nine months ended September 30, 2022 included a benefit of \$2.5 million from share-based payment awards being recognized in the income statement when settled, as well as a portion of our internal financing being taxed at effective rates substantially lower than the U.S. federal statutory rate.

The income tax provision for the nine months ended September 30, 2021 included a benefit of \$2.0 million from share-based payment awards being recognized in the income statement when settled, as well as a portion of our internal financing being taxed at effective rates substantially lower than the U.S. federal statutory rate.

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).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Commercial	\$ 564,592	\$ 465,246	\$ 1,602,793	\$ 1,335,686
Residential	487,995	422,543	1,391,603	1,240,337
Industrial and construction roll off	315,904	249,417	870,949	695,975
Total collection	1,368,491	1,137,206	3,865,345	3,271,998
Landfill	345,215	328,147	984,700	927,207
Transfer	271,685	225,827	751,117	632,282
Recycling	48,246	55,772	178,845	129,759
E&P	56,995	38,519	154,706	101,137
Intermodal and other	47,604	38,377	139,605	112,602
Intercompany	(258,368)	(226,680)	(731,760)	(647,943)
Total	<u>\$ 1,879,868</u>	<u>\$ 1,597,168</u>	<u>\$ 5,342,558</u>	<u>\$ 4,527,042</u>

We manage our operations through the following five geographic solid waste operating segments: Eastern, Southern, Western, Central and Canada. Our five geographic solid waste operating segments comprise our reportable segments. 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. Each operating segment is responsible for managing several vertically integrated operations, which are comprised of districts.

Summarized financial information for our reportable segments are shown in the following tables in thousands of U.S. dollars and as a percentage of total segment revenue for the periods indicated.

	Three Months Ended September 30, 2022		EBITDA Margin	Depreciation and Amortization
	Revenue	EBITDA^(b)		
Eastern	\$ 501,052	\$ 133,393	26.6 %	\$ 72,343
Southern	428,366	130,668	30.5 %	49,831
Western	385,479	115,701	30.0 %	39,727
Central	322,657	116,337	36.1 %	38,851
Canada	242,314	87,910	36.3 %	29,530
Corporate ^(a)	—	(11,657)	—	1,864
	<u>\$ 1,879,868</u>	<u>\$ 572,352</u>	30.4 %	<u>\$ 232,146</u>

	Three Months Ended September 30, 2021		EBITDA Margin	Depreciation and Amortization
	Revenue	EBITDA^(b)		
Eastern	\$ 396,229	\$ 106,908	27.0 %	\$ 60,981
Southern	370,958	99,612	26.9 %	49,171
Western	332,020	108,280	32.6 %	32,529
Central	273,682	95,026	34.7 %	34,615
Canada	224,279	92,275	41.1 %	27,650
Corporate ^(a)	—	(6,551)	—	2,356
	<u>\$ 1,597,168</u>	<u>\$ 495,550</u>	31.0 %	<u>\$ 207,302</u>

	Nine Months Ended September 30, 2022		EBITDA Margin	Depreciation and Amortization
	Revenue	EBITDA ^(b)		
Eastern	\$ 1,401,387	\$ 367,223	26.2 %	\$ 207,754
Southern	1,231,894	363,785	29.5 %	147,001
Western	1,093,112	331,049	30.3 %	113,907
Central	908,761	317,397	34.9 %	111,892
Canada	707,404	265,402	37.5 %	88,809
Corporate ^(a)	—	(19,042)	—	6,767
	<u>\$ 5,342,558</u>	<u>\$ 1,625,814</u>	30.4 %	<u>\$ 676,130</u>

	Nine Months Ended September 30, 2021		EBITDA Margin	Depreciation and Amortization
	Revenue	EBITDA ^(b)		
Eastern	\$ 1,102,307	\$ 295,411	26.8 %	\$ 173,488
Southern	1,072,456	291,964	27.2 %	141,070
Western	942,813	301,507	32.0 %	93,997
Central	775,913	268,952	34.7 %	99,221
Canada	633,553	254,857	40.2 %	84,274
Corporate ^(a)	—	(13,743)	—	6,775
	<u>\$ 4,527,042</u>	<u>\$ 1,398,948</u>	30.9 %	<u>\$ 598,825</u>

- (a) The majority of Corporate expenses are allocated to the five operating segments. Direct acquisition expenses, expenses associated with common shares held in the deferred compensation plan exchanged for other investment options and share-based compensation expenses associated with Progressive Waste share-based grants outstanding at June 1, 2016 that were continued by the Company are not allocated to the five operating segments and comprise the net EBITDA for our Corporate segment for the periods presented.
- (b) For those items included in the determination of segment EBITDA, the accounting policies of the segments are the same as those described in our most recent Annual Report on Form 10-K.

A reconciliation of segment EBITDA to Income 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, EBITDA and depreciation, depletion and amortization for our reportable segments for the three and nine month periods ended September 30, 2022, compared to the three and nine month periods ended September 30, 2021, are discussed below.

Eastern

Revenue increased \$104.9 million to \$501.1 million for the three months ended September 30, 2022, from \$396.2 million for the three months ended September 30, 2021. Revenue increased \$299.1 million to \$1.401 billion for the nine months ended September 30, 2022, from \$1.102 billion for the nine months ended September 30, 2021. The increase in revenues for the three and nine months ended September 30, 2022 was due to price increases, contributions from acquisitions and increased landfill gas sales attributable to higher volumes produced, partially offset by decreased residential collection volumes and lower prices for recyclable commodities.

EBITDA increased \$26.5 million to \$133.4 million for the three months ended September 30, 2022, from \$106.9 million for the three months ended September 30, 2021. EBITDA margin was 26.6% and 27.0% for the three months ended September 30, 2022 and 2021, respectively. EBITDA increased \$71.8 million to \$367.2 million for the nine months ended September 30, 2022, from \$295.4 million for the nine months ended September 30, 2021. EBITDA margin was 26.2% and 26.8% for the nine months ended September 30, 2022 and 2021, respectively. The decrease in our EBITDA margin for the three and nine months ended September 30, 2022 was due primarily to increased diesel fuel expenses, increased third-party trucking and transportation expenses, increased repair and maintenance expenses, increased corporate overhead allocations and increased travel, meetings, training and community activity expenses, partially offset by benefits from price-led revenue increases and the impact of acquisitions having higher EBITDA margins than our segment average.

Depreciation, depletion and amortization expense increased \$11.3 million, to \$72.3 million for the three months ended September 30, 2022, from \$61.0 million for the three months ended September 30, 2021. Depreciation, depletion and amortization expense increased \$34.3 million, to \$207.8 million for the nine months ended September 30, 2022, from \$173.5 million for the nine months ended September 30, 2021. The increase for the three and nine months ended September 30, 2022 was due to assets acquired in acquisitions, additions to our fleet and equipment and higher depletion expense due to higher landfill development costs increasing our per ton landfill depletion rates.

Southern

Revenue increased \$57.4 million to \$428.4 million for the three months ended September 30, 2022, from \$371.0 million for the three months ended September 30, 2021. Revenue increased \$159.4 million to \$1.232 billion for the nine months ended September 30, 2022, from \$1.072 billion for the nine months ended September 30, 2021. The increase in revenues for the three and nine months ended September 30, 2022 was due to solid waste price increases, increased E&P waste revenues attributable to increases in drilling and production activity levels resulting in increases in the demand for our E&P waste services and contributions from acquisitions, partially offset by lower residential collection volumes due to the loss of a collection contract subsequent to September 30, 2021, a decrease resulting from the divestiture of certain non-strategic operating locations and lower landfill special waste volumes.

EBITDA increased \$31.1 million to \$130.7 million for the three months ended September 30, 2022, from \$99.6 million for the three months ended September 30, 2021. EBITDA margin was 30.5% and 26.9% for the three months ended September 30, 2022 and 2021, respectively. EBITDA increased \$71.8 million to \$363.8 million for the nine months ended September 30, 2022, from \$292.0 million for the nine months ended September 30, 2021. EBITDA margin was 29.5% and 27.2% for the nine months ended September 30, 2022 and 2021, respectively. The increase in our EBITDA margin for the three and nine months ended September 30, 2022 was due to increased earnings at our E&P operations and price-led increases in solid waste revenue, partially offset by increased diesel and natural gas fuel expenses, the impact of acquisitions having lower EBITDA margins than our segment average, increased cost of recyclable commodities expenses, increased travel, meetings, training and community activity expenses and increased legal expenses.

Depreciation, depletion and amortization expense increased \$0.6 million, to \$49.8 million for the three months ended September 30, 2022, from \$49.2 million for the three months ended September 30, 2021. Depreciation, depletion and amortization expense increased \$5.9 million, to \$147.0 million for the nine months ended September 30, 2022, from \$141.1 million for the nine months ended September 30, 2021. The increase for the three and nine months ended September 30, 2022 was due to assets acquired in acquisitions, additions to our fleet and equipment and higher depletion expense due to increased landfill volumes and higher landfill development costs increasing our per ton landfill depletion rates, partially offset by a decrease resulting from the divestiture of certain non-strategic operating locations, a reduction in amortization expense associated with the loss of a large residential collection contract and a decrease in depletion expense resulting from non-recurring charges recorded in the prior year period to adjust landfill closure liabilities.

Western

Revenue increased \$53.5 million to \$385.5 million for the three months ended September 30, 2022, from \$332.0 million for the three months ended September 30, 2021. The increase for the three months ended September 30, 2022 was due to contributions from acquisitions, price increases, increased collection volumes and increased intermodal revenue, partially offset by lower prices for recyclable commodities.

Revenue increased \$150.3 million to \$1.093 billion for the nine months ended September 30, 2022, from \$942.8 million for the nine months ended September 30, 2021. The increase for the nine months ended September 30, 2022 was due to contributions from acquisitions, price increases, increased collection volumes, higher prices during the first six months in the comparable periods for recyclable commodities and increased intermodal revenue, partially offset by lower prices for recyclable commodities during the third quarter period.

EBITDA increased \$7.4 million to \$115.7 million for the three months ended September 30, 2022, from \$108.3 million for the three months ended September 30, 2021. EBITDA margin was 30.0% and 32.6% for the three months ended September 30, 2022 and 2021, respectively. EBITDA increased \$29.5 million to \$331.0 million for the nine months

ended September 30, 2022, from \$301.5 million for the nine months ended September 30, 2021. EBITDA margin was 30.3% and 32.0% for the nine months ended September 30, 2022 and 2021, respectively. The decrease in our EBITDA margin for the three and nine months ended September 30, 2022 was due to increased diesel and natural gas fuel expenses, increased third-party trucking and transportation expenses, acquisitions having operating margins lower than our segment average, increased cost of recyclable commodities expenses, increased labor and recurring incentive compensation expenses and increased travel, meetings, training and community activity expenses, partially offset by benefits from price-led increases in revenue.

Depreciation, depletion and amortization expense increased \$7.2 million, to \$39.7 million for the three months ended September 30, 2022, from \$32.5 million for the three months ended September 30, 2021. Depreciation, depletion and amortization expense increased \$19.9 million, to \$113.9 million for the nine months ended September 30, 2022, from \$94.0 million for the nine months ended September 30, 2021. The increase for the three and nine months ended September 30, 2022 was due to assets acquired in acquisitions and additions to our fleet and equipment.

Central

Revenue increased \$49.0 million to \$322.7 million for the three months ended September 30, 2022, from \$273.7 million for the three months ended September 30, 2021. The increase in revenues for the three months ended September 30, 2022 was due to price increases, contributions from acquisitions closed subsequent to September 30, 2021 and higher landfill and roll off collection volumes, partially offset by lower prices for recyclable commodities.

Revenue increased \$132.9 million to \$908.8 million for the nine months ended September 30, 2022, from \$775.9 million for the nine months ended September 30, 2021. The increase for the nine months ended September 30, 2022 was due to price increases, contributions from acquisitions, higher landfill and roll off collection volumes and higher prices during the first six months in the comparable periods for recyclable commodities, partially offset by lower prices for recyclable commodities during the third quarter period.

EBITDA increased \$21.3 million to \$116.3 million for the three months ended September 30, 2022, from \$95.0 million for the three months ended September 30, 2021. EBITDA margin was 36.1% and 34.7% for the three months ended September 30, 2022 and 2021, respectively. EBITDA increased \$48.4 million to \$317.4 million for the nine months ended September 30, 2022, from \$269.0 million for the nine months ended September 30, 2021. EBITDA margin was 34.9% and 34.7% for the nine months ended September 30, 2022 and 2021, respectively. The increase in our EBITDA margin for the three and nine months ended September 30, 2022 was due to the benefits from price-led increases in revenue, partially offset by acquisitions having operating margins lower than our segment average and increased diesel and natural gas fuel expenses.

Depreciation, depletion and amortization expense increased \$4.3 million, to \$38.9 million for the three months ended September 30, 2022, from \$34.6 million for the three months ended September 30, 2021. Depreciation, depletion and amortization expense increased \$12.7 million, to \$111.9 million for the nine months ended September 30, 2022, from \$99.2 million for the nine months ended September 30, 2021. The increase for the three and nine months ended September 30, 2022 was due to assets acquired in acquisitions, additions to our fleet and equipment and higher depletion expense due to higher landfill development costs increasing our per ton landfill depletion rates.

Canada

Revenue increased \$18.0 million to \$242.3 million for the three months ended September 30, 2022, from \$224.3 million for the three months ended September 30, 2021, due to price increases, contributions from acquisitions, higher commercial and roll off collection volumes and higher prices for renewable energy credits associated with the generation of landfill gas, partially offset by a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, lower prices for recyclable commodities, lower residential collection volumes due to the loss of a collection contract subsequent to September 30, 2021, lower landfill volumes and the divestiture of a non-strategic operating location.

Revenue increased \$73.8 million to \$707.4 million for the nine months ended September 30, 2022, from \$633.6 million for the nine months ended September 30, 2021, due to price increases, contributions from acquisitions, higher commercial and roll off collection volumes, higher prices for renewable energy credits associated with the generation of landfill gas and higher prices during the first six months in the comparable periods for recyclable commodities, partially offset by a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods, lower residential collection volumes due to the loss of a collection contract subsequent to September 30, 2021, lower landfill volumes, lower prices for recyclable commodities during the third quarter period and the divestiture of a non-strategic operating location.

EBITDA decreased \$4.4 million to \$87.9 million for the three months ended September 30, 2022, from \$92.3 million for the three months ended September 30, 2021. EBITDA margin was 36.3% and 41.1% for the three months ended September 30, 2022 and 2021, respectively. EBITDA increased \$10.5 million to \$265.4 million for the nine months ended September 30, 2022, from \$254.9 million for the nine months ended September 30, 2021. EBITDA margin was 37.5% and 40.2% for the nine months ended September 30, 2022 and 2021, respectively. The decrease in our EBITDA margin during the three and nine months ended September 30, 2022 was due to acquisitions having operating margins lower than our segment average, increased diesel fuel expenses, increased disposal expenses, increased employee benefits expenses, increased subcontracted hauling services, increased cost of recyclable commodities expenses and increased travel, meetings, training and community activity expenses, partially offset by benefits from price-led increases in revenue.

Depreciation, depletion and amortization expense increased \$1.9 million, to \$29.5 million for the three months ended September 30, 2022, from \$27.6 million for the three months ended September 30, 2021. Depreciation, depletion and amortization expense increased \$4.5 million, to \$88.8 million for the nine months ended September 30, 2022, from \$84.3 million for the nine months ended September 30, 2021. The increases were due to assets acquired in acquisitions and additions to our fleet and equipment, partially offset by a decrease in depletion expense due to lower landfill disposal volumes, a decrease resulting from the divestiture of a non-strategic operating location and a decrease in the average foreign currency exchange rate in effect during the comparable reporting periods.

Corporate

EBITDA decreased \$5.1 million, to a loss of \$11.7 million for the three months ended September 30, 2022, from a loss of \$6.6 million for the three months ended September 30, 2021. The decrease was due to increased direct acquisition expenses, increased equity-based compensation expenses, increased travel, meetings, training and community activity expenses and increased software license expenses, partially offset by increased allocations of corporate overhead expenses to our segments.

EBITDA decreased \$5.3 million, to a loss of \$19.0 million for the nine months ended September 30, 2022, from a loss of \$13.7 million for the nine months ended September 30, 2021. The decrease was due to increased travel, meetings, training and community activity expenses, increased direct acquisition expenses, increased legal expenses, increased software license fees and the payment of supplemental bonuses to non-management employees to provide financial assistance associated with the impact of the COVID-19 pandemic, partially offset by decreased equity-based compensation expenses, decreased deferred compensation expenses, decreased cash incentive compensation expense to our management and decreased allocations of corporate overhead expenses to our segments.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth certain cash flow information for the nine months ended September 30, 2022 and 2021 (in thousands of U.S. dollars):

	Nine Months Ended September 30,	
	2022	2021
Net cash provided by operating activities	\$ 1,500,137	\$ 1,269,961
Net cash used in investing activities	(1,858,586)	(1,034,840)
Net cash provided by (used in) financing activities	450,417	(491,581)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3,210)	443
Net increase (decrease) in cash, cash equivalents and restricted cash	88,758	(256,017)
Cash, cash equivalents and restricted cash at beginning of period	219,615	714,389
Cash, cash equivalents and restricted cash at end of period	<u>\$ 308,373</u>	<u>\$ 458,372</u>

Operating Activities Cash Flows

For the nine months ended September 30, 2022, net cash provided by operating activities was \$1.500 billion. For the nine months ended September 30, 2021, net cash provided by operating activities was \$1.270 billion. The \$230.2 million increase was due primarily to the following:

- 1) *Increase in earnings* — Our increase in net cash provided by operating activities was favorably impacted by \$156.0 million from an increase in net income, excluding depreciation, amortization of intangibles, share-based compensation, adjustments to and payments of contingent consideration recorded in earnings and loss on disposal of assets and impairments, due primarily to price increases, earnings from acquisitions, earnings generated from an increase in landfill gas revenues and renewable energy credits and an increase in earnings at our E&P waste operations.
- 2) *Deferred income taxes* — Our increase in net cash provided by operating activities was favorably impacted by \$115.4 million from deferred income taxes as changes in deferred income taxes resulted in an increase to operating cash flows of \$91.1 million for the nine months ended September 30, 2022, compared to a decrease to operating cash flows of \$24.3 million for the nine months ended September 30, 2021. The increase for the nine months ended September 30, 2022 was attributable to capital expenditures providing tax benefits resulting from accelerated depreciation and tax benefits resulting from the divestiture of certain non-strategic E&P disposal operating locations. The decrease in deferred taxes for the nine months ended September 30, 2021 was primarily due to the tax deduction timing of make-whole premium payments attributable to the early extinguishment of the outstanding senior notes under our master note purchase agreements.
- 3) *Accounts payable and accrued liabilities* — Our increase in net cash provided by operating activities was favorably impacted by \$74.0 million from accounts payable and accrued liabilities as changes in accounts payable and accrued liabilities resulted in an increase to operating cash flows of \$126.7 million for the nine months ended September 30, 2022, compared to an increase to operating cash flows of \$52.7 million for the nine months ended September 30, 2021. The increase for the nine months ended September 30, 2022 was due primarily to increases in operating expenses during the period which remained as outstanding obligations at September 30, 2022, increased accrued interest due to the timing of interest payments for our senior unsecured notes issued subsequent to September 30, 2021, increased property taxes attributable to payment timing and the timing of payroll cycles, partially offset by the payment of annual cash incentive compensation to our management, which was accrued as a liability at year end. The increase for the nine months ended September 30, 2021 was due primarily to increases in operating expenses during the period which remained as outstanding obligations at September 30, 2021, the settlement of an acquired compensation liability and the timing of payroll cycles.
- 4) *Deferred revenue* — Our increase in net cash provided by operating activities was favorably impacted by \$10.7 million from deferred revenue as changes in deferred revenue resulted in an increase to operating cash flows of \$26.5 million for the nine months ended September 30, 2022, compared to an increase to operating cash flows of \$15.8 million for the nine months ended September 30, 2021. For both comparative periods, deferred revenue increased due to price increases on our advanced billed residential and commercial collection services.

- 5) *Accounts receivable* – Our increase in net cash provided by operating activities was unfavorably impacted by \$39.0 million from accounts receivable as changes in accounts receivable resulted in a decrease to operating cash flows of \$90.6 million for the nine months ended September 30, 2022, compared to a decrease to operating cash flows of \$51.6 million for the nine months ended September 30, 2021. The decrease for the nine months ended September 30, 2022 was due to increases in revenues, which remained as outstanding receivables at September 30, 2022. The decrease for the nine months ended September 30, 2021 was due to increases in revenues, which remained as outstanding receivables at September 30, 2021.
- 6) *Other long-term liabilities* – Our increase in net cash provided by operating activities was unfavorably impacted by \$24.9 million from other long-term liabilities as changes in other long-term liabilities resulted in a decrease to operating cash flows of \$12.2 million for the nine months ended September 30, 2022, compared to an increase to operating cash flows of \$12.7 million for the nine months ended September 30, 2021. The decrease for the nine months ended September 30, 2022 was due primarily to decreased employee deferred compensation liabilities. The increase for the nine months ended September 30, 2021 was primarily attributable to the receipt of funds associated with the eminent domain purchase of an operating facility that will be replaced with a newly constructed facility in a future period and an increase in employee deferred compensation liabilities.
- 7) *Prepaid expenses* – Our increase in net cash provided by operating activities was unfavorably impacted by \$59.1 million from prepaid expenses as changes in prepaid expenses resulted in a decrease to operating cash flows of \$22.9 million for the nine months ended September 30, 2022, compared to an increase to operating cash flows of \$36.2 million for the nine months ended September 30, 2021. The decrease for the nine months ended September 30, 2022 was due primarily to increases from payments of annual insurance premiums and higher parts and fuel inventory. The increase for the nine months ended September 30, 2021 was due primarily to decreases in prepaid income tax payments and prepaid vendor payments.

As of September 30, 2022, we had a working capital deficit of \$148.4 million, including cash and equivalents of \$200.2 million. Our working capital increased \$51.6 million from a working capital deficit of \$200.0 million at December 31, 2021 including cash and equivalents of \$147.4 million, due primarily to an increase in cash balances, accounts receivable and prepaid expenses, partially offset by an increase in accounts payable and deferred revenue. 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 increased \$823.7 million to \$1.859 billion for the nine months ended September 30, 2022, from \$1.035 billion for the nine months ended September 30, 2021. The significant components of the increase included the following:

- 1) An increase in cash paid for acquisitions of \$711.6 million;
- 2) An increase in capital expenditures at operations owned in the comparable periods of \$87.3 million due to increases in land and buildings, landfill site costs, trucks, equipment and containers; and
- 3) An increase in capital expenditures at operations acquired during the comparative periods of \$51.5 million due to additional trucks, equipment and containers; less
- 4) An increase in proceeds from disposal of assets of \$13.2 million due to additional disposal of non-strategic assets to provide funding toward new capital expenditures.

Financing Activities Cash Flows

Net cash provided by financing activities increased \$942.0 million to \$450.4 million for the nine months ended September 30, 2022, from net cash used in financing activities of \$491.6 million for the nine months ended September 30, 2021. The significant components of the increase included the following:

- 1) An increase from the net change in long-term borrowings of \$966.1 million (long-term borrowings increased \$1.098 billion during the nine months ended September 30, 2022 and increased \$131.9 million during the nine months ended September 30, 2021); less
- 2) A decrease from higher payments to repurchase our common shares of \$119.4 million due to an increased volume of shares repurchased; less
- 3) A decrease from higher cash dividends paid of \$17.0 million due primarily to an increase in our quarterly dividend rate for the nine months ended September 30, 2022 to \$0.23 per share, from \$0.205 per share for the nine months ended September 30, 2021; less
- 4) A decrease from higher debt issuance costs of \$6.5 million attributable to senior note offerings completed in 2022.

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 26, 2022, 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 12,859,066 of our common shares during the period of August 10, 2022 to August 9, 2023 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 Executive 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 “Normal Course Issuer Bid” 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.

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 2021, our Board of Directors authorized an increase to our regular quarterly cash dividend of \$0.025, from \$0.205 to \$0.230 per share. In October 2022, our Board of Directors authorized an increase to our regular quarterly cash dividend of \$0.025, from \$0.230 to \$0.255 per share. Cash dividends of \$177.7 million and \$160.8 million were paid during the nine months ended September 30, 2022 and 2021, respectively. We cannot assure you as to the amounts or timing of future dividends.

We made \$618.3 million in capital expenditures for property and equipment during the nine months ended September 30, 2022, and we expect to make total capital expenditures for property and equipment of approximately \$850 million in 2022, net of asset sales. We have funded and intend to fund the balance of our planned 2022 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 solid waste businesses. If we acquire additional landfill disposal facilities, we may also have to make significant expenditures to bring them into compliance with applicable regulatory requirements, obtain permits or expand our available disposal capacity. We cannot currently determine the amount of these expenditures because they will depend on the number, nature, condition and permitted status of any acquired landfill disposal facilities. We believe that our cash and equivalents, Credit Agreement and the funds we expect to generate from operations will provide adequate cash to fund our working capital and other cash needs for the foreseeable future. However, disruptions in the capital and credit markets could adversely affect our ability to draw on our Credit Agreement or raise other capital. Our access to funds under the Credit Agreement is dependent on the ability of the banks that are parties to the agreement to meet their funding commitments. Those banks may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time.

As of September 30, 2022, \$650.0 million under the term loan and \$738.2 million under the revolving credit facility were outstanding under the Credit Agreement, exclusive of outstanding standby letters of credit of \$42.7 million. We also had \$84.7 million of letters of credit issued and outstanding at September 30, 2022 under a facility other than the Credit Agreement. Our Credit Agreement matures in July 2026.

On March 9, 2022, we completed an underwritten public offering of \$500.0 million aggregate principal amount of 3.20% Senior Notes due 2032 (the “New 2032 Senior Notes”). We issued the New 2032 Senior Notes under the Indenture, dated as of November 16, 2018, by and between the Company and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association, as trustee, as supplemented by the Sixth Supplemental Indenture, dated as of March 9, 2022. The New 2032 Senior Notes will mature on June 1, 2032.

On August 18, 2022, we completed an underwritten public offering of \$750.0 million aggregate principal amount of 4.20% Senior Notes due 2033 (the “2033 Senior Notes” and, together with the New 2032 Senior Notes, the “Senior Notes”). We issued the 2033 Senior Notes under the Indenture, dated as of November 16, 2018, by and between the Company and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association, as trustee, as supplemented by the Seventh Supplemental Indenture, dated as of August 18, 2022. The 2033 Senior Notes will mature on January 15, 2033.

We will pay interest on the Senior Notes semi-annually in arrears. The Senior Notes are our 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 Senior Notes are not guaranteed by any of our subsidiaries.

On October 31, 2022, the Company, as borrower, Bank of America, N.A., as agent, and the other lenders from time to time party thereto (the “New TL Lenders”) entered into that certain Term Loan Agreement (as amended, restated, supplemented or otherwise modified from time to time, the “Term Loan Agreement”), pursuant to which the New TL Lenders made loans to the Company thereunder. The Term Loan Agreement has a scheduled maturity date of July 30, 2026.

Pursuant to the terms and conditions of the Term Loan Agreement, the New TL Lenders committed to provide a term loan in an aggregate principal amount of \$800.0 million, which term loan was fully drawn on October 31, 2022. Amounts borrowed under the Term Loan Agreement and repaid or prepaid may not be reborrowed.

The Company is party to that certain Second Amended and Restated Revolving Credit and Term Loan Agreement, dated as of July 30, 2021 (as amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”), by and among the Company, as borrower, Bank of America, N.A., acting through its Canada Branch, as the global agent, the swing line lender and an l/c issuer, Bank of America, N.A., as the U.S. agent and an l/c issuer, and the lenders and any other financial institutions from time to time party thereto.

On October 31, 2022, the Company entered into an amendment to the Credit Agreement, which among other things, (i) amended certain definitions and other provisions to replace the LIBOR-based benchmark rates for certain U.S. dollar-denominated loans and other extensions of credit under the Credit Agreement with SOFR-based rates, and (ii) made certain changes conforming to the Term Loan Agreement

See Note 10 to our Condensed Consolidated Financial Statements included in Part I, Item 1 of this report 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 September 2021, which registers an unspecified amount of debt securities, including debentures, notes or other types of debt. In the future, we may issue debt securities under our shelf registration statement or in private placements from time to time on an opportunistic basis, based on market conditions and available pricing. Unless otherwise indicated in the relevant offering documents, we expect to use the proceeds from any such offerings for general corporate purposes, including repaying, redeeming or repurchasing debt, acquiring additional assets or businesses, capital expenditures and increasing our working capital.

As of September 30, 2022, we had the following contractual obligations:

Recorded Obligations	Payments Due by Period				
	(amounts in thousands of U.S. dollars)				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Long-term debt	\$ 6,284,737	\$ 6,718	\$ 13,971	\$ 1,400,338	\$ 4,863,710
Cash interest payments	\$ 2,397,779	\$ 211,017	\$ 431,160	\$ 364,184	\$ 1,391,418
Contingent consideration	\$ 103,800	\$ 54,640	\$ 13,036	\$ 3,224	\$ 32,900
Operating leases	\$ 228,269	\$ 10,094	\$ 70,153	\$ 46,687	\$ 101,335
Final capping, closure and post-closure	\$ 1,634,162	\$ 14,512	\$ 36,925	\$ 12,945	\$ 1,569,780

Long-term debt payments include:

- 1) \$738.2 million in principal payments due July 2026 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 or BA equivalent notes, and Canadian dollar prime rate loans. At September 30, 2022, \$601.0 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 4.12% on such date). At September 30, 2022, \$137.2 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 4.76% on such date).
- 2) \$650.0 million in principal payments due July 2026 related to our term loan under our Credit Agreement. Outstanding amounts on the term loan can be either base rate loans or LIBOR loans. At September 30, 2022, 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 4.12% on such date).
- 3) \$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%.
- 4) \$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%.
- 5) \$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%.
- 6) \$650.0 million in principal payments due 2032 related to our 2032 Senior Notes. The 2032 Senior Notes bear interest at a rate of 2.20%.
- 7) \$500.0 million in principal payments due 2032 related to our New 2032 Senior Notes. The New 2032 Senior Notes bear interest at a rate of 3.20%.
- 8) \$750.0 million in principal payments due 2033 related to our 2033 Senior Notes. The 2033 Senior Notes bear interest at a rate of 4.20%.
- 9) \$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%.
- 10) \$850.0 million in principal payments due 2052 related to our 2052 Senior Notes. The 2052 Senior Notes bear interest at a rate of 2.95%.

- 11) \$34.4 million in principal payments related to our notes payable to sellers and other third parties. Our notes payable to sellers and other third parties bear interest at rates between 2.42% and 10.35% at September 30, 2022, and have maturity dates ranging from 2028 to 2036.
- 12) \$12.1 million in principal payments related to our financing leases. Our financing leases bear interest at rates between 1.89% and 2.16% at September 30, 2022, and have expiration dates ranging from 2026 to 2027.

The following assumptions were made in calculating cash interest payments:

- 1) We calculated cash interest payments on the Credit Agreement using the LIBOR rate plus the applicable LIBOR margin, the base rate plus the applicable base rate margin, the Canadian Dollar Offered Rate plus the applicable acceptance fee and the Canadian prime rate plus the applicable prime rate margin at September 30, 2022. We assumed the Credit Agreement is paid off when it matures in July 2026.
- 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 \$85.8 million recorded as liabilities in our Condensed Consolidated Financial Statements at September 30, 2022, and \$18.0 million of future interest accretion on the recorded obligations.

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

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

	Amount of Commitment Expiration Per Period				
	(amounts in thousands of U.S. dollars)				
Unrecorded Obligations⁽¹⁾	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Unconditional purchase obligations	\$ 92,514	\$ 74,065	\$ 18,449	\$ —	\$ —

- (1) We are party to unconditional purchase obligations. These purchase obligations are established in the ordinary course of our business and are designed to provide us with access to products at competitive, market-driven prices. At September 30, 2022, our unconditional purchase obligations consisted of multiple fixed-price fuel purchase contracts under which we have 35.5 million gallons remaining to be purchased for a total of \$92.5 million. The current fuel purchase contracts expire on or before December 31, 2024. These arrangements have not materially affected our financial position, results of operations or liquidity during the nine months ended September 30, 2022, 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 \$1.425 billion and \$1.301 billion at September 30, 2022 and December 31, 2021, respectively. These arrangements have not materially affected our financial position, results of operations or liquidity during the nine months ended September 30, 2022, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

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

The disposal tonnage that we received in the nine month periods ended September 30, 2022 and 2021, at all of our landfills during the respective period, is shown below (tons in thousands):

	Nine Months Ended September 30,			
	2022		2021	
	Number of Sites	Total Tons	Number of Sites	Total Tons
Owned operational landfills and landfills operated under life-of-site agreements	91	35,291	89	35,167
Operated landfills	5	449	5	421
	96	35,740	94	35,588

NON-GAAP FINANCIAL MEASURES

Adjusted Free Cash Flow

We present adjusted free cash flow, a non-GAAP financial measure, supplementally because it is widely used by investors as a valuation and liquidity measure in the solid waste industry. Management uses adjusted free cash flow as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. We define adjusted free cash flow as net cash provided by operating activities, plus or minus change in book overdraft, plus proceeds from disposal of assets, less capital expenditures for property and equipment and distributions to noncontrolling interests. We further adjust this calculation to exclude the effects of items management believes impact the ability to assess the operating performance of our business. This measure is not a substitute for, and should be used in conjunction with, GAAP liquidity or financial measures. Other companies may calculate adjusted free cash flow differently. Our adjusted free cash flow for the nine month periods ended September 30, 2022 and 2021, are calculated as follows (amounts in thousands of U.S. dollars):

	Nine Months Ended September 30,	
	2022	2021
Net cash provided by operating activities	\$ 1,500,137	\$ 1,269,961
Less: Change in book overdraft	(5,983)	(563)
Plus: Proceeds from disposal of assets	23,341	10,109
Less: Capital expenditures for property and equipment	(618,313)	(479,480)
Adjustments:		
Payment of contingent consideration recorded in earnings ^(a)	2,982	520
Cash received for divestitures ^(b)	(5,671)	—
Transaction-related expenses ^(c)	37,558	25,673
Pre-existing Progressive Waste share-based grants ^(d)	286	317
Tax effect ^(e)	(5,377)	(699)
Adjusted free cash flow	\$ 928,960	\$ 825,838

- (a) Reflects the addback of acquisition-related payments for contingent consideration that were recorded as expenses in earnings and as a component of cash flows from operating activities as the amounts paid exceeded the fair value of the contingent consideration recorded at the acquisition date.
- (b) Reflects the elimination of cash received in conjunction with the divestiture of certain operations.
- (c) Reflects the addback of acquisition-related transaction costs and the settlement of an acquired tax liability.
- (d) Reflects the cash settlement of pre-existing Progressive Waste share-based awards during the period.
- (e) The aggregate tax effect of footnotes (a) through (d) is calculated based on the applied tax rates for the respective periods.

Adjusted EBITDA

We present adjusted EBITDA, a non-GAAP financial measure, supplementally because it is widely used by investors as a performance and valuation measure in the solid waste industry. Management uses adjusted EBITDA as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. We define adjusted EBITDA as net income attributable to Waste Connections, plus or minus net income (loss) attributable to noncontrolling interests, plus income tax provision, plus interest expense, less interest income, plus depreciation and amortization expense, plus closure and post-closure accretion expense, plus or minus any loss or gain on impairments and other operating items, plus other expense, less other income. We further adjust this calculation to exclude the effects of other items management believes impact the ability to assess the operating performance of our business. This measure is not a substitute for, and should be used in conjunction with, GAAP financial measures. Other companies may calculate adjusted EBITDA differently. Our adjusted EBITDA for the three and nine month periods ended September 30, 2022 and 2021, are calculated as follows (amounts in thousands of U.S. dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income attributable to Waste Connections	\$ 236,912	\$ 114,381	\$ 641,310	\$ 451,736
Plus: Net income attributable to noncontrolling interests	213	273	390	325
Plus: Income tax provision	48,753	18,419	155,899	106,578
Plus: Interest expense	51,161	40,418	137,565	124,171
Less: Interest income	(1,784)	(495)	(2,574)	(2,342)
Plus: Depreciation and amortization	232,146	207,302	676,130	598,825
Plus: Closure and post-closure accretion	4,061	3,544	12,148	10,919
Plus: Impairments and other operating items	13,438	3,104	19,467	9,819
Less: Other income, net	(8,487)	(3,140)	(2,373)	(5,452)
Plus: Loss on early extinguishment of debt	—	115,288	—	115,288
Adjustments:				
Plus: Transaction-related expenses ^(a)	10,461	5,637	18,694	6,220
Plus: Fair value changes to equity awards ^(b)	1,196	914	349	7,638
Adjusted EBITDA	<u>\$ 588,070</u>	<u>\$ 505,645</u>	<u>\$ 1,657,005</u>	<u>\$ 1,423,725</u>

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

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

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

We present adjusted net income attributable to Waste Connections and adjusted net income per diluted share attributable to Waste Connections, both non-GAAP financial measures, supplementally because they are widely used by investors as a valuation measure in the solid waste industry. Management uses adjusted net income attributable to Waste Connections and adjusted net income per diluted share attributable to Waste Connections as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. We provide adjusted net income attributable to Waste Connections to exclude the effects of items management believes impact the comparability of operating results between periods. Adjusted net income attributable to Waste Connections has limitations due to the fact that it excludes items that have an impact on our financial condition and results of operations. Adjusted net income attributable to Waste Connections and adjusted net income per diluted share attributable to Waste Connections are not a substitute for, and should be used in conjunction with, GAAP financial measures. Other companies may calculate these non-GAAP financial measures differently. Our adjusted net income attributable to Waste Connections and adjusted net income per diluted share attributable to Waste Connections for the three and nine month periods ended September 30, 2022 and 2021, are calculated as follows (amounts in thousands of U.S. dollars, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Reported net income attributable to Waste Connections	\$ 236,912	\$ 114,381	\$ 641,310	\$ 451,736
Adjustments:				
Amortization of intangibles ^(a)	38,859	35,337	113,956	100,237
Impairments and other operating items ^(b)	13,438	3,104	19,467	9,819
Transaction-related expenses ^(c)	10,461	5,637	18,694	6,220
Fair value changes to equity awards ^(d)	1,196	914	349	7,638
Loss on early extinguishment of debt ^(e)	—	115,288	—	115,288
Tax effect ^(f)	(15,944)	(41,531)	(38,260)	(61,466)
Adjusted net income attributable to Waste Connections	<u>\$ 284,922</u>	<u>\$ 233,130</u>	<u>\$ 755,516</u>	<u>\$ 629,472</u>
Diluted earnings per common share attributable to Waste Connections' common shareholders:				
Reported net income	<u>\$ 0.92</u>	<u>\$ 0.44</u>	<u>\$ 2.49</u>	<u>\$ 1.72</u>
Adjusted net income	<u>\$ 1.10</u>	<u>\$ 0.89</u>	<u>\$ 2.93</u>	<u>\$ 2.39</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) Reflects the make-whole premium and related fees associated with the early termination of \$1.5 billion in senior notes.
(f) The aggregate tax effect of the adjustments in footnotes (a) through (e) is calculated based on the applied tax rates for the respective periods.

INFLATION

In the current environment, we have seen inflationary pressures resulting from higher fuel, materials and labor costs in certain markets and higher resulting third-party costs in areas such as brokerage, repairs and construction. 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 certain of our contracts may require us to absorb at least part of these cost increases, especially if cost increases exceed the average rate of inflation. Management's estimates associated with inflation have an impact on our accounting for landfill liabilities.

SEASONALITY

Based on historic trends, excluding any impact from the COVID-19 pandemic or an economic recession, we would expect our operating results to vary seasonally, with revenues typically lowest in the first quarter, higher in the second and third quarters and lower in the fourth quarter than in the second and third quarters. This seasonality reflects (a) the lower volume of solid waste generated during the late fall, winter and early spring because of decreased construction and demolition activities during winter months in Canada and the U.S. and (b) reduced E&P activity during harsh weather conditions, with expected fluctuation due to such seasonality between our highest and lowest quarters of approximately 10%. 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, and to a lesser extent, foreign currency exchange rate risks. We use hedge agreements to manage a portion of our risks related to interest rates. 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 variable rate debt positions.

At September 30, 2022, our derivative instruments included five 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>
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 September 30, 2022 and December 31, 2021, of \$438.2 million and \$603.9 million, respectively, including floating rate debt under our Credit Agreement. A one percentage point increase in interest rates on our variable-rate debt as of September 30, 2022 and December 31, 2021, would decrease our annual pre-tax income by approximately \$4.4 million and \$6.0 million, respectively. All of our remaining debt instruments are at fixed rates, or effectively fixed under the interest rate swap agreements described above; therefore, changes in market interest rates under these instruments would not significantly impact our cash flows or results of operations, subject to counterparty default risk.

The market price of diesel fuel is unpredictable and can fluctuate significantly. Because of the volume of fuel we purchase each year, a significant increase in the price of fuel could adversely affect our business and reduce our operating margins. To manage a portion of this risk, we periodically enter into fuel hedge agreements related to forecasted diesel fuel purchases, and we also enter into fixed price fuel purchase contracts. At September 30, 2022, we had no fuel hedge agreements in place; however, we have entered into fixed price fuel purchase contracts for 2022 as described below.

For the year ending December 31, 2022, we expect to purchase approximately 88.0 million gallons of fuel, of which 43.9 million gallons will be purchased at market prices and 44.1 million gallons will be purchased under our fixed price fuel purchase contracts. We have performed sensitivity analyses to determine how market rate changes will affect the fair value of our unhedged, market rate diesel fuel purchases. Such an analysis is inherently limited in that it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or earnings effect we would recognize from the assumed market rate movements. During the three month period of October 1, 2022 to December 31, 2022, we expect to purchase approximately 11.0 million gallons of fuel at market prices; therefore, a \$0.10 per gallon increase in the price of fuel over the remaining three months in 2022 would decrease our pre-tax income during this period by approximately \$1.1 million.

We market a variety of recyclable materials, including compost, cardboard, mixed paper, plastic containers, glass bottles and ferrous and aluminum metals. We own and operate recycling operations and market collected recyclable materials to third parties for processing before resale. Where possible, to reduce our exposure to commodity price risk with respect to recycled materials, we have adopted a pricing strategy of charging collection and processing fees for recycling volume collected from third parties. In the event of a decline in recycled commodity prices, a 10% decrease in average recycled commodity prices from the average prices that were in effect during the nine months ended September 30, 2022 and 2021, would have had a \$17.1 million and \$12.6 million impact on revenues for the nine months ended September 30, 2022 and 2021, 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 2021 or 2022. A \$0.01 change in the Canadian dollar to U.S. dollar exchange rate would impact our annual revenue and EBITDA by approximately \$12.0 million and \$4.5 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 Executive 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 Executive Vice President and Chief Financial Officer concluded as of September 30, 2022, 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 Executive Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 2022, 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.