

Memorandum

To: Vince Sferrazza, Acting General Manager
Solid Waste Management Services Division

November 21, 2011

Cc: Rob Orpin, Director Solid Waste Collections

From: John Barrett, Ernst & Young Inc.
Jeffrey Kerbel, Ernst & Young Inc.

Review of GFL Environmental Corporation in relation to its proposed amalgamation of Turtle Island Recycling Corporation

Introduction

1. Pursuant to our engagement letter dated November 14, 2011, Ernst & Young Inc. (“EYI”) has completed its review of GFL Environmental Corporation and its subsidiaries’ (“GFL”) ability to meet its obligations with respect to District 1 in the context of GFL’s proposed amalgamation with Turtle Island Recycling Corporation and its subsidiary corporations (“**Turtle Island**”). In particular, our review focused on GFL’s ability to fulfill the obligations of Turtle Island’s existing contract with the City of Toronto (the “**City**”) for residential daytime curbside collection in District 1.
2. Our engagement was performed in accordance with our engagement letter and our procedures were limited to those described in this report (the “**Report**”). The conclusions resulting from our work are stated herein and supplemental details are provided in the appendices.

Disclaimer

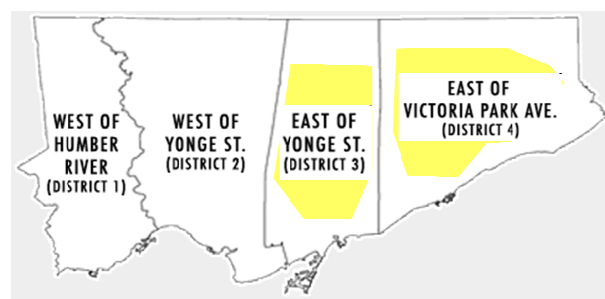
3. In preparing this Report, EYI has been provided with and, in making comments herein, has relied upon audited and unaudited financial and other information prepared by GFL’s management (the “**Management**”) and discussions with representatives of the City’s Solid Waste Management Services division (“**SWM**”). EYI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, EYI expresses no opinion or other form of assurance in respect of such information contained in this Report.
4. An examination or review of the financial information, including projections provided by GFL, as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Readers are cautioned that, since projections are based upon assumptions about future events and conditions, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

Scope of Services

5. As outlined in our engagement letter, our review was based on inquiries of, and discussions with, Management and included a review of:
 - a) GFL's financial statements for the: i) year ended December 31, 2010 (audited); ii) year ended March 31, 2009 (audited); and iii) 9 months ended December 31, 2009 (audited);
 - b) GFL's unaudited financial statements for the 9 months ended September 30, 2011;
 - c) Other relevant documents that were made available to us during the review including GFL's credit agreement and litigation summary (a full listing of the documents reviewed by EYI can be found in Appendix "A"); and
 - d) Documentation pertaining to the City's agreement with Turtle Island for residential daytime curbside collection in District 1.
6. Our engagement did not include a review on GFL's viability as a whole nor the viability of any parent, subsidiary or associated or related entity of GFL. As indicated in our engagement letter, and since GFL is a private company, this report does not include any of GFL's confidential financial data; however, EYI was allowed access to all of GFL's financial records.

Background

7. The City is currently divided into 4 collection areas (Districts 1 to 4, or "D1", "D2", "D3" and "D4"). D1 residential curbside collection is currently under contract with Turtle Island.



8. GFL was awarded the D2 contact on October 24, 2011. The contract provides for collection, transportation and off-loading of municipal waste from curbside collected single family homes, multi-residential locations, commercial locations, charities, institutions and religious organization and others in the area bounded by Yonge Street to the east, the Humber River to the west, Steeles Avenue to the north and Lake Ontario to the south for a period of seven (7) years with the option to extend the contract for two additional separate one (1) year periods at the City's discretion.
9. The contract for D2 will start on August 7, 2012 and terminate 7 years following, unless the option to extend is exercised.
10. GFL is in the business of managing, transporting, and recycling liquid and solid waste. GFL is primarily owned by two large private equity firms.

The Turtle Island Transaction

11. On July 28, 2011, GFL executed a letter of intent to acquire 100% of the outstanding stock of Turtle Island. Closing of the transaction is expected to occur by November 30, 2011. As GFL is purchasing the shares of Turtle Island, it is assuming all of the assets, obligations and contracts of Turtle Island. To fund the acquisition of Turtle Island, GFL will utilize a combination of available capacity under its existing credit facility and new equity financing. Financial details of the transaction are confidential but are sufficient to fund the costs of the Turtle Island acquisition.
12. Turtle Island's operations consist of three business units, including Turtle Island Recycling which accounts for over 70% of Turtle Island's consolidated revenues. This division provides institutional, commercial and industrial and municipal solid waste collection, transfer station operation and materials recovery facility operation services in the Greater Toronto Area.
13. Turtle Island provides curbside collection in D1. The contract, which was initially awarded to Turtle Island in 2007, has been extended from July 1, 2008 through June 30, 2015 with the option to extend for two additional separate one (1) year periods.
14. By virtue of GFL's share acquisition of Turtle Island, it will be assuming Turtle Island's residential contract in respect of D1, subject to prior approval by the City. GFL advised EYI that the D1 and D2 contracts represent less than 10% of total revenues of the combined entity on a pro forma basis.

GFL Operations

15. Attached as Appendix "B" is a pro forma organizational chart as at November 30, 2011 (post transaction) summarizing the various entities controlled by GFL. As illustrated, Turtle Island will be a 100% wholly owned subsidiary of GFL.
16. As indicated above, the acquisition by GFL of Turtle Island will be by way of a share transaction. It is expected that Turtle Island will be amalgamated into one of GFL's operating subsidiaries effective January 1, 2012, primarily due to tax reasons. Post-acquisition, Turtle Island's operation will be fully integrated into GFL. The City has advised EYI that GFL will also give the City a guarantee from the parent corporation.
17. Based on discussions with Management, EYI understands that as a result of the acquisition, there will not be any material changes to Turtle Island's current operations insofar as it relates to the contract with the City. In particular, GFL has advised EYI that GFL will:
 - a) Continue using Turtle Island's trucks and related equipment, with upgrades to new trucks as may be required from time to time;

- b) Follow the same routes as are currently being utilized by Turtle Island in the short term. Routes may ultimately be modified for efficiency purposes only as permitted by and in compliance with the agreement with the City;
 - c) Maintain the same employee group for D1 collections;
 - d) Maintain the same supervisors of the routes currently in place;
 - e) Adhere to the highest possible safety standards; and
 - f) Assume Turtle Island's customer complaint program, including ensuring that it maintains the same high response and resolution levels that GFL experiences in other municipalities.
18. GFL currently employs approximately 520 employees, 160 of which are unionized. Turtle Island employs approximately 450 non-unionized employees. All of Turtle Island's employees will be engaged by GFL as part of the share purchase.

Financial Analysis

19. Pursuant to its contract with the City, Turtle Island has provided a letter of credit to the City and arranged for a performance bond to be issued. Based on our discussions with Management, GFL will assume the existing letter of credit and performance bond to satisfy its obligations under the assumed contract. EYI has been advised by the bonding agent in respect of the performance bond and the Canadian chartered bank in respect of the letter of credit that this arrangement is satisfactory and that the performance bond and letter of credit will remain in place. However, Management has indicated that the letter of credit and the performance bond may ultimately be replaced by lenders in GFL's current lending group. However, GFL indicated to EY that sufficient protection will be available to the City at all times, regardless of financing arrangements.
20. Based on our review of GFL's financial statements for the 9-month period ended September 30, 2011, EYI notes that GFL was in compliance with all of its banking covenants and had significant liquidity.
21. Furthermore, based on our review of the latest pro forma compliance certificate (which combines the operations and debt of both GFL and Turtle island), EYI notes that GFL was in compliance with its banking covenants.
22. EYI did an analysis of leverage ratios (leverage ratios include a calculation of the ratio of debt to equity or debt to earnings) of Turtle Island prior to the purchase and the combined entity on a pro forma basis. Turtle Island, as a standalone entity, had a higher leverage ratio than when combined with GFL on a consolidated basis. Therefore, the combined entity has a stronger balance sheet than Turtle Island based on this analysis.

23. EYI further understands that GFL recently refinanced its various operating facilities with a banking syndicate for approximately \$200 million (including a reasonable sublimit in respect of letters of credit), twice its existing facility. The transaction closed on September 16, 2011 and is for a term of four years ending in 2015. EYI reviewed GFL's credit agreement and based on discussions with Management, EYI understands that GFL's new loan facility is not margined against accounts receivable and is available for general corporate purposes.
24. In order to provide additional liquidity, EYI understands that GFL is currently in discussions with two private equity groups who have provided GFL with term sheets to provide \$50 million of additional equity capital. Both parties continue to pursue the investment opportunity and are engaged in extensive due diligence processes. GFL will choose a partner shortly as terms of the investment continue to be negotiated.

Conclusion

25. Based on our review and discussions with Management, it appears that GFL's acquisition of Turtle Island will be seamless to the City. In addition, given GFL's existing credit facility and proposed equity partner(s), it appears that GFL is sufficiently capitalized.
26. As a result of our review and based on our discussions with Management, nothing has come to our attention that suggests that GFL will not be able to comply with and fulfill its obligations under the Turtle Island contract with the City for D1 residential collection.

Appendix “A”
Listing of Documents Reviewed by EYI

In the course of preparing this Report, EYI reviewed the following:

- Pro forma organizational charts reflecting GFL’s acquisition of Turtle Island;
- City documents relating to the award of the D2 contract to GFL;
- GFL compliance certificates in respect of covenant calculations for September, 2011;
- Turtle Island unaudited financial statements for the 9-month period ended September 30, 2011;
- Pro forma compliance certificates for the Turtle Island acquisition;
- Pro forma GFL balance sheet as at September 30, 2011;
- Copy of the Turtle Island contract with the City for D1 curbside collections;
- Summary of ongoing GFL litigation;
- GFL location listing detailing locations with a unionized workforce;
- September 30, 2011 accounts payable listings for GFL and its subsidiaries;
- September 30, 2011 accounts payable listings for Turtle Island;
- Listing of significant Turtle Island leases;
- Listing of operating leases for GFL;
- Listing of capital leases for GFL;
- Summary of major GFL contracts;
- Organizational chart for Turtle Island reflecting the current corporate structure;
- Organizational chart for GFL reflecting the current corporate structure;
- Presentation to GFL’s lenders summarizing certain aspects of the Turtle Island acquisition;
- GFL credit agreement dated September 16, 2011;
- Audited financial statements for GFL for the year ended December 31, 2010;
- Audited financial statements for GFL for the year ended March 31, 2009;
- Audited financial statements for GFL for the year ended December 31, 2009; and
- Listing of properties leased by GFL.

Appendix “B” – GFL Environmental Corporation Pro Forma Organizational Structure

