


Focused

Annual Report 2016





In 2016, we continued to focus our efforts on those things within our control—investing in our core infrastructure, streamlining the business, controlling costs, working safely, and developing our people.

Stew Hanlon, President & CEO

In this Report

- 2 2016 Results and Highlights
- 3 Message from the CEO
- 6 Our Responsibility
- 7 Financial Information

Forward-Looking Statements

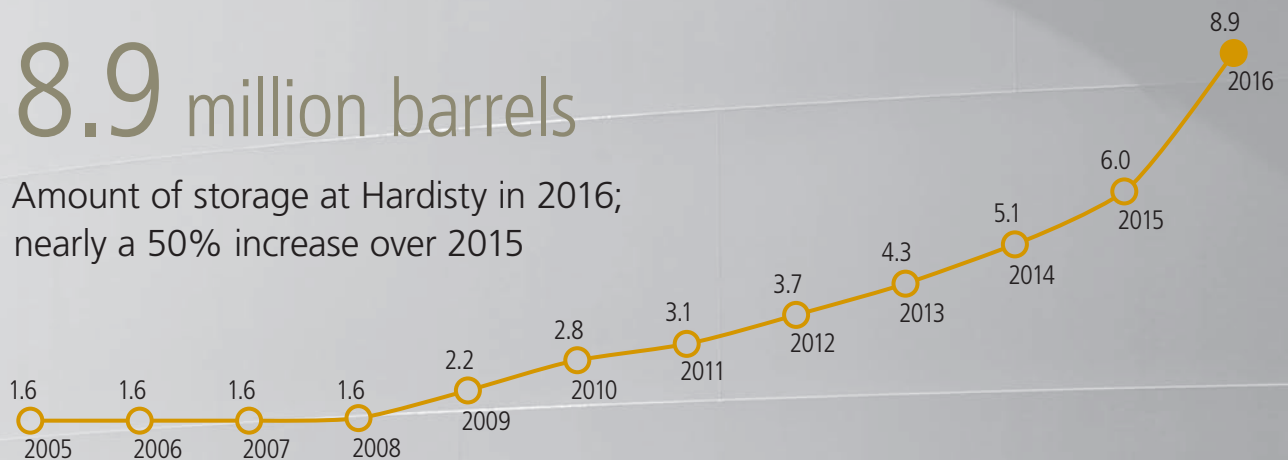
This annual report contains forward-looking statements. Please refer to the caution on forward-looking information on the inside back cover.

Who We Are

Gibsons is a Canadian-based midstream energy company with operations in key basins across North America. For over 60 years, Gibsons has delivered integrated midstream solutions to customers in the oil and gas industry, safely and reliably. Our North American operations include the movement, storage, blending, processing, marketing and distribution of crude oil, liquids and refined products. We also provide oilfield waste and water management services.

8.9 million barrels

Amount of storage at Hardisty in 2016;
nearly a 50% increase over 2015



172%

In five years,
we've increased
our overall storage
capacity by 172%

1 in 4

We touch
1 in 4 barrels
produced in
Western Canada

60 years

In 1957, Gibsons was
the first company to
construct tanks
at Hardisty

2016 Results and Highlights

Health, Safety, Security and Environment

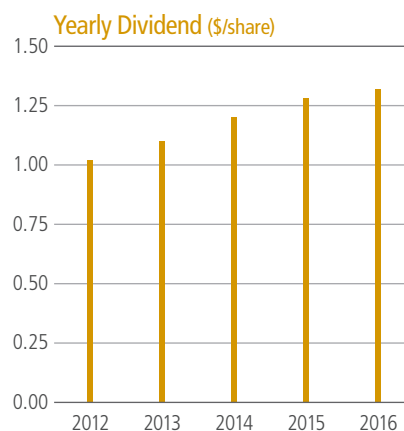
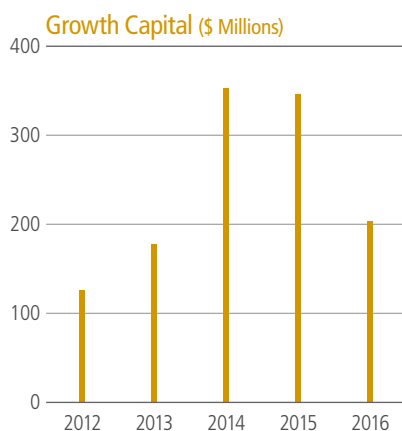
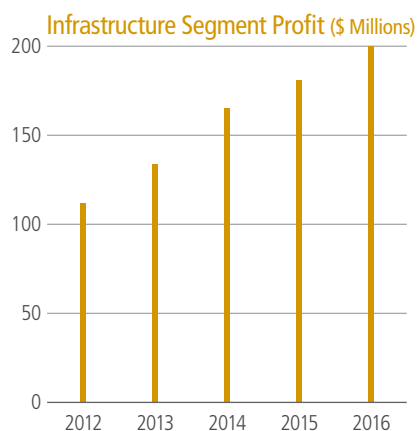
- ≈ Achieved a Total Recordable Incident Frequency of 1.32, a favorable variance to the 2016 target of 1.85
- ≈ Conducted 144 emergency response exercises across the organization, including table top, drill and full scale exercises
- ≈ Improved our 2016 Certificate of Recognition (COR) results in Alberta by 5% over 2015 results; overall score was 87%

Financial

- ≈ Increased Infrastructure segment profit by 11% to \$200.3 million
- ≈ Delivered total Adjusted EBITDA of \$278 million
- ≈ Completed capital expenditures of \$233 million, of which \$204 million was related to growth initiatives
- ≈ Reduced overall headcount, resulting in salary and benefits savings of \$39.7 million compared to 2015

Operations

- ≈ Commissioned certain assets associated with our Hardisty East and West terminal expansion projects, increasing the storage, blending and handling capabilities by 2.9 million barrels
- ≈ Commissioned 300,000 barrels of storage related to our Edmonton terminal expansion project
- ≈ Received committed customer support for the construction of two new 400,000 barrel crude oil storage tanks and related pipeline connection infrastructure at our Edmonton Terminal
- ≈ Continued to reduce operating costs across all parts of our organization



Message from the CEO

As we publish this 2016 Annual Report, with the 2017 fiscal year already well underway, I can sum up my thoughts on the current environment in two words: cautious optimism.

We've survived an especially tough few years with oversupply and low prices; been challenged by climate and energy policies; encountered weather-related headwinds that impacted various parts of our business; and then, in the spring of 2016, we saw things go from bad to worse with the wildfires in Fort McMurray. Without question, these conditions created uncertainty for industry and investors. Yet, for Gibsons, this environment also reaffirmed that the things within our control – investing in our core infrastructure, streamlining the business, controlling costs, working safely and developing our people, are key to emerging as a much stronger company from these challenging times.

Against this backdrop, we continued to perform well. Our segment profit from infrastructure increased by 11% to \$200 million in 2016 compared to \$181 million in 2015, as a result of the additional tank capacity and associated fixed-fee contracts added during the year. In 2016, we delivered adjusted EBITDA of \$278 million.

We continued to invest in those areas where we intend to lead. At our Hardisty East and West terminals, we increased the storage, blending and handling capabilities by 2.9 million barrels, bringing our total storage capacity to 8.9 million barrels. At our Edmonton terminals, we continue to expand our merchant terminalling services. We increased capacity by 300,000 barrels and received committed customer support for the construction of two new 400,000 barrel crude oil storage tanks and related pipeline connection infrastructure. These new tanks, which are expected to be in-service in the second quarter of 2018, are underpinned by a long-term, fixed-fee contract with a large, integrated, investment grade customer.



Stewart Hanlon
President & CEO

A handwritten signature in black ink, appearing to read 'S Hanlon', written over a light-colored background.

Our Competitive Advantage

Strategic Asset Base

We have enviable assets in Canada's major crude oil hubs and an established presence in energy basins across North America.

Integrated Solutions

We deliver synergistic midstream services to solve our customers' challenges.

Customer Relationships

We put the customer at the center of everything we do.

Operational Excellence

We have a proven track record of building and operating our infrastructure, safely and efficiently.

In 2016, we re-assessed our path to future growth by simplifying our leadership and organizational structure. Our move toward fewer, larger business groups allowed us to speed decision making, increase accountability and take better advantage of the synergies among our breadth of services. We intensified our focus on cost reduction and operational efficiency. As part of this work, we conducted an organizational review to align costs with economic conditions. This resulted in a 20% reduction in headcount, equating to savings of about \$40 million. In addition, we streamlined our general and administrative functions, achieving a 14% reduction from 2015 levels. We intend to build on that success in 2017 by finding ways to further reduce total spending and maintain our financial flexibility.

We also made significant changes to Gibsons' portfolio. In 2016, we initiated the sale of certain businesses where we did not see a consistent path to growth; specifically our Canwest Propane and Stittco Energy companies. In February, we announced the sale of those businesses for \$412 million to Superior Plus which will be completed through a series of transactions over the course of 2017. The deal allows us to strengthen our capital structure through debt reduction and to support capital programs within our Infrastructure business. Going forward, we will continue to look thoughtfully and strategically at additional non-core asset sales.

Nothing is more important to us than the health and safety of our people. In 2016, we continued to build on our safety performance, with a total reportable injury frequency of 1.32. We were awarded one of the highest Certificate of Recognition (COR) results in our company's history with a rating of 87%. A COR is awarded by Occupational Health and Safety to employers who develop health and safety programs that meet or exceed occupational health and safety legislation requirements.

Our training efforts, which include safety initiatives, continue to demonstrate our commitment to employee growth and development. Our new Learning Management System, which



Our Strategic Priorities

Strive for **leadership** in **HSS&E** and operational performance

Provide a leading **integrated portfolio** of services

Be a superb **business partner** by providing innovative, cost-effective solutions for all of our stakeholders

became fully operational in 2016, ensures our “pipeline” of talent is properly developed and gives our people the tools and resources they need to work safely and efficiently every day.

While we are pleased with our safety programs and the results we have seen in recent years, we know we still have much work to do. In 2017, we will continue our focus on safety. Our new Safety Incentive Program will reward individuals who take a proactive approach to safety and safe behaviour in the field. The program is based on a point system where employee incentives are provided in order to reward desired behaviours that prevent incidents from occurring.

In 2016, we also conducted a review of our community investment focus areas to reflect changes in the industry, our operations and stakeholder expectations. We streamlined our areas of investment to Safety, Environment and Community. We also stepped up to help our fellow employees affected by the wildfires in Fort Mac and those impacted by the devastating floods in Louisiana.

None of this past year’s success would have been possible without the 2,300 dedicated Gibsons team members who come to work each day with a determination to solve our customers problems. Thank you to our Board of Directors who have provided support and guidance through this challenging environment. Thank you also to our customers who work with us to make our future possible. Finally, thank you to our shareholders for your continued commitment to our great company.

As I said at the beginning of this letter, I am cautiously optimistic about the near term environment, but I have every confidence that the steps our company has taken over the past few years have positioned us well for 2017 and beyond. We’ve got a sound strategy and a focused management team; strategic assets on an enviable North American footprint; a long history of operational success; and a reputation for solving our customers’ problems. We look forward to sharing our successes with you in the years ahead.

Be **responsive** and adaptable to a **continuously changing** business environment

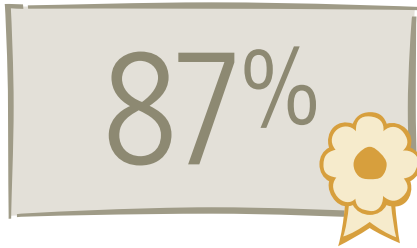
Ensure our workforce is **highly engaged** and **customer solution focused**

Be a **socially responsible** organization that is valued by the communities in which we do business

Endeavor to be an **outstanding investment** for our shareholders

Our Responsibility

Health, Safety, Security & Environment



Our score on the 2016 **COR Audit**; an **increase of 5%** over 2015

144

Number of **Emergency Response Exercises** conducted across the organization this year



Our **Total Recordable Incident Frequency** for the year, beating our target of **1.85**

Our People

601

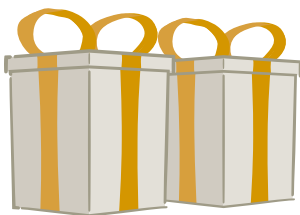
Training courses available to employees via our **Learning Management System**



Introduced an **employee wellness program**

Received an **Inclusive Employers Award** from Developmental Disabilities Resource Centre of Calgary

Making a Difference



\$340,000

Total funds raised by our matched workplace giving program in 2016

Honoured with a **Spirits of Gold** award for **Outstanding Workplace** campaign

From United Way Calgary and Area for our 2016 Employee Giving Campaign

725

The number of volunteer hours our employees logged during our Employee Giving Campaign

Management's Discussion and Analysis

2016 Year End Report

Contents

| | | | | | |
|--|----|--|----|---|----|
| Business Overview | 8 | Logistics | 16 | Outstanding Share Data | 37 |
| Selected Financial Information | 9 | Wholesale | 18 | Quantitative and Qualitative Disclosures About Market Risk | 38 |
| 2016 Review | 10 | Other | 20 | Accounting Policies | 39 |
| Subsequent Events | 10 | Results of Discontinued Operations | 23 | Disclosure Controls and Procedures | 43 |
| Project Developments and Market Outlook | 11 | Summary of Quarterly Results | 25 | Risk Factors | 43 |
| Results of Continuing Operations | 13 | Liquidity and Capital Resources | 31 | Forward Looking Information | 46 |
| Infrastructure | 14 | Off Balance Sheet Arrangements | 37 | Non-GAAP Financial Measures | 47 |
| | | Related Party Transactions | 37 | | |

The following Management's Discussion and Analysis ("MD&A") was prepared and approved by the Board of Directors (the "Board") of Gibson Energy Inc. ("we", "our", "us", "its", "Gibsons" or the "Company") as of March 7, 2017 and should be read in conjunction with the audited consolidated financial statements and related notes of the Company for the years ended December 31, 2016 and 2015, which were prepared under International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Professional Accountants and as issued by the International Accounting Standards Board ("IASB"), also referred to as GAAP. Amounts are stated in thousands of Canadian dollars unless otherwise noted. Additional information about Gibsons, including the Annual Information Form ("AIF") is available on SEDAR at www.sedar.com and on our website at www.gibsons.com.

This MD&A contains forward-looking information and non-GAAP measures and readers are cautioned that this MD&A should be read in conjunction with the Company's disclosure under "Forward-Looking Information" and "Non-GAAP Financial Measures" included at the end of this MD&A.

BUSINESS OVERVIEW

We are a Canadian-based midstream energy company headquartered in Calgary, Alberta, with operations in key hydrocarbon basins across North America. For over 60 years, Gibsons has delivered integrated midstream solutions to customers in the oil and gas industry, safely and reliably. Our North American operations include the movement, storage, blending, processing, marketing and distribution of crude oil, natural gas liquids ("NGLs") and refined products, including oilfield waste and water management services.

Our strategy and strengths

Our principal business strategy is to use our assets, market knowledge and operational expertise to move, and provide storage for, crude oil, NGLs and refined products from the source of production to the most appropriate end-market, throughout Canada and the United States ("U.S.").

To achieve this, our strategy is to:

- Invest in midstream infrastructure with a focus on fixed fee-based commercial structures that are responsive to customers and generate predictable, sustainable, long-term cash flow and earnings;
- Expand our business by improving and enhancing services at existing facilities;
- Pursue focused, complementary 'bolt-on' growth, within our existing footprint, that directly supports our infrastructure assets;
- Deliver safe and reliable operations, while aggressively managing costs to maintain and improve operating margins; and
- Maintain a strong balance sheet and ample liquidity to adapt to market conditions and opportunities.

We believe that our business model provides significant competitive advantages:

- *Strategic Asset Base:* We have competitively advantaged land positions and infrastructure in Canada's major crude oil hubs at Hardisty, Alberta and Edmonton, Alberta, largely underpinned by dedicated tanks with fixed fee arrangements. Our broad North American presence allows us to build local relationships in those basins, provide competitive services and capitalize on opportunities.
- *Integrated Solutions:* Through our integrated solutions offering, we can deliver customers a broad range of synergistic midstream services. This approach allows us to use the full value of our assets and network to better solve customer challenges, create opportunities and, ultimately, deliver more profitable results. We believe we are one of the few industry players who have the capability to deliver these integrated solutions to our customers.
- *Customer relationships:* Our culture is based on putting the customer at the center of everything we do. We focus on building long-term relationships with our customers and we believe this approach allows us to better understand and be more responsive to our customers' midstream challenges and requirements.
- *Operational Excellence:* In addition to being highly skilled in building and operating our infrastructure, we have a track record of sourcing and successfully executing internal growth projects. We do all of this with a firm commitment to be a leader in health, safety, security and the environment. Our experienced leadership team has a proven history of successful operations and a strong industry reputation.

SELECTED FINANCIAL INFORMATION

| | Three months ended December 31 | | Year ended December 31 | | |
|---|--------------------------------|-------------------|------------------------|-------------------|-------------------|
| | 2016 | 2015 ⁴ | 2016 | 2015 ⁴ | 2014 ⁴ |
| Continuing operations | | | | | |
| Revenue | \$ 1,414,187 | \$ 1,226,007 | \$ 4,594,181 | \$ 5,405,311 | \$ 8,295,537 |
| Segment profit | 87,634 | 97,335 | 263,646 | 377,416 | 443,774 |
| Net income (loss) | (50,597) | (218,373) | (178,167) | (295,374) | 55,174 |
| Basic and diluted income (loss) per share..... | (0.36) | (1.74) | (1.31) | (2.35) | 0.44 |
| Adjusted EBITDA ^{2,3} | 83,927 | 85,846 | 244,092 | 344,591 | 409,738 |
| EBITDA ^{2,3} | 27,312 | (118,227) | 96,410 | 33,887 | 361,725 |
| Distributable cash flow ^{2,3} | 42,725 | 63,770 | 101,940 | 200,990 | 188,316 |
| Dividends declared..... | 46,772 | 40,363 | 181,994 | 161,002 | 148,573 |
| Cash flow from operating activities | 44,152 | 97,490 | 175,482 | 399,117 | 307,040 |
| Growth capital expenditures..... | \$ 34,769 | \$ 86,227 | \$ 202,984 | \$ 343,766 | \$ 343,292 |
| Combined operations¹ | | | | | |
| Segment profit ¹ | \$ 100,926 | \$ 112,098 | \$ 298,012 | \$ 418,757 | \$ 487,101 |
| Combined Adjusted EBITDA ^{1,2,3} | 97,219 | 100,961 | 278,106 | 386,284 | 453,065 |
| Combined EBITDA ^{1,2,3} | 40,604 | (103,464) | 130,776 | 75,228 | 405,052 |
| Distributable cash flow ^{2,3} | \$ 47,614 | \$ 65,659 | \$ 131,644 | \$ 226,297 | \$ 237,787 |

Consolidated balance sheet and ratios

| | As at December 31 | | |
|---|-------------------|--------------|--------------|
| | 2016 | 2015 | 2014 |
| Total assets | \$ 3,261,347 | \$ 3,282,986 | \$ 3,573,029 |
| Total non-current liabilities..... | \$ 1,639,045 | \$ 1,606,425 | \$ 1,507,876 |
| Debt ratios | | | |
| Total and senior debt leverage ratio..... | 4.4 | 3.2 | 2.2 |
| Interest coverage ratio..... | 3.0 | 4.6 | 6.7 |

¹ See discussion on non-GAAP measures on page 40. Combined segment profit, Adjusted EBITDA, and EBITDA, represents the aggregated results of both continuing and discontinued operations.

² See discussion on non-GAAP measures on pages 18 to 23 and 40.

³ See pages 29 and 18 to 23 for a reconciliation of distributable cash flow to cash flow from operations and EBITDA to net income (loss), respectively. Distributable cash flow from combined operations include results from continuing and discontinued operations.

⁴ Comparative period information has been restated to reflect the impact of discontinued operations. Refer to "subsequent events" for details.

2016 REVIEW

Financial highlights

- Segment profit for the Infrastructure segment increased by 11% to \$200.3 million for the year ended December 31, 2016 compared to \$181.1 million for the year ended December 31, 2015 as a result of the additional tank capacity and associated fixed fee contracts added during the year.
- Combined segment profit decreased by 29% to \$298.0 million for the year ended December 31, 2016 compared to \$418.8 million for the year ended December 31, 2015.
- Combined Adjusted EBITDA decreased by 28% to \$278.1 million for the year ended December 31, 2016 compared to \$386.3 million for the year ended December 31, 2015.
- Net loss from continuing operations decreased by 40% to \$178.2 million for the year ended December 31, 2016 compared to \$295.4 million for the year ended December 31, 2015.
- Throughout 2016, the Company continued its efforts on headcount rationalization and, as a result, recorded non-recurring severance costs of \$10.0 million for the year ended December 31, 2016. Overall, the reduction in headcount resulted in salaries and benefits savings of approximately \$39.7 million when compared to 2015, and reflects management's commitment to continue to improve bottom line performance by aligning costs in light of depressed industry conditions.
- In the fourth quarter of 2016, the Company declared a dividend of \$0.33 per common share. Total dividends declared in the year ended December 31, 2016, was \$182.0 million representing a 13% increase over the \$161.0 million declared in the year ended December 31, 2015.
- In the second quarter of 2016, the Company completed an offering of 14,892,500 common shares at a price of \$15.45 per common share for net proceeds of \$220.1 million and \$100.0 million aggregate principal amount of unsecured subordinated convertible debentures (the "Debentures") at a price of \$1,000 per Debenture for net proceeds of \$96.3 million.

Capital expenditure highlights

- In the fourth quarter of 2016, the Company successfully commissioned all of the remaining assets associated with the Hardisty and the Edmonton Terminal expansion projects, thereby increasing the storage, blending, and handling capabilities of the Hardisty Terminal by 2,400,000 barrels and the Edmonton Terminal by 300,000 barrels.
- In the third quarter of 2016, the Company successfully commissioned 500,000 barrels of storage capacity associated with the Hardisty East Terminal expansion project and announced it had received committed customer support for the construction of two new 400,000 barrel crude oil storage tanks and related pipeline connection infrastructure at the Company's Edmonton Terminal. The new tanks, which are expected to be in-service by the second quarter of 2018, are underpinned by a long-term, fixed fee contract with a large, integrated, investment grade customer.
- In the first quarter of 2016, the Company successfully commissioned the Edmonton East Terminal Expansion, thereby increasing the storage, blending, and handling capabilities of the Edmonton Terminal by 160,000 barrels.
- During the year ended December 31, 2016, the Company incurred total growth capital expenditures of \$202.9 million of which \$183.6 million related to the Infrastructure segment for new tanks and related infrastructure at the Hardisty and Edmonton terminals.

SUBSEQUENT EVENTS

Industrial Propane sale

- Subsequent to December 31, 2016, the Company entered into an agreement to sell its Industrial Propane business for non-refundable cash consideration of \$412.0 million, subject to certain adjustments, to Superior Plus LP ("Superior"). The sale will be completed through a series of transactions. Pursuant to an option purchase agreement, dated February 13, 2017, subject to the fulfilment of customary conditions, Gibsons and Superior agreed to complete the initial transaction pursuant to which Superior would pay \$412.0 million in exchange for the grant of an irrevocable option (the "Option") to Superior to acquire 100% of the partnership units and shares (the "Securities") of the Canwest and Stittco

businesses. On March 1, 2017, the Company received the cash payment of \$412.0 million in exchange for the grant of the Option and, effective this date, Superior became entitled to the economics of the Canwest and Stittco propane businesses. Following granting of the Option by Gibsons, closing risk resides with Superior. Gibsons will continue to operate the business based on the terms and covenants of the Option agreement under the direction of the current management team, with no disruption to its employee base and customer service levels, until the final closing of the divestiture, which is expected to occur no later than the fourth quarter of 2017. Upon exercise of the Option by Superior, and receipt of regulatory approvals, the Securities will be transferred to Superior for nominal consideration. From an accounting perspective, the Company will derecognize the Industrial Propane segment effective March 1, 2017. The proceeds of the sale will be utilized to strengthen our capital structure through debt reduction and to support previously announced 2017 and 2018 capital programs within our Infrastructure business.

- In accordance with the requirements of IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, income and expenses associated with the Industrial Propane segment to be sold have been classified as discontinued operations and presented separately for the years ended 2016 and 2015 in the consolidated financial statements of the Company. Selective financial information for the year ended 2014 has also been restated in this MD&A. Associated assets and liabilities have been classified as held for sale as at December 31, 2016 and the comparative information has not been restated in the consolidated financial statements. Unless otherwise stated, the Industrial Propane segment will be referred to as “Discontinued Operations”, and the remaining operations as “Continuing Operations”, and the total discontinued and continuing operations as “Combined Operations” throughout this MD&A.

Credit facility

- Subsequent to December 31, 2016, the Company has amended the Revolving Credit Facility whereby the maximum consolidated senior debt leverage ratio and the maximum consolidated total debt leverage ratio which are now 4.85 to 1.0 for the 2017 fiscal year, 4.25 to 1.0 for the 2018 fiscal year and 4.0 to 1.0 thereafter. Furthermore, the maturity date of our Revolver Credit Facility has been extended from August 2020 to March 2022.

Dividend

- On March 7, 2017, the Board declared a quarterly dividend of \$0.33 per common share for the three months ended March 31, 2017 on its outstanding common shares. The dividend is payable on April 17, 2017 to shareholders of record at the close of business on March 31, 2017.

PROJECT DEVELOPMENTS AND MARKET OUTLOOK

Major growth projects

The Company continues to progress towards the completion of major growth projects within its Infrastructure segment, primarily related to the construction of tankage and pipeline connections. These projects include the construction of two new 400,000 barrel crude oil storage tanks and related pipeline connection infrastructure at the Company's Edmonton Terminal. These new tanks, which are expected to be in-service by the second quarter of 2018, are underpinned by a long-term, fixed fee contract with a large, integrated, investment grade customer.

Additionally, we continue to make progress with commercial development opportunities that, with success, will enable us to add additional storage and connection infrastructure for our customers. In anticipation of success with our customer contracting process, we are moving forward with the front-end engineering and initial civil work to develop an array of up to four tanks on the east side of our Hardisty Terminal. Similar to prior new tank construction initiatives, full development of these tanks will be supported by long-term fixed fee contracts.

Market outlook

Gibsons periodically evaluates its long-range strategic plan in order to assess the implications of emerging industry trends. These industry trends have the ability to affect Gibsons' business and prospects over the short-term (“2 years or less”) and the medium to long-term (“two to five years”).

There are a number of factors that affect our producer customers' views of market access over the short and medium term, particularly in the Western Canadian Sedimentary basin (the “WCSB”). These views, in addition to commodity prices, will impact their willingness to increase their capital expenditure programs, which ultimately leads to increased activity and production volumes, which create opportunities for our terminals at Hardisty and Edmonton, as well as our integrated services that support

those assets:

- Recent government announcements have revived the prospects for the Trans Mountain Expansion and Keystone XL pipeline projects, two of three crucial initiatives (including the Energy East pipeline project) that should help the growing supply of Canadian crude oil garner improved access to the large refining markets in the U.S., Eastern Canada and other foreign locales. The starting point for the pipelines would be adjacent to the Company's Hardisty (Keystone XL) and Edmonton (Trans Mountain Expansion) terminals which could provide increased opportunities for the Company's terminalling services. The timelines for these pipelines would be within our medium to long-term horizon;
- More immediately, Enbridge Inc.'s ("Enbridge") expansion of its Line 67, which went into operation in July 2015, and the proposed replacement of its Line 3, will help the growing supply of Canadian crude oil gain access to the largest refining markets in the U.S. and Eastern Canada. The replacement of Line 3, which received Canadian approval in December, 2016, and is awaiting U.S. approval, could provide incremental capacity by 2019. The Hardisty Terminal is connected to deliver to both of these pipelines and these expansions should provide increased opportunities for the Company's terminal services at Hardisty;
- Enbridge's twinning of the southern section of its Athabasca pipeline, commissioned in January, 2017, should also provide for incremental volumes into the Hardisty Terminal and increased opportunities for the Company's terminal services at Hardisty;
- In the short-term, crude oil pricing, location and quality disconnects, combined with the existing shortage of pipeline takeaway capacity from the WCSB, necessitate demand for terminal services and crude by rail ("CBR") as a solution for export market access. While low crude oil prices have negatively impacted the economics of CBR in recent quarters, the Company expects that as oil prices stabilize, and when export pipeline access becomes a barrier to reach markets, which is possible sometime in 2017, opportunities for the Company to increase its service offering to include more CBR movements will arise;
- Over the medium to long-term, as market access solutions become more certain, the supply of Canadian heavy crude oil from the oil sands should start to grow more rapidly again, resulting in increased demand for terminal services and diluent in the WCSB. Additionally, the recent sanctioning of oil sands related projects in Alberta, such as Kirby North (Canadian Natural Resources Limited) and Christina Lake Phase Six (Cenovus Energy Inc.) should result in increased demand for terminal services and movements of diluent through the Hardisty, Edmonton and Alberta Heartland areas' pipeline and terminal infrastructure and may generate increased opportunities for Gibsons' services; and
- The lifting of the U.S. crude oil export ban in December, 2015 may further advance demand for the utilization of midstream assets to enable increased volumes of crude oil to access tidewater export locations. Gibsons' U.S. presence and extensive footprint offer an important growth platform that should prove advantageous to the Company's North America-wide core midstream infrastructure development plan.

The recent firming of crude prices, combined with the commitments of the Organization of the Petroleum Exporting Countries ("OPEC") to limit supply, improving cost efficiencies and increasing optimism regarding market access solutions, have resulted in modest increases in capital programs being announced over the fourth quarter by a number of our North American producer customers. Over the medium-term, as crude oil supply and demand fundamentals rebalance, the Company anticipates a slow return to increased activity and production levels and a continued demand for midstream assets and a slowly increasing demand for the services provided by our more activity sensitive businesses.

Price fluctuations between crude oil types can create incremental margin opportunities in multiple areas of the Company's operations. While current price differentials have continued to remain compressed in spite of the recent firming in benchmark crude oil prices, the Company remains attentive to opportunities as this trend continues to evolve.

Over the medium to long-term the Company expects new technology for drilling, completion and oil sands development to be deployed within the industry which should improve producers' cost structures and further enhance the viability and resilience of the specific basins in which Gibsons has strategically chosen to operate, resulting in increased North American production and increased demand for Gibsons' services. This should also translate into a significant increase in produced water and other oilfield waste. This increase in oilfield waste, together with increased regulatory scrutiny, should increase demand for the Company's Logistics services.

RESULTS OF CONTINUING OPERATIONS

The Company's senior management evaluates segment performance based on a variety of measures depending on the particular segment being evaluated, including profit, volumes, operating expenses, profit per barrel and upgrade and replacement capital requirements. The Company defines segment profit as revenues less cost of sales (excluding depreciation, amortization and impairment expense) and operating expenses. Revenues presented by segment in the table below include inter-segment revenue, as this is considered more indicative of the level of each segment's activity. Profit by segments excludes depreciation, amortization, accretion, impairment charges, stock based compensation and corporate expenses, as senior management looks at each period's earnings before corporate expenses and non-cash items, such as depreciation, amortization, impairment and stock based compensation, as one of the Company's important measures of segment performance.

The following is a discussion of the Company's segmented results of operations for the three months and years ended December 31, 2016 and 2015 and the following table sets forth revenue and profit by segment for those periods:

| | Three months ended December 31 | | Year ended December 31 | |
|--|-----------------------------------|--------------|---------------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Segment revenue | | | | |
| Infrastructure | \$ 83,458 | \$ 69,965 | \$ 298,150 | \$ 271,341 |
| Logistics | 132,790 | 158,355 | 512,935 | 681,056 |
| Wholesale | 1,322,354 | 1,111,912 | 4,187,508 | 4,967,646 |
| Other | 1,658 | 8,197 | 11,291 | 38,885 |
| Total segment revenue | 1,540,260 | 1,348,429 | 5,009,884 | 5,958,928 |
| Revenue – inter-segmental | (126,073) | (122,422) | (415,703) | (553,617) |
| Total revenue - external | 1,414,187 | 1,226,007 | 4,594,181 | 5,405,311 |
| Segment profit (loss) | | | | |
| Infrastructure | 56,271 | 50,026 | 200,307 | 181,067 |
| Logistics | 14,685 | 18,019 | 39,576 | 90,116 |
| Wholesale | 17,204 | 27,936 | 24,408 | 100,317 |
| Other | (526) | 1,354 | (645) | 5,916 |
| Total segment profit | 87,634 | 97,335 | 263,646 | 377,416 |
| General and administrative | 8,482 | 10,790 | 35,018 | 39,569 |
| Depreciation | 54,185 | 53,785 | 175,346 | 180,471 |
| Amortization | 7,820 | 42,948 | 69,062 | 82,623 |
| Impairment of goodwill | 28,647 | 175,959 | 130,052 | 175,959 |
| Stock based compensation | 7,172 | 5,662 | 24,876 | 20,379 |
| Foreign exchange loss (gain) | 16,165 | 23,186 | (21,617) | 108,180 |
| Net interest expense | 23,317 | 19,406 | 85,526 | 79,022 |
| Loss before income tax | (58,154) | (234,401) | (234,617) | (308,787) |
| Income tax recovery | (7,557) | (16,028) | (56,450) | (13,413) |
| Net loss from continuing operations | (50,597) | (218,373) | (178,167) | (295,374) |
| Net income from discontinued operations, after tax | 13,790 | 6,153 | 18,453 | 14,718 |
| Net loss | \$ (36,807) | \$ (212,220) | \$ (159,714) | \$ (280,656) |

The exclusion of depreciation, amortization and impairment expense could be viewed as limiting the usefulness of segment profit as a performance measure because it does not take into account, in current periods, the implied reduction in value of the Company's capital assets (such as rolling stock, tanks, pipelines, plant and equipment and disposal wells) caused by use, aging and wear and tear. Repair and maintenance expenditures that do not extend the useful life, improve the efficiency or expand the operating capacity of the Company's capital assets are charged to operating expense as incurred.

The Company's segment analysis involves an element of judgment relating to the allocations between segments. Inter-segment sales, cost of sales and operating expenses are eliminated on consolidation. Transactions between segments and within segments are valued at prevailing market rates. The Company believes that the estimates with respect to these allocations and rates are reasonable.

INFRASTRUCTURE

The Infrastructure segment is comprised of a network of midstream infrastructure assets that include oil terminals, rail loading and unloading facilities, injection stations, gathering pipelines and processing facilities that collect, store and process oil and other liquid hydrocarbon production and by-products before eventual distribution to end-use markets. The primary facilities within this segment include the terminals located at Hardisty and Edmonton, which are the principal hubs for aggregating and exporting oil and refined products out of the WCSB; gathering pipelines, which are connected to the Hardisty Terminal and to one of our Processing Recovery and Disposal (“PRD”) locations; injection stations, which are located in the U.S.; a crude oil processing facility in Moose Jaw, Saskatchewan (the “Moose Jaw Facility”), and processing, recovery, and disposal terminals located throughout Western Canada and the Northern U.S.

Our PRD business is dependent upon the drilling activity in WCSB, Bakken and the Northern U.S. As a result, the PRD business is impacted by seasonality due to road bans as part of spring break-up.

The following tables set forth the operating results from the Company’s Infrastructure segment for the three months and years ended December 31, 2016 and 2015:

| Volumes (barrels in thousands) | Three months ended December 31 | | Year ended December 31 | |
|--------------------------------------|-----------------------------------|-----------|---------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Terminals and facilities | | | | |
| Hardisty Terminal..... | 56,802 | 54,902 | 211,699 | 208,292 |
| Edmonton Terminal | 5,421 | 3,544 | 16,922 | 14,510 |
| Moose Jaw Facility | 1,628 | 1,410 | 5,180 | 5,438 |
| PRD Terminals | 3,201 | 3,496 | 10,904 | 15,059 |
| Injection Stations | 6,419 | 10,093 | 32,310 | 40,511 |
| Total terminals and facilities | 73,471 | 73,445 | 277,015 | 283,810 |
| | | | | |
| | Three months ended December 31 | | Year ended December 31 | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | \$ 83,458 | \$ 69,965 | \$ 298,150 | \$ 271,341 |
| Operating expenses and other | 27,187 | 19,939 | 97,843 | 90,274 |
| Segment profit | \$ 56,271 | \$ 50,026 | \$ 200,307 | \$ 181,067 |

Operational performance

In the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015:

Hardisty Terminal volumes increased by 3% and 2%, respectively. The increase during the periods was largely driven by the impact of the new tanks commissioned in the fourth quarter of 2016 and the commissioning of the connectivity enhancement projects related to the twinning of the Cold Lake and Athabasca pipeline connections during the first quarter of 2016. The year over year increases were partially offset by the operational impact of the Fort McMurray forest fire on volumes delivered to our customers in the second quarter of 2016.

The Edmonton Terminal volumes increased by 53% and 17%, respectively. The increase during the periods was mainly due to commissioning of the Edmonton West Terminal, completed in the fourth quarter of 2016. The full year was also impacted by tanks being put back into service as a result of the commissioning of the Edmonton East Terminal expansion completed in the first quarter of 2016.

The Moose Jaw Facility volumes increased by 15% and decreased 5%, respectively. The quarter over quarter increase was primarily due to the impact of higher processing activity related to increased demand for distillates to service the increase in drilling activity in the WCSB and the North Dakota Bakken. The year over year decrease was mainly due to the impact of a longer plant turnaround time during the second quarter of 2016.

PRD Terminal volumes decreased by 8% and 28%, respectively, mainly due to lower drilling activity. Volumes in the fourth quarter of 2016 increased to their highest level, when compared to the prior quarters in 2016, due to increased activity levels in the Company's WCSB service areas.

Injection Station volumes decreased by 36% and 20%, respectively, mainly due to a decrease in activity with a major customer in the North Dakota Bakken as a result of the low netbacks in the region causing them to shift focus to other basins and in the Permian region as a result of reduced trucking volumes as addressed in the logistics narrative.

Financial performance

In the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015:

Revenue at the Hardisty Terminal increased by \$6.8 million and \$21.6 million, respectively. The increases were largely driven by increased revenue from the new tanks commissioned in the fourth quarter of 2016 which provided additional customers with dedicated tank usage who are subject to fixed fee arrangements. The increases were also driven by the commissioning of the connectivity enhancement project and associated service enhancement activities specific to the twinning of the Cold Lake and Athabasca pipeline connections completed early in 2016, partially offset by the impact of Fort McMurray forest fires.

Revenue at the Edmonton Terminal increased by \$7.3 million and \$20.2 million, respectively. The increases were primarily due to the impact of the revenue related to the commissioning of the Edmonton East Terminal expansion and the impact of additional fixed fee arrangements and associated volumes related to the new tank at the Edmonton West Terminal that was commissioned in the third quarter of 2016.

PRD Terminal revenue decreased by \$0.2 million and \$12.7 million, respectively. Higher crude prices in the current quarter provided for additional contribution from recovered oil revenues. The year over year decline was mainly due to lower drilling activity in the first three quarters of 2016, partially offset by the additional revenue earned during the fourth quarter of 2016.

There were no material changes in the revenue for each of the Moose Jaw Facility and Injection Stations.

Segment profit increased by \$6.2 million and \$19.2 million, respectively, primarily due to the increased revenues from both the Hardisty Terminal and the Edmonton Terminal. The revenue increase was partially offset by reductions in revenues from the other facilities in the segment, higher operating costs, including payroll related costs from the expansion of the terminals, and one-time environmental remediation costs.

Capital expenditures

Below is the summary of the Infrastructure capital expenditures for the years ended December 31, 2016 and 2015:

| | Year ended December 31 | |
|--------------------------------------|------------------------|------------|
| | 2016 | 2015 |
| Growth capital | \$ 183,561 | \$ 298,334 |
| Upgrade and replacement capital..... | \$ 13,110 | \$ 14,587 |

Growth capital expenditures in the year ended December 31, 2016 primarily relate to construction and expansion projects including the construction of additional tanks and related infrastructure at the Hardisty Terminal and the Edmonton Terminal and the Moose Jaw Facility. Expenditures in the year ended December 31, 2015 include the construction of additional tanks and related infrastructure at the Hardisty Terminal and the Edmonton Terminal and the Moose Jaw Facility, the purchase of small truck unloading terminals in the U.S. and the expansion and construction of existing, and new, PRD Terminals in both Canada and the U.S.

Upgrade and replacement capital includes improvement projects that extend the physical life of an asset, while replacement capital includes purchases that replace existing assets as necessary to maintain current service levels or replace assets that no longer have a useful economic life. Upgrade and replacement capital decreased 10% in the year ended December 31, 2016 compared to prior year, primarily due to higher costs associated with tank cleaning requirements incurred in the prior period at the Hardisty Terminal and the Edmonton Terminal.

LOGISTICS

The Logistics segment includes a suite of logistical wellsite services that enable oil and liquids production to access fixed midstream infrastructure. This segment provides transportation and related services that allow the Company to service its customers' needs several times between the wellhead and the end market, and includes providing hauling services for crude, condensate, propane, butane, asphalt, methanol, sulfur, petroleum coke, gypsum, emulsion, waste water and drilling fluids for many of North America's leading oil and gas producers. Additionally, the Company also provides several ancillary services to production companies.

Generally, the segment's second quarter results are impacted by road bans and other restrictions which impact overall activity levels in the WCSB and the Northern U.S., and, therefore, negatively impact the business. Also, for certain services and geographical regions, the activity is generally the lowest in the winter months when daylight hours are shorter.

The following tables set forth operating results from the Company's Logistics segment for the three months and years ended December 31, 2016 and 2015:

| | Three months ended December 31 | | Year ended December 31 | |
|--|-----------------------------------|--------|---------------------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Volumes (barrels in thousands) | | | | |
| Canadian crude and other products..... | 12,034 | 12,865 | 44,955 | 55,230 |
| U.S. crude and other products..... | 8,229 | 10,144 | 36,629 | 43,057 |
| Total..... | 20,263 | 23,009 | 81,584 | 98,287 |

| | Three months ended December 31 | | Year ended December 31 | |
|---|-----------------------------------|-----------|---------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | | | | |
| Canadian crude and other product hauling..... | \$ 50,582 | \$ 51,041 | \$ 180,636 | \$ 237,764 |
| U.S. crude and other product hauling..... | 21,821 | 30,870 | 101,054 | 138,807 |
| Water hauling and disposal..... | 26,882 | 34,421 | 106,298 | 139,056 |
| Other products and services..... | 33,505 | 42,023 | 124,947 | 165,429 |
| Total revenue..... | 132,790 | 158,355 | 512,935 | 681,056 |
| Cost of sales..... | 96,383 | 111,379 | 372,309 | 465,275 |
| Operating expenses and other..... | 21,722 | 28,957 | 101,050 | 125,665 |
| Segment profit..... | \$ 14,685 | \$ 18,019 | \$ 39,576 | \$ 90,116 |

Operational performance

In the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015:

Canadian crude and other product hauling barrels decreased by 6% and 19%, respectively. The quarter over quarter decrease was primarily due to lower levels of volume-based hauling activity in Northern Alberta and the Saskatchewan Bakken areas, which was primarily attributable to the period over period change in the mix between long and short-haul routes and the type of goods transported. This decrease was partially offset by higher sulphur volumes in the current quarter. The year over year decrease was impacted by lower demand for transportation services and declining production volumes mainly due to lower drilling activity in the Company's service areas as noted above, as well as the operational impact of the Fort McMurray fires on our customers.

U.S. crude and other products volume decreased by 19% and 15%, respectively. The decrease was primarily due to the overall reduced drilling activity which translated into production declines in the first three quarters of 2016 and the completion of more gathering systems connections to existing wells. To a lesser degree, 2016 volumes were negatively impacted as the Company chose to exit the Utica Basin in the fourth quarter of 2016 due to uneconomic hauling margins in the region.

Financial performance

In the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015:

Canadian crude and other product revenue was relatively flat and decreased by 24%, respectively. On a year over year basis, the revenue decreased primarily due to lower volumes hauled resulting from declining production volumes as a consequence of lower drilling activity and the Fort McMurray fires.

U.S. crude and other revenue decreased by 29% and 27%, respectively primarily driven by lower volumes hauled and the impact of lower hauling rates driven by increased competition in the Utica and Permian basins.

Water hauling and disposal revenue decreased by 22% and 24%, respectively, primarily driven by the impact of increased competition for production related volumes in the Bakken and Northern Alberta.

Other products and services revenue decreased by 20% and 24%, respectively, primarily driven by lower activity and increased competition in the Bakken, Rockies and Eagle Ford regions.

Segment profit decreased by 19% and 56%, respectively. On a quarter over quarter basis, the decrease was primarily due to lower gross margins earned on U.S. crude and other products, driven by reduced volumes and lower rates. Canadian operations were also negatively impacted by lower margins primarily related to the mix between long and short hauls and the type of goods transported. Partially offsetting this was higher margins earned on sulphur in the quarter and a reduction in payroll related costs due to overall headcount reductions. On a year over year basis, similar factors contributed to the decrease in margin as stated above. However, the impact of substantially lower margins in the first two quarters of the year, primarily attributable to lower crude hauling margins in Canada and U.S. and the impact of the Fort McMurray fires, further impacted the margins negatively year over year. The decline was partially offset by a reduction in payroll related costs due to overall headcount reductions.

Capital expenditures

Below is the summary of the Logistics capital expenditures for the years ended December 31, 2016 and 2015:

| | Year ended December 31 | |
|--------------------------------------|------------------------|-----------|
| | 2016 | 2015 |
| Growth capital | \$ 5,860 | \$ 36,885 |
| Upgrade and replacement capital..... | \$ 9,634 | \$ 19,989 |

Growth capital expenditures in the year ended December 31, 2016 largely represent the completion costs relating to the Edmonton Trucking facility and additional equipment purchased in the U.S. Expenditures in the year ended December 31, 2015 largely represent the costs for constructing a new office and maintenance facility in Edmonton, Alberta and also the addition of equipment and rolling stock.

Upgrade and replacement capital decreased 52% in the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily due to a reduction in spending relating to the replacement of the truck and trailer fleet.

WHOLESALE

The Wholesale segment includes the purchasing, selling, storing and blending of hydrocarbon products, including crude oil, NGLs, road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil ("CVGO"), and oil based mud ("OBM") product. This segment earns margins by providing aggregation services to producers and/by capturing quality, locational or time-based arbitrage opportunities. This segment also contributes to the Company's overall margins by driving volume based business to our Infrastructure segment.

The Wholesale segment is exposed to commodity price fluctuations arising between the time contracted volumes are purchased and the time they are sold, as well as being exposed to pricing differentials between different geographic markets. These risks are managed by purchasing and selling products at prices based on the same or similar indices or benchmarks, and through physical and financial contracts that include energy-related forward contracts, swaps, futures, options and other hedging instruments. Fair values of these derivative contracts fluctuate depending on the underlying estimates of future commodity prices and can impact the segment profits in the form of realized or unrealized gains and losses that can change significantly period over period.

Canadian road asphalt activity, related to Refined Products, is affected by the impact of weather conditions on road construction. Road asphalt demand peaks during the summer months when most of the road construction activity in Canada takes place. In the off peak demand months for road asphalt, the demand for roofing flux continues. Demand for wellsite fluids is dependent on overall well drilling and completion activities, with activity normally the busiest in the winter months. Demand for propane and other NGLs is also highest in the colder months of the year.

| | Three months ended December 31 | | Year ended December 31 | |
|---|-----------------------------------|---------|---------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| WTI average price (\$USD/bbl)..... | \$49.29 | \$42.18 | \$43.30 | \$48.93 |
| WCS differential | 14.32 | 14.49 | 13.80 | 13.52 |
| Average foreign exchange rates U.S. dollar to Canadian dollar | 1.33 | 1.34 | 1.32 | 1.28 |
| Propane average price (\$USD/U.S. gallon) | 0.62 | 0.38 | 0.46 | 0.38 |
| Butane average price (\$USD/U.S. gallon)..... | 0.79 | 0.68 | 0.63 | 0.67 |

| Volumes (barrels in thousands) | Three months ended December 31 | | Year ended December 31 | |
|--------------------------------|-----------------------------------|---------------|---------------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Crude and diluent | 27,162 | 27,344 | 101,377 | 109,827 |
| Propane and other NGL | 3,551 | 3,613 | 11,632 | 11,438 |
| Refined products..... | 843 | 751 | 3,585 | 3,368 |
| | <u>31,556</u> | <u>31,708</u> | <u>116,594</u> | <u>124,633</u> |

| | Three months ended December 31 | | Year ended December 31 | |
|------------------------------------|-----------------------------------|------------------|---------------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | | | | |
| Crude and diluent..... | \$ 1,073,052 | \$ 923,730 | \$ 3,464,847 | \$ 4,213,082 |
| Propane and other NGL..... | 179,420 | 127,250 | 454,307 | 459,961 |
| Refined products..... | 69,882 | 60,932 | 268,354 | 294,603 |
| Total revenue | <u>1,322,354</u> | <u>1,111,912</u> | <u>4,187,508</u> | <u>4,967,646</u> |
| Cost of sales | 1,297,501 | 1,074,805 | 4,135,937 | 4,845,953 |
| Operating expenses and other | 7,649 | 9,171 | 27,163 | 21,376 |
| Segment profit | <u>\$ 17,204</u> | <u>\$ 27,936</u> | <u>\$ 24,408</u> | <u>\$ 100,317</u> |

Operational performance

In the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015:

Sales volumes for crude and diluent were consistent and decreased by 8%, respectively. Quarter over quarter volumes remained consistent despite volume declines experienced in the first three quarters of 2016 compared to the prior period. This was mainly due to the increase in WCSB activity. Year over year, the decrease was mainly due to a decline in opportunities to bring volumes into the Company's integrated assets, attributable to tighter blending differentials during the first three quarters of 2016, and to the Fort McMurray fires in the second quarter, which also negatively impacted the sales volumes in the current year.

Sales volumes for propane and other NGLs were relatively flat as higher demand for wholesale propane volumes largely offset the lower demand for other NGL volumes.

Volumes for refined products increased by 12% and 6%, respectively. The quarter over quarter volumes increased due to higher demand for OBM and distillates, primarily driven by increased WCSB drilling activity. The year over year volume increase was mainly due to higher demand for CVGO, partially offset by lower demand for frac oils, distillates and asphalt. The decline in asphalt volumes was due to the impact of an extended plant turnaround at Moose Jaw that resulted in reduced product being available for sale, government elections, which delayed seasonal asphalt nominations and adverse wet weather conditions, which delayed or prevented certain paving jobs from being completed.

Financial performance

In the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015:

Revenue for crude and diluent increased by 16% and decreased by 18%, respectively. The quarter over quarter revenue increased due to higher crude oil prices, whereas year over year revenue decreased due to the impact of lower crude oil prices and lower volumes.

Revenue for propane and other NGLs increased by 41% and decreased by 1%, respectively. Quarter over quarter revenue increased mainly due to higher butane and propane prices during the current year period. On a year over year basis, revenue was relatively consistent as the impact of slightly higher volumes was offset by the impact of lower commodity prices.

Revenue for Refined Products increased 15% and decreased 9%, respectively, with the movement relatively in line with the changes in product mix and the impact of the extended turnaround noted above.

Segment profit decreased by 38% and 76%, respectively. The quarter over quarter decrease was mainly due to the impact of lower gross margins on crude oil, primarily driven by narrow spreads in crude oil grades negatively impacting quality arbitrage opportunities. Additionally, propane margins compressed in the current period resulting from increased cost of sales that could not be fully recovered due to market conditions prevalent during the quarter. These impacts were partially offset by higher gross margins on other NGLs, such as butane, and lower operating costs in the current year period compared to the same period last year primarily due to a reduction in business taxes. The year over year decrease was mainly due to similar factors as noted above with additional impact from margin compression on our refined products as well as lower crude oil volumes due to the Fort McMurray fires. Furthermore, the operating expenses increased primarily due to a foreign exchange gain of \$4.3 million, recorded in 2015, compared to a foreign exchange loss of \$0.6 million, recorded in 2016.

Capital expenditures

Below is the summary of Wholesale capital expenditures for the years ended December 31, 2016 and 2015:

| | Year ended December 31 | |
|--------------------------------------|------------------------|-------|
| | 2016 | 2015 |
| Growth capital | \$ 11,423 | \$ 7 |
| Upgrade and replacement capital..... | \$ 55 | \$ 98 |

Expenditures in the year ended December 31, 2016 represent the cost of additional line-fill volumes purchased as a result of a non-recurring change in the arrangement for the Hardisty Terminal and the Edmonton Terminal wherein the Company assumed single shipper status.

OTHER

The Other segment includes the provision of other services to the oil and gas industry including exploration support services (“ESS”) and accommodation services.

The following tables set forth the operating results from the Company’s Other segment for the three months and years ended December 31, 2016 and 2015:

| | Three months ended December 31 | | Year ended December 31 | |
|------------------------------------|-----------------------------------|----------|---------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | \$ 1,658 | \$ 8,197 | \$ 11,291 | \$ 38,885 |
| Cost of sales | 1,896 | 6,207 | 11,322 | 30,935 |
| Operating expenses and other | 288 | 636 | 614 | 2,034 |
| Segment profit (loss) | \$ (526) | \$ 1,354 | \$ (645) | \$ 5,916 |

Operational and financial performance

In the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015:

Revenue decreased by 80% and 71%, respectively. The quarter over quarter decrease was mainly due to an overall decline in the ESS business in Southern Louisiana in the current quarter. The year over year decrease was also due to the overall decline in oil and gas activity, partially offset by the favorable impact of the change in foreign exchange rates on translating revenue denominated in U.S. dollars.

Segment profit decreased by 139% and 111%, respectively. The decrease was primarily driven by the decline in revenue, partially offset by lower costs of sales, reflecting the impact of lower direct labour and materials costs and lower operating expenses mainly due to a reduction in payroll related costs.

General and administrative and other, excluding depreciation and amortization

General and administrative expense (“G&A”) is comprised of costs incurred at the corporate level and relates to items such as executive, finance and operational support services. G&A expense was \$35.0 million in the year ended December 31, 2016, compared to \$39.6 million in the year ended December 31, 2015. The decrease in the year ended December 31, 2016 was a function of lower payroll costs due to our headcount rationalization efforts that continued throughout the year, and head office overhead cost reductions. These savings were partially offset by mark to market movements on equity financial instruments, higher severance costs incurred during the current year as well as the impact of a non-recurring other income amount recorded in prior year G&A expense. Excluding the impact of equity financial instruments gains and losses, severance costs and non-recurring income, the G&A expenses decreased by approximately 14% year over year.

Depreciation and impairment

Depreciation expense in the year ended December 31, 2016 was \$175.3 million compared to \$180.5 million, in the year ended December 31, 2015. The decrease was primarily due to the impact of asset disposals, assets reaching the end of depreciable lives and the higher amount of impairment charges recorded in 2015, partially offset by additional depreciation on asset additions in the current year period. The Company recorded impairment charges within depreciation of \$10.6 million and \$13.5 million during the years ended December 31, 2016, and 2015, respectively.

Amortization and impairment

Amortization expense was \$69.1 million in the year ended December 31, 2016 compared to \$82.6 million in the year ended December 31, 2015. The decrease was largely due to the revision of useful lives of certain intangible assets within the Company’s Logistics segment which resulted in additional amortization expense of \$30.5 million in the prior year period. The Company recorded impairment expense of \$1.6 million during the year ended December 31, 2016.

Impairment of goodwill

In the year ended December 31, 2016, the Company recorded goodwill impairment losses within the Company’s U.S. Environmental Services and Refined Products business segments of \$101.4 million and \$28.6 million, respectively. The respective impairments were identified as part of management’s review of impairment indicators during the year. Accordingly, it was determined that the recoverable values of both the U.S. Environmental Services business segment and the Refined Products business within the Wholesale segment were less than the respective carrying values and, therefore, an impairment loss was recorded for the respective business units. As at December 31, 2016 the entire amount of goodwill related to the U.S. Environmental Services and Refined Products business segments has been written off. During the year ended December 31, 2015, a goodwill impairment loss within the U.S. Environmental Services business segment of \$176.0 million was recorded, triggered by impairment indicators.

Stock based compensation

Stock based compensation expense was \$24.9 million in the year ended December 31, 2016, compared to \$20.4 million, in the year ended December 31, 2015. The increase was primarily driven by additional expense from the granting of stock awards in the year ended December 31, 2016 in lieu of cash bonuses for senior employees, as well as immediate vesting of awards for certain retiring executives during the current year. This was partially offset by the impact of forfeitures of performance share units.

Foreign exchange loss not affecting segment profit

In the years ended December 31, 2016 and 2015, the Company recorded a foreign exchange gain of \$21.6 million and a foreign exchange loss of \$108.2 million, respectively.

The gains and losses recorded are primarily driven by the movement in exchange rates on the translation of the Company’s U.S. dollar denominated long-term debt and related financial instruments. In the years ended December 31, 2016 and 2015, a gain of \$22.7 million and a loss of \$123.1 million, respectively, were recorded due to the favorable and unfavorable movements in exchange rates on the translation of Company’s U.S. dollar denominated long-term debt. In the year ended December 31, 2015, the loss was partially offset by a gain of \$10.0 million, related to the change in mark-to-market value of U.S. dollar denominated forward contracts and options used to mitigate the currency risk associated with the Company’s U.S. dollar denominated long-term debt.

In the first quarter of 2015, the Company settled its forward contracts and options used to mitigate the currency risk associated with the Company's U.S. dollar denominated long-term debt and as a result, received net cash of \$36.6 million on the settlement of U.S. dollar forward contracts for a notional amount of U.S.\$250.0 million and U.S. dollar options for a notional amount of U.S.\$250.0 million.

Net interest expense

Net interest expense was \$85.5 million in the year ended December 31, 2016, compared to \$79.0 million in the year ended December 31, 2015. The increase for the year ended December 31, 2016 was primarily due to higher interest costs related to drawing on the revolving line of credit in the current year compared to the prior year and the issuance of Debentures in 2016, partially offset by higher capitalized interest amounts related to our long-term capital projects completed during the year.

Income tax recovery

Income tax recovery from continuing and discontinued operations was \$59.1 million for the year ended December 31, 2016 compared to an income tax recovery of \$6.7 million for the year ended December 31, 2015, as disclosed in note 12 of the consolidated financial statements. The effective tax rate was 27.0% during the year ended December 31, 2016 compared to 2.3% in the year ended December 31, 2015. The main driver for the income tax recovery and the change in the effective rate was the impact of the impairment of goodwill recorded during the years ended December 31, 2016 and December 31, 2015, partially offset by the impact of unrealized amounts relating to the net capital gains arising from foreign exchange movements on the Company's U.S. dollar denominated long-term debt as well as the impact of income taxes recorded for discontinued operations. For the year ended December 31, 2015, as a result of the increase in the Alberta corporate tax rate, the income tax amount includes a \$6.8 million charge relating to the impact of the higher tax rate on the valuation of the Company's net deferred tax liabilities.

RESULTS OF DISCONTINUED OPERATIONS

As discussed earlier in this MD&A, the Industrial Propane segment is classified as discontinued operations as at December 31, 2016.

The Industrial Propane segment is one of the largest retail propane suppliers in Canada with a diversified customer base including a focus on oil and gas customers in Western Canada. This segment operates under the Canwest and Stittco brands and sells propane and related equipment to oil and gas, commercial and other end-user customers. This segment is characterized by a high degree of seasonality driven by the impact of weather on the need for heating and the amount of propane required to produce power for oil and gas related applications. Therefore, volumes are low during the summer months relative to the winter months. Operating profits are also considerably lower during the summer months. Most of the annual segment profit is earned from October to March each year.

The following tables set forth operating results from discontinued operations of the Industrial Propane segment for the three months and year ended December 31, 2016 and 2015:

| Volumes (litres in thousands) | Three months ended December 31 | | Year ended December 31 | |
|-------------------------------|-----------------------------------|----------------|---------------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Oilfield..... | 52,451 | 61,467 | 173,829 | 248,970 |
| Commercial..... | 51,371 | 49,936 | 143,210 | 157,926 |
| Other..... | 32,331 | 26,595 | 105,901 | 102,352 |
| | <u>136,153</u> | <u>137,998</u> | <u>422,940</u> | <u>509,248</u> |

| | Three months ended December 31 | | Year ended December 31 | |
|--------------------------------------|-----------------------------------|-----------------|---------------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | | | | |
| Propane..... | \$ 52,807 | \$ 41,892 | \$ 141,557 | \$ 157,099 |
| Other..... | 7,498 | 8,425 | 26,353 | 29,820 |
| Total revenue..... | <u>60,305</u> | <u>50,317</u> | <u>167,910</u> | <u>186,919</u> |
| Cost of sales..... | 30,374 | 18,363 | 69,608 | 73,092 |
| Operating expenses and other..... | 16,639 | 17,191 | 63,936 | 72,486 |
| Segment profit..... | <u>13,292</u> | <u>14,763</u> | <u>34,366</u> | <u>41,341</u> |
| Depreciation and amortization..... | 3,784 | 4,872 | 18,572 | 19,898 |
| Income before taxes..... | 9,508 | 9,891 | 15,794 | 21,443 |
| Income tax (recovery) provision..... | (4,282) | 3,738 | (2,659) | 6,725 |
| Net income..... | <u>\$ 13,790</u> | <u>\$ 6,153</u> | <u>\$ 18,453</u> | <u>\$ 14,718</u> |

Operational and financial performance

In the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015:

Industrial propane volumes decreased by 1% and 17%, respectively. Quarter over quarter volumes were relatively consistent as lower overall oilfield activity was largely offset by higher activity from Commercial and Other, primarily driven by colder weather patterns in the fourth quarter of 2016 compared to the prior period. The year over year volume decrease was due to lower overall oilfield and commercial activity, and warmer weather patterns in the first half of 2016.

Revenue increased by 20% and decreased by 10%, respectively. The quarter over quarter increase was due to higher prices, whereas the year over year decrease was mainly due to lower volumes.

Segment profit decreased by 10% and 17%, respectively. Quarter over quarter segment profit decreased due to lower margins as a result of a higher proportion of lower margin products being sold in the current quarter compared to the prior quarter. The year over year segment profit decline was primarily due to lower volumes which were impacted by reduced oilfield and commercial activity resulting from warmer weather patterns and lower oilfield activity in the first half of the year.

Capital expenditures

The following table summarizes the Discontinued Operations capital expenditures for the years ended December 31, 2016 and 2015:

| | Year ended December 31 | |
|---------------------------------------|-----------------------------------|-------------|
| | 2016 | 2015 |
| Growth capital | \$ 793 | \$ 2,025 |
| Upgrade and replacement capital | \$ 4,222 | \$ 7,645 |

Growth expenditures in the year ended December 31, 2016 and 2015, mainly represent the addition of tanks and generators in key market areas, whereas the upgrade and replacement expenditures represent the replacement and maintenance related to the Company's tanks and truck fleet.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth a summary of the Company's quarterly results for each of the last eight quarters:

| Three months ended | 2016 | | | | 2015 | | | |
|--------------------------------------|-------------|--------------|-------------|-----------|-------------|--------------|-------------|-------------|
| | December 31 | September 30 | June 30 | March 31 | December 31 | September 30 | June 30 | March 31 |
| Continuing operations | | | | | | | | |
| Revenue..... | \$1,414,187 | \$1,178,741 | \$1,095,026 | \$906,227 | \$1,226,007 | \$1,319,048 | \$1,540,759 | \$1,319,497 |
| Net income (loss)..... | (50,597) | (30,777) | (132,368) | 35,575 | (218,373) | (39,693) | (6,195) | (31,113) |
| EBITDA ⁽²⁾ | 27,312 | 45,580 | (71,968) | 95,486 | (118,227) | 36,286 | 70,569 | 45,259 |
| Adjusted EBITDA ⁽³⁾ | 83,927 | 60,691 | 41,553 | 57,921 | 85,846 | 92,169 | 71,396 | 95,180 |
| Earnings (loss) per share | | | | | | | | |
| Basic..... | (0.37) | (0.22) | (1.01) | 0.28 | (1.74) | (0.31) | (0.05) | (0.25) |
| Diluted..... | \$ (0.37) | \$ (0.22) | \$ (1.01) | \$ 0.28 | \$ (1.74) | \$ (0.31) | \$ (0.05) | \$ (0.25) |
| Discontinued operations | | | | | | | | |
| Revenue..... | \$ 60,222 | \$ 27,188 | \$ 27,472 | \$ 52,817 | \$ 50,216 | \$ 29,942 | \$ 33,668 | \$ 72,845 |
| Net income (loss)..... | 13,790 | (2,093) | (1,778) | 8,534 | 6,153 | (1,502) | (546) | 10,613 |
| EBITDA ⁽²⁾ | 13,292 | 1,872 | 2,728 | 16,474 | 14,763 | 2,938 | 4,247 | 19,393 |
| Adjusted EBITDA ⁽³⁾ | 13,292 | 1,872 | 2,728 | 16,122 | 15,115 | 2,938 | 4,247 | 19,393 |
| Earnings (loss) per share | | | | | | | | |
| Basic..... | 0.09 | (0.01) | (0.01) | 0.07 | 0.05 | (0.02) | - | 0.09 |
| Diluted..... | \$ 0.09 | \$ (0.01) | \$ (0.01) | \$ 0.06 | \$ 0.05 | \$ (0.02) | - | \$ 0.09 |
| Combined operations | | | | | | | | |
| Revenue ⁽¹⁾ | \$1,474,409 | \$1,205,929 | \$1,122,498 | \$959,044 | \$1,276,223 | \$1,348,990 | \$1,574,427 | \$1,392,342 |
| Net income (loss)..... | (36,807) | (32,870) | (134,146) | 44,109 | (212,220) | (41,195) | (6,741) | (20,500) |
| EBITDA ⁽²⁾ | 40,604 | 47,452 | (69,240) | 111,960 | (103,464) | 39,224 | 74,816 | 64,652 |
| Adjusted EBITDA ⁽³⁾ | 97,219 | 62,563 | 44,281 | 74,043 | 100,961 | 95,107 | 75,643 | 114,573 |
| Earnings (loss) per share | | | | | | | | |
| Basic..... | (0.28) | (0.23) | (1.02) | 0.35 | (1.69) | (0.33) | (0.05) | (0.16) |
| Diluted..... | \$ (0.28) | \$ (0.23) | \$ (1.02) | \$ 0.34 | \$ (1.69) | \$ (0.33) | \$ (0.05) | \$ (0.16) |

(1) Revenue from combined operations represents the aggregated results of both continuing and discontinued operations and is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS.

(2) EBITDA is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. EBITDA from continuing operations only consists of net income (loss) before interest expense, income taxes, depreciation and amortization from continuing operations. Combined EBITDA includes results from continuing and discontinued operations.

(3) Adjusted EBITDA is defined as net income (loss) before interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including movement in the unrealized gains and losses on the Company's financial instruments, stock based compensation expense, impairment of long-term assets and asset write-downs. It also removes the impact of foreign exchange movements in the Company's U.S. dollar denominated long-term debt, debt extinguishment expenses and adjustments that are considered non-recurring in nature. Combined Adjusted EBITDA includes results from continuing and discontinued operations, while Adjusted EBITDA from continuing operations only includes results from continuing operations.

The Company presents Combined EBITDA, EBITDA from continuing operations and discontinued operations, Combined Adjusted EBITDA, and Adjusted EBITDA from continuing operations and discontinued operations (**collectively EBITDA and Adjusted EBITDA, respectively**) because it considers these to be important supplemental measures of the Company's performance and believes these measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in industries with similar capital structures. EBITDA and Adjusted EBITDA have limitations as analytical tools, and readers should not consider this item in isolation, or as a substitute for an analysis of the Company's results as reported under IFRS. Some of these limitations are:

- EBITDA and Adjusted EBITDA:
 - each exclude certain income tax payments that may represent a reduction in cash available to the Company;
 - do not reflect the Company's cash expenditures, or future requirements for capital expenditures or contractual commitments;
 - do not reflect changes in, or cash requirements for, the Company's working capital needs; and
 - do not reflect the significant interest expense, or the cash requirements necessary to service interest payments on the Company's debt, including the Debentures, Notes (as defined herein) and the Revolving Credit Facility (as defined herein);
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and
- Other companies in the industry may calculate EBITDA and Adjusted EBITDA differently than the Company does, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered to be measures of discretionary cash available to the Company to invest in the growth of the Company's business. The Company compensates for these limitations by relying primarily on the Company's IFRS results and using EBITDA and Adjusted EBITDA only as supplemental measures. The following table reconciles consolidated net income (loss) to EBITDA and Adjusted EBITDA for continuing operations, discontinued operations, and combined operations for the last eight quarters:

| Three months ended | 2016 | | | | 2015 | | | |
|------------------------------------|-------------|--------------|--------------|------------|--------------|--------------|------------|-------------|
| | December 31 | September 30 | June 30 | March 31 | December 31 | September 30 | June 30 | March 31 |
| Continuing operations | | | | | | | | |
| Net income (loss) | \$ (50,597) | \$ (30,777) | \$ (132,368) | \$ 35,575 | \$ (218,373) | \$ (39,693) | \$ (6,195) | \$ (31,113) |
| Depreciation and amortization..... | 62,005 | 72,051 | 59,613 | 50,739 | 96,733 | 56,038 | 57,023 | 53,300 |
| Interest expense | 23,461 | 21,416 | 21,935 | 19,807 | 19,441 | 19,471 | 20,206 | 20,462 |
| Income tax expense (recovery)..... | (7,557) | (17,110) | (21,148) | (10,635) | (16,028) | 470 | (465) | 2,610 |
| EBITDA..... | \$ 27,312 | \$ 45,580 | \$ (71,968) | \$ 95,486 | \$ (118,227) | \$ 36,286 | \$ 70,569 | \$ 45,259 |
| Discontinued operations | | | | | | | | |
| Net income (loss) | \$ 13,790 | \$ (2,093) | \$ (1,778) | \$ 8,534 | \$ 6,153 | \$ (1,502) | \$ (546) | \$ 10,613 |
| Depreciation and amortization..... | 3,784 | 4,725 | 5,149 | 4,914 | 4,872 | 4,972 | 4,984 | 5,070 |
| Income tax expense (recovery)..... | (4,282) | (760) | (643) | 3,026 | 3,738 | (532) | (191) | 3,710 |
| EBITDA..... | \$ 13,292 | \$ 1,872 | \$ 2,728 | \$ 16,474 | \$ 14,763 | \$ 2,938 | \$ 4,247 | \$ 19,393 |
| Combined operations | | | | | | | | |
| Net income (loss) | \$ (36,807) | \$ (32,870) | \$ (134,146) | \$ 44,109 | \$ (212,220) | \$ (41,195) | \$ (6,741) | \$ (20,500) |
| Depreciation and amortization..... | 65,789 | 76,776 | 64,762 | 55,653 | 101,605 | 61,010 | 62,007 | 58,370 |
| Interest expense | 23,461 | 21,416 | 21,935 | 19,807 | 19,441 | 19,471 | 20,206 | 20,462 |
| Income tax expense (recovery)..... | (11,839) | (17,870) | (21,791) | (7,609) | (12,290) | (62) | (656) | 6,320 |
| EBITDA..... | \$ 40,604 | \$ 47,452 | \$ (69,240) | \$ 111,960 | \$ (103,464) | \$ 39,224 | \$ 74,816 | \$ 64,652 |

The results of EBITDA are primarily driven by segment profit for the respective reportable segments. For more details on the specific factors driving the periodic movements in segment profit, refer to the results of continuing and discontinued operations included in this MD&A.

Adjusted EBITDA and Pro Forma Adjusted EBITDA for continuing, discontinued, and combined operations (***collectively Adjusted EBITDA and Pro Forma Adjusted EBITDA***) are presented in the table below because the Company believes it facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting relative interest expense and foreign exchange differences on the Company's long-term debt and Debentures), the book amortization of intangibles (affecting relative amortization expense) and the age and book value of property, plant and equipment (affecting relative depreciation expense). The Company also presents Adjusted EBITDA and Pro Forma Adjusted EBITDA because it believes such measures are frequently used by securities analysts, investors and other interested parties as measures of financial performance. Adjusted EBITDA and Pro Forma Adjusted EBITDA, as presented herein, are not recognized measures under IFRS and should not be considered as an alternative to operating income or net income as measures of operating results or an alternative to cash flows as measures of liquidity. Adjusted EBITDA differs from the term EBITDA as it is commonly used. Adjusted EBITDA is defined as consolidated net income (loss) before interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including movement in the unrealized gains and losses on the Company's financial instruments, stock based compensation expense, impairment of long-term assets and asset write-downs. It also removes the impact of foreign exchange movements in the Company's U.S. dollar denominated long-term debt, debt extinguishment expenses and other adjustments that are considered non-recurring in nature. Pro Forma Adjusted EBITDA differs from the term Adjusted EBITDA in that it also includes the pro forma effect of acquisitions and divestitures that took place in each fiscal year as if the acquisitions and divestitures took place at the beginning of the fiscal year in which such acquisition or divestiture occurred. Pro Forma Adjusted EBITDA is also used in calculating the Company's covenant compliance under the Company's debt agreements.

The Company's calculation of Adjusted EBITDA and Pro Forma Adjusted EBITDA may not be comparable to such calculations used by other companies. In calculating Pro Forma Adjusted EBITDA, the Company makes certain adjustments that are based on assumptions and estimates that may prove to have been inaccurate. In addition, in evaluating Adjusted EBITDA and Pro Forma Adjusted EBITDA, readers should be aware that in the future the Company may incur expenses similar to those eliminated in the presentation herein.

The results of Adjusted EBITDA are driven by segment profit for the respective reportable segments as well as the adjustments discussed below in the tables. For more details on the specific factors driving the periodic movements in segment profit, refer to the results of continuing and discontinued operations included in this MD&A.

The following tables reconcile EBITDA to Adjusted EBITDA for continuing operations, discontinued operations and combined operations for each of the last eight quarters and Pro Forma Adjusted EBITDA for the years ended December 31, 2016 and 2015:

| | Three months ended | | | | Year ended |
|---|----------------------|-----------------------|------------------|-------------------|----------------------|
| | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2016 |
| Continuing operations | | | | | |
| EBITDA..... | \$ 27,312 | \$ 45,580 | \$ (71,968) | \$ 95,486 | \$ 96,410 |
| Unrealized foreign exchange loss (gain) on long-term debt ⁽¹⁾ | 17,050 | 5,940 | 2,090 | (47,795) | (22,715) |
| Net unrealized loss (gain) from financial instruments ⁽²⁾ | (602) | 2,313 | 2,536 | 1,178 | 5,425 |
| Stock based compensation ⁽³⁾ | 7,172 | 6,858 | 7,490 | 3,356 | 24,876 |
| Impairment of goodwill ⁽⁴⁾ | 28,647 | - | 101,405 | - | 130,052 |
| Severance costs ⁽⁵⁾ | 4,348 | - | - | 5,696 | 10,044 |
| Adjusted EBITDA | <u>\$ 83,927</u> | <u>\$ 60,691</u> | <u>\$ 41,553</u> | <u>\$ 57,921</u> | <u>\$ 244,092</u> |
| Discontinued operations | | | | | |
| EBITDA..... | 13,292 | 1,872 | 2,728 | 16,474 | 34,366 |
| Net unrealized gain from financial instruments ⁽²⁾ | - | - | - | (352) | (352) |
| Adjusted EBITDA | <u>\$ 13,292</u> | <u>\$ 1,872</u> | <u>\$ 2,728</u> | <u>\$ 16,122</u> | <u>\$ 34,014</u> |
| Combined operations | | | | | |
| EBITDA..... | 40,604 | 47,452 | (69,240) | 111,960 | 130,776 |
| Unrealized foreign exchange loss (gain) on long-term debt ⁽¹⁾ | 17,050 | 5,940 | 2,090 | (47,795) | (22,715) |
| Net unrealized loss (gain) from financial instruments ⁽²⁾ | (602) | 2,313 | 2,536 | 826 | 5,073 |
| Stock based compensation ⁽³⁾ | 7,172 | 6,858 | 7,490 | 3,356 | 24,876 |
| Impairment of goodwill ⁽⁴⁾ | 28,647 | - | 101,405 | - | 130,052 |
| Severance costs ⁽⁵⁾ | 4,348 | - | - | 5,696 | 10,044 |
| Combined Adjusted EBITDA | <u>\$ 97,219</u> | <u>\$ 62,563</u> | <u>\$ 44,281</u> | <u>\$74,043</u> | <u>\$ 278,106</u> |
| Pro forma impact of acquisitions ⁽⁷⁾ | | | | | - |
| Combined Pro Forma Adjusted EBITDA | | | | | <u>\$ 278,106</u> |

| | Three months ended | | | | Year ended |
|---|----------------------|-----------------------|------------------|-------------------|----------------------|
| | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2015 |
| Continuing operations | | | | | |
| EBITDA..... | \$ (118,227) | \$ 36,286 | \$ 70,569 | \$ 45,259 | \$ 33,887 |
| Unrealized foreign exchange loss (gain) on long-term debt ⁽¹⁾ | 24,530 | 50,600 | (11,495) | 59,510 | 123,145 |
| Net unrealized loss (gain) from financial instruments ⁽²⁾ | (2,078) | 82 | 7,206 | (14,066) | (8,856) |
| Stock based compensation ⁽³⁾ | 5,662 | 5,135 | 5,116 | 4,466 | 20,379 |
| Impairment of goodwill ⁽⁴⁾ | 175,959 | - | - | - | 175,959 |
| Acquisition related costs ⁽⁶⁾ | - | 66 | - | 11 | 77 |
| Adjusted EBITDA | \$ 85,846 | \$ 92,169 | \$ 71,396 | \$ 95,180 | \$ 344,591 |
| Discontinued operations | | | | | |
| EBITDA..... | 14,763 | 2,938 | 4,247 | 19,393 | 41,341 |
| Net unrealized loss from financial instruments ⁽²⁾ | 352 | - | - | - | 352 |
| Adjusted EBITDA | \$ 15,115 | 2,938 | 4,247 | 19,393 | \$ 41,693 |
| Combined operations | | | | | |
| EBITDA..... | \$ (103,464) | \$ 39,224 | \$ 74,816 | \$ 64,652 | \$ 75,228 |
| Unrealized foreign exchange loss (gain) on long-term debt ⁽¹⁾ | 24,530 | 50,600 | (11,495) | 59,510 | 123,145 |
| Net unrealized loss (gain) from financial instruments ⁽²⁾ | (1,726) | 82 | 7,206 | (14,066) | (8,504) |
| Stock based compensation ⁽³⁾ | 5,662 | 5,135 | 5,116 | 4,466 | 20,379 |
| Impairment of goodwill ⁽⁴⁾ | 175,959 | - | - | - | 175,959 |
| Acquisition related costs ⁽⁶⁾ | - | 66 | - | 11 | 77 |
| Combined Adjusted EBITDA | \$ 100,961 | \$ 95,107 | \$ 75,643 | \$ 114,573 | \$ 386,284 |
| Pro forma impact of acquisitions ⁽⁷⁾ | | | | | 3,611 |
| Combined Pro Forma Adjusted EBITDA | | | | | \$ 389,895 |

- (1) Non-cash adjustment representing the unrealized foreign exchange gain and loss and foreign exchange gain and loss related to long-term debt as a result of the movement in exchange rates in the periods.
- (2) Reflects the exclusion of the movement in the mark-to-market valuation of financial instruments used in risk management activities. The Company uses crude oil and NGL priced futures, options and swaps to manage the exposure to commodities price movements and foreign currency forward contracts and options to manage foreign exchange risks, although the Company does not formally designate these financial instruments as hedges for accounting purposes. Accordingly, the unrealized gains or losses on these financial instruments are recorded directly to the income statement. Management believes that this adjustment better correlates the effect of risk management activities to the underlying operating activities to which they relate.
- (3) Represents the non-cash stock based compensation relating to the Company's equity incentive plan.
- (4) Represents the non-cash impairment of goodwill charge recorded in the years ended December 31, 2016 and 2015.
- (5) Represents the severance costs incurred related to a headcount rationalization review throughout 2016.
- (6) Represents transaction fees that were expensed in connection with acquisitions made by the Company.
- (7) Reflects the pro forma impact of acquisitions on the Company's Adjusted EBITDA as if the acquisitions that took place in the twelve month period occurred on January 1 of each twelve month period. The pro forma impact of acquisitions is calculated on the same basis as Adjusted EBITDA.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Sources

The Company's primary liquidity and capital resource needs are to fund ongoing capital expenditures, growth opportunities, acquisitions, and to fund its dividend. In addition, the Company must service its debt, including interest payments, and finance working capital needs. The Company's short-term and long-term liquidity needs are met through the following sources: cash flow from operations, debt and equity financings, borrowings under the Revolving Credit Facility and proceeds from the sale of assets. As at December 31, 2016, the Company has sufficient liquidity sources to fund its ongoing capital expenditures, growth opportunities, dividends, debt service requirements and working capital needs over the short and long-term. As discussed in the subsequent events section, the Company received a cash payment of \$412.0 million on March 1, 2017 in connection with the sale of the Industrial Propane business which will be utilized to repay certain indebtedness of the Company. Furthermore, the Company may enter into transactions that are planned to further refinance our long-term indebtedness, reduce interest costs and extend certain maturities in our debt portfolio.

Cash flow summary

The Company's operating cash flow is generally impacted by the overall profitability within the Company's segments, the Company's ability to invoice and collect from customers in a timely manner and the Company's ability to efficiently implement the Company's growth strategy and manage costs. Below is the summary of changes in the cash flow from continuing and discontinued operations:

Continuing operations

The following table summarizes the Company's sources and uses of funds for the years ended December 31, 2016 and 2015 from continuing operations:

| | Year ended December 31 | |
|--|---------------------------|------|
| | 2016 | 2015 |

Statement of cash flows

Cash flows provided by (used in):

| | | |
|----------------------------|------------|--------------|
| Operating activities | \$ 175,482 | \$ 399,117 |
| Investing activities | (243,193) | (364,565) |
| Financing activities | \$ 17,556 | \$ (141,862) |

Cash provided by operating activities

Cash provided by operations in the year ended December 31, 2016 was \$175.5 million compared to \$399.1 million in the year ended December 31, 2015. The decrease was due to a decline in segment profit primarily related to the Logistics and Wholesale segments (refer to the respective section in "Results of Continuing Operations" for more details) as well as changes in working capital needs that resulted in the use of \$47.1 million in cash in the year ended December 31, 2016 compared to cash provided to fund working capital of \$56.5 million in the year ended December 31, 2015. The change in working capital requirements in the current period was largely driven by inventory storage requirements along with the impact of increased commodity prices.

Cash provided by operating activities and working capital requirements is strongly influenced by the amount of inventory purchased and subsequently held in storage, as well as by the commodity prices at which inventory is bought and sold. Commodity prices and inventory demand fluctuate over the course of the year in relation to general market forces and seasonal demand for certain products like propane, and, accordingly, working capital requirements related to inventory also fluctuate with changes in commodity prices and demand. The primary drivers of working capital requirements are the collection of amounts related to sales of products such as crude oil, propane, NGLs, asphalt and other products and fees for services associated with the Company's Logistics and Infrastructure segments. Offsetting these collections are payments for purchases of crude oil and other products, primarily within the Wholesale segment, and other expenses. Historically, the Wholesale segment has been the most variable with respect to generating cash flows and working capital due to the impact of crude oil price levels and the volatility that price changes and crude oil grade basis changes have on the cash flows and working capital requirements of this segment. Working capital is also influenced by the management and timing of certain financing activities related to the credit facility, interest payments on debt, as well as payments of dividends as discussed below under cash provided by (used in) financing activities.

Cash used in investing activities

Cash used in investing activities consists primarily of capital expenditures and business acquisitions.

Cash used in investing activities was \$243.2 million in the year ended December 31, 2016, compared to \$364.6 million in the year ended December 31, 2015. Cash used in investing activities largely relates to capital expenditures and acquisitions of which none were completed during 2016. For a summary of capital expenditures and acquisitions for the respective segments, see “Capital expenditures” included throughout this MD&A.

Cash provided by (used in) financing activities

Cash provided by financing activities was \$17.6 million in the year ended December 31, 2016 compared to cash used in financing activities of \$141.8 million in the year ended December 31, 2015. The change was due to the net proceeds from the issuance of common shares of \$220.0 million and the net proceeds from the issuance of the Debentures of \$96.3 million, partially offset by the payment of net interest and cash dividends of \$89.0 million and \$175.6 million, respectively, compared to net interest and cash dividends of \$84.1 million and \$129.0 million, respectively, in the year ended December 31, 2015. In addition, in the year ended December 31, 2016, the Company made net payments to credit facilities of \$35.0 million, and in the year ended December 31, 2015, the Company received net proceeds on the settlement of financial instruments of \$36.6 million. The increase in dividends paid was driven by both the \$0.01 per share increase in dividends, effective in the first quarter of 2016, the increase in shares outstanding from the share issuance and also the impact of the suspension of the DRIP during 2015, resulting in a \$28.9 million increase in cash dividends paid during 2016.

Discontinued operations

The following table summarizes the sources and uses of funds for the years ended December 31, 2016 and 2015 from discontinued operations:

| | Year ended December 31, | |
|--|-------------------------|-----------|
| | 2016 | 2015 |
| Statement of cash flows | | |
| Cash flows provided by (used in): | | |
| Operating activities | \$ 32,084 | \$ 58,950 |
| Investing activities | (3,507) | (8,063) |
| Financing activities | \$ - | \$ - |

Cash provided by operating activities

Cash provided by operations in the year ended December 31, 2016 was \$32.1 million compared to \$58.9 million in the year ended December 31, 2015. The decrease was primarily due to a decline in segment profit and working capital requirements.

Cash used in investing activities

Cash used in investing activities was \$3.5 million in the year ended December 31, 2016, compared to \$8.1 million in the year ended December 31, 2015. Cash used in investing activities largely funded capital expenditures related to upgrade and replacement activities.

Cash provided by (used in) financing activities

There was no cash provided by (used in) financing activities related to discontinued operations.

Capital expenditures

The following table summarizes growth capital and upgrade and replacement capital for the years ended December 31, 2016 and 2015:

| | Year ended December 31 | |
|--|---------------------------|-------------------|
| | 2016 | 2015 |
| Growth capital ⁽¹⁾ | \$ 202,984 | \$ 343,766 |
| Upgrade and replacement capital ⁽²⁾ | 24,841 | 39,130 |
| Total..... | <u>\$ 227,825</u> | <u>\$ 382,896</u> |

(1) Growth capital expenditures in the years ended December 31, 2016 and 2015 include Other and Corporate expenditures of \$2.1 million and \$8.5 million, respectively. These expenditures mainly relate to growth capital expenditure costs associated with the Company's information and operational systems. The remainder of the growth capital expenditures have been discussed in continuing and discontinued operations earlier in this MD&A.

(2) Upgrade and replacement capital expenditures in the years ended December 31, 2016 and 2015 include Other and Corporate expenditures of \$2.0 million and \$4.5 million, respectively. These expenditures mainly relate to upgrade and replacement costs associated with the Company's information and operational systems. The remainder of the upgrade and replacement capital expenditures have been discussed in continuing and discontinued operations earlier in this MD&A.

Planned capital expenditures

Capital expenditures amounted to \$227.8 million in the twelve months ended December 31, 2016. As previously announced, the Company has approved a 2017 growth capital expenditure budget ranging from \$150.0 million to \$250.0 million and an additional \$45.0 million allocated to upgrade and replacement capital expenditures. As at December 31, 2016, the Company has identified and approved planned growth capital expenditure commitments, excluding acquisitions, of \$194.7 million that the Company expects to undertake over the next 12 to 24 months. While the Company anticipates that these planned capital expenditures will occur, certain capital projects are subject to general economic, financial, competitive, legislative, regulatory and other factors, some of which are beyond the Company's control and could impact the Company's ability to complete such activities as planned.

In addition to anticipated capital expenditures, the Company may engage in strategic acquisitions and additional capital expenditures as opportunities arise that benefit the Company's existing operations by expanding the Company's reach in existing markets or by providing platforms by which to enter new markets. Any such acquisition or capital expenditure could be material and could have a material effect on the Company's liquidity, cash flows and capital commitments and resources. Any future acquisitions, capital expenditures or other similar transactions may require additional capital and there can be no assurance that such capital will be available to the Company on acceptable terms, or at all.

Capital structure

| | As at December 31 | |
|--|---------------------|---------------------|
| | 2016 | 2015 |
| Notes | | |
| U.S.\$550.0 million 6.75% Notes due July 15, 2021 | \$ 738,485 | \$ 761,200 |
| \$250.0 million 7.00% Notes due July 15, 2020 | 250,000 | 250,000 |
| \$300.0 million 5.375% Notes due July 15, 2022 | 300,000 | 300,000 |
| Unamortized issue discount and debt issue costs | (16,646) | (19,777) |
| Total financial liability borrowings..... | 1,271,839 | 1,291,423 |
| \$100.0 million Debentures 5.25% due July 15, 2021 (liability component) | 89,765 | - |
| Total debt outstanding | 1,361,604 | 1,291,423 |
| Cash and cash equivalents..... | (60,159) | (82,775) |
| Net debt ⁽¹⁾ | 1,301,445 | 1,208,648 |
| Total share capital (including Debentures – equity component) | 1,919,267 | 1,672,323 |
| Total capital..... | <u>\$ 3,220,712</u> | <u>\$ 2,880,971</u> |

(1) The Debentures are included in the above total capital calculation in accordance with the Company's view of its capital structure which includes shareholders' equity, long-term debt, the Debentures, the Revolving Credit Facility and working capital. The Debentures and associated interest payments are excluded from the definition of net debt included in the consolidated senior and total debt covenant ratios as well as the consolidated interest coverage covenant ratio.

Notes

On June 28, 2013, the Company issued U.S.\$500.0 million 6.75% Senior Unsecured Notes due July 15, 2021 at an issue price of 98.476% and \$250.0 million 7.00% Senior Unsecured Notes due July 15, 2020 at an issue price of 98.633%. On June 12, 2014, the Company issued U.S.\$50.0 million 6.75% Senior Unsecured Notes due July 15, 2021 at an issue price of 108% and issued \$300.0 million 5.375% Senior Unsecured Notes due July 15, 2022 at an issue price of par (collectively, the “Notes”). Interest is payable semi-annually on January 15 and July 15 of each year the Notes are outstanding.

The indenture governing the terms of the Notes, including the supplemental indenture thereto (the “Indenture”), contains certain redemption options whereby the Company can redeem all or part of the Notes at prices set forth in the Indenture from proceeds of an equity offering or on the dates specified in the Indenture. In addition, the holders of Notes have the right to require the Company to redeem the Notes at the redemption prices set forth in the respective indebtedness in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the respective indebtedness.

Debentures

On June 2, 2016, the Company issued \$100.0 million aggregate principal amount of Debentures at a price of \$1,000 per Debenture for net proceeds of approximately \$96.3 million, including debt issuance costs of \$3.7 million. The Debentures, issued at par, bear interest at a rate of 5.25% per annum, payable semi-annually on July 15 and January 15 in each year commencing January 15, 2017, mature on July 15, 2021, and may be redeemed, in certain circumstances, on or after July 15, 2019. The Debentures are convertible at the holder's option into common shares at any time prior to the earlier of July 15, 2021 and the business day immediately preceding the date fixed for redemption by the Company at a conversion price of \$21.65 per common share, being a ratio of approximately 46.1894 common shares per \$1,000 principal amount of the Debenture. The Debentures are subordinated to the Company's senior indebtedness.

Credit facility

The Revolving Credit Facility of \$500.0 million (“Revolving Credit Facility”), the proceeds of which are available to provide financing for working capital and other general corporate purposes, has an accordion feature whereby the Company can increase the Revolving Credit Facility to \$750.0 million, subject to obtaining incremental lender commitments. The Revolving Credit Facility has an extendible term of five years, expiring on August 15, 2020. The Revolving Credit Facility provides sub-facilities for letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate, as the case may be, plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company's total debt leverage ratio. In addition, the Company must pay a standby fee on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins determined in a manner similar to the interest. In addition, the Company has three bilateral demand letter of credit facilities totaling \$150.0 million. The Company had \$nil and \$35.0 million drawn on its \$500.0 million Revolving Credit Facility as of December 31, 2016 and December 31, 2015, respectively, and had issued letters of credit totaling \$48.4 million and \$32.6 million under its bilateral demand letter of credit facilities as at December 31, 2016 and December 15, 2015, respectively.

The Revolving Credit Facility contains certain covenants, including financial covenants requiring the Company to maintain ratios of maximum consolidated senior and total debt leverage as well as to maintain a minimum interest coverage ratio. On December 16, 2016 the Company reached an agreement with its bank syndicate to amend its \$500.0 million Revolving Credit Facility. These amendments included an increase to the maximum consolidated senior and total debt leverage ratio from 4.85 to 1.0 to 5.25 to 1.0 for the period ending on the earlier of the date that is either the last day of the fiscal quarter immediately preceding the fiscal quarter in which the sale of the Industrial Propane segment is closed or abandoned, or June 30, 2017 (covenant amendment period), with such threshold decreasing to 4.85 to 1.0 for the period beginning after the covenant amendment period and ending on December 31, 2017, and decreasing to 4.25 to 1.0 for the period beginning January 1, 2018 and ending on March 31, 2018 and further decreasing to 3.5 to 1.0 thereafter. See the “subsequent events” section for details on amendments to these covenants subsequent to December 31, 2016. In addition, the Company is also required to maintain a minimum interest coverage ratio of no less than 2.5 to 1.0. The consolidated senior debt ratio represents the ratio of all senior debt obligations to Pro Forma Adjusted EBITDA. The consolidated total debt ratio represents the ratio of total debt to Pro Forma Adjusted EBITDA. The consolidated interest coverage ratio represents the ratio of Pro Forma Adjusted EBITDA to consolidated cash interest expense.

As at December 31, 2016, the Company was in compliance with the financial ratios with the senior debt leverage ratio at 4.4 to 1.0, total debt leverage ratio at 4.4 to 1.0, and the interest coverage ratio at 3.0 to 1.0. If the Company fails to comply with the financial covenants, the lenders may declare an event of default. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of repayment of the principal and interest outstanding and a termination of the Revolving Credit Facility.

The Notes and the Revolving Credit Facility contain non-financial covenants that restrict, subject to certain thresholds, some of the Company's activities, including the Company's ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments and engage in specified transactions with affiliates. The Notes and the Revolving Credit Facility also contain customary events of default, including defaults based on events of bankruptcy and insolvency, non-payment of principal, interest or fees when due, breach of covenants, change in control and material inaccuracy of representations and warranties, subject to specified grace periods. As of December 31, 2016, the Company was in compliance with all of its covenants under the Notes and the Revolving Credit Facility.

Share capital

On June 2, 2016, the Company completed an offering of 14,892,500 common shares at a price of \$15.45 per common share for net proceeds of \$220.1 million, including share issuance costs of \$10.0 million.

Dividends

The Company is currently paying quarterly dividends to holders of common shares. The payment of dividends is not guaranteed, and the amount and timing of any dividends payable by Gibsons will be at the discretion of the Board and will be established on the basis of Gibsons' earnings, financial requirements for operations, the satisfaction of a solvency calculation and the terms of the Company's debt agreements. In addition, in connection with Company's dividend policy, after each fiscal year end the Board will formally review the annual dividend amount. In the three months ended December 31, 2016, the Company declared a dividend of \$0.33 per share for a total dividend of \$46.8 million, of which the entire amount was paid in cash on January 17, 2017. The declaration of dividends is considered on a quarterly basis and is at the sole discretion of the Board and will be determined on the basis of earnings, financial requirements for operations and a solvency calculation.

Distributable cash flow

Distributable cash flow is not a standard measure under IFRS and, therefore, may not be comparable to similar measures reported by other entities. Distributable cash flow from continuing and combined operations (collectively "distributable cash flow") is used to assess the level of cash flow generated and to evaluate the adequacy of internally generated cash flow to fund dividends. Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of fluctuations in product inventories or other temporary changes. Upgrade and replacement capital expenditures are deducted from distributable cash flow as there is an ongoing requirement to incur these types of expenditures. The Company may deduct or include additional items in its calculation of distributable cash flow; these items would generally, but not necessarily, be items of a non-recurring nature. The Company has currently reflected non-recurring items relating to severance costs and income taxes paid in distributable cash flow to approximate the internally generated cash flow available to the Company within its normal operating cycle.

During the fourth quarter of 2016, the Company revised its distributable cash flow calculations whereby certain non-recurring adjustments were excluded from the measure. Income taxes were also adjusted to include the impact of cash taxes paid during the period instead of current income taxes. In the Company's view, the revised calculations provide a more meaningful measure to the users of the MD&A.

The following is a reconciliation of distributable cash flow from combined operations to its most closely related IFRS measure, cash flow from operating activities for the years ended December 31, 2016, 2015 and 2014.

| Continuing operations | Year ended December 31 | | |
|---|-----------------------------------|-------------------------|-------------------------|
| | 2016 | 2015¹ | 2014¹ |
| Cash flow from operating activities | \$ 175,482 | \$ 399,117 | \$ 307,040 |
| Adjustments: | | | |
| Changes in non-cash working capital | 32,491 | (92,458) | 3,858 |
| Upgrade and replacement capital | (24,841) | (39,130) | (53,874) |
| Cash interest expense, including capitalized interest | (91,236) | (84,965) | (68,708) |
| Non-recurring items: | | | |
| Severance costs ⁽²⁾ | 10,044 | 2,830 | - |
| Income taxes paid ⁽³⁾ | - | 15,596 | - |
| Distributable cash flow from continuing operations | <u>\$ 101,940</u> | <u>\$ 200,990</u> | <u>\$ 188,316</u> |

| Combined operations | Year ended December 31 | | |
|---|-----------------------------------|-------------------------|-------------------------|
| | 2016 | 2015¹ | 2014¹ |
| Combined cash flow from operating activities | \$ 207,566 | \$ 458,067 | \$ 336,228 |
| Adjustments: | | | |
| Combined changes in non-cash working capital | 34,333 | (118,456) | 29,302 |
| Combined upgrade and replacement capital | (29,063) | (46,775) | (59,035) |
| Cash interest expense, including capitalized interest | (91,236) | (84,965) | (68,708) |
| Non-recurring items: | | | |
| Severance costs ⁽²⁾ | 10,044 | 2,830 | - |
| Income taxes paid ⁽³⁾ | - | 15,596 | - |
| Distributable cash flow from combined operations | <u>\$ 131,644</u> | <u>\$ 226,297</u> | <u>\$ 237,787</u> |
| Dividends declared to shareholders | <u>\$ 181,994</u> | <u>\$ 161,002</u> | <u>\$ 148,573</u> |

(1) Comparative period combined distributable cash flow has been restated to reflect the current year presentation including adjustments to non-recurring items.

(2) Represents the severance costs incurred related to a headcount rationalization review throughout 2016 and 2015, which are considered non-recurring.

(3) Represents \$11.0 million accelerated payment to settle the provincial portion of the partnership deferral for 2015 and 2016 and approximately \$4.6 million of additional current tax expense relating to the net realized gain on the settlement of the U.S. dollar forward contracts and U.S. dollar options in the first quarter of 2015, which are considered non-recurring.

Dividends declared in the year ended December 31, 2016 were \$182.0 million, of which the entire amount was paid in cash. In the year ended December 31, 2016, dividends declared represented 138% of the combined distributable cash flow generated.

Contractual obligations

The following table presents, at December 31, 2016, the Company's obligations and commitments to make future payments under contracts and contingent commitments:

| | Payments due by period | | | | |
|---|-------------------------------|-----------------------------|-------------------|---------------------|------------------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term debt ⁽¹⁾ | \$ 1,288,485 | \$ - | \$ - | \$ 988,485 | \$ 300,000 |
| Convertible debentures | 100,000 | - | - | 100,000 | - |
| Interest payments on long-term debt and Debentures ⁽¹⁾ | 677,472 | 98,222 | 196,443 | 196,443 | 186,364 |
| Operating lease and other commitments ⁽²⁾ | 259,937 | 65,359 | 102,493 | 41,914 | 50,171 |
| Total contractual obligations | <u>\$ 2,325,894</u> | <u>\$ 163,581</u> | <u>\$ 298,936</u> | <u>\$ 1,326,842</u> | <u>\$ 536,535</u> |

- (1) *The exchange rate used to translate the U.S. dollar obligations on the Company's long-term debt and interest payments is the rate as of December 31, 2016 of U.S.\$0.7448 to CAD\$1.00.*
- (2) *Operating lease and other commitments relate to an office lease for the Company's Calgary head office, rail tank cars, vehicles, field buildings, various equipment leases and terminal services arrangements.*

In addition, the Company had accrued liabilities for obligations with respect to the Company's defined benefit plans of \$5.1 million and provisions associated with site restoration on the retirement of assets and environmental costs of \$171.0 million but the timing of such payments is uncertain due to the estimates used to calculate these amounts and the long-term nature of these balances. The Company also has commitments relating to its risk management contracts which are discussed further in "Quantitative and Qualitative Disclosures about Market Risks".

Contingencies

The Company is currently undergoing various tax related audits. While the final outcome of such audits cannot be predicted with certainty, the Company believes that the resolution of these audits will not have a material impact on the Company's consolidated financial position or results of operations.

The Company is involved in various claims and actions arising in the course of operations and is subject to various legal actions and exposures. Although the outcome of these claims is uncertain, the Company does not expect these matters to have a material adverse effect on the Company's financial position, cash flows or operational results. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such legal claims. While fully supportable in the Company's view, some of these positions, if challenged may not be fully sustained on review.

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to the contractual agreements and management decisions, result in the recognition of estimated decommissioning obligations and environmental remediation. Estimates of decommissioning obligations and environmental remediation costs can change significantly based on such factors as operating experience and changes in legislation and regulations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial performance or financial condition.

RELATED PARTY TRANSACTIONS

On August 11, 2011, the Company formed a partnership (the "Plato Partnership") to jointly construct and own a pipeline and emulsion treating, water disposal and oilfield waste management facilities in the Plato area of Saskatchewan. The Plato Partnership commenced operations in 2012. The Company's interest in the Plato Partnership is 50%. A member of the Company's Board is also a director of the other party with the 50% interest in the Plato Partnership. At December 31, 2016 and 2015, the Company's proportionate share of property, plant and equipment in the Plato Partnership was \$8.9 million and \$9.4 million, respectively. The impact of the Company's share of the other financial position and results of the Plato Partnership is not material to the Company's consolidated financial statements.

The related party transactions noted above have been measured at agreed upon market based terms.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at December 31, 2016, there were 141.7 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 2.8 million restricted share units, performance share units and deferred share units outstanding and 3.1 million stock options outstanding as at December 31, 2016.

At December 31, 2016, awards available to grant under the equity incentive plan were approximately 8.3 million.

As at March 6, 2016, 141.8 million common shares, 2.7 million restricted share units, performance share units and deferred share units and 2.9 million stock options were outstanding.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is involved in various commodity related marketing activities that are intended to enhance the Company's operations and increase profitability. These activities often create exposure to price risk between the time contracted volumes are purchased and sold and to foreign exchange risk when contracts are in different currencies (Canadian dollar versus U.S. dollar). The Company is also exposed to various market risks, including volatility in (i) crude oil, refined products, natural gas and NGL prices, (ii) interest rates, (iii) currency exchange rates and (iv) equity prices. The Company utilizes various derivative instruments from time to time to manage commodity price, interest rate, currency exchange rate, and equity price exposure and, in certain circumstances, to realize incremental margin during volatile market conditions. The Company's commodity trading and risk management policies and procedures are designed to establish and manage to an approved level of Value at Risk. The Company has a Commodity Risk Management Committee that has direct responsibility and authority for the Company's risk policies and the Company's trading controls and procedures. Additionally, certain aspects of corporate risk management are handled within the Risk Management Group. The Company's approved strategies are intended to mitigate risks that are inherent in the Company's core businesses of aggregating and marketing and distribution. To hedge the risks discussed above the Company engages in risk management activities that the Company categorizes by the risks the Company is hedging and by the physical product that is creating the risk. The following discussion addresses each category of risk.

Commodity Price Risk. The Company hedges its exposure to price fluctuations with respect to crude oil, refined products, natural gas and NGLs, and expected purchases and sales of these commodities (relating primarily to crude oil, roofing flux, propane sales and purchases of natural gasoline). The derivative instruments utilized consist primarily of futures and option contracts traded on the New York Mercantile Exchange, the Intercontinental Exchange and over-the-counter transactions, including swap and option contracts entered into with financial institutions and other energy companies. The Company's policy is to transact only in commodity derivative products for which the Company physically transacts, and to structure the Company's hedging activities so that price fluctuations for those products do not materially affect the net cash the Company ultimately receives from its commodity related marketing activities.

Although the Company seeks to maintain a position that is substantially balanced within the Company's various commodity purchase and sales activities, the Company may experience net unbalanced positions as a result of production, transportation and delivery variances as well as logistical issues associated with inclement weather conditions.

The intent of the Company's risk management strategy is to hedge the Company's margin. However, the Company has not designated nor attempted to qualify for hedge accounting. Thus, changes in the fair values of all of the Company's derivatives are recognized in earnings and result in greater potential for earnings volatility.

The fair value of futures contracts is based on quoted market prices obtained from the Chicago Mercantile Exchange. The fair value of swaps and option contracts is estimated based on quoted prices from various sources, such as independent reporting services, industry publications and brokers. These quotes are compared to the contract price of the swap, which approximates the gain or loss that would have been realized if the contracts had been closed out at the period end. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. No such positions existed as at December 31, 2016 and December 31, 2015. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by \$9.7 million and \$6.8 million as of December 31, 2016 and 2015, respectively. A 15% unfavorable change would decrease the Company's net income by \$10.1 million and \$6.1 million as of December 31, 2016 and 2015, respectively. However, these changes may be offset by the use of one or more risk management strategies.

Interest rate risk. Following the Notes offering, the Company's long-term debt accrues interest at fixed interest rates and accordingly, changes in market interest rates do not expose the Company to future interest cash outflow variability.

Under the Revolving Credit Facility, the Company is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either the Canadian Prime Rate or U.S. LIBOR, U.S. Base Rate or Canadian Bankers' Acceptance Rate, plus an applicable margin based on the Company's total leverage ratio. As at December 31, 2016, the Company had \$nil drawn under the Revolving Credit Facility and, accordingly, is currently not subject to the interest rate cash flow risk associated with these amounts. At December 31, 2015, the Company had \$35.0 million drawn under the Revolving Credit Facility and 1% favorable and

unfavorable change in interest rates in relation to the amounts drawn at December 31, 2015 would have impacted net income by \$0.3 million.

Currency exchange risks. The Company's monetary assets and liabilities in foreign currencies are translated at the period-end rate. Exchange differences arising from this translation are recorded in the Company's statement of operations. In addition, currency exposures can arise from revenues and purchase transactions denominated in foreign currencies. Generally, transactional currency exposures are naturally hedged (i.e., revenues and expenses are approximately matched), but, where appropriate, are covered using forward exchange contracts. All of the foreign currency forward exchange contracts entered into by the Company, although effective hedges from an economic perspective, have not been designated as hedges for accounting purposes, and therefore any gains and losses on such forward exchange contracts impact the Company's earnings. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would affect the fair value of the Company's outstanding forward currency contracts and options and would decrease the Company's net income by \$1.9 million and \$1.2 million as at December 31, 2016 and 2015, respectively. A 5% favorable change would increase the Company's net income by \$1.8 million and \$1.2 million as at December 31, 2016 and 2015, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

Additionally, currency exposure occurs on a portion of the principal of the Company's long-term debt and the related interest payments, as they are denominated in U.S. dollars. As at December 31, 2016, the Company had outstanding U.S. dollar denominated debt of U.S.\$550.0 million. As a result of the settlement of U.S. forward and options contracts in the first quarter of 2015, the Company has no foreign currency hedges in place relating to its long-term debt at December 31, 2016 and, therefore, the Company is exposed to the associated foreign currency exchange risk. The Company monitors its exposure to foreign currencies, including associated interest payments, and, where optimal, will consider minimizing exposure using appropriate hedging strategies. Currently, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would impact both the carrying value of the Company's long-term debt and any related foreign currency contracts and would decrease the Company's net income by \$31.9 and \$33.1 million as at December 31, 2016 and 2015, respectively. A corresponding favorable change would increase the Company's net income by \$31.9 and \$33.1 million as at December 31, 2016 and 2015, respectively. With respect to the related interest payments on the U.S. dollar denominated long-term debt, to date, the Company has not entered into any foreign currency hedges and, therefore, the Company is exposed to the associated foreign currency exchange risk. Based on the interest rate in effect at December 31, 2016, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar as of December 31, 2016 would increase the Company's annual interest expense by \$2.5 million. A 5% favorable change in the value of the Canadian dollar relative to the U.S. dollar as of December 31, 2016 would decrease the Company's annual interest expense by \$2.5 million.

Equity price risk: The Company has equity price and dilution exposure to shares that it issues under its stock based compensation programs. Gibsons uses equity derivatives to manage volatility derived from its stock based compensation programs. These contracts will mature at the prevailing share prices in accordance with the specific maturities of each contract over a three year period. As at December 31, 2016 and 2015, the Company estimates that a 10% increase in the Company's share price would have resulted in an increase in the Company's income of \$1.7 million and \$0.6 million, respectively. A corresponding decrease in the Company's share price would decrease the Company's net income by \$1.7 million and \$0.6 million, respectively.

ACCOUNTING POLICIES

Critical accounting policies and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the Company's consolidated financial statements. The Company's critical accounting policies and estimates are as follows:

Fair value of assets and liabilities acquired in a business combination. In conjunction with each business combination, the Company must allocate the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items as customer relationships, brands, contracts and industry expertise, involves professional judgment and is ultimately based on

acquisition models and management's assessment of the value of the assets acquired and, to the extent available, third party assessments. Uncertainties associated with these estimates include changes in production volumes, changes in commodity prices, fluctuations in capacity or product slates, economic obsolescence factors in the area and potential future sources of cash flow. During the measurement period, the allocation of purchase price of the acquired entity may be adjusted when the initial accounting for business combination is recorded based on provisional amounts. Although the resolution of these uncertainties has not historically had a material impact on the Company's results of operations or financial condition, the actual amounts may vary significantly from estimated amounts. Any excess of the cost of acquisition over the net fair value of the identifiable assets acquired is recognized as goodwill.

Recoverability of asset carrying values. The Company carries out impairment reviews in respect of goodwill at least annually or if indicators of impairment exist. The Company also assesses during each reporting period whether there have been any events or changes in circumstances that indicate that property, plant and equipment, inventories and other intangible assets may be impaired and an impairment review is carried out whenever such an assessment indicates that the carrying amount may not be recoverable. Such indicators include changes in the Company's business plans, changes in activity levels, an increase in the discount rate, the intention of "holding" versus "selling" and evidence of physical damage. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Where impairment exists, the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and value in use. Impairments are recognized immediately in the consolidated statement of operations.

The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount; that is, the higher of fair value less costs to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. However, the determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters, such as the outlook for global or regional market supply-and-demand conditions, future commodity prices, the effects of inflation on operating expenses and discount rates.

Income tax. Income tax expense represents the sum of the income tax currently payable and deferred income tax. Interest and penalties relating to income tax are also included in income tax expense. Deferred income tax is provided for using the liability method of accounting. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and income tax basis of assets and liabilities. These differences are then measured using enacted or substantially enacted income tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income in the period that the change occurs.

The computation of the Company's income tax expense involves the interpretation of applicable tax laws and regulations in many jurisdictions. The resolution of tax positions taken by the Company can take significant time to complete and in some cases it is difficult to predict the ultimate outcome. In addition, the Company has carry-forward tax losses in certain taxing jurisdictions that are available to offset against future taxable profit. However, deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized. Management judgement is exercised in assessing whether this is the case. To the extent that actual outcomes differ from management's estimates, income tax charges or credits may arise in future periods.

Financial instruments. In situations where the Company is required to mark financial instruments to market, the estimates of gains or losses at a particular period-end do not reflect the end results of particular transactions, and will most likely not reflect the actual gain or loss at the conclusion of the underlying transactions. The Company reflects the fair value estimates for financial instruments based on valuation information from third parties. The calculation of the fair value of certain of these financial instruments is based on proprietary models and assumptions of third parties because such instruments are not quoted on an active market. Additionally, estimates of fair value for such financial instruments may vary among different models due to a difference in assumptions applied, such as the estimate of prevailing market prices, volatility, correlations and other factors, and may not be reflective of the price at which they can be settled due to the lack of a liquid market. Although the resolution of these uncertainties has not historically had a material impact on the Company's results of operations or financial condition, the actual amounts may vary significantly from estimated amounts.

Provisions and accrued liabilities. The Company uses estimates to record liabilities for obligations associated with site restoration on the retirement of assets and environmental costs, taxes, potential legal claims and other accruals and liabilities.

Liabilities for site restoration on the retirement of assets are recognized when the Company has an obligation to restore the site and when a reliable estimate of that liability can be made. An obligation may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognized is the present value

of the estimated future expenditure determined in accordance with local conditions and requirements. The present value is determined by discounting the expenditures expected to be required to settle the obligation using a risk-free discount rate. Estimated future expenditure is based on all known facts at the time and current expected plans for decommissioning. Among the many uncertainties that may impact the estimates are changes in laws and regulations, public expectations, prices and changes in technology. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also recorded. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the completion of a feasibility study or a commitment to a formal plan of action. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure. Estimated future expenditure is based on all known facts at the time and an assessment of the ultimate outcome. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time remediation may require, the complexity of environmental regulations and the advancement of remediation technology.

Other provisions and accrued liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgment to existing facts and circumstances, which can be subject to change. Since the actual cash outflows can take place many years in the future, the carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances. A change in estimate of a recognized provision or accrued liability would result in a charge or credit to net income in the period in which the change occurs.

Initial adoption of accounting policies

During 2016, the following policies were adopted by the Company:

Assets held for sale and discontinued operations. This policy was adopted as a result of the Company's plans to sell its Industrial Propane business as discussed in note 6 of the consolidated financial statements. Accordingly, non-current assets were classified as held for sale as the carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition was met as at December 31, 2016 as the sale was highly probable and the disposal group were available for immediate sale in their present condition.

Non-current assets and disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and:

- *the assets or disposal groups are a major line of business or geographical area of operations;*
- *the assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or*
- *the assets or disposal groups are a subsidiary acquired solely for the purpose of resale.*

The assets or disposal groups that meet these criteria are measured at the lower of the carrying amount and fair value less costs of disposal, with impairments recognized in the consolidated statement of operations. Non-current assets held for sale are presented in current assets and liabilities within the consolidated balance sheet. Assets held for sale are not depreciated, depleted or amortized. Comparative periods in the consolidated balance sheets are not restated. The results of discontinued operations are shown separately in the consolidated statements of operations and comparative figures are restated.

The Company has applied this policy as of December 31, 2016 and accordingly has classified the Industrial Propane segment as held for sale within the current year for the consolidated balance sheet with no restatement of the prior year. The results of discontinued operations are shown separately and comparatives were represented as disclosed in note 6 of the consolidated financial statements.

Compound financial instruments. Compound financial instruments are separated into liability and equity components. The liability component is recognized initially at the fair value of a similar liability that does not have an equity conversion option and the equity component is recognized as the difference between the fair value of the compound financial instrument as a

whole and the fair value of the liability component net of any deferred taxes. Any transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the compound financial instrument is measured at amortized cost and is accreted to the original principal balance using the effective interest method. The equity component is not remeasured subsequent to initial recognition. The equity component and the accreted liability component are reclassified to share capital upon conversion and any balance in the equity component of the compound financial instrument that remains after the settlement of the liability is transferred to contributed surplus.

The Company has applied this policy as of June 30, 2016 as a result of the issuance of the Debentures. The Company has presented the liability and equity components separately in its consolidated balance sheet. The Debentures have been classified as a liability, net of issue costs and net of the fair value of the conversion feature at the date of issue, which has been classified as shareholders' equity. The liability component will accrete up to the principal balance at maturity. The accretion of the liability component and interest payable are expensed in the statement of operations.

Amended standards adopted by the Company

The Company adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with applicable transitional provisions.

- The annual improvements process addresses issues in the 2014-2016 reporting cycles including changes to IFRS 5 - Non-current assets held for sale and discontinued operations, IFRS 7 - Financial instruments: Disclosures, IAS 19 - Employee benefits, and IAS 34 - Interim financial reporting. These improvements are effective for periods beginning on or after January 1, 2016. The adoption of these improvements did not have a material impact on the consolidated financial statements.
- IAS 1 - Presentation of financial statements ("IAS 1"), has been amended to clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2016. The adoption of this amendment did not have a material impact on the consolidated financial statements.
- IFRS 10 - Consolidated financial statements ("IFRS 10"), and IAS 28 - Investments in associates and joint ventures ("IAS 28"), have each been amended to address an inconsistency between IFRS 10 and IAS 28 in regards to a sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves the assets that do not constitute a business. Additionally, the amendments clarify the exception from preparing consolidated financial statements, the consolidation requirements for subsidiaries which act as an extension of an investment entity, and the requirements for equity accounting for investments in associates and joint ventures. The amendments to IFRS 10 and IAS 28 are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have a material impact on the consolidated financial statements.

New standards and interpretations issued but not yet adopted

The following provides information requiring new standards and interpretations that have been issued but not yet adopted by the Company:

- The annual improvements process addresses issues in the 2014-2016 reporting cycles include changes to IFRS 12 - Disclosure of interests in other entities. This improvement is effective for periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.
- IFRIC 22 - Foreign currency transactions and advance consideration ("IFRIC 22"), provides guidance on how to determine the date of the transaction when an entity either pays or receives consideration in advance for foreign currency-denominated contracts. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.
- IFRS 2 - Share-based payments ("IFRS 2"), has been amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. IFRS 2 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.
- The IASB completed the final element of its comprehensive publication of IFRS 9 - Financial Instruments ("IFRS 9") in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a

single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- IFRS 15 - Revenue from contracts with customers ("IFRS 15"), has been issued as a new standard on revenue recognition and will supersede IAS 18 - Revenue and IAS 11- Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a control based revenue recognition model where revenue is recognized when control of the underlying goods or services for certain performance obligations is transferred to the customer. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements by identifying relevant contracts and arrangements that fall within the scope of IFRS 15. The Company has yet to determine the final extent of the impact on the financial statements.
- IFRS 16 - Leases ("IFRS 16"), has been issued as a new standard on leases and will supersede IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. IFRS 16 establishes a single balance sheet accounting model for lessees that will result in the recognition of a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Finance lease exemptions exist for short-term leases where the term is 12 months or less and for leases of low value items. The accounting treatment remains the same for lessors, however new criteria has been added with respect to the choice of classifying a lease as either a finance lease or operating lease. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements and has yet to determine the final extent of the impact on the financial statements.

DISCLOSURE CONTROLS & PROCEDURES

As part of the requirements mandated by the Canadian securities regulatory authorities under National Instrument 52-109-Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the design and operation of the Company's disclosure controls and procedures ("DC&P"), as such term is defined in NI 52-109, as at December 31, 2016. The CEO and CFO are also responsible for establishing and maintaining internal controls over financial reporting, ("ICFR"), as such term is defined in NI 52-109. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission framework in Internal Control – Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and compliance with IFRS. The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and operational effectiveness of such controls as at December 31, 2016.

Based on the evaluation of the design and operating effectiveness of the Company's DC&P and ICFR, the CEO and the CFO concluded that Gibsons' DC&P and ICFR were effective as at December 31, 2016. There have been no changes in ICFR that occurred during the period beginning January 1, 2016 and ended on December 31, 2016 that has materially affected or is reasonably likely to materially affect Gibsons' ICFR.

RISK FACTORS

Shareholders and prospective investors should carefully consider the risk factors noted below before investing in Gibsons' securities, as each of these risks may negatively affect the trading price of Gibsons' securities, the amount of dividends paid to shareholders and the ability of Gibsons to fund its debt obligations, including debt obligations under its outstanding Debentures and any other debt securities that Gibsons may issue from time to time. For a further discussion of the risks identified in this MD&A, other risks and trends that could affect Gibsons' performance and the steps that Gibsons takes to mitigate these risks, readers are referred to Gibsons AIF, which is available on SEDAR at www.sedar.com.

Operational Risks

Operational risks include: tank and pipeline leaks; the breakdown or failure of equipment related to, pipelines and facilities, information systems or processes; the compromise of information and control systems; spills at truck terminals and terminal hubs; spills associated with the loading and unloading of harmful substances onto rail cars and trucks; failure to maintain adequate supplies of spare parts; operator error; labour disputes; disputes with interconnected facilities and carriers; operational

disruptions or apportionment on third-party systems or refineries which may prevent the full utilization of Gibsons' facilities and pipelines; and catastrophic events including but not limited to natural disasters, fires, floods, explosions, train derailments, earthquakes, acts of terrorists and saboteurs, and other similar events, many of which are beyond the Company's control. Gibsons may also be exposed from time to time, to additional operational risks not stated in the immediately preceding sentences. The occurrence or continuance of any of these events could increase the cost of operating Gibsons' assets or reduce revenue, thereby impacting earnings. Additionally, Gibsons' facilities and pipelines are reliant on electrical power for their operations. A failure or disruption within the local or regional electrical power supply or distribution or transmission systems could significantly affect ongoing operations. In addition, a significant increase in the cost of power or fuel could have a materially negative effect on the level of profit realized in cases where the relevant contracts do not provide for recovery of such costs.

Market and Commodity Price Risk

The Company enters into contracts to purchase and sell crude oil, NGLs, and refined products. Most of these contracts are priced at floating market prices. Although the majority of these contracts are back-to-back, these activities could expose the Company to market risks resulting from movements in commodity price, margin, and currency exchange rate differentials between the timing of purchases and subsequent sales. The prices of the products that the Company markets are subject to fluctuations as a result of such factors as seasonal demand changes, changes in commodity markets, and other factors. In many circumstances, purchase and sale contracts are not perfectly matched, as they are entered into at different times and for different values. Furthermore, the Company normally has a long position in propane, NGLs, crude oil, and refined products that the Company markets, and may store these products in order to meet seasonal demand and take advantage of seasonal pricing differentials, thereby resulting in inventory risk.

Because crude oil margins are earned by capturing spreads between different qualities of crude oil, the Company's crude oil marketing business is subject to volatility in price differentials between crude oil streams and blending agents. As a result, margins and profitability can vary significantly from period to period as a result of this volatility. We expect that commodity prices will continue to fluctuate significantly in the future. The Company manages this commodity risk in a number of ways, including the use of financial contracts and by offsetting some physical and financial contracts in terms of volumes, timing of performance and delivery obligations. For example, as NGL and refined product prices are somewhat related to the price of crude oil, crude oil financial contracts are one of the more common price risk management strategies that the Company uses. Also, with respect to crude oil, the Company manages its exposure using WTI based futures, options and swaps. These strategies are subject to basis risk between the prices of crude oil streams, WTI, NGL and refined product values and, therefore, may not fully offset future price movements. Furthermore, there is no guarantee that these strategies and other efforts to manage marketing and inventory risks will generate profits or mitigate all the market and inventory risk associated with these activities. If the Company utilizes price risk management strategies, the Company may forego the benefits that may otherwise be experienced if commodity prices were to increase. In addition, any non-compliance with the Company's trading policies could result in significantly adverse financial effects. To the extent that the Company engages in these kinds of activities, the Company is also subject to credit risks associated with counterparties with whom the Company has contracts.

Additionally, the Company purchases from producers and other customers a substantial amount of crude oil and condensate, propane and NGLs for resale to third parties, including other marketers and end-users. However, the Company may not be successful in balancing its purchases and sales. A producer or supplier could fail to deliver contracted volumes or could deliver in excess of contracted volumes, or a purchaser could purchase less than contracted volumes. Any of these actions could cause the Company's purchases and sales to be unbalanced. While the Company attempts to balance its purchases and sales, if its purchases and sales are unbalanced, the Company will face increased exposure to commodity price risks and could have increased volatility in its operating income and cash flow.

Reputation

Gibsons relies on its reputation to build and maintain positive relationships with its stakeholders, to recruit and retain staff, and to be a credible, trusted company. Reputational risk is the potential for negative impacts that could result from the deterioration of Gibsons' reputation with key stakeholders. The potential for harming the Company's corporate reputation exists in every business decision and public interaction, which in turn can negatively impact the Company's business and its securities. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity, regulatory, environmental and legal risks must all be managed effectively to safeguard the Company's reputation. Negative impacts from a compromised reputation could include revenue loss, reduction in customer base and diminution of share price.

Decommissioning, Abandonment and Reclamation Costs

The Company is responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of the Company's facilities and pipelines at the end of their economic life, the costs of which may be substantial. It is not possible to predict these costs with certainty since they will be a function of regulatory requirements at the time of decommissioning, abandonment and reclamation. The Company may, in the future, be required by applicable laws or regulations to establish and fund one or more decommissioning, abandonment and reclamation reserve funds to provide for payment of future decommissioning, abandonment and reclamation costs, which could decrease funds available to the Company to execute its business plan and service its debt obligations. In addition, such reserves, if established, may not be sufficient to satisfy such future decommissioning, abandonment and reclamation costs and the Company will be responsible for the payment of the balance of such costs.

Legislative and Regulatory Changes

The Company's industry is highly regulated. There can be no guarantee that laws and other government programs relating to the oil and gas industry, the energy services industry and the transportation industry will not be changed in a manner which directly and adversely affects the Company's business. There can also be no assurance that the laws, regulations or rules governing the Company's customers will not be changed in a manner which adversely affects the Company's customers and, therefore, the Company's business. In addition, the Company's pipelines and facilities are potentially subject to common carrier and common processor applications and to rate setting by regulatory authorities in the event agreement on fees or tariffs cannot be reached with producers. To the extent that producers believe processing fees or tariffs with respect to pipelines and facilities are too high, they may seek rate relief through regulatory means. If regulations were passed lowering or capping the Company's rates and tariffs, the Company's results of operations and cash flows could be adversely affected.

Petroleum products that the Company stores and transports are sold by the Company's customers for consumption into the public market. Various federal, provincial, state and local agencies have the authority to prescribe specific product quality specifications for commodities sold into the public market. Changes in product quality specifications or blending requirements could reduce the Company's throughput volume, require the Company to incur additional handling costs or require capital expenditures. For instance, different product specifications for different markets impact the fungibility of the products in the Company's system and could require the construction of additional storage. If the Company is unable to recover these costs through increased revenues, the Company's cash flows could be adversely affected. In addition, changes in the quality of the products the Company receives on its petroleum products pipeline system could reduce or eliminate the Company's ability to blend products.

The Company's cross-border activities are subject to additional regulation, including import and export licenses, tariffs, Canadian and U.S. customs and tax issues and toxic substance certifications. Such regulations include the Short Supply Controls of the Export Administration Act, the North American Free Trade Agreement, the Toxic Substances Control Act and the Canadian Environmental Protection Act, 1999. Violations of these licensing, tariff and tax reporting requirements could result in the imposition of significant administrative, civil and criminal penalties.

In addition, local, consumption and income tax laws relating to the Company may be changed in a manner which adversely affects the Company.

Environmental Regulation and Climate Change

Gibsons is subject to a range of laws, regulations and requirements imposed by various levels of government and regulatory bodies in the jurisdictions in which it operates. While these legal controls and regulations affect all dimensions of Gibsons' activities, including, but not limited to, the operation of pipelines and facilities, construction activities, emergency response, operational safety and environmental procedures, Gibsons does not believe that they impact its operations in a manner materially different from other comparable businesses operating in those jurisdictions.

Greenhouse gases, mainly carbon dioxide and methane, are components of the raw natural gas processed and handled at Gibsons' facilities. Operations at Gibsons' facilities, including the combustion of fossil fuels in engines, heaters and boilers, release carbon dioxide, methane and other minor greenhouse gases. As such, Gibsons is subject to various greenhouse gas reporting and

reduction programs. Gibsons uses an engineering consulting firm to compile inventories of greenhouse gas emissions and reports these inventories in accordance with federal and provincial programs. Second party audits or verifications of inventories are conducted for facilities that are required to meet regulatory targets.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information, as such term is defined under applicable Canadian securities laws ("forward-looking information"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking information. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential" and "capable" and similar expressions are intended to identify forward-looking information. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. No assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. In particular, this MD&A contains forward-looking information pertaining to the following:

- *the completion of the sale of the Industrial Propane segment;*
- *realization of anticipated benefits from the sale of Industrial Propane segment, including the ability to reinvest net proceeds of disposition in a timely and efficient manner;*
- *realization of anticipated benefits from headcount rationalization efforts;*
- *the addition or disposition of assets and changes in the services to be offered by the Company;*
- *the Company's investment in new equipment, technology, facilities and personnel;*
- *the Company's growth strategy to expand in existing and new markets;*
- *the availability of sufficient liquidity for planned growth;*
- *new technology and drilling methodology being deployed towards conventional and unconventional production within the Company's operating areas;*
- *uncertainty and volatility relating to crude prices and price differentials between crude oil streams and blending agents;*
- *increased crude oil production and exploration activity on shore in North America, including from the Canadian oil sands;*
- *the expansion of midstream infrastructure in North America to handle increased production and expansion of capacity in the U.S. refining complex to handle heavier crude oil from the WCSB;*
- *the effect of competition in regions of North America and its impact on downward pricing pressure and regional crude oil price differentials among crude oil grades and locations;*
- *the effect of market volatility on the Company's marketing revenues and activities;*
- *the Company's ability to pay down and retire indebtedness;*
- *the Company's plans for additional strategic acquisitions, capital expenditures or other similar transactions, including the costs thereof;*
- *in-service dates for new storage capacity being constructed by the Company;*
- *the Company's planned hedging activities;*
- *the Company's projections of commodity purchase and sales activities;*
- *the Company's projections of currency and interest rate fluctuations;*
- *the realization of anticipated benefits from the implementation of cost saving measures;*
- *the Company's projections of dividends; and*
- *the Company's dividend policy.*

With respect to forward-looking information contained in this MD&A, assumptions have been made regarding, among other things:

- *future growth in world-wide demand for crude oil and petroleum products;*
- *crude oil prices;*
- *no material defaults by the counterparties to agreements with the Company;*
- *the Company's ability to obtain qualified personnel, owner-operators, lease operators and equipment in a timely and cost-efficient manner;*
- *the regulatory framework governing taxes and environmental matters in the jurisdictions in which the Company conducts and will conduct its business;*
- *changes in credit ratings applicable to the Company;*

- operating costs;
- future capital expenditures to be made by the Company;
- the Company's ability to obtain financing for its capital programs on acceptable terms;
- the Company's future debt levels;
- the impact of increasing competition on the Company; and
- the impact of future changes in accounting policies on the Company's consolidated financial statements.

As discussed earlier in this MD&A, subsequent to December 31, 2016, the Company announced that it has entered into an agreement to sell its Industrial Propane business for cash consideration of \$412.0 million to Superior. The transaction is not complete as of the date of this MD&A and any forward-looking information in this MD&A is made subject to any changes upon closing the transaction.

In addition, this MD&A may contain forward-looking information attributed to third party industry sources. The Company does not undertake any obligations to publicly update or revise any forward-looking information except as required by applicable Canadian securities laws. Actual results could differ materially from those anticipated in forward-looking information as a result of numerous risks and uncertainties including, but not limited to, the risks and uncertainties described in "Forward-Looking Information" and "Risk Factors" included in the Company's Annual Information Form dated March 7, 2017 as filed on SEDAR at www.sedar.com and available on Gibsons website at www.gibsons.com.

NON-GAAP FINANCIAL MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. Combined Revenue, Combined Segment profit, EBITDA from continuing operations, EBITDA from discontinued operations, EBITDA from combined operations, Adjusted EBITDA from continuing operations, Adjusted EBITDA from discontinued operations, Pro Forma Adjusted EBITDA from continuing operations, Pro Forma Adjusted EBITDA from discontinued operations, Pro Forma Adjusted EBITDA from combined operations and distributable cash flow are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. Management considers these to be important supplemental measures of the Company's performance and believes these measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in industries with similar capital structures. See "Summary of Quarterly Results" on page 18 for a reconciliation of EBITDA from continuing, discontinued and combined operations to net income (loss), the IFRS measure most directly comparable to EBITDA, and for a reconciliation of Adjusted EBITDA from continuing, discontinued, and combined operations and Pro Forma Adjusted EBITDA from continuing, discontinued and combined operations to EBITDA from continuing, discontinued and combined operations. Distributable cash flow from continuing operations and combined operations is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. See "Distributable Cash Flow" on page 29 for a reconciliation of distributable cash flow to cash flow from operations, the IFRS measure most directly comparable to distributable cash flow.

Readers are encouraged to evaluate each adjustment and the reasons the Company considers it appropriate for supplemental analysis. Readers are cautioned, however, that these measures should not be construed as an alternative to net income (loss) determined in accordance with IFRS as an indication of the Company's performance.



Consolidated Financial Statements

For the years ended December 31, 2016 and 2015



Contents

| | | | | | |
|---|----|--|----|---|----|
| Independent Auditor's Report | 50 | Consolidated Statement of Comprehensive Income (Loss) | 53 | Consolidated Statement of Cash Flows | 55 |
| Consolidated Balance Sheet | 51 | Consolidated Statement of Changes in Equity | 54 | Notes to Consolidated Financial Statements | 56 |
| Consolidated Statement of Operations | 52 | | | | |



March 7, 2017

Independent Auditor's Report

To the Shareholders of Gibson Energy Inc.

We have audited the accompanying consolidated financial statements of Gibson Energy Inc., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gibson Energy Inc. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P5L3
T: 403 509 7500, F: 403 781 1825, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Gibson Energy Inc.
Consolidated Balance Sheet

(tabular amounts in thousands of Canadian dollars, except per share amounts)

| | December 31, | |
|--|---------------------|---------------------|
| | 2016 | 2015 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 60,159 | \$ 82,775 |
| Trade and other receivables (note 7) | 428,248 | 370,313 |
| Inventories (note 8) | 144,595 | 107,593 |
| Income taxes receivable | 8,057 | 16,130 |
| Prepaid and other assets | 17,976 | 18,124 |
| Net investment in finance leases (note 9) | 2,325 | 1,045 |
| Assets held for sale (note 6) | 266,359 | - |
| Total current assets | <u>927,719</u> | <u>595,980</u> |
| Non-current assets | | |
| Property, plant and equipment (note 10)..... | 1,643,294 | 1,771,117 |
| Long-term prepaid and other assets (note 11) | 4,350 | 4,564 |
| Net investment in finance leases (note 9) | 118,244 | 93,389 |
| Deferred income tax assets (note 12)..... | 47,165 | 1,596 |
| Intangible assets (note 13)..... | 66,086 | 145,433 |
| Goodwill (note 14) | 454,489 | 670,907 |
| Total non-current assets | <u>2,333,628</u> | <u>2,687,006</u> |
| Total assets | <u>\$ 3,261,347</u> | <u>\$ 3,282,986</u> |
| Liabilities | | |
| Current liabilities | | |
| Credit facilities (note 15) | - | 35,000 |
| Trade payables and accrued charges (note 17) | 468,834 | 418,732 |
| Dividends payable (note 20) | 46,772 | 40,363 |
| Deferred revenue | 9,833 | 7,690 |
| Income taxes payable | - | 7,775 |
| Liabilities related to assets held for sale (note 6) | 39,767 | - |
| Total current liabilities | <u>565,206</u> | <u>509,560</u> |
| Non-current liabilities | | |
| Long-term debt (note 15) | 1,271,839 | 1,291,423 |
| Convertible debentures (note 16) | 87,312 | - |
| Provisions (note 18) | 171,038 | 155,343 |
| Other long-term liabilities (note 19) | 6,506 | 13,975 |
| Deferred income tax liabilities (note 12) | 102,350 | 145,684 |
| Total non-current liabilities | <u>1,639,045</u> | <u>1,606,425</u> |
| Total liabilities..... | <u>2,204,251</u> | <u>2,115,985</u> |
| Equity | | |
| Share capital (note 20)..... | 1,909,032 | 1,672,323 |
| Contributed surplus | 46,899 | 34,959 |
| Accumulated other comprehensive income..... | 201,089 | 224,866 |
| Convertible debentures (note 16) | 7,151 | - |
| Deficit | (1,107,075) | (765,147) |
| Total equity | <u>1,057,096</u> | <u>1,167,001</u> |
| Total liabilities and equity | <u>\$ 3,261,347</u> | <u>\$ 3,282,986</u> |

Commitments and contingencies (note 21)

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

(signed) "James M. Estey"
 James M. Estey (Director)

(signed) "Marshall L. McRae"
 Marshall L. McRae (Director)

Gibson Energy Inc.
Consolidated Statement of Operations

(tabular amounts in thousands of Canadian dollars, except per share amounts)

| | Year ended December 31, | |
|---|----------------------------|--------------------------------|
| | 2016 | (Restated – Note 6) 2015 |
| Revenue (note 22) | \$ 4,594,181 | \$ 5,405,311 |
| Cost of sales (notes 8, 23, 24 and 30) | 4,569,374 | 5,296,045 |
| Gross profit | 24,807 | 109,266 |
| General and administrative expenses (notes 23, 24 and 30) | 69,818 | 71,702 |
| Impairment of goodwill (note 14) | 130,052 | 175,959 |
| Other operating income (note 25) | (3,257) | (21,778) |
| Loss from operating activities | (171,806) | (116,617) |
| Interest expense | 86,619 | 79,580 |
| Interest income | (1,093) | (560) |
| Foreign exchange (gain) loss on long-term debt (note 15) | (22,715) | 113,150 |
| Loss before income taxes | (234,617) | (308,787) |
| Income tax recovery (note 12) | (56,450) | (13,413) |
| Net loss from continuing operations | \$ (178,167) | \$ (295,374) |
| Net income from discontinued operations, after tax (note 6) | 18,453 | 14,718 |
| Net loss | \$ (159,714) | \$ (280,656) |
| Earnings Loss per share (note 26) | | |
| Basic loss per share from continuing operations | \$ (1.32) | \$ (2.35) |
| Basic income per share from discontinued operations | 0.14 | 0.12 |
| Basic loss per share | \$ (1.18) | \$ (2.23) |
| Diluted loss per share from continuing operations | \$ (1.32) | \$ (2.35) |
| Diluted income per share from discontinued operations | 0.13 | 0.12 |
| Diluted loss per share | \$ (1.19) | \$ (2.23) |

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.**Consolidated Statement of Comprehensive Income (Loss)**

(tabular amounts in thousands of Canadian dollars, except per share amounts)

| | Year ended | |
|---|--------------|--------------|
| | December 31, | |
| | 2016 | 2015 |
| Net loss | \$ (159,714) | \$ (280,656) |
| Other comprehensive income (loss) | | |
| <i>Items that may be reclassified subsequently to statement of operations</i> | | |
| Exchange differences on translating foreign operations | (23,777) | 131,855 |
| <i>Items that will not be reclassified to statement of operations</i> | | |
| Remeasurements of post-employment benefit obligation, net of tax | (220) | 184 |
| Other comprehensive (loss) income, net of tax | (23,997) | 132,039 |
| Comprehensive loss | \$ (183,711) | \$ (148,617) |

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.
Consolidated Statement of Changes in Equity

(tabular amounts in thousands of Canadian dollars, except per share amounts)

| | <u>Share capital (note 20)</u> | <u>Contributed surplus</u> | <u>Accumulated other comprehensive income (loss)</u> | <u>Convertible debentures</u> | <u>Deficit</u> | <u>Total Equity</u> |
|--|--|--------------------------------|--|-----------------------------------|-----------------------|---------------------|
| Balance – January 1, 2015 | \$1,634,001 | \$ 23,841 | \$ 93,011 | \$ - | \$ (323,673) | \$1,427,180 |
| Net loss | - | - | - | - | (280,656) | (280,656) |
| Other comprehensive income, net of tax.... | - | - | 131,855 | - | 184 | 132,039 |
| Comprehensive income | - | - | 131,855 | - | (280,472) | (148,617) |
| Stock based compensation..... | | 20,379 | | | | 20,379 |
| Proceeds from exercise of stock options... | 105 | - | - | - | - | 105 |
| Reclassification of contributed surplus on issuance of awards under equity incentive plan | 9,261 | (9,261) | - | - | - | - |
| Issuance of common shares in connection with the dividend reinvestment and stock dividend programs | 28,956 | | - | - | - | 28,956 |
| Dividends on common shares (\$0.32 per common share) | - | - | - | - | (161,002) | (161,002) |
| Balance – December 31, 2015 | <u>\$ 1,672,323</u> | <u>\$ 34,959</u> | <u>\$ 224,866</u> | <u>\$ -</u> | <u>\$ (765,147)</u> | <u>\$1,167,001</u> |
| Net loss | - | - | - | - | (159,714) | (159,714) |
| Other comprehensive loss, net of tax..... | - | - | (23,777) | - | (220) | (23,997) |
| Comprehensive loss..... | - | - | (23,777) | - | (159,934) | (183,711) |
| Stock based compensation..... | | 24,876 | | | | 24,876 |
| Proceeds from exercise of stock options... | 1,001 | - | - | - | - | 1,001 |
| Reclassification of contributed surplus on issuance of awards under equity incentive plan | 12,936 | (12,936) | - | - | - | - |
| Issuance of common shares for cash, net of issue costs and tax..... | 222,772 | - | - | - | - | 222,772 |
| Issuance of convertible debentures, net of issuance costs and tax (note 16) | - | - | - | 7,151 | - | 7,151 |
| Dividends on common shares (\$0.33 per common share) | - | - | - | - | (181,994) | (181,994) |
| Balance – December 31, 2016 | <u>\$ 1,909,032</u> | <u>\$ 46,899</u> | <u>\$ 201,089</u> | <u>\$ 7,151</u> | <u>\$ (1,107,075)</u> | <u>\$1,057,096</u> |

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.

Consolidated Statement of Cash Flows

(tabular amounts in thousands of Canadian dollars, except where noted)

| | Year ended December 31, | |
|--|----------------------------|--------------------------------|
| | 2016 | (Restated – Note 6) 2015 |
| Cash provided by (used in) | | |
| Operating activities | | |
| Loss from operating activities..... | \$ (171,806) | \$ (116,617) |
| Items not affecting cash | | |
| Depreciation and impairment of property, plant and equipment (notes 10 and 23)..... | 175,346 | 180,471 |
| Amortization and impairment of intangible assets (notes 13 and 23) | 69,062 | 82,623 |
| Impairment of goodwill (note 14)..... | 130,052 | 175,959 |
| Stock based compensation (note 24 and 29)..... | 24,876 | 20,379 |
| Gain on sale of property, plant and equipment (note 25)..... | (4,983) | (2,265) |
| Other | (5,012) | 575 |
| Net loss on fair value movement of financial instruments (note 30) | 5,073 | 1,491 |
| Changes in items of working capital | | |
| Trade and other receivables | (90,595) | 263,525 |
| Inventories..... | (42,350) | 47,760 |
| Other current assets | (1,780) | 6,799 |
| Trade payables and accrued charges..... | 99,260 | (214,291) |
| Deferred revenue | 2,974 | (11,335) |
| Income taxes paid, net | (14,635) | (35,957) |
| Net cash provided by operating activities from continuing operations | 175,482 | 399,117 |
| Net cash provided by operating activities from discontinued operations (note 6)..... | 32,084 | 58,950 |
| Net cash provided by operating activities | 207,566 | 458,067 |
| Investing activities | | |
| Purchase of property, plant and equipment | (240,992) | (318,977) |
| Purchase of intangible assets | (13,588) | (10,728) |
| Acquisitions, net of cash acquired (note 5) | - | (39,772) |
| Proceeds on sale of assets | 11,387 | 4,912 |
| Net cash used in investing activities from continuing operations | (243,193) | (364,565) |
| Net cash used in investing activities from discontinued operations (note 6)..... | (3,507) | (8,063) |
| Net cash used in investing activities | (246,700) | (372,628) |
| Financing activities | | |
| Payment of shareholder dividends..... | (175,586) | (157,985) |
| Proceeds from dividend reinvestment plans (note 20) | - | 28,956 |
| Interest paid | (90,059) | (84,665) |
| Interest received..... | 1,090 | 556 |
| Proceeds from exercise of stock options | 1,000 | 105 |
| Proceeds from issuance of common shares | 230,090 | - |
| Payment of share issue costs..... | (10,273) | - |
| Proceeds from convertible debentures, net of issue costs (note 16) | 96,293 | - |
| Proceeds from credit facilities | 446,790 | 163,257 |
| Repayment of credit facilities..... | (481,789) | (128,257) |
| Repayment of finance lease liabilities | - | (411) |
| Settlement of financial instruments not affecting operating activities (note 30)..... | - | 36,582 |
| Net cash provided by (used in) financing activities from continuing operations | 17,556 | (141,862) |
| Net cash provided by (used in) financing activities from discontinued operations (note 6)..... | - | - |
| Net cash provided by (used in) financing activities | 17,556 | (141,862) |
| Effect of exchange rate on cash and cash equivalents | (1,038) | 7,287 |
| Net decrease in cash and cash equivalents | (22,616) | (49,136) |
| Cash and cash equivalents – beginning of year | 82,775 | 131,911 |
| Cash and cash equivalents – end of year | \$ 60,159 | \$ 82,775 |

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

1 General Information

Gibson Energy Inc. (“Gibsons” or the “Company”) was incorporated pursuant to the Business Corporations Act (Alberta). The Company’s common shares are traded on the Toronto Stock Exchange under the symbol “GEI”.

Gibsons is engaged in the movement, storage, blending, processing and marketing and distribution of crude oil, condensate, natural gas liquids, water, oilfield waste and refined products. The Company also provides emulsion treating, water disposal, oil-field waste management services and propane distribution. The Company is incorporated in Alberta and domiciled in Canada. The address of the Company’s principal place of business is 1700, 440 Second Avenue S.W., Calgary, Alberta, Canada.

2 Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as set out in the Handbook of the Canadian Institute of Chartered Professional Accountants and as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved for issuance by the Company’s board of directors (“Board”) on March 7, 2017.

These consolidated financial statements are presented in Canadian dollars, the Company’s functional currency, and all values are rounded to the nearest thousands of dollars, except where indicated otherwise. All references to \$ are to Canadian dollars and references to U.S.\$ are to United States dollars.

3 Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for certain items that are recorded at fair value as required by the respective accounting standards.

Basis of consolidation

These consolidated financial statements include the results of the Company and its subsidiaries together with its interest in joint operations.

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date control ceases. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint operations and accordingly, the Company has recognized its proportionate share of revenues, expenses, assets and liabilities relating to these joint operations.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Foreign currency translation

The financial statements for each of the Company's subsidiaries and joint operations are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation and functional currency of the parent company is Canadian dollars. Assets and liabilities of foreign operations are translated into Canadian dollars at the market rates prevailing at the balance sheet date. Operating results are translated at the average rates for the period. Exchange differences arising on the consolidation of the net assets of foreign operations are recorded in other comprehensive income (loss).

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of operations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. For acquisitions achieved in stages, previously held equity interests in the acquired company are remeasured at the acquisition date fair value and the resulting gain or loss is recognized in the consolidated statement of operations. Direct costs incurred by the Company in connection with an acquisition, such as finder's fees, advisors, legal, accounting, valuation and other professional or consulting fees, are expensed as general and administrative expenses when incurred. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition plus the amount of any non-controlling interest in the acquiree, and the acquisition date fair value of the acquirer's previously held equity interest, if any, over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the consolidated statement of operations in the period of acquisition.

Any contingent consideration to be transferred by the Company is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that are deemed to be an asset or liability are recognised in the consolidated statement of operations. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

At the acquisition date, any goodwill acquired is allocated to each of the operating segments expected to benefit from the combination's synergies. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses.

An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognized separately from goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives as follows:

| | |
|------------------------------------|--------------|
| Brands | 2 – 10 years |
| Customer relationships | 1 – 12 years |
| Long-term customer contracts | 6 – 10 years |
| Non-compete agreements | 2 – 10 years |
| Technology | 3 – 5 years |
| Software, license and permits..... | 3 – 7 years |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

The expected useful lives and method of amortization of intangible assets are reviewed on an annual basis and, if necessary, changes in expected useful life are accounted for prospectively.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

Depreciation is charged so as to write off the cost of assets, other than assets that are work in progress, using the straight-line method over their expected useful lives.

The useful lives of the Company's property, plant and equipment are as follows:

| | |
|---------------------|---------------|
| Buildings..... | 10 – 20 years |
| Equipment..... | 3 – 20 years |
| Rolling stock | 5 – 23 years |
| Pipelines..... | 8 – 20 years |
| Tanks..... | 20 – 33 years |
| Plant..... | 7 – 25 years |
| Disposal wells..... | 15 – 25 years |

The expected useful lives, method of depreciation and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes are accounted for prospectively.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of operations in the period the item is derecognized.

Impairments

The Company carries out impairment reviews in respect of goodwill at least annually or if indicators of possible impairment exist. The Company also assesses during each reporting period whether there have been any events or changes in circumstances that indicate that property, plant and equipment and intangible assets may be impaired and an impairment review is carried out whenever such an assessment indicates that the carrying amount may not be recoverable. Such indicators include, but are not limited to changes in the Company's business plans, economic performance of the assets, changes in commodity prices leading to lower activity levels, an increase in the discount rate and evidence of physical damage. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Where impairment exists, the asset is written down to its recoverable amount, which is the higher of the fair value less costs of disposal (FVLCD) and its value in use. Impairments are recognized immediately in the consolidated statement of operations.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount, that is, the higher of FVLCD and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. In determining FVLCD, recent market transactions are taken into account, if available. In the absence of such transactions, an appropriate valuation model is used.

An impairment loss in respect of goodwill is not reversible in the future. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been previously recognized.

Assets held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets and disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and:

- the assets or disposal groups are a major line of business or geographical area of operations;
- the assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the assets or disposal groups are a subsidiary acquired solely for the purpose of resale.

The assets or disposal groups that meet these criteria are measured at the lower of the carrying amount and FVLCD, except for deferred tax assets that are carried at fair value, with impairments recognized in the consolidated statement of operations. An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to dispose. Non-current assets held for sale are presented separately in current assets and liabilities within the consolidated balance sheet. Assets held for sale are not depreciated, depleted or amortized. The comparative period consolidated balance sheet is not restated.

The results of discontinued operations are shown separately in the consolidated statements of operations and cash flows and comparative figures are restated.

Non-derivative financial instruments – recognition and measurement

Financial assets

Financial assets include cash and cash equivalents and trade and other receivables. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value, normally being the transaction price plus directly attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in the consolidated statement of operations when the loans and receivables are derecognized or impaired, as well as through the use of the effective interest method. This category of financial assets includes cash and cash equivalents and trade and other receivables.

A provision for impairment of trade receivables is established when there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days past the due date) are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of operations. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Cash and cash equivalents comprise cash on hand and short-term deposit, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of changes in value and maturity of three months or less from the date of acquisition.

Financial liabilities

Financial liabilities classified as other liabilities include amounts borrowed under credit facilities, trade payables and accrued charges, dividends payable, long-term debt and the convertible debentures. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are initially recognized at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in the consolidated statement of operations.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Compound financial instruments

Compound financial instruments are separated into liability and equity components. The liability component is recognized initially at the fair value of a similar liability that does not have an equity conversion option and the equity component is recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component net of any deferred taxes. Any transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the compound financial instrument is measured at amortized cost and is accreted to the original principal balance using the effective interest method. The equity component is not remeasured subsequent to initial recognition. The equity component and the accreted liability component are reclassified to share capital upon conversion and any balance in the equity component of the compound financial instrument that remains after the settlement of the liability is transferred to contributed surplus.

Derivative financial instruments

Derivative financial instruments, used periodically by the Company to manage exposure to market risks relating to commodity prices, interest rates, share based compensation and foreign currency exchange rates, are not designated as hedges. They are recorded at fair value and recorded on the Company's balance sheet as either an asset, when the fair value is positive, or a liability, when the fair value is negative. Changes in fair value are recorded immediately in the consolidated statement of operations.

Inventories

Inventories are carried at the lower of cost and net realizable value, with cost determined using a weighted average cost method. Net realizable value is the estimated selling price less applicable selling expenses. If carrying value exceeds net realizable amount, a write down is recognized. The write down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

Leases - lessee

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Assets acquired under finance leases are recorded in the balance sheet as property, plant and equipment at the lower of their fair value and the present value of the minimum lease payments and depreciated over the shorter of their estimated useful life or their lease terms. The corresponding rental obligations are included in other long-term liabilities as finance lease liabilities. Interest incurred on finance leases is charged to the consolidated statement of operations on an accrual basis.

All other leases are operating leases, and the rental of these is charged to the consolidated statement of operations as incurred over the lease term.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Leases - lessor

Contractual arrangements that transfer substantially all the risks and benefits of ownership of property to the lessee are recorded as a net investment in a finance lease. The present value of minimum lease receivable under such arrangements are recorded as an investment in finance lease and the finance income is recognized in a manner that produces a consistent rate of return on the investment in the finance lease and is included in revenue.

Operating lease income is recognized in the consolidated statement of operations as it is earned over the lease term.

Provisions and contingencies

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized within finance costs.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured reliably and outflow of cash is less than remote. Contingent assets are not recognized, but are disclosed when an inflow of economic benefits is probable.

Decommissioning

Liabilities for site restoration on the retirement of assets are recognized when the Company has an obligation to restore the site, and when a reliable estimate of that liability can be made. An obligation may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The present value is determined by discounting the expenditures expected to be required to settle the obligation using a risk-free discount rate. Actual expenditures incurred are charged against the accumulated liability.

A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. The amount capitalized in property, plant and equipment is depreciated over the useful life of the related asset. Increases in the decommissioning liabilities resulting from the passage of time are recognized as a finance cost in the consolidated statement of operations. Other than the unwinding of the discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

Environmental liabilities

Environmental liabilities are recognized when a remediation is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the completion of a feasibility study or a commitment to a formal plan of action. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure using a risk-free discount rate.

Employee benefits

Defined benefit pension plan

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income (loss) in the period in which they arise.

Past-service costs or credits are recognised immediately in the consolidated statement of operations.

Defined contribution pension plans

The Company's defined contribution plans are funded as specified in the plans and the pension expense is recorded as the benefits are earned by employees and funded by the Company.

Share-based payments

The Company's equity incentive plan allows for the granting of stock options, restricted share units with time based vesting (RSUs) and performance share units (PSUs) with performance based vesting conditions and deferred share units (DSUs) that vest on the date such employee redeems the DSUs after their cessation of employment with the Company.

The fair value of grants made under the employee share award plan is measured at the date of grant of the award. The resulting cost, as adjusted for the expected and actual level of vesting of the awards, is expensed over the period in which the awards vest.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest.

The movement in the cumulative expense since the previous balance sheet date is recognized in the consolidated statement of operations with a corresponding impact to contributed surplus.

The fair value of RSUs, PSUs and DSUs is equal to the Company five days weighted average share price at the date of grant.

The fair value of options is measured by using the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable and it requires the input of highly subjective assumptions. Expected volatility of the stock is based on a combination of the historical stock price of the Company and also of comparable companies in the industry. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the Government of Canada's Canadian Bond Yields with a remaining term equal to the expected life of the options used in the Black-Scholes valuation model.

Termination benefit

The Company recognizes termination benefits as an expense when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing benefits as a result of an offer made to encourage voluntary termination.

Income taxes

Income tax expense represents the sum of the income tax currently payable and deferred income tax. Interest and penalties relating to income tax are included in interest expense.

The income tax currently payable is based on the taxable income for the period. Taxable income differs from net income as reported in the consolidated statement of operations because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided for using the liability method of accounting. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and income tax basis of assets and liabilities. These

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

differences are then measured using enacted or substantially enacted income tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income in the period that the change occurs. Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

Revenue recognition

Product revenues associated with the sales of products such as crude oil, diluent, natural gas liquids, road asphalt, roofing flux, wellsite fluids and distillate owned by the Company are recognized when the risk of ownership passes to the customer and physical delivery occurs, the price is fixed and collection is reasonably assured. Sales terms are generally FOB shipping point, in which case the sales are recorded at the time of shipment, because this is when title and risk of loss are transferred. All payments received before delivery are recorded as deferred revenue and are recognized as revenue when delivery occurs, assuming all other criteria are met. Freight costs billed to customers are recorded as a component of revenue. Revenues from buy/sell transactions whereby the Company effectively is acting as an agent are recorded on a net basis.

Revenue associated with the provision of services such as transportation, terminalling and environmental services are recognized when the services are provided, the price is fixed and collection is reasonably assured. Revenue from pipeline tariffs and fees are based on volumes and rates as the pipeline is being used. Long-term take-or-pay contracts, under which shippers are obligated to pay fixed amounts ratably over the contract period regardless of volumes shipped, may contain make-up rights. Make-up rights are earned by shippers when minimum volume commitments are not utilized during the period but under certain circumstances can be used to offset overages in future periods, subject to expiry periods. The Company recognizes revenues associated with make-up rights at the earlier of when the make-up volume is shipped, the make-up right expires or when it is determined that the likelihood that the shipper will utilize the make-up right is remote. Revenue from pipeline tariffs and fees are based on volumes and rates as the pipeline is being used. Revenue from equipment rentals and non-refundable propane tank fees are recorded in deferred revenue and are recognized in revenue on a straight line basis over the rental period, typically one year.

Excise taxes are reported gross within sales and other operating revenues and taxes other than income taxes, while other sales and value-added taxes are recorded net in operating expenses.

Cost of sales

Cost of sales includes the cost of finished goods inventory (including depreciation, amortization and impairment charges), processing costs, costs related to transportation, inventory write downs and reversals, and gains and losses on derivative financial instruments relating to commodities.

Interest

Interest income and expense is recognized in the consolidated statement of operations using the effective interest method.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the consolidated statement of operations in the period in which they are incurred.

Share capital

Common and preferred shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options and other equity awards were exercised or converted into common shares.

Dividends

Dividends on common shares are recognized in the period in which the dividends are approved by the Board.

Segmental reporting

The Company determines its reportable segments based on the nature of its operations, which is consistent with how the business is managed and results are reported to the chief operating decision maker. Each operating segment also uses a measure of profit and loss that represents segment profit. The chief operating decision maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the President and Chief Executive Officer.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Fair value of assets and liabilities acquired in a business combination

In conjunction with each business combination, the Company must allocate the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items as customer relationships, brands and contracts involves professional judgment and is ultimately based on acquisition models and management's assessment of the value of the assets and liabilities acquired and, to the extent available, third party assessments. Uncertainties associated with these estimates include changes in production volumes, changes in commodity prices, fluctuations in capacity or product slates, economic obsolescence factors in the area and potential future sources of cash flow. During the measurement period, the fair value of assets acquired and liabilities assumed may be adjusted when the initial accounting for business combination is recorded based on provisional amounts. Although the resolution of these uncertainties has not historically had a material impact on the Company's results of operations or financial condition, the actual amounts may vary significantly from estimated amounts. Any excess of the cost of acquisition over the net fair value of the identifiable assets acquired is recognized as goodwill.

Impairment assessment of non-financial assets

The Company tests annually whether goodwill of an operating segment has suffered any impairment, in accordance with the Company's accounting policy. The recoverable amounts of the operating segments are determined based on FVLCD calculations which require the use of estimates. The Company also assesses whether there have been any events or changes in circumstances that indicate that property, plant and equipment and other intangible assets may be impaired and an impairment review is carried out whenever such an assessment indicates that the carrying amount may not be recoverable.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

In the impairment analysis of the Company's assets, some of the key assumptions used in estimating future cash flows include revenue growth, future commodity prices, expected margin, expected sales volumes, cost structures and the outlook of market supply and demand conditions appropriate to the local circumstances and macro-economic environment. These assumptions and estimates are uncertain and are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates.

Income taxes

The Company is subject to income taxes in Canada and the United States of America. Tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires management to make some assumptions as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in the consolidated statement of operations in the period in which the change occurs.

Provisions

Accruals for decommissioning and environmental remediation are recorded when it is considered probable and the costs can be reasonably estimated. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time remediation may require, the complexity of environmental regulations and the advancement of technology. Considering these factors, the Company has estimated the costs of remediation, which are likely to be incurred in future years. The Company believes the provisions made for environmental matters are adequate, however it is reasonably possible that actual costs may differ from the estimated accrual, if the selected methods of remediation do not adequately reduce the contaminants and if further remedial action is required. The Company uses third-party environmental evaluators, where possible, to obtain the estimates of the decommissioning and environmental provision.

Critical judgements in applying the Company's accounting policies

Identification of cash-generating unit ("CGU")

For the purposes of impairment testing, assets are grouped at the lowest levels of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets, termed as a CGU. The allocation of assets into a CGU requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures and the way in which management monitors the operations.

Investment in finance leases

In determining whether certain of the Company's long-term tank storage arrangements are, or contain, a lease, the Company must use judgement in assessing whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys the right to use the assets. For those arrangements considered to be a lease, further judgement is required to determine whether substantially all of the significant risks and rewards of ownership are transferred to the customer or remain with the Company, to appropriately account for the arrangement as a finance or operating lease. These judgements can be significant as to how the Company classifies amounts related to the arrangements as property, plant and equipment or net investment in finance lease on the balance sheet. The Company has determined, based on the terms and conditions of these arrangements, that the substantial risks and rewards to the ownership of certain storage tanks have been transferred to the customer, and accordingly, these storage tanks have been recognized as an investment in finance lease.

Current and deferred taxation

The computation of the Company's income tax expense involves the interpretation of applicable tax laws and regulations in many jurisdictions. The resolution of tax positions taken by the Company can take significant time to complete and in some cases it is difficult to predict the ultimate outcome. In addition, the Company has carry-forward tax losses in certain taxing jurisdictions that are available to offset against future taxable profit. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in consolidated statement of operations in the period in which the change occurs. However, deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized. To the extent that actual outcomes differ from management's estimates, income tax charges or credits may arise in future periods.

4 Changes in accounting policies and disclosures

New and amended standards adopted by the Company

The Company adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with applicable transitional provisions.

- The annual improvements process addresses issues in the 2012-2014 reporting cycles including changes to IFRS 5 - Non-current assets held for sale and discontinued operations, IFRS 7 - Financial instruments: Disclosures, IAS 19 - Employee benefits, and IAS 34 - Interim financial reporting. These improvements are effective for periods beginning on or after January 1, 2016. The adoption of these improvements did not have a material impact on the consolidated financial statements.
- IAS 1 - Presentation of financial statements ("IAS 1"), has been amended to clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2016. The adoption of this amendment did not have a material impact on the consolidated financial statements.
- IFRS 10 - Consolidated financial statements ("IFRS 10"), and IAS 28 - Investments in associates and joint ventures ("IAS 28"), has been amended to address an inconsistency between IFRS 10 and IAS 28 in regards to a sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves the assets that do not constitute a business. Additionally, the amendments clarify the exception from preparing consolidated financial statements, the consolidation requirements for subsidiaries which act as an extension of an investment entity, and the requirements for equity accounting for investments in associates and joint ventures. The amendments to IFRS 10 and IAS 28 are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have a material impact on the consolidated financial statements.

New standards and interpretations issued but not yet adopted

The following provides information requiring new standards and interpretations that have been issued but not yet adopted by the Company:

- The annual improvements process addresses issues in the 2014-2016 reporting cycles include changes to IFRS 12 - Disclosure of interests in other entities. This improvement is effective for periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting this improvement on its consolidated financial statements.
- IFRIC 22 - Foreign currency transactions and advance consideration ("IFRIC 22"), provides guidance on how to determine the date of the transaction when an entity either pays or receives consideration in advance for foreign currency-denominated contracts. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this interpretation on its consolidated financial statements.
- IFRS 2 - Share-based payments ("IFRS 2"), has been amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. IFRS 2 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.
- The IASB completed the final element of its comprehensive publication of IFRS 9 ("IFRS 9") Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements

Gibson Energy Inc.
Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

(in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- IFRS 15 - Revenue from contracts with customers (“IFRS 15”), has been issued as a new standard on revenue recognition and will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a control based revenue recognition model where revenue is recognized when control of the underlying goods or services for certain performance obligations is transferred to the customer. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements by identifying relevant contracts and arrangements that fall within the scope of IFRS 15. The Company has yet to determine the final extent of the impact on the consolidated financial statements.
- IFRS 16 - Leases (“IFRS 16”), has been issued as a new standard on leases and will supersede IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. IFRS 16 establishes a single balance sheet accounting model for lessees that will result in the recognition of a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Finance lease exemptions exist for short-term leases where the term is 12 months or less and for leases of low value items. The accounting treatment remains the same for lessors, however new criteria has been added with respect to the choice of classifying a lease as either a finance lease or operating lease. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements and has yet to determine the final extent of the impact on the consolidated financial statements.

5 Business combinations

There were no business acquisitions in 2016. The Company completed the following business combinations in 2015:

Ross Eriksmoen, Inc., GWCC, LLC, Frontier Ventures, LLC (collectively doing business as “T&R Transport”)

On July 1, 2015, the Company acquired all of the issued and outstanding ownership interests of T&R Transport for total cash consideration of \$34.9 million. T&R transports water and oil field waste and provides related transportation services to customers in the oil, gas, and petrochemical industry throughout the Bakken region of North Dakota.

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date:

| | <u>Fair Value</u> |
|--|-------------------|
| Trade and other receivables | \$ 8,501 |
| Inventories | 619 |
| Prepaid and other assets..... | 67 |
| Property, plant and equipment..... | 22,578 |
| Goodwill ⁽¹⁾ | 6,226 |
| Intangible assets ⁽²⁾ | 3,133 |
| Trade payables and accrued charges | <u>(6,197)</u> |
| Net assets acquired | <u>\$ 34,927</u> |

The total consideration included contingent consideration of \$6.2 million that the Company expected to be paid out on achieving specified targets. As of December 31, 2016 the entire amount of the contingent consideration has been either paid or written off.

(1) The goodwill arising on the acquisition is deductible for tax purposes.

(2) Consists of customer relationships of \$1.3 million and non-compete agreements of \$1.8 million.

The goodwill arising from the acquisition was attributable to the expected synergies with the Company’s U.S. Environmental Services business segment. The goodwill for this acquisition was allocated to the U.S. Environmental Services business segment. As of December 31, 2016 the entire amount of goodwill has been written-off.

The fair value of trade receivables was \$8.5 million, which approximates their gross contractual amount.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Littlehawk Enterprises Ltd (“Littlehawk”)

On February 1, 2015, the Company acquired all of the issued and outstanding common shares of Littlehawk for total cash consideration of \$11.5 million. Littlehawk is a private Canadian company which operates hydrovac units that specialize in hydro excavation, pressure testing and water hauling for the construction and energy industries.

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date:

| | <u>Fair Value</u> |
|--|-------------------|
| Trade and other receivables | \$ 1,784 |
| Inventories | 128 |
| Prepaid and other assets..... | 57 |
| Property, plant and equipment..... | 8,123 |
| Goodwill ⁽¹⁾ | 1,533 |
| Intangible assets ⁽²⁾ | 1,754 |
| Other long-term assets | 48 |
| Trade payables and accrued charges | (505) |
| Deferred income tax liabilities | (1,391) |
| Net assets acquired | <u>\$ 11,531</u> |

The total consideration included contingent consideration of \$0.6 million that the Company expected to be paid out on achieving specified targets. As of December 31, 2016 the entire amount of the contingent consideration has been either paid or written off.

(1) The goodwill arising on the acquisition was not deductible for tax purposes.

(2) Consists of customer relationships of \$0.2 million and non-compete agreements of \$1.6 million.

The goodwill arising from the acquisition was attributable to the expected synergies with the Company’s existing Truck Transportation – Canada business segment. The goodwill for this acquisition was allocated to the Canadian Truck Transportation business segment.

The fair value of trade receivables is \$1.8 million, which approximates their gross contractual amount.

6 Assets and liabilities held for sale, and discontinued operations

As at December 31, 2016 the Company met the criteria under IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations* for the Industrial Propane operating segment to be classified as held for sale. The trigger was based on certain events that occurred during the fourth quarter of 2016, supporting the high probability of the sale of the Industrial Propane segment. As a result, the Industrial Propane segment, which represents a major line of business, was classified as held for sale and the results were presented as discontinued operations. In classifying the operations as discontinued, all assets were measured at the lower of carrying amount and FVLCD. The expected sale proceeds were used to determine the FVLCD. The valuation is classified as a level 2 valuation as it is based on a quoted price in an inactive market. As a result, no impairment write-downs were recorded.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

The results of the discontinued operations are presented below:

| | Year ended December 31, | |
|--|----------------------------|------------|
| | 2016 | 2015 |
| Revenue | \$ 167,699 | \$ 186,671 |
| Cost of sales | 152,428 | 165,476 |
| Gross profit | 15,271 | 21,195 |
| Other operating income | 523 | 248 |
| Income before income taxes | 15,794 | 21,443 |
| Income tax provision - current (note 12) | 3,179 | 8,207 |
| Income tax recovery – deferred (note 12) | (5,838) | (1,482) |
| Net income from discontinued operations | \$ 18,453 | \$ 14,718 |

Assets and liabilities held for sale are comprised of the following:

| | December 31, 2016 |
|--|----------------------|
| Assets | |
| Trade and other receivables | \$ 36,738 |
| Inventories | 6,986 |
| Property, plant and equipment | 133,426 |
| Intangible assets | 10,305 |
| Goodwill | 77,579 |
| Other assets | 1,325 |
| Total assets held for sale | \$ 266,359 |
| Liabilities | |
| Trade payables and accrued charges | \$ 22,330 |
| Deferred revenue | 1,339 |
| Deferred tax liability (note 12) | 13,860 |
| Other liabilities | 2,238 |
| Total liabilities held for sale | \$ 39,767 |

7 Trade and other receivables

| | December 31, | |
|--|--------------|------------|
| | 2016 | 2015 |
| Trade receivables | \$ 410,325 | \$ 353,485 |
| Allowance for doubtful accounts | (1,124) | (1,950) |
| Trade receivables - net | 409,201 | 351,535 |
| Risk management assets (note 30) | 6,218 | 8,415 |
| Broker accounts receivable | 5,329 | 1,561 |
| Indirect taxes receivable | 4,375 | 5,579 |
| Other | 3,125 | 3,223 |
| | \$ 428,248 | \$ 370,313 |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Allowance for doubtful accounts

| | Year ended | |
|---|-----------------|-----------------|
| | December 31, | |
| | 2016 | 2015 |
| Opening balance | \$ 1,950 | \$ 4,678 |
| Additional allowances | 357 | 35 |
| Receivables written off as uncollectible | (718) | (2,953) |
| Recoveries | - | (31) |
| Transfers to assets held for sale (note 6) | (440) | - |
| Effect of changes in foreign exchange rates | (25) | 221 |
| Closing balance | <u>\$ 1,124</u> | <u>\$ 1,950</u> |

8 Inventories

| | December 31, | |
|--------------------------------------|-------------------|-------------------|
| | 2016 | 2015 |
| Crude oil | \$ 71,627 | \$ 46,876 |
| Diluent | 1,371 | 1,244 |
| Asphalt | 16,546 | 10,928 |
| Natural gas liquids | 31,994 | 22,238 |
| Wellsite fluids and distillate | 8,556 | 8,856 |
| Spare parts and other | 14,501 | 17,451 |
| | <u>\$ 144,595</u> | <u>\$ 107,593</u> |

The cost of the inventory sold included in cost of sales was \$3,380.5 million and \$4,279.4 million for the year ended December 31, 2016 and 2015, respectively.

9 Net investment in finance leases

The following summarizes the Company's net investment in arrangements whereby the Company has entered into fixed term contractual arrangements to allow customers to have dedicated use of certain tanks owned by the Company. These arrangements are accounted for as finance leases:

| | December 31, | |
|--|-------------------|------------------|
| | 2016 | 2015 |
| Total minimum lease payments receivable | \$ 388,956 | \$ 329,806 |
| Residual value | 44,944 | 35,858 |
| Unearned income | (313,331) | (271,230) |
| | 120,569 | 94,434 |
| Less: current portion | 2,325 | 1,045 |
| Net investment in finance lease: non-current portion | <u>\$ 118,244</u> | <u>\$ 93,389</u> |

The minimum lease receivables are expected to be as follows:

| | |
|----------------------|------------|
| 2017 | \$ 28,771 |
| 2018 | 28,771 |
| 2019 | 28,771 |
| 2020 | 28,771 |
| 2021 | 28,771 |
| 2022 and later | \$ 245,101 |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

10 Property, plant and equipment

| | Land & Buildings | Pipelines and Connections | Tanks | Rolling Stock | Plant, Equipment & Disposal wells | Work in Progress | Total |
|--|-------------------|---------------------------|-------------------|-------------------|-----------------------------------|-------------------|---------------------|
| Cost: | | | | | | | |
| At January 1, 2016 | \$ 207,519 | \$ 168,179 | \$ 542,750 | \$ 491,946 | \$ 843,111 | \$ 290,582 | \$ 2,544,087 |
| Additions..... | 3,129 | 13,696 | 4,069 | 7,592 | 14,152 | 182,327 | 224,965 |
| Disposals | (6,614) | - | (3,184) | (24,684) | (13,630) | - | (48,112) |
| Reclassifications..... | 14,210 | 28,886 | 184,050 | 16,587 | 96,751 | (340,484) | - |
| Change in decommissioning provision (note 18) | - | (1,307) | 3,221 | - | 12,984 | - | 14,898 |
| Transfer to net investment in finance leases (note 9)..... | - | - | - | - | - | (27,258) | (27,258) |
| Transfers to assets held for sale (note 6) | (29,022) | - | (122,063) | (26,668) | (23,750) | (28) | (201,531) |
| Effect of movements in exchange rates | (842) | - | (499) | (6,902) | (8,775) | (271) | (17,289) |
| At December 31, 2016 | <u>\$ 188,380</u> | <u>\$ 209,454</u> | <u>\$ 608,344</u> | <u>\$ 457,871</u> | <u>\$ 920,843</u> | <u>\$ 104,868</u> | <u>\$ 2,489,760</u> |
| Accumulated depreciation and impairment: | | | | | | | |
| At January 1, 2016 | \$ 31,941 | \$ 62,648 | \$ 101,156 | \$ 251,585 | \$ 325,640 | \$ - | \$ 772,970 |
| Depreciation | 8,972 | 10,404 | 28,387 | 59,711 | 71,528 | - | 179,002 |
| Impairment | - | - | 235 | 6,565 | 3,846 | - | 10,646 |
| Disposals | (4,688) | - | (1,393) | (22,097) | (12,545) | - | (40,723) |
| Transfers to assets held for sale (note 6) | (4,365) | - | (31,567) | (17,147) | (15,026) | - | (68,105) |
| Effect of movements in exchange rates | (82) | - | (209) | (3,615) | (3,418) | - | (7,324) |
| At December 31, 2016 | <u>\$ 31,778</u> | <u>\$ 73,052</u> | <u>\$ 96,609</u> | <u>\$ 275,002</u> | <u>\$ 370,025</u> | <u>\$ -</u> | <u>\$ 846,466</u> |
| Carrying amounts: | | | | | | | |
| At January 1, 2016 | \$ 175,578 | \$ 105,531 | \$ 441,594 | \$ 240,361 | \$ 517,471 | \$ 290,582 | \$ 1,771,117 |
| At December 31, 2016 | \$ 156,602 | \$ 136,402 | \$ 511,735 | \$ 182,869 | \$ 550,818 | \$ 104,868 | \$ 1,643,294 |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

| | Land & Buildings | Pipelines and Connections | Tanks | Rolling Stock | Plant, Equipment & Disposal wells | Work in Progress | Total |
|---|------------------|---------------------------|------------|---------------|-----------------------------------|------------------|--------------|
| Cost: | | | | | | | |
| At January 1, 2015 | \$ 159,631 | \$ 137,434 | \$ 430,153 | \$ 454,493 | \$ 668,425 | \$ 200,400 | \$ 2,050,536 |
| Additions..... | 7,964 | 4,222 | 57,372 | 2,144 | 26,671 | 278,106 | 376,479 |
| Disposals | (1,506) | - | (177) | (13,676) | (2,197) | - | (17,556) |
| Acquisitions through business combinations (note 5) | 5,741 | - | - | 6,773 | 18,187 | - | 30,701 |
| Reclassifications..... | 29,772 | 23,818 | 47,532 | - | 99,659 | (200,781) | - |
| Change in decommissioning provision (note 18) | - | 2,705 | 5,740 | - | 9,180 | - | 17,625 |
| Effect of movements in exchange rates | 5,917 | - | 2,130 | 42,212 | 23,186 | 12,857 | 86,302 |
| At December 31, 2015 | \$ 207,519 | \$ 168,179 | \$ 542,750 | \$ 491,946 | \$ 843,111 | \$ 290,582 | \$ 2,544,087 |

Accumulated depreciation and impairment:

| | | | | | | | |
|---|-----------|-----------|------------|------------|------------|------|------------|
| At January 1, 2015 | \$ 25,599 | \$ 52,652 | \$ 78,211 | \$ 184,624 | \$ 214,881 | \$ - | \$ 555,967 |
| Depreciation | 5,773 | 9,996 | 23,187 | 60,952 | 82,066 | - | 181,974 |
| Impairments | 385 | - | - | 1,034 | 12,045 | - | 13,464 |
| Disposals | (324) | - | (247) | (11,531) | (1,450) | - | (13,552) |
| Effect of movements in exchange rates | 508 | - | 5 | 16,506 | 18,098 | - | 35,117 |
| At December 31, 2015 | \$ 31,941 | \$ 62,648 | \$ 101,156 | \$ 251,585 | \$ 325,640 | \$ - | \$ 772,970 |

Carrying amounts:

| | | | | | | | |
|----------------------------|------------|------------|------------|------------|------------|------------|--------------|
| At January 1, 2015 | \$ 134,032 | \$ 84,782 | \$ 351,942 | \$ 269,869 | \$ 453,544 | \$ 200,400 | \$ 1,494,569 |
| At December 31, 2015 | \$ 175,578 | \$ 105,531 | \$ 441,594 | \$ 240,361 | \$ 517,470 | \$ 290,582 | \$ 1,771,117 |

Additions to property, plant and equipment include capitalization of interest of \$12.9 million and \$12.2 million for the year ended December 31, 2016 and 2015, respectively.

Property, plant and equipment are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable. During the year ended December 31, 2016, the Company recorded an impairment loss of \$10.6 million that was recorded as depreciation included within cost of sales. Of the impairment loss recorded, \$9.0 million related to assets within the Canadian Truck Transportation business segment and \$1.6 million related to assets within the Terminals and Pipelines business segment.

During the year ended December 31, 2015, due to the general market downturn in 2015, the Company recorded an impairment loss of \$13.5 million that was recorded as additional depreciation. Of the impairment loss recorded, \$12.8 million related to assets within the U.S. Environmental Services business segment and \$0.7 million related to assets within the Canadian Truck Transportation segment.

11 Long-term prepaid and other assets

| | December 31, | |
|---|--------------|----------|
| | 2016 | 2015 |
| Long-term prepaid | \$ 1,296 | \$ 1,189 |
| Defined benefit pension plan assets | 1,081 | 1,084 |
| Other assets | 1,973 | 2,291 |
| | \$ 4,350 | \$ 4,564 |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

12 Income tax

The major components of income tax are as follows:

| | Year ended December 31, | |
|---|----------------------------|-----------------|
| | 2016 | 2015 |
| Current tax provision | | |
| Current tax on income for the year | \$ 13,302 | \$ 31,697 |
| Adjustments in respect of prior years | (1,513) | 8,195 |
| Discontinued operations (note 6) | 3,179 | 8,207 |
| Total current tax provision | 14,968 | 48,099 |
| Deferred tax recovery | (68,731) | (47,410) |
| Origination and reversal of temporary differences | 492 | (5,895) |
| Discontinued operations (note 6) | (5,838) | (1,482) |
| Total deferred tax recovery | (74,077) | (54,787) |
| Income tax recovery | \$ (59,109) | \$ (6,688) |

The income tax recovery differs from the amounts which would be obtained by applying the Canadian statutory income tax rate to income before income taxes. These differences result from the following items:

| | Year ended December 31, | |
|--|----------------------------|--------------------|
| | 2016 | 2015 |
| Loss before income taxes, continuing operations | \$ (234,617) | \$ (308,787) |
| Income before income taxes, discontinued operations | 15,794 | 21,443 |
| Loss before income taxes | (218,823) | (287,344) |
| Statutory income tax rate | 26.97% | 26.13% |
| Computed income tax recovery | (59,017) | (75,083) |
| Decrease (increase) in income tax recovery resulting from: | | |
| Foreign exchange (gain) loss on long-term debt, net | (3,013) | 14,622 |
| Foreign exchange (gain) loss, other | (3,013) | 15,227 |
| Non-deductible expenses | 733 | 1,015 |
| Stock based compensation | 6,709 | 5,325 |
| Non-taxable dividends | (14,421) | (13,863) |
| Rate differential on foreign taxes | (12,467) | (8,237) |
| Goodwill impairment | 33,324 | 45,978 |
| Held for sale classification | (4,154) | - |
| Impact of corporate rate changes | - | 6,825 |
| Other, including revisions in previous tax estimates, rate reductions, and state taxes | (3,790) | 1,503 |
| | \$ (59,109) | \$ (6,688) |
| Effective income tax rate | 27.01% | 2.33% |
| Current, from continuing operations | 11,789 | 39,892 |
| Current, from discontinued operations | 3,179 | 8,207 |
| | \$ 14,968 | \$ 48,099 |
| Deferred, from continuing operations | (68,239) | (53,305) |
| Deferred, from discontinued operations | (5,838) | (1,482) |
| | \$ (74,077) | \$ (54,787) |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

| | | |
|--|----------|----------|
| Total current and deferred, from continuing operations | (56,450) | (13,413) |
| Total current and deferred, from discontinued operations | (2,659) | 6,725 |

The increase in the statutory rate was due to higher provincial income tax rates in Canada.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | As at December 31, | |
|--|--------------------|-------------------|
| | 2016 | 2015 |
| Deferred tax assets: | | |
| Deferred tax asset to be settled after more than 12 months | \$ 35,665 | \$ 896 |
| Deferred tax asset to be settled within 12 months | 11,500 | 700 |
| | <u>47,165</u> | <u>1,596</u> |
| Deferred tax liabilities: | | |
| Deferred tax liability to be settled after more than 12 months | 100,950 | 124,284 |
| Deferred tax liability to be settled within 12 months | 1,400 | 21,400 |
| | <u>102,350</u> | <u>145,684</u> |
| Deferred tax liabilities, net | <u>\$ 55,185</u> | <u>\$ 144,088</u> |

The gross movement on the deferred income tax account is as follows:

| | Year ended December 31, | |
|--|----------------------------|-------------------|
| | 2016 | 2015 |
| Opening balance | \$ 144,088 | \$ 187,819 |
| Effect of changes in foreign exchange rates | (1,035) | 9,600 |
| Recognized through business combinations (note 5) | - | 1,391 |
| Transfers to assets held for sale (note 6) | (13,860) | - |
| Income statement recovery | (74,077) | (54,787) |
| Tax charge (credit) relating to components of other comprehensive income | (59) | 65 |
| Tax charged directly to equity | 128 | - |
| Closing balance | <u>\$ 55,185</u> | <u>\$ 144,088</u> |

The movement in the significant components of deferred income tax assets and liabilities during the year, without taking into consideration the offsetting balances within the same tax jurisdiction, is as follows:

| Deferred tax assets | Non-capital losses carried forward | Asset retirement obligations | Retirement benefits obligations | Other | Total |
|--|--|------------------------------------|---------------------------------------|------------------|------------------|
| At January 1, 2015 | \$ 18,117 | \$ 13,897 | \$ 1,443 | \$ 13,223 | \$ 46,680 |
| Credited (charged) to the statement of operations | 10,449 | 3,093 | 34 | 5,785 | 19,361 |
| Credited to other comprehensive income | - | - | (65) | - | (65) |
| Effect of changes in foreign exchange rates | 1,577 | 420 | - | (4,689) | (2,692) |
| At January 1, 2016 | <u>\$ 30,143</u> | <u>\$ 17,410</u> | <u>\$ 1,412</u> | <u>\$ 14,319</u> | <u>\$ 63,284</u> |
| Credited (charged) to the statement of operations | 32,087 | 2,860 | (96) | 13,193 | 48,044 |
| Charged to other comprehensive income | - | - | 59 | - | 59 |
| Transfers from assets held for sale (note 6) | - | (81) | (6) | 637 | 550 |
| Effect of changes in foreign exchange rates | 369 | 90 | - | 1,304 | 1,763 |
| At December 31, 2016 | <u>\$ 62,599</u> | <u>\$ 20,279</u> | <u>\$ 1,369</u> | <u>\$ 29,453</u> | <u>\$113,700</u> |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

| Deferred tax liabilities | Timing of Partnership Income | Property, Plant and Equipment | Accounting and tax basis differences | Other | Total |
|--|------------------------------------|-------------------------------------|--|-----------------|---------------------|
| At January 1, 2015 | \$ (32,862) | \$ (171,000) | \$ (28,914) | \$ (1,723) | \$ (234,499) |
| Credited (charged) to the statement of operations | 20,729 | (274) | 13,958 | 1,013 | 35,426 |
| Business combinations | - | (1,391) | - | - | (1,391) |
| Effect of changes in foreign exchange rates | - | (6,064) | (844) | - | (6,908) |
| At January 1, 2016 | \$ (12,133) | \$ (178,729) | \$ (15,800) | \$ (710) | \$ (207,372) |
| Credited (charged) to the statement of operations | (2,840) | 25,616 | 3,114 | 143 | 26,033 |
| Credited (charged) directly to equity | - | - | - | (128) | (128) |
| Transfers to assets held for sale (note 6).... | 10,989 | 2,321 | - | - | 13,310 |
| Effect of changes in foreign exchange rates | - | (767) | 39 | - | (728) |
| At December 31, 2016 | <u>\$ (3,984)</u> | <u>\$ (151,559)</u> | <u>\$ (12,647)</u> | <u>\$ (695)</u> | <u>\$ (168,885)</u> |

Income tax losses carry forward

At December 31, 2016 and 2015, the Company had losses available to offset income for tax purposes of \$165.3 million and \$79.8 million, respectively. At December 31, 2016, the Company has \$4.0 million and \$161.3 million of the losses available in Canada and the United States, respectively that expire as follows:

| | |
|-------------------------|-------------------|
| December 31, 2031 | \$ 38,700 |
| December 31, 2032 | 14,278 |
| December 31, 2033 | - |
| December 31, 2034 | 1,332 |
| December 31, 2035 | 22,418 |
| December 31, 2036 | 88,579 |
| | <u>\$ 165,307</u> |

No income tax liability has been recognized in respect of temporary differences associated with investments in subsidiaries except for as disclosed on note 6 for assets held for sale. As no income taxes are expected to be paid in respect of these differences related to Canadian subsidiaries, the amounts have not been determined. There are no taxable temporary differences associated with investments in non-Canadian subsidiaries.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

13 Intangible assets

| | Brands | Customer relationships | Long-term customer contracts | Non-compete agreements | Technology and Software | License and Permits | Total |
|--|-----------|------------------------|------------------------------|------------------------|-------------------------|---------------------|------------|
| Cost: | | | | | | | |
| At January 1, 2016..... | \$ 53,240 | \$ 288,880 | \$ 43,706 | \$ 31,601 | \$ 67,290 | \$ 4,434 | \$ 489,151 |
| Additions | - | - | - | - | 7,875 | - | 7,875 |
| Disposals | - | - | - | - | (22) | - | (22) |
| Reclassifications | - | - | - | - | (1,193) | 1,193 | - |
| Transfers to assets held for sale (note 6) | (6,600) | (18,974) | - | (5,996) | (1,191) | - | (32,761) |
| Effect of movements in exchange rates | (352) | (5,319) | (1,167) | (315) | (244) | (90) | (7,487) |
| At December 31, 2016 .. | \$ 46,288 | \$ 264,587 | \$ 42,539 | \$ 25,290 | \$ 72,515 | \$ 5,537 | \$ 456,756 |
| Accumulated amortization and impairment: | | | | | | | |
| At January 1, 2016..... | \$ 48,076 | \$ 214,069 | \$ 26,510 | \$ 25,225 | \$ 25,407 | \$ 4,431 | \$ 343,718 |
| Amortization | 1,702 | 51,797 | 3,722 | 3,167 | 11,326 | 5 | 71,719 |
| Impairment | - | - | - | 99 | 1,514 | - | 1,613 |
| Disposals | - | - | - | - | (22) | - | (22) |
| Reclassifications | - | - | - | - | (1,193) | 1,193 | - |
| Transfers to assets held for sale (note 6) | (5,275) | (12,735) | - | (4,199) | (247) | - | (22,456) |
| Effect of movements in exchange rates | (348) | (2,466) | (598) | (255) | (143) | (92) | (3,902) |
| At December 31, 2016 .. | \$ 44,155 | \$ 250,665 | \$ 29,634 | \$ 24,037 | \$ 36,642 | \$ 5,537 | \$ 390,670 |
| Carrying amounts: | | | | | | | |
| At January 1, 2016 | \$ 5,164 | \$ 74,811 | \$ 17,196 | \$ 6,376 | \$ 41,883 | \$ 3 | \$ 145,433 |
| At December 31, 2016 .. | \$ 2,133 | \$ 13,922 | \$ 12,905 | \$ 1,253 | \$ 35,873 | \$ - | \$ 66,086 |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

| | Brands | Customer relationships | Long-term customer contracts | Non-compete agreements | Technology and Software | License and Permits | Total |
|--|-----------|------------------------|------------------------------|------------------------|-------------------------|---------------------|------------|
| Cost: | | | | | | | |
| At January 1, 2015..... | \$ 51,330 | \$ 258,716 | \$ 37,380 | \$ 26,554 | \$50,206 | \$ 3,716 | \$ 427,902 |
| Additions | - | - | - | - | 16,087 | - | 16,087 |
| Acquisitions through business combinations (note 5)..... | - | 1,419 | - | 3,468 | - | - | 4,887 |
| Effect of movements in exchange rates | 1,910 | 28,745 | 6,326 | 1,579 | 997 | 718 | 40,275 |
| At December 31, 2015 .. | \$ 53,240 | \$ 288,880 | \$ 43,706 | \$ 31,601 | \$67,290 | \$ 4,434 | \$ 489,151 |

Accumulated amortization and impairment:

| | | | | | | | |
|---|-----------|------------|-----------|-----------|-----------|----------|------------|
| At January 1, 2015..... | \$ 39,451 | \$ 136,796 | \$ 19,702 | \$ 20,923 | \$ 16,823 | \$ 2,670 | \$ 236,365 |
| Amortization | 6,722 | 65,053 | 3,630 | 2,917 | 8,081 | 1,151 | 87,554 |
| Effect of movements in exchange rates | 1,903 | 12,220 | 3,178 | 1,385 | 503 | 610 | 19,799 |
| At December 31, 2015 .. | \$ 48,076 | \$ 214,069 | \$ 26,510 | \$ 25,225 | \$ 25,407 | \$ 4,431 | \$ 343,718 |

Carrying amounts:

| | | | | | | | |
|--------------------------|-----------|------------|-----------|----------|-----------|----------|------------|
| At January 1, 2015 | \$ 11,879 | \$ 121,920 | \$ 17,678 | \$ 5,631 | \$ 33,383 | \$ 1,046 | \$ 191,537 |
| At December 31, 2015 .. | \$ 5,164 | \$ 74,811 | \$ 17,196 | \$ 6,376 | \$ 41,883 | \$ 3 | \$ 145,433 |

During the year ended December 31, 2016 the Company revised the useful lives for certain intangible assets within the Truck Transportation (Canada) segment. The net change on the current financial year was an increase to the amortization expense by \$1.6 million which represents the end of their estimated useful lives.

During the year ended December 31, 2015 the Company revised the useful lives for certain intangible assets within the Environmental Services segment. The net change on the current financial year was an increase to amortization expense of \$30.5 million.

14 Goodwill

The changes in the carrying amount of goodwill are as follows:

| | Year ended December 31, | |
|--|----------------------------|------------|
| | 2016 | 2015 |
| Balance as at January 1 | \$ 670,907 | \$ 783,721 |
| Additions through business combinations (note 5) | - | 7,759 |
| Impairments | (130,052) | (175,959) |
| Transfers to assets held for sale (note 6) | (77,579) | - |
| Effect of changes in foreign exchange rates | (8,787) | 55,386 |
| Balance as at December 31 | \$ 454,489 | \$ 670,907 |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Goodwill is monitored for impairment by management at the operating segment level. The following is a summary of goodwill allocated to each operating segment:

| | December 31, | |
|---|-------------------|-----------------------------------|
| | 2016 ¹ | 2015 (re-stated ¹) |
| Terminals, Pipelines and Injection Stations | \$ 197,723 | \$ 197,786 |
| Moose Jaw Facility | 89,017 | 89,017 |
| Canadian Trucking and Transportation | 19,988 | 19,988 |
| U.S. Trucking and Transportation | 42,942 | 44,263 |
| U.S. Environmental Services | - | 107,884 |
| Canadian Wholesale Marketing | 75,422 | 75,442 |
| U.S. Wholesale Marketing | 29,397 | 30,301 |
| Refined Products..... | - | 28,647 |
| Assets held for sale (note 6)..... | - | 77,579 |
| | <u>\$ 454,489</u> | <u>\$ 670,907</u> |

1. The goodwill amounts contain certain reallocations of goodwill which were completed as part of management's changes to segmented reporting (see note 31).

The goodwill recorded on the balance sheet represents the excess of the cost of acquisitions over the fair value of identifiable assets, liabilities and contingent liabilities acquired. Of the balance as at December 31, 2016 and 2015, \$364.8 million, net of impairment, relates to goodwill recognized on the acquisition of the Company on December 12, 2008. Of the remaining balance, \$13.8 million represents additional goodwill recorded on acquisitions completed and \$75.9 million relates to the effect of changes in foreign exchange rates recorded by the Company since December 12, 2008.

The recoverable amount of the CGU is determined based on a FVLCD calculation. This calculation involves comparing the fair value of each operating segment to its carrying value, including goodwill. To calculate a fair value, management uses an earning's multiple approach. In calculating earnings, the Company uses Board approved budgets to determine earnings before interest, taxes, depreciation and amortization ("EBITDA") by operating segment. To determine fair value, an implied forward multiple was applied to each operating segment's budgeted EBITDA less corporate expenses. The implied multiple is calculated by utilizing multiples of comparable public companies by operating segment. In calculating fair value for each operating segment, the Company used an implied average forward multiples that ranged from 9.1 to 15.7. The fair value of each operating segment was categorized as Level 2 fair value based on the observables inputs.

On June 30, 2016, the Company reviewed impairment indicators with respect to goodwill and determined that based on a review of actual performance being less than expected during the period, impairment indicators existed in the U.S. Environmental Services business within the Logistics segment. Accordingly, the Company performed an impairment test with respect to the U.S. Environmental Services business by comparing the FVLCD to the carrying value of the operating segment, including goodwill. As a result, it was determined that goodwill in the operating segment was impaired by \$101.4 million. The recoverable amount of goodwill was determined based on a FVLCD calculation utilizing EBITDA. A multiple of 9.6 was applied to the U.S. Environmental Services business EBITDA less, corporate expenses, using comparable public company multiples which is considered a key assumption in determining the fair value less costs of disposal. The fair value of the U.S. Environmental Services business was categorized as Level 2 fair value based on the observables inputs.

On November 30, 2016, the Company carried out its annual impairment test with respect to goodwill. For all operating segments, other than the Refined Products business within the Wholesale segment, the FVLCD was greater than the operating segments carrying value, including goodwill. The impairment of \$28.6 million within the Refined Products business was due to actual performance being less than expected. Key assumptions used in the determination of the recoverable amount include Board approved budgeted EBITDA for the operating segment and the application of an implied forward multiple of 10.7. These assumptions represent management's assessment of future trends in the wholesale business and were based on historical data from both external and internal sources.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

15 Loans and Borrowings

Revolving Credit Facility

The Company has established an unsecured revolving credit facility of up to \$500.0 million (the “Revolving Credit Facility”), with a maturity date of August 15, 2020, the proceeds of which are available to provide financing for working capital and other general corporate purposes. In addition, the Company has three demand letter of credit facilities totaling \$150.0 million.

The Revolving Credit Facility provides sub-facilities for letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or LIBOR or Canadian Bankers Acceptance Rate as the case may be plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company’s total debt leverage ratio. In addition, the Company must pay a standby fee on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins based on the Company’s total debt leverage ratio.

On December 16, 2016 the Company reached an agreement with its bank syndicate to amend certain covenants related to its \$500.0 million Revolving Credit Facility. These amendments included an increase to the maximum consolidated senior and total debt leverage ratio from 4.85 to 1.0, to 5.25 to 1.0 for the period ending on the earlier of the date that is either the last day of the fiscal quarter immediately preceding the fiscal quarter in which the sale of the Industrial Propane segment is closed or abandoned or June 30, 2017 (covenant amendment period), with such threshold decreasing to 4.85 to 1.0 for the period beginning after the covenant amendment period and ending on December 31, 2017, and decreasing to 4.25 to 1.0 for the period beginning January 1, 2018 and ending on March 31, 2018 and further decreasing to 3.5 to 1.0 thereafter until maturity.

In addition, the Company is also required to maintain a minimum interest coverage ratio of no less than 2.5 to 1.0.

As at December 31, 2016, the Company was in compliance with all covenants under the Revolving Credit Facility. The Company had \$nil and \$35.0 million drawn against the Revolving Credit Facility as at December 31, 2016 and December 31, 2015, respectively. The Company had issued letters of credit totalling \$48.4 million and \$32.6 million as at December 31, 2016 and December 31, 2015, respectively.

Long-term debt

| | December 31, | |
|---|---------------------|---------------------|
| | 2016 | 2015 |
| U.S.\$550.0 million 6.75% Notes due July 15, 2021 | \$ 738,485 | \$ 761,200 |
| \$250.0 million 7.00% Notes due July 15, 2020..... | 250,000 | 250,000 |
| \$300.0 million 5.375% Notes due July 15, 2022..... | 300,000 | 300,000 |
| Unamortized issue discount and debt issue costs | (16,646) | (19,777) |
| Long-term debt: non-current portion..... | <u>\$ 1,271,839</u> | <u>\$ 1,291,423</u> |

On June 28, 2013, the Company issued U.S.\$500.0 million 6.75% Senior Unsecured Notes due July 15, 2021 at an issue price of 98.476% and \$250.0 million 7.00% Senior Unsecured Notes due July 15, 2020 at an issue price of 98.633%. On June 12, 2014, the Company issued U.S.\$50.0 million 6.75% Senior Unsecured Notes due July 15, 2021 at an issue price of 108% under its existing indenture and issued \$300.0 million 5.375% Senior Unsecured Notes due July 15, 2022 at an issue price of par (collectively, the “Notes”). Interest is payable semi-annually on January 15 and July 15 of each year the Notes are outstanding.

The Notes agreements contain certain redemption options whereby the Company can redeem all or part of the Notes at prices set forth in the respective indebtedness from proceeds of an equity offering or on the dates specified in the respective indebtedness. In addition, the Notes holders have the right to require the Company to redeem the Notes at the redemption prices set forth in the respective indebtedness in the event of change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the respective indebtedness.

The Company’s long-term debt contains non-financial covenants and customary events of default clauses. As of December 31, 2016 and December 31, 2015, the Company was in compliance with all of its covenants.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Foreign exchange (gain) loss on long-term debt

As a result of the movement in foreign exchange rates, the Company recorded foreign exchange (gains) and losses, net, on long-term debt as follows:

| | Year ended | |
|--|--------------------|-------------------|
| | December 31, | |
| | 2016 | 2015 |
| Foreign exchange (gain) loss on U.S. dollar long-term debt | \$ (22,715) | \$ 123,145 |
| Gain on financial instruments relating to long-term debt (note 30) | - | (9,995) |
| Foreign exchange (gain) loss on long-term debt..... | <u>\$ (22,715)</u> | <u>\$ 113,150</u> |

16 Convertible debentures

| | Liability Component | Equity Component |
|--|---------------------|------------------|
| Balance as at January 1, 2016 | \$ - | \$ - |
| \$100.0 million 5.25% convertible debentures due July 15, 2021 | 89,765 | 10,235 |
| Unamortized issue costs | (2,453) | (324) |
| Deferred taxes..... | - | (2,760) |
| Balance as at December 31, 2016..... | <u>\$ 87,312</u> | <u>\$ 7,151</u> |

On June 2, 2016, the Company issued \$100.0 million aggregate principal amount of unsecured subordinated convertible debentures ("the Debentures"). The Debentures issued at par, bear interest at a rate of 5.25% per annum, payable semi-annually on July 15 and January 15 in each year commencing January 15, 2017, will mature on July 15, 2021, and may be redeemed, in certain circumstances, on or after July 15, 2019. The Debentures will be convertible at the holder's option into common shares at any time prior to the earlier of the Maturity Date and the business day immediately preceding the date fixed for redemption by the Company at a conversion price of \$21.65 per Share (the "Conversion Price"), being a ratio of approximately 46.1894 Shares per \$1,000 principal amount of Debentures. The Debentures are subordinated to the Company's senior indebtedness.

The Debentures are treated as a compound financial instrument and have been classified as a liability, net of issue costs and net of the fair value of the conversion feature at the date of issue, which has been classified as shareholders' equity. The liability component will accrete up to the principal balance at maturity. The accretion of the liability component and interest payable are expensed in the statement of operations. The fair value of the conversion feature was determined at the time of issuance as the difference between the principal value of the Debentures and the discounted cash flows assuming a 7.8% rate which was the estimated rate for debt with similar terms with no conversion feature. If the Debentures are converted into common shares, a portion of the value of the conversion feature under shareholders' equity and the liability component will be reclassified to shareholders' equity along with the conversion price.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

17 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

| | December 31, | |
|--|-------------------|-------------------|
| | 2016 | 2015 |
| Trade payables | \$ 376,767 | \$ 322,347 |
| Accrued compensation charges | 18,566 | 18,409 |
| Indirect taxes payable | 4,403 | 3,164 |
| Risk management liabilities (note 30)..... | 11,901 | 5,479 |
| Defined benefit plan obligations..... | 510 | 465 |
| Interest payable | 41,623 | 39,251 |
| Due to Hunting plc | - | 8,585 |
| Other | 15,064 | 21,032 |
| | <u>\$ 468,834</u> | <u>\$ 418,732</u> |

18 Provisions

The aggregate carrying amounts of the obligation associated with decommissioning and site restoration on the retirement of assets and environmental costs are as follows:

| | Year ended December 31, | |
|---|----------------------------|-------------------|
| | 2016 | 2015 |
| Opening balance | \$ 155,343 | \$ 136,347 |
| Settlements..... | (2,556) | (4,247) |
| Additions..... | 22,997 | 6,774 |
| Change in estimated future cash flows | (1,499) | 2,240 |
| Change in discount rate | (5,100) | 8,611 |
| Unwinding of discount..... | 3,251 | 3,251 |
| Transfer to liabilities held for sale (note 6)..... | (962) | - |
| Effect of changes in foreign exchange rates | (436) | 2,367 |
| Closing balance | <u>\$ 171,038</u> | <u>\$ 155,343</u> |

The Company currently estimates the total undiscounted future value amount, including an inflation factor of 2.0%, of estimated cash flows to settle the future liability for asset retirement and remediation obligations to be approximately \$312.9 million and \$277.9 million at December 31, 2016 and 2015, respectively. In order to determine the current provision related to these future values, the estimated future values were discounted using an average risk-free rate of 2.3% and 2.1% at December 31, 2016 and 2015, respectively. The provision is expected to be settled up to 40 years into the future. A one percent increase or decrease in the risk-free rate would decrease or increase the provision by \$33.4 million, respectively, with a corresponding adjustment to property, plant and equipment.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

19 Other long-term liabilities

| | December 31, | |
|---|-----------------|------------------|
| | 2016 | 2015 |
| Defined benefit plan obligations..... | \$ 1,404 | \$ 1,530 |
| Risk management liabilities (note 30)..... | 274 | 3,824 |
| Other post-retirement benefits obligations..... | 4,244 | 4,072 |
| Other | 584 | 4,549 |
| | <u>\$ 6,506</u> | <u>\$ 13,975</u> |

20 Share capital

Authorized

The Company is authorized to issue an unlimited number of common shares and preferred shares.

Holders of common shares are entitled to one vote per common share at meetings of shareholders of the Company, to receive dividends if, as and when declared by the Board and to receive pro rata the remaining property and assets of the Company upon its dissolution, liquidation or winding-up, subject to the rights of shares having priority over the common shares.

The preferred shares are issuable in series and have such rights, restrictions, conditions and limitations as the Board may from time to time determine. The preferred shares shall rank senior to the common shares with respect to the payment of dividends or distribution of assets or return of capital of the Company in the event of a dissolution, liquidation or winding up of the Company. There were no issued and outstanding preferred shares as at December 31, 2016 or 2015.

Common Shares - Issued and outstanding

The following table below sets forth the issued and outstanding common shares for the years ended December 31, 2016 and 2015.

| | Common Shares | |
|--|-------------------------|---------------------|
| | Number of Common Shares | Amount |
| Balance as at January 1, 2015 | 124,488,545 | \$ 1,634,001 |
| Issuance in connection with the exercise of stock options..... | 12,162 | 105 |
| Issuance in connection with other equity awards | 412,054 | - |
| Issuance in connection with the dividend reinvestment and stock dividend programs..... | 1,222,805 | 28,956 |
| Reclassification of contributed surplus on issuance of awards under equity incentive plans | - | 9,261 |
| Balance as at December 31, 2015 | <u>126,135,566</u> | <u>\$ 1,672,323</u> |
| Issuance for cash, net of issue costs and deferred tax..... | 14,892,500 | 222,772 |
| Issuance in connection with the exercise of stock options..... | 115,806 | 1,001 |
| Issuance in connection with other equity awards | 589,160 | - |
| Reclassification of contributed surplus on issuance of awards under equity incentive plans | - | 12,936 |
| Balance as at December 31, 2016 | <u>141,733,032</u> | <u>\$ 1,909,032</u> |

On June 2, 2016, the Company completed an offering of 14,892,500 common shares at a price of \$15.45 per common share for gross proceeds of \$232.8 million less share issuance costs of \$7.3 million, net of income tax of \$2.8 million.

A dividend of \$0.33 per share, declared on November 3, 2016, was paid on January 17, 2017.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

21 Commitments and contingencies

Commitments

Operating lease obligations primarily relate to office leases, rail cars, vehicles, field buildings, various equipment and terminal services arrangements. The minimum payments required under these commitments, net of sub-lease income, are as follows:

| | |
|----------------------|-------------------|
| 2017 | \$ 65,359 |
| 2018 | 57,315 |
| 2019 | 45,178 |
| 2020 | 26,093 |
| 2021 | 15,821 |
| 2022 and later | 50,171 |
| | <u>\$ 259,937</u> |

Expenses related to operating leases, net of sublease income, were \$69.2 million and \$65.8 million for the year ended December 31, 2016 and 2015, respectively.

With respect to capital expenditures, at December 31, 2016, the Company had an estimated amount of \$194.7 million remaining to be spent that relates to projects approved at that date.

Contingencies

The Company is currently undergoing various tax related audits. While the final outcome of such audits cannot be predicted with certainty, the Company believes that the resolution of these audits will not have a material impact on the Company's consolidated financial position or results of operations.

The Company is involved in various claims and actions arising in the course of operations and is subject to various legal actions and exposures. Although the outcome of these claims are uncertain, the Company does not expect these matters to have a material adverse effect on the Company's financial position, cash flows or operational results. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such legal claims. While fully supportable in the Company's view, some of these positions, if challenged may not be fully sustained on review.

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to the contractual agreements and management decisions, result in the recognition of estimated decommissioning obligations and environmental remediation. Estimates of decommissioning obligations and environmental remediation costs can change significantly based on such factors such as operating experience and changes in legislation and regulations.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

22 Revenue

| | Year ended December 31, | |
|----------------|----------------------------|--------------------------------|
| | 2016 | (Restated – Note 6) 2015 |
| Products | \$ 3,796,643 | \$ 4,452,826 |
| Services | 797,538 | 952,485 |
| | <u>\$ 4,594,181</u> | <u>\$ 5,405,311</u> |

23 Depreciation, amortization and impairment

| | Year ended December 31, | |
|---|----------------------------|--------------------------------|
| | 2016 | (Restated – Note 6) 2015 |
| Depreciation and impairment of property, plant and equipment..... | \$ 175,346 | \$ 180,471 |
| Amortization and impairment of intangible assets | 69,062 | 82,623 |
| | <u>\$ 244,408</u> | <u>\$ 263,094</u> |

Depreciation and impairment of property, plant and equipment and amortization and impairment of intangible assets have been expensed as follows:

| | Year ended December 31, | |
|----------------------------------|----------------------------|--------------------------------|
| | 2016 | (Restated – Note 6) 2015 |
| Cost of sales | \$ 234,483 | \$ 256,110 |
| General and administrative | 9,925 | 6,984 |
| | <u>\$ 244,408</u> | <u>\$ 263,094</u> |

24 Employee salaries and benefits

| | Year ended December 31, | |
|--------------------------------|----------------------------|--------------------------------|
| | 2016 | (Restated – Note 6) 2015 |
| Salaries and wages | \$ 218,088 | \$ 255,748 |
| Post-employment benefits | 5,845 | 6,291 |
| Share based compensation | 24,876 | 20,379 |
| Termination benefits | 10,042 | 2,855 |
| | <u>\$ 258,851</u> | <u>\$ 285,273</u> |

Gibson Energy Inc.
Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Employee salaries and benefits have been expensed as follows:

| | Year ended December 31, | |
|----------------------------------|----------------------------|--------------------------------|
| | 2016 | (Restated – Note 6) 2015 |
| Cost of sales | \$ 216,698 | \$ 246,422 |
| General and administrative | 42,153 | 38,851 |
| | <u>\$ 258,851</u> | <u>\$ 285,273</u> |

25 Other operating income

| | Year ended December 31, | |
|---|----------------------------|--------------------------------|
| | 2016 | (Restated – Note 6) 2015 |
| Gain on sale of property, plant and equipment | \$ (4,983) | \$ (2,265) |
| Other income | - | (4,770) |
| Foreign exchange loss (gain) | 1,726 | (14,743) |
| | <u>\$ (3,257)</u> | <u>\$ (21,778)</u> |

26 Per share amounts

The following table shows the number of shares used in the calculation of earnings per share:

| | Year ended December 31, | |
|--|----------------------------|--------------------|
| | 2016 | 2015 |
| Weighted average common shares outstanding - Basic | 135,202,472 | 125,652,815 |
| Dilutive effect of: | | |
| Stock options and other awards | - | - |
| Weighted average common shares – Diluted | <u>135,202,472</u> | <u>125,652,815</u> |

The dilutive effect of 2.7 million stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the year ended December 31, 2016, and the dilutive effect of 2.0 million stock options and other awards for the year ended December 31, 2015 has not been included in the determination of the weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net loss per share.

27 Related party transactions

Joint operations

On August 11, 2011, the Company formed a partnership to jointly construct and own pipeline and emulsion treating, water disposal and oilfield waste management facilities in the Plato area of Saskatchewan. The partnership commenced operations in 2012. The Company's interest in the partnership is 50%. A member of the Company's Board is also a director of the other party with the 50% interest in the partnership. At December 31, 2016 and 2015, the Company's proportionate share of property, plant and equipment was \$9.0 million and \$9.4 million, respectively. The impact of the Company's share of the other financial position and results of the partnership is not material to the Company's consolidated financial statements.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Compensation of key management

Key management includes the Company's directors, executive officers, business unit leaders and other non-business unit senior vice presidents. Compensation awarded to key management was:

| | Year ended December 31, | |
|---|----------------------------|------------------|
| | 2016 | 2015 |
| Salaries and short-term employee benefits | \$ 4,071 | \$ 4,571 |
| Post-employment benefits | 1,064 | 1,123 |
| Share based compensation..... | 6,280 | 6,262 |
| | <u>\$ 11,415</u> | <u>\$ 11,956</u> |

28 Post-retirement benefits

Defined benefit plans

The Company maintains a funded defined benefit pension plan that is funded based upon the advice of independent actuaries. The Company is required to file an actuarial valuation of the defined benefit pension plans with the provincial regulator every three years, with the most recent actuarial valuation filing as at December 31, 2016. Based on the actuarial valuations as at December 31, 2016 and 2015, the status of the defined benefit plans was as follows:

Accrued benefit obligation

| | Year ended December 31, | |
|---|----------------------------|------------------|
| | 2016 | 2015 |
| Accrued benefit obligation, beginning of year | \$ 16,440 | \$ 16,342 |
| Current service cost | 48 | 216 |
| Interest cost | 606 | 608 |
| Benefits paid | (629) | (571) |
| Actuarial loss (gain)..... | 393 | (167) |
| Other..... | 11 | 12 |
| Accrued benefit obligation, end of year | <u>\$ 16,869</u> | <u>\$ 16,440</u> |

Plan assets

| | Year ended December 31, | |
|--|----------------------------|------------------|
| | 2016 | 2015 |
| Fair value of pension plan assets, beginning of year | \$ 15,529 | \$ 14,696 |
| Interest on plan assets | 536 | 513 |
| Actual contributions..... | 517 | 809 |
| Actual benefits paid | (629) | (571) |
| Actuarial gain | 173 | 82 |
| Fair value of pension plan assets, end of year | <u>\$ 16,126</u> | <u>\$ 15,529</u> |

Accrued benefit liability

| | Year ended December 31, | |
|---------------------------------|----------------------------|-----------------|
| | 2016 | 2015 |
| Accrued benefit obligation..... | \$ (16,869) | \$ (16,440) |
| Fair value of plan assets | 16,126 | 15,529 |
| Accrued benefit liability | <u>\$ (743)</u> | <u>\$ (911)</u> |

Gibson Energy Inc.
Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

The significant weighted average actuarial assumptions adopted in measuring the Company’s defined benefit plan obligation are as follows:

| | Year ended December 31, | |
|------------------------------------|----------------------------|------|
| | 2016 | 2015 |
| Discount rate..... | 3.8% | 4.0% |
| Rate of compensation increase..... | 3.0% | 3.0% |

The assumed discount rate has an effect on the amounts reported for the defined benefit plan obligations. A one-percentage point change in the discount rate would have the following impact:

| | One % point increase | One % point decrease |
|---|-------------------------|-------------------------|
| Increase/(decrease) in defined benefit plans obligations..... | \$ 2,414 | \$ 2,414 |

Defined contribution pension plan

The Company operates defined contribution plans whereby, in some cases, contributions made by participants are matched by the Company up to specified annual limits and in other cases, contributions are fully funded by the Company. The total expense recorded for the defined contribution pension plans was \$6.3 million and \$7.1 million for the year ended December 31, 2016 and 2015, respectively.

29 Share based compensation

The Company has established an equity incentive plan which permits the award of stock options, RSUs, PSUs and DSUs for executives, directors, employees and consultants of the Company. Stock options provide the holder with the right to exercise an option to purchase a common share, upon vesting, at a price determined on the date of grant. RSUs give the holder the right to receive, upon vesting, either a common share or a cash payment, subject to consent of the Board, or its equivalent in fully paid common shares equal to the fair market value of the Company’s common shares at the date of such payment. The RSUs granted in 2016 and 2015 were expected to be settled by delivery of common shares and accordingly, were considered an equity-settled award for accounting purposes. Stock options and RSUs granted generally vest equally each year over a three year period. RSUs granted with specific performance criteria are designated as PSUs. PSU’s vest at the end of the three year period and granting depends on the achievement of certain performance criteria. DSUs are similar to RSUs except that DSUs may not be redeemed until the holder ceases to hold all offices, employment and directorships.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

At December 31, 2016, awards available to grant under the equity incentive plan totalled approximately 8.3 million.

A summary of stock option activity is as follows:

| | Number of Shares | Weighted- Average Exercise Price (in dollars) |
|--|---------------------|--|
| Balance at January 1, 2015 | 2,485,215 | \$ 23.33 |
| Granted | 852,192 | 25.00 |
| Exercised | (12,162) | 8.64 |
| Forfeited | (8,077) | 26.44 |
| Balance at December 31, 2015 | 3,317,168 | \$ 23.81 |
| Granted | - | - |
| Exercised | (115,806) | 8.64 |
| Forfeited | (133,497) | 26.93 |
| Balance at December 31, 2016 | 3,067,865 | \$ 24.24 |
| Vested and exercisable at December 31, 2016..... | 2,315,301 | \$ 23.51 |
| Vested and exercisable at December 31, 2015..... | 1,557,276 | \$ 20.53 |

Additional information regarding stock options outstanding as of December 31, 2016 is as follows:

| Outstanding | | | Exercisable | | |
|-----------------------|---|-----------------------------------|-----------------------|--|-----------------------------------|
| Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Exercise Price (in dollars) | Number Outstanding | Weighted- Average Remaining Contractual Life (Years) | Exercise Price (in dollars) |
| 409,164 | 2.0 | \$ 8.64 | 409,164 | 2.0 | \$ 8.64 |
| 38,608 | 5.2 | 17.06 | 30,367 | 5.1 | 17.02 |
| 33,681 | 2.4 | 20.67 | 33,681 | 2.4 | 20.67 |
| 57,981 | 3.4 | 22.37 | 57,981 | 3.4 | 22.37 |
| 21,930 | 3.5 | 24.44 | 21,930 | 3.5 | 24.44 |
| 1,393,345 | 4.2 | 25.62 | 943,220 | 3.8 | 25.75 |
| 1,030,345 | 4.2 | 28.24 | 751,475 | 4.2 | 28.25 |
| 82,847 | 4.6 | 34.44 | 67,483 | 4.6 | 34.50 |
| 3,067,865 | 3.9 | | 2,315,301 | 3.6 | |

A summary of RSUs, PSUs and DSUs activity is set forth below:

| | Number of Shares | | |
|---|------------------|-----------|-----------|
| | RSUs | PSUs | DSUs |
| Balance at January 1, 2015 | 544,753 | 628,959 | 146,786 |
| Granted..... | 345,508 | 555,383 | 108,665 |
| Issued for common shares..... | (241,299) | (106,254) | (64,501) |
| Forfeited | (38,547) | (50,042) | - |
| Issued for cash | (264) | (204) | - |
| Balance at December 31, 2015..... | 610,151 | 1,027,842 | 190,950 |
| Granted..... | 893,994 | 852,462 | 167,105 |
| Issued for common shares..... | (324,001) | (103,676) | (161,473) |
| Forfeited | (67,353) | (246,308) | - |
| Balance at December 31, 2016..... | 1,112,791 | 1,530,320 | 196,582 |
| Vested, Balance at December 31, 2016..... | 49,229 | - | 196,582 |
| Vested, Balance at December 31, 2015..... | 106,240 | - | 167,406 |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Stock based compensation expense was \$24.9 million and \$20.4 million for the years ended December 31, 2016 and 2015, respectively, and is included in general and administrative expenses.

There were no options granted during the year ended December 31, 2016, accordingly there are no fair value assumptions and calculations for the current year period. The fair value of the options granted was estimated at \$2.42 per option for the year ended December 31, 2015. The fair value of options was calculated by using the Black-Scholes model with the following weighted average assumptions:

| | <u>Year ended</u> <u>December 31, 2015</u> |
|--------------------------------------|---|
| Expected dividend rate | 5.2% |
| Expected volatility..... | 24.2% |
| Risk-free interest rate | 0.5% |
| Expected life of option (years)..... | 3.0 |

The fair value of RSUs, PSUs and DSUs was determined using the five days weighted average stock price prior to the date of grant.

30 Financial instruments

Non-Derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, net investment in finance lease, trade payables and accrued charges, amounts borrowed under the credit facilities, dividends payable, Debentures and long-term debt.

Cash and cash equivalents, trade and other receivables, trade payables and accrued charges, dividends payable and amounts borrowed under the credit facilities are recorded at amortized cost which approximates fair value due to the short term nature of these instruments.

Long-term debt is recorded at amortized cost using the effective interest method of amortization. As at December 31, 2016, the carrying amount of long-term debt was \$1,288.5 million less debt discount and issue costs of \$16.6 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,336.8 million. As at December 31, 2015, the carrying amount of long-term debt was \$1,311.1 million less debt discount and issue costs of \$19.8 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,235.6 million.

The Debentures liability component is recorded at amortized cost using the effective interest method of amortization. As at December 31, 2016, the total carrying amount of the debentures liability and equity components was \$100.0 million less debt discount and issue costs of \$2.7 million, and deferred taxes relating to the equity component of \$2.7 million. The fair value of the Debentures based on period end trading prices on the secondary market (Level 2) was \$109.0 million (December 31, 2015 – nil).

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. The following table provides a summary of the Company's offsetting trade and other receivables and trade payables and accrued charges:

| | December 31, 2016 | | December 31, 2015 | |
|---|-----------------------------|-----------------------------------|-----------------------------|-----------------------------------|
| | Trade and other receivables | Trade payable and accrued charges | Trade and other receivables | Trade payable and accrued charges |
| Gross amounts..... | \$ 400,152 | \$ 338,824 | \$ 268,602 | \$ 228,022 |
| Amount offset..... | (269,611) | (269,611) | (169,351) | (169,351) |
| Net amount included in the consolidated financial statements..... | <u>\$ 130,541</u> | <u>\$ 69,213</u> | <u>\$ 99,251</u> | <u>\$ 58,671</u> |

Derivative financial instruments (recurring fair value measurements)

The following is a summary of the Company's risk management contracts outstanding:

| | December 31, 2016 | | December 31, 2015 | |
|---------------------------------|----------------------|------------------|----------------------|-----------------|
| | Assets | Liabilities | Assets | Liabilities |
| Commodity futures..... | \$ 595 | \$ 5,640 | \$ 1,105 | \$ 337 |
| Commodity swaps | 5,578 | 2,688 | 6,545 | 3,165 |
| Commodity options | 38 | 747 | 765 | 13 |
| Equity swaps | - | 1,686 | - | 5,390 |
| Foreign currency forwards..... | - | 1,411 | - | 398 |
| Foreign currency options..... | 7 | 3 | - | - |
| Total..... | <u>\$ 6,218</u> | <u>\$ 12,175</u> | <u>\$ 8,415</u> | <u>\$ 9,303</u> |
| Less non-current portion: | | | | |
| Equity swaps..... | - | 226 | - | 3,824 |
| Foreign currency forwards | - | 48 | - | - |
| Foreign currency options..... | - | - | - | - |
| | - | 274 | - | 3,824 |
| Current portion..... | <u>\$ 6,218</u> | <u>\$ 11,901</u> | <u>\$ 8,415</u> | <u>\$ 5,479</u> |

The fair value of financial instruments is classified as a non-current asset (long-term prepaid expense and other assets) or liability (other long-term liabilities) if the remaining maturity is more than 12 months and, as a current asset or liability, if the maturity is less than 12 months.

(i) Commodity financial instruments

Futures, options and swaps

The Company enters into futures, options and swap contracts to manage the price risk associated with sales, purchases and inventories of crude oil, natural gas liquids and petroleum products.

(ii) Currency financial instruments

The Company enters into forward and options contracts to buy and sell U.S. dollars in exchange for Canadian dollars to fix the exchange rate on its estimated future net cash inflows denominated in U.S. dollars and long-term borrowings denominated in U.S. dollars.

During the year ended December 31, 2015, the Company received cash of \$53.3 million on the settlement of U.S. dollar forward contracts for a notional amount of U.S.\$250.0 million. Additionally, the Company paid cash of \$16.7 million to

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

settle U.S. dollar options for a notional amount of U.S. \$250.0 million. At December 31, 2016, the Company had no forward and options contracts to buy and sell U.S. dollars in exchange for Canadian dollars to fix the exchange rate on its long-term borrowings denominated in U.S. dollars.

(iii) Equity price financial instruments

During 2016, the Company entered into additional equity swaps of 660,000 notional amount common shares (2015 – 550,000 notional amount common shares), at an initial price of \$17.59 per share (2015 – \$23.65 per share) for settlement over a three year period. The Company has entered into these equity swap contracts to help manage equity price and dilution exposure to shares that it issues under its stock based compensation programs. During the year ended December 31, 2016 the Company recognized an unrealized gain in the current period of \$3.6 million (2015 - unrealized loss of \$5.4 million).

The value of the Company's derivative financial instruments is determined using inputs that are either readily available in public markets or are quoted by counterparties to these contracts. In situations where the Company obtains inputs via quotes from its counterparties, these quotes are verified for reasonableness via similar quotes from another source for each date for which financial statements are presented. The Company has consistently applied these valuation techniques in all periods presented and the Company believes it has obtained the most accurate information available for the types of financial instrument contracts held. The Company has categorized the inputs for these contracts as Level 1, defined as observable inputs such as quoted prices in active markets; Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; or Level 3 defined as unobservable inputs in which little or no market data exists therefore requiring an entity to develop its own assumptions.

The Company used the following techniques to value financial instruments categorized in Level 2:

- The fair value of commodity options and swaps is calculated as the present value of the estimated future cash flows based on the difference between contract price and commodity price forecast.
- The fair value of foreign currency options and forward contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present values.

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2016 was:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|------------------|-----------------|-----------------|----------------|
| Assets from financial instrument contracts | | | | |
| Commodity futures..... | \$ 595 | \$ 595 | \$ - | \$ - |
| Commodity swaps | 5,578 | - | 5,578 | - |
| Commodity options | 38 | - | 38 | - |
| Foreign currency options..... | 7 | - | 7 | - |
| Total assets | <u>\$ 6,218</u> | <u>\$ 595</u> | <u>\$ 5,623</u> | <u>\$ -</u> |
| Liabilities from financial instrument contracts | | | | |
| Commodity futures..... | \$ 5,640 | \$ 5,640 | \$ - | \$ - |
| Commodity swaps | 2,688 | - | 2,688 | - |
| Commodity options | 747 | - | 747 | - |
| Equity swaps..... | 1,686 | 1,686 | - | - |
| Foreign currency forwards | 1,411 | - | 1,411 | - |
| Foreign currency options..... | 3 | - | 3 | - |
| Total liabilities | <u>\$ 12,175</u> | <u>\$ 7,326</u> | <u>\$ 4,849</u> | <u>\$ -</u> |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2015 was:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---|-----------------|-----------------|-----------------|----------------|
| Assets from financial instrument contracts | | | | |
| Commodity futures..... | \$ 1,105 | \$ 1,105 | \$ - | \$ - |
| Commodity swaps | 6,545 | - | 6,545 | - |
| Commodity options | 765 | - | 765 | - |
| Total assets | <u>\$ 8,415</u> | <u>\$ 1,105</u> | <u>\$ 7,310</u> | <u>\$ -</u> |
| Liabilities from financial instrument contracts | | | | |
| Commodity futures..... | \$ 337 | \$ 337 | \$ - | \$ - |
| Commodity swaps | 3,165 | - | 3,165 | - |
| Commodity options | 13 | - | 13 | - |
| Equity swaps..... | 5,390 | 5,390 | - | - |
| Foreign currency forwards | 398 | - | 398 | - |
| Total liabilities | <u>\$ 9,303</u> | <u>\$ 5,727</u> | <u>\$ 3,576</u> | <u>\$ -</u> |

The impact of the movement in the fair value of financial instruments has been expensed in the consolidated statement of operations as follows:

| | <u>Year ended December 31,</u> | |
|---|------------------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Cost of sales | \$ 8,678 | \$ (3,899) |
| General and administrative..... | (3,605) | 5,390 |
| Foreign exchange loss (gain) on long-term debt (note 15)..... | - | (9,995) |
| | <u>\$ 5,073</u> | <u>\$ (8,504)</u> |

Financial Risk Management

The Company's activities expose it to certain financial risks, including foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk. The Company's risk management strategy seeks to reduce potential adverse effects on its financial performance. As a part of its strategy, both primary and derivative financial instruments are used to hedge its risk exposures.

There are clearly defined objectives and principles for managing financial risk, with policies, parameters and procedures covering the specific areas of funding, banking relationships, interest rate exposures and cash management. The Company's treasury and risk management functions are responsible for implementing the policies and providing a centralised service to the Company for identifying, evaluating and monitoring financial risks.

a) Foreign currency exchange risk

Foreign exchange risks arise from future transactions and cash flows and from recognized monetary assets and liabilities that are not denominated in the functional currency of the Company's operations.

The exposure to exchange rate movements in significant future transactions and cash flows is managed by using foreign currency forward contracts and options. These financial instruments have not been designated in a hedge relationship. No speculative positions are entered into by the Company.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Foreign currency exchange rate sensitivity

If the Canadian dollar strengthened or weakened by 5% relative to the U.S. dollar and all other variables, in particular interest rates remain constant, the impact on net income and equity would be as follows:

| | December 31, | |
|---|--------------|----------|
| | 2016 | 2015 |
| U.S. Dollar Forwards and Options | | |
| Favorable 5% change | \$ 1,796 | \$ 1,180 |
| Unfavorable 5% change | (1,998) | (1,180) |

The movement is a result of a change in the fair value of U.S. dollar forward contracts and options.

The impact of translating the net assets of the Company's U.S operations into Canadian dollars is excluded from this sensitivity analysis.

b) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will be affected by changes in market interest rates. At December 31, 2016, the Company had \$nil amounts drawn on its credit facilities, accordingly there is no current interest rate risk associated with the credit facility. At December 31, 2015, the Company has exposure to changes to market interest rates that relate to the \$35.0 million drawn on the Company's credit facility as at December 31, 2015. A 1% increase or decrease in interest rates in relation to the amounts drawn at December 31, 2015 would impact net income by \$0.3 million, when annualized, and assuming a consistent balance over the duration of the year.

c) Commodity price risk

The Company is exposed to changes in the price of crude oil, NGLs, oil related products and electricity commodities, which are monitored regularly. Crude oil and NGL priced futures, options and swaps are used to manage the exposure to these commodities' price movements. These financial instruments are not designated as hedges. Based on the Company's risk management policies, all of the financial instruments are employed in connection with an underlying asset/liability and/or forecasted transaction and are not entered into with the objective of speculating on commodity prices.

The following table summarizes the impact to net income and equity due to a change in fair value of the Company's derivative positions because of fluctuations in commodity prices leaving all other variables constant, in particular, foreign currency rates. The Company believes that a 15% volatility in crude oil and NGL related prices is a reasonable assumption.

| | December 31, | |
|---|--------------|----------|
| | 2016 | 2015 |
| Crude oil and NGL related prices | | |
| Favorable 15% change | \$ 9,681 | \$ 6,747 |
| Unfavorable 15% change | (10,110) | (6,092) |

d) Credit risk

The Company's credit risk arises from its outstanding trade receivables, including receivables from customers who have entered into fixed term contractual arrangements to have dedicated use of certain of the Company's tanks. A significant portion of the Company's trade receivables are due from entities in the oil and gas industry. Concentration of credit risk is mitigated by having a broad customer base and by dealing with credit-worthy counterparties in accordance with established credit approval practices. The Company actively monitors the financial strength of its customers and, in select cases, has tightened credit terms to minimize the risk of default on trade receivables.

At December 31, 2016 and 2015, approximately 2% and 3%, respectively, of net trade receivables are past due but not considered to be impaired. The Company considers trade receivables as past due when they are 30 days past the due date. The maximum exposure to credit risk related to trade receivables is their carrying value as disclosed in these financial statements.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

The Company establishes guidelines for customer credit limits and terms. The Company review includes financial statements and external ratings when available. The Company does not usually require collateral in respect of trade and other receivables. The Company provides adequate provisions for expected losses from the credit risks associated with trade receivables. The provision is based on an individual account-by-account analysis and prior credit history.

The Company is exposed to credit risk associated with possible non-performance by financial instrument counterparties. The Company does not generally require collateral from its counterparties but believes the risk of non-performance is low. The counterparties are generally major financial institutions or commodity brokers with investment grade credit ratings as determined by recognized credit rating agencies.

The Company's cash equivalents are placed in time deposits with investment grade international banks and financial institutions.

e) Equity price risk

The Company is exposed to changes in the Company's share price with respect to equity swap contracts. If the Company's share price increased or decreased by 10%, the impact on net income and equity would be as follows:

| | December 31, | |
|------------------------------|--------------|--------|
| | 2016 | 2015 |
| Equity Swaps | | |
| Favorable 10% change | \$ 1,661 | \$ 558 |
| Unfavorable 10% change | (1,661) | (558) |

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. The Company's process for managing liquidity risk includes preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures and authorization of contractual agreements. The Company may seek additional financing based on the results of these processes. The budgets are updated with forecasts when required and as conditions change. Cash and cash equivalents and the Revolving Credit Facility are available and are expected to be available to satisfy the Company's short and long-term requirements. The Company has a Revolving Credit Facility of \$500.0 million and three bilateral demand letter of credit facilities totaling \$150.0 million. At December 31, 2016, \$nil was drawn against the Revolving Credit Facility and the Company had outstanding issued letters of credit of \$48.4 million.

The terms of the Notes and Revolving Credit Facility require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default. At December 31, 2016 and December 31, 2015, the Company was in compliance with these covenants.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Set out below is a maturity analyses of certain of the Company's financial contractual obligations as at December 31, 2016. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

| | On demand or within one year | Between one and five years | After five years | Total |
|--|---------------------------------|-------------------------------|---------------------|---------------------|
| Trade payables and accrued charges, excluding derivative financial instruments and accrued interest..... | \$ 415,310 | \$ - | \$ - | \$ 415,310 |
| Dividend payable..... | 46,772 | - | - | 46,772 |
| Long-term debt | - | 988,485 | 300,000 | 1,288,485 |
| Debentures (debt and equity component) | - | 100,000 | - | 100,000 |
| Interest on long-term debt and Debentures..... | 98,222 | 392,886 | 186,364 | 677,472 |
| Commodity futures | 5,640 | - | - | 5,640 |
| Commodity swaps..... | 2,688 | - | - | 2,688 |
| Commodity options..... | 747 | - | - | 747 |
| Equity swap | 1,460 | 226 | - | 1,686 |
| Foreign currency forwards..... | 1,363 | 48 | - | 1,411 |
| Foreign currency options | 3 | - | - | 3 |
| | <u>\$ 572,205</u> | <u>\$1,481,645</u> | <u>\$ 486,364</u> | <u>\$ 2,540,214</u> |

Capital management

The Company's objectives when managing its capital structure are to maintain financial flexibility so as to preserve the Company's ability to meet its financial obligations and to finance internally generated growth capital requirements as well as potential acquisitions.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity, long-term debt, the Debentures, the Revolving Credit Facility and working capital. To maintain or adjust the capital structure, the Company may draw on its revolving credit facility, issue notes or issue equity and/or adjust its operating costs and/or capital spending to manage its current and projected debt levels.

Financing decisions are made by management and the Board based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet, and the Debentures), less cash and cash equivalents. Total capital is calculated as net debt plus share capital as shown in the consolidated balance sheet.

| | December 31, | |
|--|---------------------|---------------------|
| | 2016 | 2015 |
| Total financial liability borrowings | \$ 1,271,839 | \$ 1,291,423 |
| Debentures (liability component) ⁽¹⁾ | 89,765 | - |
| Less: cash and cash equivalents | (60,159) | (82,775) |
| Net debt | 1,301,445 | 1,208,648 |
| Total share capital (including Debentures – equity component)..... | 1,919,267 | 1,672,323 |
| Total capital | <u>\$ 3,220,712</u> | <u>\$ 2,880,971</u> |

(1) The Debentures are included in the above total capital calculation in accordance with the Company's view of its capital structure which includes shareholders' equity, long-term debt, the Debentures, the Revolving Credit Facility, and working capital. The Debentures and

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

associated interest payments are excluded from the definition of net debt included in the consolidated senior and total debt covenant ratios, as well as the consolidated interest coverage covenant ratio.

If the Company is in a net debt position, the Company will assess whether the projected cash flow and availability under the Revolving Credit Facility and the bilateral demand letter of credit facilities are sufficient to service this debt and support ongoing operations.

31 Segmental information

During the first quarter of 2016, following a review of the management of the Company's operations, and in support of improved customer interface and enhanced internal efficiencies, the Company implemented several management and organizational changes. These changes caused the Company to realign its internal management reporting structure, and, therefore, the Company has also changed its external segment reporting structure to align with how business information is regularly reviewed internally for the purposes of decision making, allocating resources and assessing performance. The results of the Company are now being reported in the following reportable segments:

- (1) **Infrastructure** includes a network of midstream infrastructure assets that includes oil terminals, rail loading and unloading facilities, injection stations, gathering pipelines and processing facilities that collect, store, and process oil and other liquid hydrocarbon production and by-products before eventual distribution to end-use markets. The primary facilities within this segment include the terminals located at Edmonton and Hardisty, which are the principal hubs for aggregating and exporting oil and refined products out of the Western Canadian Sedimentary Basin; gathering pipelines, which are connected to the Hardisty Terminal; injection stations, which are located in the United States; a crude oil processing facility in Moose Jaw, Saskatchewan, and processing, recovery, and disposal terminals located throughout Western Canada and the Northern United States.
- (2) **Logistics** includes a suite of logistical wellsite services that enable oil and liquids production to access fixed midstream infrastructure. This segment provides transportation and related services that allow the Company to service its customers' needs several times between the wellhead and the end market, and includes providing hauling services for crude, condensate, propane, butane, asphalt, methanol, sulfur, petroleum coke, gypsum, emulsion, waste water and drilling fluids for many of North America's leading oil and gas producers. Additionally, the Company also provides several ancillary services to production companies.
- (3) **Wholesale** includes the purchasing, selling, storing and blending of hydrocarbon products, including crude oil, NGL's, road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil, and an oil based mud product. This segment earns margins by providing aggregation services to producers and/by capturing quality, locational or time-based arbitrage opportunities.
- (4) **Other** includes the provision of other services to the oil and gas industry including exploration support services and accommodation services.

This reporting structure provides a direct connection between the Company's operations, the services it provides to customers and the ongoing strategic direction of the Company.

These reportable segments of the Company have been derived because they are the segments: (a) that engage in business activities from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to each segment and assess its performance; and (c) for which discrete financial information is available. The Company has aggregated certain operating segments into the above noted reportable segments through examination of the Company's performance which is based on the similarity of the goods and services provided and economic characteristics exhibited by these operating segments.

Accounting policies used for segment reporting are consistent with the accounting policies used for the preparation of the Company's consolidated financial statements. Inter-segmental transactions are eliminated upon consolidation and the Company does not recognize margins on inter-segmental transactions. Comparative information has been recast to conform to our current segmented reporting information. No changes were implemented with respect to the consolidated data as a result of the recast.

Gibson Energy Inc.**Notes to Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)***Twelve months ended December 31, 2016**

| | <u>Infrastructure</u> | <u>Logistics</u> | <u>Wholesale</u> | <u>Other</u> | <u>Total</u> |
|--|-----------------------|------------------|------------------|-----------------|---------------------|
| Statement of operations | | | | | |
| Revenue | | | | | |
| External..... | \$ 185,351 | \$ 462,808 | \$3,934,922 | \$ 11,100 | \$ 4,594,181 |
| Inter-segmental | <u>112,799</u> | <u>50,127</u> | <u>252,586</u> | <u>191</u> | <u>415,703</u> |
| External and inter-segmental .. | <u>298,150</u> | <u>512,935</u> | <u>4,187,508</u> | <u>11,291</u> | <u>5,009,884</u> |
| Segment profit (loss)..... | <u>\$ 200,307</u> | <u>\$ 39,576</u> | <u>\$ 24,408</u> | <u>\$ (645)</u> | <u>\$ 263,646</u> |
| Corporate & other reconciling items | | | | | |
| Depreciation of property, plant and equipment | | | | | 175,346 |
| Amortization of intangible assets | | | | | 69,062 |
| Impairment of goodwill | | | | | 130,052 |
| General and administrative | | | | | 35,018 |
| Stock based compensation | | | | | 24,876 |
| Corporate foreign exchange loss | | | | | 1,098 |
| Interest expense | | | | | 86,619 |
| Interest income | | | | | (1,093) |
| Foreign exchange gain on long-term debt | | | | | <u>(22,715)</u> |
| Net loss from continuing operations before income tax..... | | | | | <u>(234,617)</u> |
| Income tax recovery | | | | | <u>(56,450)</u> |
| Net loss from continuing operations..... | | | | | <u>(178,167)</u> |
| Net income from discontinued operations (note 6)..... | | | | | <u>18,453</u> |
| Net loss from operations | | | | | <u>\$ (159,714)</u> |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

Twelve months ended December 31, 2015 (restated¹)

| | Infrastructure | Logistics | Wholesale | Other | Total |
|--|----------------|------------|-------------|-----------|--------------|
| Statement of operations | | | | | |
| Revenue | | | | | |
| External..... | \$ 167,841 | \$ 625,556 | \$4,573,029 | \$ 38,885 | \$ 5,405,311 |
| Inter-segmental | 103,500 | 55,500 | 394,617 | - | 553,617 |
| External and inter-segmental .. | 271,341 | 681,056 | 4,967,646 | 38,885 | 5,958,928 |
| Segment profit (loss)..... | \$ 181,067 | \$ 90,116 | \$ 100,317 | \$ 5,916 | \$ 377,416 |
| Corporate & other reconciling items | | | | | |
| Depreciation of property, plant and equipment | | | | | 180,471 |
| Amortization of intangible assets | | | | | 82,623 |
| Impairment of goodwill | | | | | 175,959 |
| General and administrative | | | | | 39,569 |
| Stock based compensation | | | | | 20,379 |
| Corporate foreign exchange gain | | | | | (4,970) |
| Interest expense | | | | | 79,580 |
| Interest income | | | | | (558) |
| Foreign exchange loss on long-term debt | | | | | 113,150 |
| Net loss from continuing operations before income tax..... | | | | | (308,787) |
| Income tax recovery | | | | | (13,413) |
| Net loss from continuing operations..... | | | | | (295,374) |
| Net income from discontinued operations (note 6)..... | | | | | 14,718 |
| Net loss from operations | | | | | \$ (280,656) |

The breakdown of additions to property, plant and equipment and intangible assets, including through business combinations, by reportable segments are as follows:

| | Twelve months ended December 31 | | | |
|-------------------------|-------------------------------------|----------------------|-------------------------------------|----------------------|
| | 2016 | | 2015 (restated ¹) | |
| | Property, plant and equipment | Intangible Assets | Property, plant and equipment | Intangible Assets |
| Infrastructure | \$ 194,080 | \$ 2,591 | \$ 310,011 | \$ 2,910 |
| Logistics | 13,814 | 1,680 | 83,914 | 8,548 |
| Wholesale | 11,386 | 92 | 68 | 37 |
| Corporate & other | 1,055 | 3,127 | 3,517 | 9,479 |
| Total | \$ 220,335 | \$ 7,490 | \$ 397,510 | \$ 20,974 |

1. Comparative period was restated to reflect the results of continuing operations separately from discontinued operations as well as the segment reporting structure changes noted earlier.

Geographic Data

Based on the location of the end user, approximately 22% and 20% of revenue was from customers in the United States for the year ended December 31, 2016 and 2015, respectively.

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with 16% and 24% in the United States at December 31, 2016 and 2015, respectively.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

32 Subsequent Events

Subsequent to December 31, 2016, the Company announced that it has entered into an agreement to sell its Industrial Propane business for non-refundable cash consideration of \$412.0 million, subject to certain adjustments, to Superior Plus LP ("Superior"). The sale will be completed through a series of transactions. Pursuant to an option purchase agreement, dated February 13, 2017, subject to the fulfilment of customary conditions, Gibsons and Superior agreed to complete the initial transaction pursuant to which Superior would pay \$412.0 million in exchange for the grant of an irrevocable option (the "Option") to Superior to acquire 100% of the partnership units and shares (the "Securities") of the Canwest and Stittco businesses. On March 1, 2017, the Company received the cash payment of \$412.0 million. Gibsons will continue to operate the business based on the terms and covenants of the Option agreement under the direction of the current management team, with no disruption to its employee base and customer service levels, until the Securities are transferred, which is expected to occur no later than the fourth quarter of 2017. Upon exercise of the Option by Superior, and receipt of regulatory approvals, the Securities will be transferred to Superior for nominal consideration. The Company will derecognize the Industrial Propane segment effective March 1, 2017.

Subsequent to December 31, 2016, the Company has amended the Revolving Credit Facility whereby the maximum consolidated senior debt leverage ratio and the maximum consolidated total debt leverage ratio which are now 4.85 to 1.0 for the 2017 fiscal year, 4.25 to 1.0 for the 2018 fiscal year and 4.0 to 1.0 thereafter. Furthermore, the maturity date of our Revolver Credit Facility has been extended from August 2020 to March 2022.

On March 7, 2017, the Company announced that the Board declared a quarterly dividend of \$0.33 per common share for the quarter ending March 31, 2017 on its outstanding common shares. The common share dividend is payable on April 17, 2017 to shareholders of record at the close of business on March 31, 2017.

33 Principal subsidiaries

The Company had the following subsidiaries as at December 31, 2016:

| Name | Country of incorporation and place of business | Nature of business | Proportion of ordinary shares owned by the Company |
|---|--|-----------------------------------|--|
| A&A Tank Truck Co. | USA | Transportation and Waste Disposal | 100% |
| B.E.G. Liquid Mud Services Corp. | USA | Oil & Gas Support Services | 100% |
| Cal-Gas Inc. | Canada | Industrial propane | 100% |
| Canwest Propane Partnership | Canada | Industrial propane | 100% |
| Canwest Propane ULC | Canada | Industrial propane | 100% |
| Charles Houston Inc. | USA | Oil & Gas Support Services | 100% |
| Chief Hauling Contractors ULC | Canada | Transportation Services | 100% |
| Frontier Ventures, LLC | USA | Oil & Gas Support Services | 100% |
| GEP ULC | Canada | Transportation and Storage | 100% |
| Gibson (U.S) Acquisitionco Corp. | USA | Holding Company | 100% |
| Gibson (U.S) Finco Corp. | USA | Holding Company | 100% |
| Gibson (U.S) Holdco Corp. | USA | Holding Company | 100% |
| Gibson Energy (US) Inc. | USA | Wholesale petroleum products | 100% |
| Gibson Energy Inc. | Canada | Holding Company | 100% |
| Gibson Energy Infrastructure, LLC | USA | Holding Company | 100% |
| Gibson Energy Corp. | USA | Holding Company | 100% |
| Gibson Energy Marketing, LLC | USA | Wholesale petroleum products | 100% |
| Gibson Energy Partnership | Canada | Transportation and Storage | 100% |
| 2011312 Alberta Ltd. (formerly Gibson Energy Sask Ltd.) | Canada | Transportation and Storage | 100% |
| Gibson Energy ULC | Canada | Holding Company | 100% |
| Gibson Energy LLC | USA | Transportation | 100% |

Gibson Energy Inc.

Notes to Consolidated Financial Statements

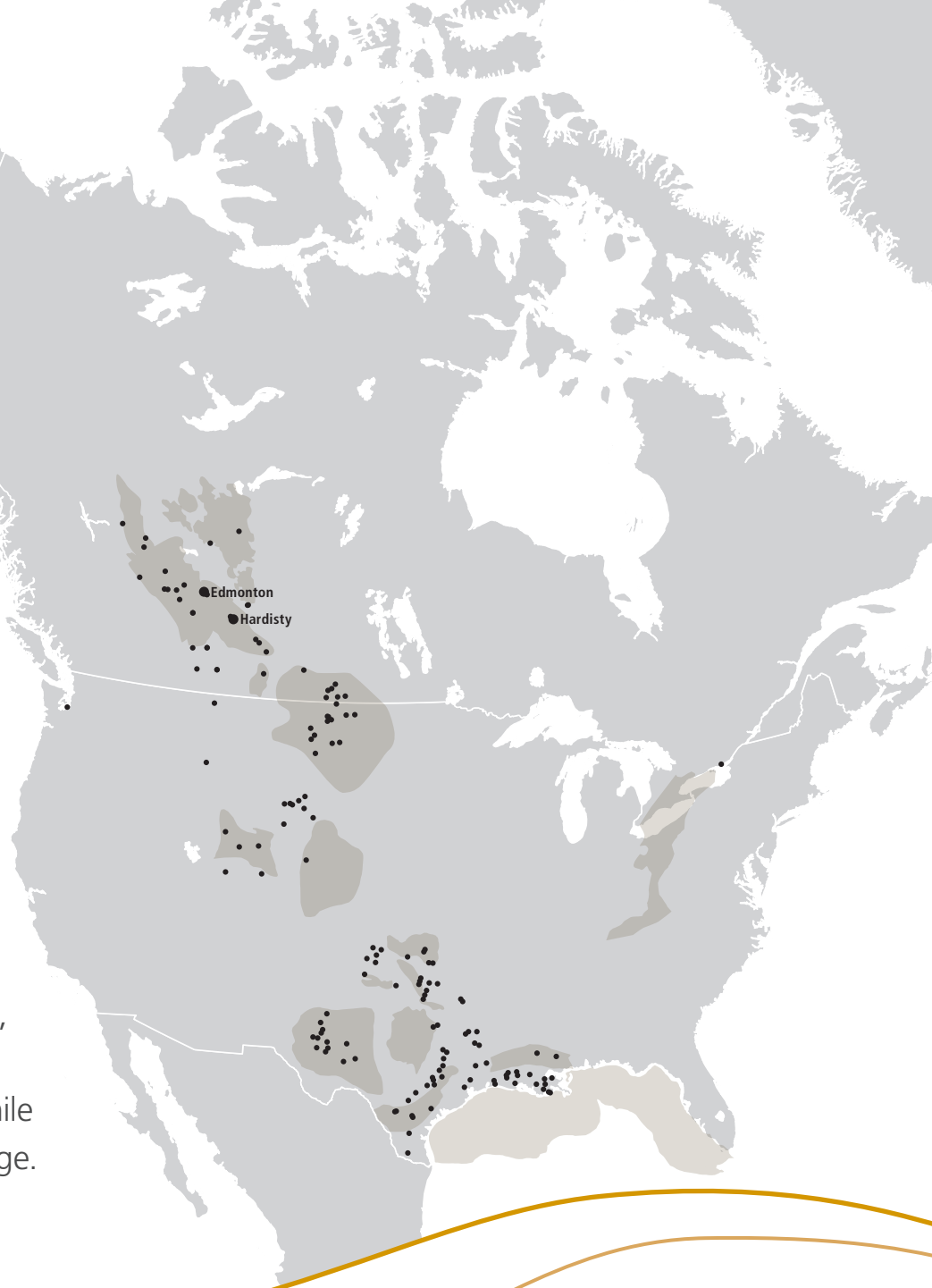
(tabular amounts in thousands of Canadian dollars, except where noted)

| Name | Country of incorporation and place of business | Nature of business | Proportion of ordinary shares owned by the Company |
|--|---|----------------------------|--|
| Gibson Energy ULC Pension Plan | Canada | Pension Fund | 100% |
| Gibson Gas Liquids Partnership (Alberta) | Canada | Wholesale propane | 100% |
| Gibson Gas Liquids ULC | Canada | Wholesale propane | 100% |
| Gibson GCC Inc. | Canada | Inactive | 100% |
| Gibson Offshore Services, LLC | USA | Oil & Gas Support Services | 100% |
| Gibson Omni Parent Inc. | USA | Holding Company | 100% |
| Griswold Management, Inc. | USA | Inactive | 100% |
| GWCC, LLC | USA | Oil & Gas Support Services | 100% |
| Industrial Lift Truck & Equipment Co, Inc. | USA | Oil & Gas Support Services | 100% |
| Keeton Services, Inc. | USA | Oil & Gas Support Services | 100% |
| Link Petroleum, Inc. | USA | Wholesale propane | 100% |
| Littlehawk Enterprises Ltd. | Canada | Oil & Gas Support Services | 100% |
| Moose Jaw Refinery Partnership | Canada | Fluids and refining | 100% |
| Moose Jaw Refinery ULC | Canada | Fluids and refining | 100% |
| OMNI Energy Seismic Services, LLC | USA | Oil & Gas Seismic Services | 100% |
| OMNI Energy Services Corp. | USA | Oil & Gas Support Services | 100% |
| OMNI Energy Transportation Corp. | USA | Oil & Gas Support Services | 100% |
| OMNI Labor Corp. | USA | Inactive | 100% |
| OMNI Properties Corp. | USA | Inactive | 100% |
| Plato Services Partnership | Canada | Waste Disposal Services | 50% |
| Preheat, Inc. | USA | Oil & Gas Support Services | 100% |
| Rig Tools, Inc. | USA | Oil & Gas Support Services | 100% |
| Ross Eriksmoen, Inc. | USA | Oil & Gas Support Services | 100% |
| Stittco Energy Ltd. | Canada | Industrial propane | 100% |
| Stittco Utilities Man Ltd. | Canada | Industrial propane | 100% |
| Stittco Utilities NWT Ltd. | Canada | Industrial propane | 100% |
| Taylor Transfer Services, LLC | USA | Transportation | 100% |
| TPG Leasing, LLC | USA | Rental and Leasing | 100% |
| TPG Transport, LLC | USA | Transportation | 100% |
| Trussco, Inc. | USA | Oil & Gas Support Services | 100% |
| WISCO, Inc. | USA | Oil & Gas Support Services | 100% |

Our Footprint

Our strategic footprint spans all the key plays in major North American basins. We have an enviable position in Canada's energy hubs along with synergistic service capabilities in Western Canada and the United States.

By delivering exceptional service, we provide our customers with flexible midstream solutions, while giving us a competitive advantage.



Reasons to Invest

Gibsons' primary objective is to generate stable and increasing cash flow for shareholders through an attractive dividend and a growing infrastructure asset base.

We offer:

A strategic asset base in key oil basins across North America.

Integrated and synergistic vertical services that enable oil & liquids production.

An attractive growth profile and competitive dividend.

An established, conservative and resilient business model.

Corporate Information

HEAD OFFICE

1700, 440–2nd Ave SW
Calgary, AB Canada
T2P 5E9
Phone: (403) 206-4000
Fax: (403) 206-4001
Website: www.gibsons.com

AUDITORS

PricewaterhouseCoopers LLP

BANKERS

Royal Bank of Canada
JPMorgan Chase Bank, N.A.

LEGAL COUNSEL

Bennett Jones LLP

TRUSTEE, REGISTRAR & TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE

Toronto Stock Exchange
Trading Symbol: GEI

INVESTOR RELATIONS & MEDIA

Tammi Price
Vice President, Finance and Corporate Affairs
Phone: (403) 206-4212
Email: tammi.price@gibsons.com

Amanda Condie
Manager, Communications
Phone: (403) 776-3189
Email: amanda.condie@gibsons.com

MANAGEMENT

A. Stewart Hanlon
President & Chief Executive Officer

Sean M. Brown
Chief Financial Officer

Douglas P. Wilkins
President, U.S. Operations

Richard M. Wise
Chief Operating Officer

DIRECTORS

James M. Estey
Chair of the Board

Douglas P. Bloom

James J. Cleary

A. Stewart Hanlon

Donald R. Ingram

Marshall L. McRae

Mary Ellen Peters

Clayton H. Woitas

FORWARD-LOOKING STATEMENTS

Certain statements and information included or referred to in this annual report constitute forward-looking information (as such term is defined under applicable Canadian securities laws). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking information. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential" and "capable" and similar expressions expressing future outcomes or statements regarding an outlook are intended to identify forward-looking information. The forward-looking information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information.

No assurance can be given that these expectations will prove to be correct and such forward-looking information included or referred to in this annual report should not be unduly relied upon. The forward-looking information included or referred to in this annual report are expressly qualified by this cautionary statement and speak only as of the date of this annual report. The Company does not undertake any obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise except as required by applicable securities laws.

Developing forward-looking information involves reliance on a number of assumptions and consideration of certain risks and uncertainties, some of which are specific to Gibsons and others that apply to the industry in general. With respect to forward-looking information included or referred to in this annual report, assumptions have been made regarding, among other things:

- future growth in worldwide demand for crude oil and petroleum products;
- crude oil prices;
- no material defaults by the counterparties to agreements with the Company;

- the Company's ability to obtain qualified personnel, owner-operators, lease operators and equipment in a timely and cost-efficient manner;
- the regulatory framework governing taxes and environmental matters in the jurisdictions in which the Company conducts and will conduct its business;
- changes in credit ratings applicable to the Company;
- operating costs;
- future capital expenditures to be made by the Company;
- the Company's ability to obtain necessary regulatory and partner approvals;
- the successful and timely implementation of capital projects or stages thereof;
- the Company's ability to generate sufficient cash to meet its current and future obligations;
- the Company's ability to obtain financing for its capital programs on acceptable terms;
- the Company's future debt levels;
- the impact of increasing competition on the Company;
- the impact of future changes in accounting policies on the Company's consolidated financial statements; and
- other risks and uncertainties described from time to time in the filings the Company makes with securities regulatory authorities.

Readers are cautioned that the foregoing list is not exhaustive and is made as at the date hereof. Actual results could differ materially from those anticipated in the forward-looking information as a result of numerous risks and uncertainties including, but not limited to, the risks described in "Risk Factors" and "Forward-Looking Statements" included in the Company's AIF dated March 7, 2017, available on SEDAR at www.sedar.com and on the Company's website at Gibsons.com.



Annual General Meeting Information

Tuesday, May 9, 2017, at 10:00 a.m. (Mountain Time)

The Westin Calgary

320 4th Avenue SW, Calgary, Alberta

Gibsons

1700, 440 - 2nd Ave. SW
Calgary, AB, Canada, T2P 5E9

Phone: (403) 206-4000

Fax: (403) 206-4001

www.gibsons.com