



 **ANNUAL  
REPORT** 2017





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# Management's Discussion and Analysis

2017 Year End Report



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", "Gibson Energy", "Gibson" or the "Company") as of March 5, 2018 and should be read in conjunction with the audited consolidated financial statements and related notes of the Company for the years ended December 31, 2017 and 2016, 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 Gibson, including the Annual Information Form for the year ended December 31, 2017 ("AIF") is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.gibsonenergy.com](http://www.gibsonenergy.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 AND STRATEGY**

Gibson is an oil infrastructure company with our principal businesses consisting of the storage, blending, processing, and gathering of crude oil and refined products. Headquartered in Calgary, Alberta, our operations are focused around our core terminal assets located at Hardisty, Alberta (the "Hardisty Terminal" or "Hardisty") and Edmonton, Alberta (the "Edmonton Terminal" or "Edmonton"), and also include the Moose Jaw Facility and injections stations in the Permian basin in Texas and the South Central Oil Province ("SCOOP") and the Sooner Trend, Anadarko Basin, Canadian, and Kingfisher Counties ("STACK") basins in Oklahoma.

### **Our strategy and strengths**

The key attributes of our strategy are:

- an oil infrastructure focus, with the Infrastructure segment expected to comprise approximately 85% of segment profit by the end of 2019, including the terminals and pipelines representing approximately 75% of total segment profit;
- targeting 10% distributable cash flow per share growth through aiming to invest \$150 million to \$200 million in growth capital per year; and
- offering a secure, growing dividend that is underpinned by long-term contracts with investment grade counterparties at its terminal assets, with total Company cash flows expected to be comprised of approximately 85% take-or-pay, stable fee-based structures, inclusive of internal take-or-pay, by the end of 2019.

In order to be successful in our strategy we will:

- leverage our competitive position at our terminals to continue to secure a significant proportion of new tankage business. Through offering the most connectivity to inbound and outbound pipelines at Hardisty, as well as exclusive access to the only unit train rail facility at Hardisty, we have built a position that provides us a competitive advantage to service our customers. We intend to harvest additional opportunities within our terminals to provide incremental connectivity and other services to existing terminal customers;
- seek complementary growth through our basin strategy, focusing on the oil sands, Viking and Duvernay basins in Canada, and the Permian and SCOOP / STACK basins in the U.S. Within these basins, we will leverage our core terminals and injection stations to advantage us in competing for gathering pipeline and related infrastructure opportunities;
- pursue high quality cash flows to underpin our dividend and fund growth capital to maintain over 80% of our cash flows from take-or-pay, stable fee-based contracts;
- maintain a strong balance sheet and financial position through targeting a leverage ratio of 3.0x – 3.5x and a payout ratio of 70% – 80% of distributable cash flow. We anticipate being fully funded for our growth capital through the end of 2019 through proceeds from non-core asset dispositions, and will subsequently seek to fund growth capital with a maximum of 50% - 60% debt. We also target an investment grade credit rating to decrease our funding costs and increase our access to capital;
- remain highly skilled in building and operating our infrastructure while aggressively managing costs to maintain and improve operating margins. We will be customer-focused and will foster long-term relationships with our customers in order to better understand their infrastructure requirements and be more responsive in providing the best solutions for them; and

- continue our firm commitment to be a leader in environment, health, and safety. 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		
	2017	2016 <sup>3</sup>	2017	2016 <sup>3</sup>	2015 <sup>3</sup>
<b>Continuing operations</b>					
Revenue .....	\$ 1,766,887	\$ 1,414,187	\$ 6,100,839	\$ 4,594,181	\$ 5,405,311
Segment profit .....	85,227	87,634	310,236	263,646	377,416
Net loss .....	(91,787)	(50,597)	(115,715)	(178,167)	(295,374)
Basic and diluted loss per share .....	(0.64)	(0.36)	(0.81)	(1.31)	(2.35)
Adjusted EBITDA <sup>1,2</sup> .....	82,271	83,927	277,635	244,092	344,591
Distributable cash flow <sup>1,2</sup> .....	48,465	42,725	165,031	101,940	200,990
Dividends declared.....	47,257	46,772	188,470	181,994	161,002
Cash flow from operating activities .....	45,314	44,152	204,970	175,482	399,117
Growth capital expenditures.....	\$ 59,045	\$ 34,769	\$ 157,123	\$ 202,984	\$ 343,766
<b>Combined operations<sup>1</sup></b>					
Combined Adjusted EBITDA <sup>1,2</sup> .....	82,271	97,219	291,272	278,106	386,284
Distributable cash flow <sup>1,2</sup> .....	\$ 65,170	\$ 47,614	\$ 183,594	\$ 131,644	\$ 226,297

### Consolidated balance sheets

	As at December 31		
	2017	2016	2015
Total assets .....	\$ 2,964,434	\$ 3,261,347	\$ 3,282,986
Total non-current liabilities.....	\$ 1,498,900	\$ 1,639,045	\$ 1,606,425

	Last Twelve Months - As at December 31		
	2017	2016	2015
<b>Debt ratios<sup>4</sup></b>			
Total and senior debt leverage ratio .....	4.0	4.4	3.2
Interest coverage ratio.....	3.7	3.0	4.6

<sup>1</sup> See definition of non-GAAP measures on pages 20 to 23 and 39 to 40. Combined Adjusted EBITDA and Combined distributable cash flow, represents the aggregated results of both continuing and discontinued operations.

<sup>2</sup> See pages 21 to 22 and 28 for a reconciliation of Adjusted EBITDA to segment profit and distributable cash flow to cash flow from operations, respectively.

<sup>3</sup> Comparative period information has been restated to reflect the impact of discontinued operations. Refer to “subsequent events” for details.

<sup>4</sup> See ratio discussion on page 21 and 26 for more information on the ratio calculation which includes calculation of Proforma Adjusted EBITDA for covenant calculations.

## 2017 REVIEW

### Financial highlights

- Segment profit for the Infrastructure segment increased by 19% to \$237 million for the year ended December 31, 2017 compared to \$200 million for the year ended December 31, 2016 primarily as a result of the additional tank capacity and associated take-or-pay, stable fee-based contracts added during the first quarter of 2017 and the fourth quarter of 2016.
- Segment profit from continuing operations increased by 17% to \$310 million for the year ended December 31, 2017 compared to \$264 million for the year ended December 31, 2016 primarily due to higher segment profit from the Infrastructure segment.
- Distributable cash flow from combined operations increased by 39% to \$184 million for the year ended December 31, 2017, compared to \$132 million for the year ended December 31, 2016.
- Adjusted EBITDA from continuing operations increased by 14% to \$278 million for the year ended December 31, 2017 compared to \$244 million for the year ended December 31, 2016 due to higher segment profits across all business segments.
- Net loss from continuing operations decreased by 35% to \$116 million for the year ended December 31, 2017 compared to a net loss of \$178 million for the year ended December 31, 2016.
- In the fourth quarter of 2017 and 2016, the Company declared a dividend of \$0.33 and \$0.33 per common share, respectively. Total dividends declared for the years ended December 31, 2017 and 2016, were \$188 million and \$182 million respectively or \$1.32 per common share.

### Capital expenditure highlights

- During the year ended December 31, 2017, the Company incurred total growth capital expenditures of \$157 million of which \$147 million was primarily attributable to the Infrastructure segment for new tanks and related infrastructure at the Hardisty and Edmonton Terminals. Total 2017 growth capital expenditures were below our most recent guidance of \$170 million mainly due to capital costs savings at the Edmonton Terminal expansion and the timing of the spend related to other Infrastructure growth projects.
- On September 11, 2017, the Company announced the sanction of the construction of 1.1 million barrels of new tankage at its Hardisty Terminal of which 600,000 barrels is underpinned by a long-term, take-or-pay, stable fee-based contract with a senior investment grade oil sands customer and 500,000 barrels for operational purposes. The two 300,000 barrel tanks and one 500,000 barrel tank are expected to be placed into service in the third quarter of 2019 and will increase the total capacity of the terminal to approximately 10.1 million barrels.

### Disposition of non-core businesses

- During 2017, the Company closed the sale of its Industrial Propane segment. The final sale price after working capital adjustments was \$433 million resulting in recognition of a post-tax gain on sale of \$151 million.
- On August 1, 2017, the Company announced its intention to divest its U.S. Environmental Services business.

### Credit facility and long-term debt updates

- Effective March 7, 2017, the Company amended its unsecured revolving credit facility ("Revolving Credit Facility") whereby, among other revisions, the maximum consolidated senior debt leverage ratio and the maximum consolidated total debt leverage ratio were revised to 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 Revolving Credit Facility was extended from August 2020 to March 2022.
- On November 30, 2017, the Company amended the Revolving Credit Facility from \$500.0 million to \$560.0 million.
- During the year, the Company issued \$600 million 5.25% Senior Unsecured Notes due July 15, 2024 at face value plus accrued interest (the "New Notes"). Using the net proceeds of the New Notes along with the proceeds from the sale of Industrial Propane business, the Company fully repaid the US\$550 million 6.75% Notes (the "US\$ Notes") and \$250 million



7.00% Notes (the “C\$ Notes”) (collectively the “Retired Notes”). The refinancing has strengthened the Company's balance sheet by reducing its long-term indebtedness, decreased its annual interest costs and extended its debt maturity profile.

#### Organizational changes

- On June 5, 2017, the Company announced the appointment of Steve Spaulding as the Company's President and Chief Executive Officer, effective June 19, 2017, at which time Mr. Spaulding also became a member of Gibson's Board of Directors.
- During 2017, the Company initiated a corporate reorganization which resulted in the elimination of certain positions including certain executive and management positions. The Company incurred one-time reorganization and executive costs of \$19 million.

### **SUBSEQUENT EVENTS**

#### Dividend

- On March 5, 2018, the Board declared a quarterly dividend of \$0.33 per common share for the three months ended March 31, 2018 on its outstanding common shares. The dividend is payable on April 17, 2018 to shareholders of record at the close of business on March 30, 2018.

#### Strategy and sale of non-core businesses

- On January 3, 2018 the Company initiated the start-up process related to the commissioning of the two new 400,000 barrel crude oil storage tanks and related pipeline connection infrastructure at the Edmonton Terminal.
- On January 30, 2018, the Company announced its new corporate strategy and plans for the sale of several non-core businesses, including NGL Wholesale, Canadian Truck Transportation, non-core Canadian Environmental Services and non-core U.S. Injection Stations and Truck Transportation assets. The Company expects to place all the non-core businesses to be disposed into the market by the end of 2018, with a target of concluding the non-core divestiture process by mid-2019. Aggregate proceeds from the sale of non-core businesses are conservatively expected to range between \$275 million and \$375 million and are expected to be reinvested into the core infrastructure business through funding future growth capital expenditures.
- On February 21, 2018, the Company announced the sanction of the \$50 million Viking Pipeline Project. This project will extend the reach of the existing Provost Pipeline to support development by several regional producers.
- Subsequent to the year end, the Company has continued to progress its U.S. Environmental Services business sale process and is targeting to complete the divestiture during the first half of 2018.

### **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.

On September 11, 2017, the Company announced the sanction of the construction of new 1.1 million barrels of crude oil storage capacity and related pipeline connection infrastructure at the Company's Hardisty Terminal. The two 300,000 barrel tanks and one 500,000 barrel tank are expected to be placed into service in the third quarter of 2019. The two 300,000 barrel tanks are underpinned by a long-term, take-or-pay, stable fee-based contract with a senior, investment grade, oil sands customer and the 500,000 barrel tank is being constructed for operational purposes.

On February 21, 2018, the Company announced the sanction of the \$50 million Viking Pipeline Project. Consistent with Gibson's intention to expand its pipeline gathering network in the Viking Basin by leveraging existing storage, optimization capabilities and access to egress pipelines at its Hardisty Terminal, the Viking Pipeline Project will extend the reach of the existing Provost Pipeline to support development by several regional producers. The 120-km pipeline will have an initial capacity of 13,300 bbl/d, with the potential to expand to an estimated 25,000 bbl/d in the future. The Viking Pipeline Project is expected to be in service in Q1 2019, and is underpinned by shippers through take-or-pay commitments with an area of dedication.

In addition to the projects discussed, we continue to make progress with commercial development opportunities at both Hardisty and Edmonton that, with success, will enable us to add additional storage and connection infrastructure for our customers.

#### Market outlook

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

There are a number of factors that affect our 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, influence their willingness to increase capital expenditure programs that ultimately increase activity and production volumes, which create opportunities for our terminals at Hardisty and Edmonton, as well as our services that support those assets:

- 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 increase use of crude by rail as a solution for export market access. The Company believes that increased reliance on storage during periods of limited egress, especially during pipeline upsets, may lead customers to consider increasing their available storage and will be supportive of recontracting the rail facility at Hardisty.
- Enbridge Inc.'s proposed replacement of its Line 3 pipeline 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 Government approval in December 2016, and is awaiting final approval from the state of Minnesota, could provide incremental capacity by late 2019. The Hardisty Terminal is connected to deliver to this expansion and Line 3 coming into service should provide increased opportunities for the Company's terminal services at Hardisty;
- The receipt of Canadian federal approval for the Trans Mountain Expansion pipeline and U.S. federal and state approval for the Keystone XL pipeline has advanced two initiatives that should help the growing supply of Canadian crude oil garner improved market access, although additional regulatory challenges remain for both these projects. 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;
- Global heavy oil demand and prices may experience transitory volatility associated with the International Marine Organization's (IMO) Annex VI regulation which will reduce the maximum sulphur content of marine fuels from 3.5% to 0.5% beginning January 1, 2020. To maintain compliance, marine shippers must either install sulphur scrubbers or switch to lower sulphur fuels such as diesel or LNG. This change may potentially impact refinery demand for a period of time, and thus decrease prices for the high sulfur crude oils typical of Canada's oil sands; and
- Over the medium to long-term, as market access becomes more certain and technology development and cost reductions continue to decrease supply costs, the supply of Canadian heavy crude oil from the oil sands should start to grow more rapidly as additional oil sands projects are sanctioned and brought on stream, resulting in increased demand for terminal services and diluent in the WCSB.

The recent recovery of oil prices is expected to facilitate improved project economics for Gibson's producer customers. Taken together with improving cost efficiencies and increasing optimism regarding market access solutions, these factors have resulted in modest increases in capital programs being announced by a number of North American producers. However, given the uncertainty of oil prices in the short to medium term, producers appear to be taking a measured approach towards capital spending increases, which may limit the pace of production growth compared to past cycles. As crude oil supply and demand fundamentals rebalance, the Company anticipates a slow return to activity and production growth levels, a continued demand for midstream assets and increasing demand for storage.

Price fluctuations between crude oil types can create incremental margin opportunities in multiple areas of the Company's operations. Crude price differentials have recently widened in the face of firming of benchmark crude oil prices and the Company remains attentive to opportunities as this trend continues to evolve.

Over the medium to long-term the Company expects new technology for oil sands and conventional 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 Gibson has strategically chosen to operate, resulting in increased demand for Gibson's 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 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, accretion, impairment charges 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, 2017 and 2016 and the following table sets forth revenue and profit by segment for those periods:

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
<b>Segment revenue</b>				
Infrastructure .....	\$ 84,024	\$ 83,458	\$ 343,003	\$ 298,150
Logistics .....	135,752	132,790	526,345	512,935
Wholesale .....	1,714,250	1,322,354	5,817,252	4,187,508
Other .....	4,067	1,658	16,729	11,291
Total segment revenue .....	1,938,093	1,540,260	6,703,329	5,009,884
Revenue – inter-segmental .....	(171,206)	(126,073)	(602,490)	(415,703)
Total revenue – external .....	1,766,887	1,414,187	6,100,839	4,594,181
<b>Segment profit (loss)</b>				
Infrastructure .....	55,897	56,271	236,795	200,307
Logistics .....	10,653	14,685	42,671	39,576
Wholesale .....	18,658	17,204	30,585	24,408
Other .....	19	(526)	185	(645)
Total segment profit .....	85,227	87,634	310,236	263,646
General and administrative .....	22,316	8,482	51,204	35,018
Depreciation and impairment .....	66,316	54,185	192,302	175,346
Amortization and impairment .....	10,648	7,820	37,425	69,062
Impairment of goodwill .....	69,414	28,647	69,414	130,052
Stock based compensation .....	9,151	7,172	22,056	24,876
Debt extinguishment costs .....	(2,630)	-	60,492	-
Foreign exchange loss (gain) .....	2,534	16,165	(18,136)	(21,617)
Net Interest expense .....	17,414	23,317	77,362	85,526
Loss before income tax .....	(109,936)	(58,154)	(181,883)	(234,617)
Income tax recovery .....	(18,149)	(7,557)	(66,168)	(56,450)
Net loss from continuing operations .....	\$ (91,787)	\$ (50,597)	\$ (115,715)	\$ (178,167)

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, tanks, pipelines, plant and equipment, rolling stock 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.



Edmonton Terminal volumes were largely consistent with the prior period and increased by 23%, respectively. The year over year increase was mainly due to the commissioning of new tanks and common infrastructure at the Edmonton Terminal, completed in the fourth quarter of 2016, additional volumes received from the Company's Wholesale segment and due to the operational impact of the Fort McMurray forest fire which reduced available volumes in the second quarter of 2016.

Moose Jaw Facility volumes decreased by 9% and increased by 7%, respectively. The quarter over quarter decrease was primarily due to the impact of the build-up of higher asphalt inventory levels on a period over period basis. The year over year increase was primarily due to the impact of a substantially longer plant turnaround time during the second quarter of 2016 compared to the current period, as well as the overall increase in demand for certain refined products. This was partially offset by the impact of lower processing activity in the first quarter of 2017 as a result of an accumulation of inventory levels in the fourth quarter of 2016.

PRD Terminal volumes increased by 15% and 32%, respectively. The increase in both comparative periods was mainly due to higher drilling activity levels in the Company's WCSB service areas, particularly in the Saskatchewan Viking and the Alberta Montney, primarily driven by the sustained recovery of crude prices.

Injection Station volumes decreased by 65% and 47%, respectively. The decrease in both comparative periods was mainly due to a decrease in activity with a major customer in North Dakota and South Texas and the strategic decision to realign the injection stations service towards a more diversified customer base as discussed below within Logistics - U.S Crude and Other Products section.

### **Financial performance**

In the three months and year ended December 31, 2017 compared to the three months and year ended December 31, 2016:

Revenue at the Hardisty Terminal was largely consistent with the prior period and increased by \$23.5 million, respectively. Revenue remained flat quarter over quarter with the additional revenue earned with the new infrastructure assets as noted under operational performance being offset by a \$4.6 million one-time revenue adjustment related to the Hardisty Terminal. The year over year increase was largely driven by additional revenue from the new tanks commissioned in the fourth quarter of 2016 providing more customers with dedicated tank usage pursuant to take-or-pay, stable fee-based arrangements not dependent on volumes. The increase in revenues was also driven by the addition of a new take-or-pay, stable fee-based customer, an increase in a contract customer's tankage usage and the addition of the new common infrastructure connections.

Revenue at the Edmonton Terminal was consistent with the prior period and increased by \$9.9 million, respectively. The year over year increase was primarily due to the impact of the revenue related to the commissioning of the new tanks and related common infrastructure at the Edmonton Terminal and the impact of additional take-or-pay, stable fee-based arrangements and associated volumes related to the new tank at the Edmonton West Terminal that was commissioned in the fourth quarter of 2016.

PRD Terminal revenue increased by \$2.3 million and \$13.4 million, respectively mainly as a result of improved operational performance as discussed under operational performance.

Moose Jaw Facility revenue was consistent with the prior period and increased by \$1.3 million, respectively. The increase in the year over year comparative periods was primarily due to higher processing volumes as a result of the shorter turnaround time in 2017.

Injection station revenue decreased by \$0.7 million and \$3.2 million, respectively primarily related to lower volumes as previously discussed.

Segment profit was largely consistent with the prior period and increased by \$36.5 million, respectively. The quarter over quarter change was flat primarily due to consistent revenues from the Hardisty and Edmonton Terminals, and injection stations, as well as higher operating costs, associated with the expansion of the terminals, and the recognition of \$2.3 million for future environmental remediation costs. The revenue and segment profit decrease was partially offset by increase in revenues and segment profit from the PRD Terminals. The year over year increase was primarily due to the increased revenues from the Hardisty, Edmonton, and PRD Terminals. The revenue increase was partially offset by reductions in revenues from injection stations, and higher operating costs, associated with the expansion of the terminals, and recognition of certain environmental remediation costs.



## Capital expenditures

Below is the summary of Infrastructure capital expenditures for the years ended December 31, 2017 and 2016:

	Year ended December 31	
	2017	2016
Growth capital .....	\$ 146,739	\$ 183,561
Replacement capital .....	\$ 17,436	\$ 13,110

The reduction in growth capital expenditures for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily relates to a reduction in the amount of construction towards additional tanks and related infrastructure at the Hardisty and Edmonton Terminals in 2017 due to the high volume of tank and related infrastructure completions in the fourth quarter of 2016 at the Hardisty Terminal, the Edmonton Terminal and the Moose Jaw Facility.

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. The year over year change was primarily due to non-recurring mechanical and repair projects completed at the Moose Jaw Facility, as well as maintenance activities completed at the Company's PRD and Hardisty Terminals.

## 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 truck 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, sulphur, 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, 2017 and 2016:

Volumes (barrels in thousands)	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Canadian crude and other products.....	11,971	12,034	46,815	44,955
U.S. crude and other products .....	6,431	8,229	26,848	36,629
Total .....	18,402	20,263	73,663	81,584

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
<b>Revenue</b>				
Canadian crude and other product hauling .....	\$ 47,100	\$ 50,582	\$ 195,218	\$ 180,636
U.S. crude and other product hauling .....	14,643	21,821	66,888	101,054
Water hauling and disposal.....	33,596	26,882	129,264	106,298
Other products and services .....	40,413	33,505	134,975	124,947
Total revenue .....	135,752	132,790	526,345	512,935
Cost of sales .....	99,896	96,383	386,243	372,309
Operating expenses and other.....	25,203	21,722	97,431	101,050
Segment profit .....	\$ 10,653	\$ 14,685	\$ 42,671	\$ 39,576

## Operational performance

In the three months and year ended December 31, 2017 compared to the three months and year ended December 31, 2016:

Canadian crude and other product hauling barrels were largely consistent and increased by 4%, respectively. The consistent quarter over quarter results were primarily due to consistent levels of hauling activity in the Fort McMurray and Northern Alberta regions attributable to comparable activity in drilling and oil sands production as well as change in the hauling product mix period over period. The year over year increase was primarily due to higher levels of hauling activity in the Fort McMurray and the Northern Alberta regions attributable to the increase in drilling activity and oil sands production activity, coupled with the increase in petroleum coke, and liquefied petroleum gas hauled partially offset by lower gypsum, sulphur and road asphalt volumes.

U.S. crude and other products volume decreased by 22% and 27%, respectively. The decrease in both comparative periods was primarily attributable to the decline in business with Logistics' largest U.S. trucking customer triggered by the termination of the injection station access agreement in November 2017. Trucking volume with other customers are gradually increasing, however not sufficiently yet to overcome the overall effect of the decline with the large customer. To a lesser degree, 2017 volumes were also affected by a strategic decision 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, 2017 compared to the three months and year ended December 31, 2016:

Canadian crude and other product revenue decreased by 7% and increased by 8%, respectively. The decrease in quarter over quarter results was primarily due to consistent volumes hauled, with lower hauling rates for crude and LPG mix. The year over year period increase was primarily due to higher hauling rates for petroleum coke, sulphur, propane and gypsum and higher volumes hauled as noted under operational performance.

U.S. crude and other revenue decreased by 33% and 34%, respectively. The decrease in both comparative periods was primarily driven by lower volumes as noted above, the Company's exit from the Utica basin and due to change in business focus towards a more aggressive bid strategy with new customers.

Water hauling and disposal revenue increased by 25% and 22%, respectively. The increase in both comparative periods was primarily driven by the impact of the continued increase in production related volumes in the Mid Continent (Arkoma, SCOOP and STACK regions), Bakken and Northern Alberta.

Other products and services revenue increased by 21% and 8%, respectively. The quarter over quarter increase was primarily driven by higher activity in the Bakken, Gulf of Mexico, Rockies, Haynesville and Eagle Ford regions, and the realization of higher service rates in certain areas. The year over year period increase was primarily driven by higher activity in the Bakken, Rockies, Haynesville and Eagle Ford regions, and the realization of higher rates within the last two quarters, offset by lost service days related to Tropical Storm Cindy and Hurricane Harvey and Irma.

Segment profit decreased by 27% and increased by 8%, respectively. The quarter over quarter decrease was, primarily due to lower margins earned on Canadian and U.S. crude hauling, driven by lower overall volumes hauled due to increased competition within the Company's service areas and higher operating expenses in the U.S. primarily related to higher repairs and maintenance and payroll related costs in the current quarter. Canadian operations were also negatively impacted by lower margins on crude, LPG mix, gypsum, and asphalt partially offset by higher margins related to propane, and sulphur. The year over year increase was primarily due to higher margins earned on U.S. other products and services, driven by higher drilling activity and higher service rates. Canadian operations were positively impacted by higher margins earned on sulphur, and petroleum coke, partially offset by lower margins on crude, gypsum, and asphalt. Additionally, U.S. crude hauling margins declined due to increased competition within the Company's service areas as well as increased driver costs. The year over year increase was also supported by lower operating costs in the current period largely due to the continuation of the reduction in payroll related costs associated with overall headcount reductions.

## Capital expenditures

Below is the summary of Logistics capital expenditures for the years ended December 31, 2017 and 2016:

	Year ended December 31	
	2017	2016
Growth capital .....	\$ 6,043	\$ 5,860
Replacement capital .....	\$ 7,799	\$ 9,634

Growth capital expenditures for the year ended December 31, 2017, remain consistent with the prior comparative periods with approximately 96% of the expenditures in 2017 relating to U.S. Environmental Services asset purchases. Growth capital expenditures for the year ended December 31, 2016 also include expenditures related to the completion of the new Edmonton truck terminal.

Replacement capital decreased \$1.8 million for the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to decrease in spending related to the replacement of on-board computer software for the Canadian truck fleet as well as various truck and trailer replacements related to the Canadian and U.S. Logistics businesses.

## WHOLESALE

The Wholesale segment includes the purchasing, selling, storing and optimization 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 an oil based mud ("OBM") product. This segment earns margins by providing aggregation services to producers and/or by capturing quality, locational or time-based arbitrage opportunities. This segment also contributes to the Company's overall margins by driving volumes to our Infrastructure and Logistics 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 and/or hydrocarbon qualities. 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 commodity prices and can impact the segment profits in the form of realized or unrealized gains and losses, often offset by physical inventories, 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	
	2017	2016	2017	2016
WTI average price (\$USD/bbl).....	\$55.40	\$49.29	\$50.95	\$43.30
WCS differential .....	12.26	14.32	11.98	13.80
Average foreign exchange rates U.S. dollar to Canadian dollar .....	1.27	1.33	1.30	1.32
Propane average price (\$USD/U.S. gallon) .....	0.95	0.62	0.73	0.46
Butane average price (\$USD/U.S. gallon).....	1.05	0.79	0.91	0.63



The following tables set forth operating results from the Company's Wholesale segment for the three months and years ended December 31, 2017 and 2016:

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
<b>Volumes (barrels in thousands)</b>				
Crude and diluent .....	29,936	27,162	114,466	101,377
Propane and other NGL .....	3,524	3,551	11,154	11,632
Refined products.....	1,031	843	4,000	3,585
	<u>34,491</u>	<u>31,556</u>	<u>129,620</u>	<u>116,594</u>
	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
<b>Revenue</b>				
Crude and diluent.....	\$ 1,422,596	\$ 1,073,052	\$ 4,907,011	\$ 3,464,847
Propane and other NGL.....	195,913	179,420	551,854	454,307
Refined products.....	95,741	69,882	358,387	268,354
Total revenue .....	<u>1,714,250</u>	<u>1,322,354</u>	<u>5,817,252</u>	<u>4,187,508</u>
Cost of sales .....	1,689,472	1,297,501	5,761,215	4,135,937
Operating expenses and other.....	6,120	7,649	25,452	27,163
Segment profit .....	<u>\$ 18,658</u>	<u>\$ 17,204</u>	<u>\$ 30,585</u>	<u>\$ 24,408</u>

### Operational performance

In the three months and year ended December 31, 2017 compared to the three months and year ended December 31, 2016:

Sales volumes for crude and diluent increased by 10% and 13%, respectively. The increase in both comparative periods was mainly due to additional opportunities to bring volumes into the Company's integrated assets, primarily attributable to the addition of new storage tanks and common infrastructure added in Q4 2016 and Q1 2017. Additionally, the impact of the 2016 Fort McMurray fires reduced available volumes in the year over year comparative period.

Sales volumes for propane and other NGLs were consistent and decreased 4%, respectively. The consistent quarter over quarter volumes was primarily due to stronger demand for propane, which was offset by lower throughput due to tighter supply conditions for butane and condensate in the current period. The year over year decrease was primarily due to tighter supply conditions for butane and condensate, which was substantially offset by higher demand for propane.

Volumes for refined products increased by 22% and 12%, respectively. The increase in both comparative periods was primarily due to higher current period demand for drilling fluids, principally as a result of increased WCSB and U.S. drilling activity, the ability of the Company to gain market share in the Permian and Niobrara-DJ basins and by higher third party CVGO volumes in the current period.

### Financial performance

In the three months and year ended December 31, 2017 compared to the three months and year ended December 31, 2016:

Revenue for crude and diluent increased by 33% and 42%, respectively. The increase in both comparative periods was largely due to higher average crude oil prices, and the increase in volumes in the current quarter and year over year periods, partially offset by less favorable foreign exchange rates.

Revenue for propane and other NGLs increased by 9% and 21%, respectively. The increase in both comparative periods was mainly due to higher propane and butane prices.

Revenue for Refined Products increased by 37% and 34%, respectively. The increase in both comparative periods was primarily due to higher volumes sold for drilling fluids, asphalt, and CVGO as well as higher average crude oil prices which supported the increase in prices for these products.

Segment profit increased 8% by and 25%, respectively. The quarter over quarter increase was mainly due to more favorable light to heavy crude pricing spreads, higher refined product margins from increased sales of higher margin products, lower rail car and storage costs due to the reduction in the rail fleet, and lower operating expenses due to lower payroll related costs. These increases were partially offset by higher losses from financial instruments during the current quarter and lower margins earned on propane and butane volumes due to regional pricing constraints at a certain number of distribution hubs.

The year over year increase was mainly due to lower rail car and storage costs related to the reduction in the rail fleet, higher refined product margins from increased sales of higher margin products, lower comparative losses on financial instruments in the current year, and by lower operating expenses due to lower payroll related costs. These increases were partially offset by lower crude and diluent margins in the current year resulting from compressed light to heavy pricing spreads which were impacted from the extended Syncrude outage during the year, and by lower margins earned on propane and butane volumes due to regional pricing constraints at a certain number of distribution hubs.

### Capital expenditures

Below is the summary of Wholesale capital expenditures for the years ended December 31, 2017 and 2016:

	Year ended December 31	
	2017	2016
Growth capital .....	\$ 1,042	\$ 11,423
Replacement capital .....	\$ 86	\$ 55

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, 2017 and 2016:

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Revenue .....	\$ 4,067	\$ 1,658	\$ 16,729	\$ 11,291
Cost of sales .....	4,152	1,896	16,357	11,322
Operating expenses and other .....	(104)	288	187	614
Segment profit (loss) .....	\$ 19	\$ (526)	\$ 185	\$ (645)

### Operational and financial performance

In the three months and year ended December 31, 2017 compared to the three months and year ended December 31, 2016:

Revenue increased by 145% and 48%, respectively. The increase in both comparative periods was mainly due to an overall increase in ESS business activity compared to prior periods.

Segment profit increased by \$0.5 million and \$0.8 million, respectively. The increase in both comparative periods was primarily driven by the increase in revenue and lower operating and other costs, partially offset by higher costs of sales, reflecting the impact of higher direct labour and materials costs.

## EXPENSES

### General and administrative (“G&A”) and other, excluding depreciation and amortization

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
General and administrative.....	\$22,316	\$8,482	\$51,204	\$35,018

The quarter over quarter increase was primarily due to the recognition of non-recurring reorganization and executive payroll related costs of \$18.0 million (Q4-2016 – severance cost of \$4.3 million), lower mark to market unrealized gain of \$0.7 million (Q4-2016 – gain of \$1.5 million) related to equity financial instruments and higher general corporate overhead allocations. The year over year increase was primarily due to non-recurring reorganization and executive payroll related costs of \$19.0 million (2016 – severance cost of \$10.0 million), mark to market unrealized loss of \$1.2 million (2016 – gain of \$3.6 million) related to equity financial instruments and higher general corporate overhead allocations.

### Depreciation and impairment

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Depreciation and impairment .....	\$66,316	\$54,185	\$192,302	\$175,346

The increase in both comparative periods was primarily due to the recognition of impairment charges (\$29.2 million – 2017 ; \$10.6 million – 2016), depreciation on asset additions in the current period, partially offset by the impact of asset disposals. The impairment loss recorded in 2017 relates to assets within the U.S. Environmental Services business which is included within the Company's Infrastructure, Logistics and Other reportable segments.

### Amortization and impairment

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Amortization and impairment.....	\$10,618	\$7,820	\$37,425	\$69,062

The increase in the three months ended December 31, 2017, was largely due to the recognition of impairment losses of \$5.9 million related to the U.S. Environmental Services business which is included within the Logistics reportable segment., partially offset by the impact of a certain intangible assets becoming fully amortized in the prior year period, and an impairment expense of \$1.6 million recognized during the year ended December 31, 2016. The decrease in the year ended December 31, 2017, was largely due to the impact of a certain number intangible assets becoming fully amortized in prior year periods, and an impairment expense of \$1.6 million recognized during the year ended December 31, 2016, partially offset by the recognition of impairment loss of \$5.9 million as discussed earlier.



## Impairment of goodwill

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Impairment of goodwill.....	\$69,414	\$28,647	\$69,414	\$130,052

In the three months and year ended December 31, 2017, the Company recorded goodwill impairment charges within the Company's U.S. Trucking and Transportation and U.S. Wholesale business segments of \$41.2 million and \$28.2 million, respectively. The respective impairment charges were identified as part of management's annual goodwill impairment test completed during the fourth quarter. As at December 31, 2017, the entire amount of goodwill related to the U.S. Trucking and Transportation and U.S. Wholesale business segments has been written off.

In the year ended December 31, 2016, the Company recorded goodwill impairment charges within the Company's U.S. Environmental Services and Refined Products business segments of \$101.4 million and \$28.6 million, respectively. The respective impairment charges were identified as part of management's annual goodwill impairment test completed during the fourth quarter. 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.

## Stock based compensation

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Stock based compensation .....	\$9,151	\$7,172	\$22,056	\$24,876

The quarter over quarter increase was primarily driven by the impact of higher deferred share unit and option grants, and higher restricted share units expense in the current period primarily related to pro-rata vesting for severance packages of \$3.3 million, partially offset by higher performance share unit expense in the prior year quarter. The year over year decrease was primarily driven by the impact of forfeitures of performance share units in the current year, partially offset by higher amount of deferred share unit grants, higher RSU expense primarily related to pro-rata vesting for severance packages, and higher option expense.

## Debt extinguishment costs

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
\$250.0 million 7.0% Notes - redemption premium.....	\$ -	\$ -	\$ 12,838	-
US\$550.0 million 6.75% Notes - redemption premium .....	231	-	33,133	-
\$250.0 million 7.0% Notes – unamortized cost.....	-	-	4,321	-
US\$550.0 million 6.75% Notes – unamortized cost .....	-	-	7,982	-
US\$550.0 million 6.75% Notes – realized foreign exchange (gain) loss on financial instruments .....	(2,861)	-	2,218	-
Total debt extinguishment costs.....	\$ (2,630)	\$ -	\$ 60,492	-

As noted in the financial highlights section, the Company repaid its C\$ Notes and US\$ Notes during the year which resulted in recording debt extinguishment costs of \$60.5 including realized foreign exchange loss related to financial instruments of \$2.2 million.

### Foreign exchange (gains) loss not affecting segment profit

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Unrealized foreign exchange loss (gain) on the movement in exchange rates on U.S. dollar Revolving Credit Facility and long-term debt.....	\$ 15,803	\$ 17,050	\$ (3,564)	\$ (22,715)
Realized foreign exchange (gain) on settlement of U.S. dollar long-term debt.....	(12,514)	-	(15,224)	-
Corporate foreign exchange (gain) loss.....	(755)	(885)	652	1,098
Total foreign exchange loss (gain).....	<u>\$ 2,534</u>	<u>\$ 16,165</u>	<u>\$ (18,136)</u>	<u>\$ (21,617)</u>

At December 31, 2017, the gains and losses recorded are primarily driven by the favorable and unfavorable movements in exchange rates on the translation of the Company's U.S. dollar denominated Revolving Credit Facility and settlement of U.S. dollar denominated long-term debt and corporate foreign exchange, while at December 31, 2016, the gains and losses were primarily driven by the (favorable) and unfavorable movements in exchange rates on the translation of the Company's U.S. dollar denominated long-term debt and corporate foreign exchange. Accordingly, in the three months ended December 31, 2017 and December 31, 2016, the Company recorded a net foreign exchange loss of \$2.5 million and \$16.2 million, respectively, and in the years ended December 31, 2017 and December 31, 2016, the Company recorded a realized gain of \$18.1 million and \$21.7 million, respectively.

### Net interest expense

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Net interest expense.....	\$17,414	\$23,317	\$77,362	\$85,526

The decrease for both comparative periods was primarily due to the repayment of the Company's C\$ Notes and US\$ Notes, partially offset by higher interest costs related to the Revolving Credit Facility draw in the current period and lower capitalized interest amounts related to our long-term capital projects completed during the period.

### Income taxes

	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Current income tax (recovery) expense.....	\$ (14,148)	\$ 11,460	\$ (33,946)	\$ 11,789
Deferred income tax recovery.....	(4,001)	(19,017)	(32,222)	(68,239)
Total tax recovery.....	<u>\$ (18,149)</u>	<u>\$ (7,557)</u>	<u>\$ (66,168)</u>	<u>\$ (56,450)</u>

Income tax recovery from continuing operations was \$18.1 million and \$66.2 million for the three months and year ended December 31, 2017 compared to an income tax recovery of \$7.6 million and \$56.5 million for the three months and year ended December 31, 2016. The effective tax rate was 16.5% and 36.4% during the three months and year ended December 31, 2017 compared to 13.0% and 24.1% for the three months and year ended December 31, 2016. The main driver for the quarter over quarter income tax recovery and the change in the effective tax rate was the impact of unrealized amounts relating to net capital losses arising from foreign exchange movements on the Company's U.S. dollar denominated long-term debt. The main driver for the year ended December 31, 2017 income tax recovery and the change in the effective rate was the impact of realized and unrealized amounts relating to the net capital gains arising from foreign exchange movements, including repayments, on the Company's U.S. dollar denominated long-term debt.

## RESULTS OF DISCONTINUED OPERATIONS

### Industrial Propane

As noted in the financial highlight section above, during 2017 the Company completed the closing of the sale of its Industrial Propane Business for a final sale price of \$433.1 million resulting in recognition of a post-tax gain on sale of \$150.6 million (see note 8 in the consolidated financial statements).

The Industrial Propane business primarily consisted of retail propane supply with a focus on oil and gas customers in Western Canada. This segment operated under the Canwest and Stittco brands and sold propane and related equipment to oil and gas, commercial and other end-user customers. This segment was 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, 2017 and 2016:

Volumes (litres in thousands)	Three months ended December 31		Year ended December 31	
	2017 <sup>1</sup>	2016	2017 <sup>1</sup>	2016
	Oilfield.....	-	52,451	41,578
Commercial.....	-	51,371	46,850	143,210
Other.....	-	32,331	22,723	105,901
	-	136,153	111,151	422,940

  

Revenue	Three months ended December 31		Year ended December 31	
	2017 <sup>1</sup>	2016	2017 <sup>1</sup>	2016
	Propane.....	\$ -	\$ 52,807	\$ 52,953
Other.....	-	7,498	5,343	26,353
Total revenue.....	-	60,305	58,296	167,910
Cost of sales.....	-	30,374	44,678	69,608
Other operating loss (income).....	-	16,639	(19)	63,936
Segment profit.....	-	13,292	13,637	34,366
Depreciation and amortization.....	-	3,784	-	18,572
Gain on sale <sup>2</sup> .....	5,240	-	176,826	-
Loss before taxes.....	5,240	9,508	190,463	15,794
Income tax (recovery) provision.....	-	(4,282)	30,613	(2,659)
Net income from discontinued operations, after tax.....	\$ 5,240	\$ 13,790	\$ 159,850	\$ 18,453

1. The Company derecognized the Industrial Propane segment effective March 1, 2017. Accordingly, results for year ended December 31, 2017 represent the activity for the period January 1, 2017 to February 28, 2017.
2. The cash proceeds of \$433.1 million and transaction costs paid of \$9.8 million have been presented within investing activities from discontinued operations on the Company's consolidated statement of cash flows.

### Operational and financial performance

Industrial propane volumes decreased by 100% and 74% respectively. The decrease in both comparative periods were due to the timing of the sale on March 1, 2017, and lack of results in the three month period and the reporting of two months in the year over year date period versus full three and year over year amounts in the prior periods.

Revenue decreased by 100% and 65%, respectively. The decrease in both comparative periods was due to the timing of the sale on March 1, 2017, and the lack of results in the three month period and the reporting of two months in the year over year period versus the full three and year over year amounts in the prior periods.



Segment profit decreased by 100% and 60%, respectively, for the reasons discussed above. Additionally, the year over year results for the two months ended February 28, 2017 were positively impacted by colder weather patterns and higher activity levels related to drilling and construction activity.

The following table summarizes the sources and uses of funds for the years ended December 31, 2017 and 2016 from discontinued operations:

	Year ended December 31	
	2017	2016

#### Statement of cash flows

##### Cash flows (used in) provided by:

Operating activities .....	\$ (7,591)	\$ 32,084
Investing activities.....	423,156	(3,507)
Financing activities.....	\$ -	\$ -

1. *The Company derecognized the Industrial Propane segment effective March 1, 2017. Accordingly, results for three months ended December 31, 2017 does not include any cash flows from Industrial Propane business and results for the year ended December 31, 2017 represent the activity for the period January 1, 2017 to February 28, 2017.*

##### Cash (used in) provided by operating activities

Cash used in operating activities in the year ended December 31, 2017 was \$7.6 million compared to cash provided by operating activities of \$32.1 million in the year ended December 31, 2016. The decrease in the year ended December 31, 2017 was primarily due to the reporting of two months in the current period versus the full year over year amounts in the prior period, change in working capital requirements driven by the fact that the Company is no longer required to fund working capital as well as working capital adjustments related to the sale of the business.

##### Cash (used in) provided by investing activities

Cash provided by investing activities was \$423.2 million for the year ended December 31, 2017, compared to cash used in investing activities of \$3.5 million in the year ended December 31, 2016. The year over year increase in cash provided by investing activities was primarily due to the cash proceeds received on the sale of the Industrial Propane business, net of the transaction costs paid.

##### Cash provided by (used in) financing activities

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

##### Income taxes

Income tax from discontinued operations was a provision of \$30.6 million for the year ended December 31, 2017 compared to income tax recovery of \$2.7 million for the year ended December 31, 2016, as disclosed in note 8 of the consolidated financial statements.

The effective tax rate was 16.1% during the year ended December 31, 2017 compared to negative 16.8% for the year ended December 31, 2016. The main driver for the income tax provision and the change in the effective rate was the impact of the gain on the sale of the Industrial Propane business and the fact that the Company is no longer entitled to income or losses of the business effective March 1, 2017.

## SUMMARY OF QUARTERLY RESULTS

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

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Continuing operations</b>								
Revenue .....	\$1,766,887	\$1,404,194	\$1,480,196	\$1,449,562	\$1,414,187	\$1,178,741	\$1,095,026	\$906,227
Net (loss) income .....	(91,787)	(8,497)	(5,523)	(9,908)	(50,597)	(30,777)	(132,368)	35,575
Adjusted EBITDA <sup>(2)</sup> .....	82,271	55,708	66,387	73,269	83,927	60,691	41,553	57,921
Earnings (loss) per share								
Basic .....	\$ (0.64)	\$(0.06)	\$ (0.04)	\$ (0.07)	\$ (0.37)	\$ (0.22)	\$ (1.01)	\$ 0.28
Diluted .....	\$ (0.64)	\$(0.06)	\$ (0.04)	\$ (0.07)	\$ (0.37)	\$ (0.22)	\$ (1.01)	\$ 0.28
<b>Discontinued operations</b>								
Revenue .....	\$ -	\$ -	\$ -	\$58,296	\$ 60,222	\$ 27,188	\$ 27,472	\$ 52,817
Net income (loss).....	5,240	(3,146)	-	157,756	13,790	(2,093)	(1,778)	8,534
Adjusted EBITDA <sup>(2)</sup> .....	-	-	-	13,637	13,292	1,872	2,728	16,122
Earnings (loss) per share								
Basic .....	\$ 0.03	\$ (0.02)	\$ -	\$ 1.11	\$ 0.09	\$ (0.01)	\$ (0.01)	\$ 0.07
Diluted .....	\$ 0.03	\$ (0.02)	\$ -	\$ 1.09	\$ 0.09	\$ (0.01)	\$ (0.01)	\$ 0.06
<b>Combined operations</b>								
Revenue <sup>(1)</sup> .....	\$1,766,887	\$1,404,194	\$1,480,196	\$1,507,858	\$1,474,409	\$1,205,929	\$1,122,498	\$959,044
Net income (loss).....	(86,547)	(11,643)	(5,523)	147,848	(36,807)	(32,870)	(134,146)	44,109
Adjusted EBITDA <sup>(2)</sup> .....	82,271	55,708	66,387	86,906	97,219	62,563	44,281	74,043
Earnings (loss) per share								
Basic .....	\$ (0.61)	\$ (0.08)	\$ (0.04)	\$ 1.04	\$ (0.28)	\$ (0.23)	\$ (1.02)	\$ 0.35
Diluted .....	\$ (0.61)	\$ (0.08)	\$ (0.04)	\$ 1.02	\$ (0.28)	\$ (0.23)	\$ (1.02)	\$ 0.34

(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) 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 unusual, non-recurring or non-operating 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 Adjusted EBITDA, and Adjusted EBITDA from continuing operations and discontinued operations 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. Combined Adjusted 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:

- Adjusted EBITDA and Combined Adjusted EBITDA:
  - excludes certain income tax payments that may represent a reduction in cash available to the Company;
  - does not reflect the Company's cash expenditures, or future requirements for capital expenditures or contractual commitments;
  - does not reflect changes in, or cash requirements for, the Company's working capital needs; and

- does not reflect the significant interest expense, or the cash requirements necessary to service interest payments on the Company's debt, including the Debentures, Notes and New Notes (as defined herein) and the Revolving Credit Facility (as defined herein);
- Although depreciation, amortization and impairment are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in the industry may calculate Combined Adjusted EBITDA and Adjusted EBITDA differently than the Company does, limiting its usefulness as a comparative measure.

Because of these limitations, Combined Adjusted EBITDA and Adjusted EBITDA should not be considered to be a measure 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 Combined Adjusted EBITDA and Adjusted EBITDA only as supplemental measures.

The following tables reconciles segment profit to Combined Adjusted EBITDA and 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, 2017 and 2016:

	Three months ended				Twelve months ended
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2017
<b>Continuing operations</b>					
Segment profit .....	\$ 85,227	\$ 64,211	\$ 74,032	\$ 86,766	\$ 310,236
Interest income .....	500	320	299	665	1,784
Foreign exchange gain (loss) - corporate .....	755	(1,031)	152	(528)	(652)
General and administrative .....	(22,316)	(6,428)	(13,155)	(9,305)	(51,204)
Net unrealized (gain) loss from financial instruments <sup>(1)</sup> .....	19	(1,364)	4,059	(4,329)	(1,615)
Restructuring, severance and other costs <sup>(2)</sup> .....	18,086	-	1,000	-	19,086
Adjusted EBITDA .....	<u>\$ 82,271</u>	<u>\$ 55,708</u>	<u>\$ 66,387</u>	<u>\$ 73,269</u>	<u>\$ 277,635</u>
<b>Discontinued operations</b>					
Segment profit and adjusted EBITDA .....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,637</u>	<u>\$ 13,637</u>
<b>Combined operations</b>					
Segment profit .....	\$ 85,227	\$ 64,211	\$ 74,032	\$ 100,403	\$ 323,873
Interest income .....	500	320	299	665	1,784
Foreign exchange gain (loss) - corporate .....	755	(1,031)	152	(528)	(652)
General and administrative .....	(22,316)	(6,428)	(13,155)	(9,305)	(51,204)
Net unrealized (gain) loss from financial instruments <sup>(1)</sup> .....	19	(1,364)	4,059	(4,329)	(1,615)
Restructuring, severance and other costs <sup>(2)</sup> .....	18,086	-	1,000	-	19,086
Combined Adjusted EBITDA .....	<u>\$ 82,271</u>	<u>\$ 55,708</u>	<u>\$ 66,387</u>	<u>\$ 86,906</u>	<u>\$ 291,272</u>
Pro forma impact of divestitures <sup>(3)</sup> .....					<u>(13,637)</u>
Combined Pro Forma Adjusted EBITDA .....					<u>\$ 277,635</u>

	Three months ended				Twelve months ended
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2016
<b>Continuing operations</b>					
Segment profit .....	\$ 87,634	\$ 64,636	\$ 47,629	\$ 63,747	\$ 263,646
Interest income .....	144	384	441	124	1,093
Foreign exchange loss (gain) - corporate .....	885	(270)	(911)	(802)	(1,098)
General and administrative.....	(8,482)	(6,372)	(8,142)	(12,022)	(35,018)
Net unrealized loss (gain) from financial instruments <sup>(1)</sup> .....	(602)	2,313	2,536	1,178	5,425
Severance and other costs <sup>(2)</sup> .....	4,348	-	-	5,696	10,044
Adjusted EBITDA .....	\$ 83,927	\$ 60,691	\$ 41,553	\$ 57,921	\$ 244,092
<b>Discontinued operations</b>					
Segment profit .....	\$ 13,292	\$ 1,872	\$ 2,728	\$ 16,474	\$ 34,366
Net unrealized (gain) loss from financial instruments <sup>(2)</sup> .....	-	-	-	(352)	(352)
Adjusted EBITDA .....	\$ 13,292	\$ 1,872	\$ 2,728	\$ 16,122	\$ 34,014
<b>Combined operations</b>					
Segment profit .....	\$ 100,926	\$ 66,508	\$ 50,357	\$ 80,221	\$ 298,012
Interest income .....	144	384	441	124	1,093
Foreign exchange loss (gain) - corporate .....	885	(270)	(911)	(802)	(1,098)
General and administrative.....	(8,482)	(6,372)	(8,142)	(12,022)	(35,018)
Net unrealized loss (gain) from financial instruments <sup>(1)</sup> .....	(602)	2,313	2,536	826	5,073
Severance and other costs <sup>(2)</sup> .....	4,348	-	-	5,696	10,044
Combined Adjusted EBITDA .....	\$ 97,219	\$ 62,563	\$ 44,281	\$ 74,043	\$ 278,106
Pro forma impact of acquisitions and divestitures <sup>(3)</sup> .....					-
Combined Pro Forma Adjusted EBITDA .....					\$ 278,106

1. 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.
2. Represents the restructuring and severance costs incurred related to a headcount rationalization review, and executive payroll related costs.
3. Reflects the pro forma impact of acquisitions or divestitures on the Company's Adjusted EBITDA as if the acquisitions or divestitures that took place in the twelve-month period occurred on January 1 of each twelve month period. The pro forma impact of acquisitions or divestitures is calculated on the same basis as Adjusted EBITDA.

The results of Adjusted EBITDA are driven by segment profit for the respective reportable segments as well as the adjustments discussed above 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 identifies the key drivers in segment profitability over the last eight quarters:

**Infrastructure** – The Infrastructure segment has progressively commissioned new storage capacity and related infrastructure, most notably in 2016, when a total of 3.4 million barrels of additional capacity and related take-or-pay and stable fee-based cash flows were added. This increase in capacity was primarily driven by the sustained demand for crude terminalling and storage services combined with the effective operation, including cost management, of its current Hardisty and Edmonton facilities and has provided for the gradual increase in segment profits.

**Logistics** – The Logistics segment provides transportation and related services which includes providing hauling services for crude, condensate, sulfur, waste water and drilling fluids for many of North America's leading oil and gas producers. Accordingly, the segment's results have been impacted by the reduction in crude oil prices and other related commodity prices which has reduced production and exploration activities thus lowering available demand from these producers. Additionally, increased competition, specific to the segment's U.S. operating areas, has impacted the ability of the Company to deliver consistent results in this segment.

However, the more recent gradual increase in the price of crude oil which has translated into slowly increasing activity and production coupled with the availability of other commodity hauling, such as sulphur, as well as the recovery of demand for the Company's U.S. Environmental Service business as activity levels strengthened over the last year has provided support for the segment's earning.

**Wholesale** – The Wholesale segment earns margins by capturing quality, locational or time-based arbitrage opportunities related to the purchasing, selling, storing and optimization of hydrocarbon products, including crude oil and refined products. Accordingly, this segment has experienced commodity price fluctuations including in the pricing differentials between different geographic markets and product grades, most notably related to crude oil and other NGL. These risks have been managed by purchasing and selling products through physical and financial contracts that include energy-related derivatives which have both supported and reduced segment profits from quarter to quarter in the form of realized or unrealized gains and losses.

Adjusted EBITDA and Pro Forma Adjusted EBITDA for continuing, discontinued, and combined operations are presented in the table above 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 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 unusual, non-recurring or non-operating in nature. Pro Forma Adjusted EBITDA differs from 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.



## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity Sources

The Company's primary liquidity and capital resource needs are to fund ongoing capital expenditures, growth opportunities, and 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 cash flow from operations, debt and equity financings, borrowings under the Revolving Credit Facility and proceeds from the sale of assets, as required.

During 2017, as discussed in Discontinued Operations, the Company sold its Industrial Propane business for net cash proceeds of \$433.1 million and utilized the proceeds to repay a portion of its long-term debt. Additionally, during 2017 the Company refinanced a portion of its long-term debt in order to reduce its interest costs and increase its debt maturity profile. As at December 31, 2017, the Company had a positive working capital position, with an available cash balance of \$32.1 million, and the ability to utilize borrowings under the Revolving Credit Facility. Also, the anticipated proceeds from the sale of non-core businesses are expected to reduce debt resulting in lower net debt to Adjusted EBITDA ratios which will allow the Company to fund its ongoing capital expenditures, debt service requirements, dividend payments, and working capital needs. Accordingly, over the short-term the Company expects to maintain sufficient liquidity sources to fund its ongoing capital expenditures, debt service requirements, dividend payments and working capital needs.

Over the medium to long term, the proceeds from the sale of non-core businesses are expected to reduce debt resulting in lower net debt to Adjusted EBITDA ratios. Combined with the extended maturity and lower interest costs profile of the Company's debt, this will provide support for the Company's funding of liquidity requirements on a long-term basis. While the Company remains confident in its ability to execute these divestitures, there are no assurances that the timing, the amount of proceeds from the sale of non-core businesses and the execution of planned capital programs will occur as planned. Please refer Company's disclosure under "Forward-Looking Information" included at the end of this MD&A.

### Cash flow summary - Continuing operations

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:

The following table summarizes the Company's sources and uses of funds for the years ended December 31, 2017 and 2016 from continuing operations:

	Year ended December 31	
	2017	2016

### Statement of cash flows

#### Cash flows provided by (used in):

Operating activities .....	\$ 204,970	\$ 175,482
Investing activities.....	(167,336)	(243,193)
Financing activities.....	\$ (477,933)	\$ 17,556

### Cash provided by operating activities

The year over year increase was primarily due to higher segment profit related to the Infrastructure, Logistics and Wholesale segments (refer to the respective section in "Results of Continuing Operations" for more details), as well as from changes in working capital needs that resulted in cash used to fund working capital of \$43.1 million in the year ended December 31, 2017 compared to cash used to fund working capital of \$47.1 million in the year ended December 31, 2016. The change in working capital requirements was largely driven by the change in inventory and accounts payable amounts.

Cash provided by operating activities and working capital requirements for the Wholesale segment 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 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 used in financing activities.

### Cash used in investing activities

Cash used in investing activities consists primarily of capital expenditures. Cash used in investing activities was \$167.3 million in the year ended December 31, 2017, compared to \$243.2 million in the year ended December 31, 2016. Cash used in investing activities largely relates to capital expenditures which continued to progress towards completion over 2017. For a summary of capital expenditures for the respective segments, see "Capital expenditures" included throughout this MD&A.

### Cash provided by (used in) financing activities

Cash used in financing activities was \$477.9 million in the year ended December 31, 2017 compared to cash provided by financing activities of \$17.6 million in the year ended December 31, 2016. The change was due to the net repayment of debt and financing costs of \$433.6 million, payment of net interest of \$87.2 million and payment of dividends of \$188.0 million in the current year, compared to the net aggregated proceeds from the issuance of common shares and debentures of \$316.3 million, payment of net interest of \$89.0 million and dividends of \$175.6 million in the year ended December 31, 2016. In addition, in the year ended December 31, 2017, the Company received net proceeds from credit facilities of \$230.2 million compared to net payments to credit facilities of \$35.0 million in the year ended December 31, 2016.

### Capital expenditures

The following table summarizes growth and replacement capital expenditures for the years ended December 31, 2017 and 2016:

	Year ended December 31	
	2017	2016
Growth capital <sup>(1)</sup> .....	\$ 157,123	\$ 202,984
Replacement capital <sup>(2)</sup> .....	28,181	24,841
Total.....	<u>\$ 185,304</u>	<u>\$ 227,825</u>

(1) Growth capital expenditures in the years ended December 31, 2017 and 2016 include Other and Corporate expenditures of \$3.3 million and \$2.1 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) Replacement capital expenditures in the years ended December 31, 2017 and 2016 include Other and Corporate expenditures of \$2.9 million and \$2.0 million, respectively. These expenditures mainly relate to replacement costs associated with the Company's information and operational systems. The remainder of the replacement capital expenditures have been discussed in continuing and discontinued operations earlier in this MD&A.

### Planned capital expenditures

As previously announced, the Company has approved a 2018 growth capital expenditure budget ranging from \$165.0 million to \$205.0 million and an additional \$20.0 million to \$35.0 million allocated to replacement capital expenditures. 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.

## Capital structure

	As at	
	December 31, 2017	December 31, 2016
Notes		
Revolving Credit Facility.....	\$ 230,180	\$ -
\$250 million – December 31, 2016 7.00% Notes due July 15, 2020 .....	-	250,000
US\$550 million 6.75% Notes due July 15, 2021 <sup>(1)</sup> .....	-	738,485
\$300 million 5.375% Notes due July 15, 2022 .....	300,000	300,000
\$600 million 5.25% Notes due July 15, 2024 .....	600,000	-
Unamortized issue discount and debt issue costs .....	(12,061)	(16,646)
\$100 million Debentures 5.25% due July 15, 2021 (liability component) .....	89,765	89,765
Total debt outstanding .....	1,207,884	1,361,604
Cash and cash equivalents.....	(32,138)	(60,159)
Net debt <sup>(2)</sup> .....	1,175,746	1,301,445
Total share capital (including Debentures – equity component) .....	1,939,126	1,919,267
Total capital .....	<u>\$ 3,114,872</u>	<u>\$ 3,220,712</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

During 2017, the Company completed a tender offer on its Retired Notes and also issued the New Notes. The indentures governing the terms of the \$300 million 5.375% notes ("Notes") and New Notes including the supplemental indenture thereto, contain certain redemption options whereby the Company can redeem all or part of the Notes and New Notes at prices set forth in the applicable Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of Notes and New Notes have the right to require the Company to redeem the Notes and New 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 applicable Indenture.

### Debentures

On June 2, 2016, the Company issued \$100.0 million aggregate principal amount of debentures (the "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 January 15 and July 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, proceeds of which are available to provide financing for working capital, fund capital expenditures 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 March 7, 2022. The Revolving Credit Facility permits 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 standby fees 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 \$230.2 million drawn on its \$560.0 million Revolving Credit

Facility as of December 31, 2017, and had issued letters of credit totaling \$68.9 million under its bilateral demand letter of credit facilities as at December 31, 2017.

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. Effective March 7, 2017, the Company amended certain covenants related to its Revolving Credit Facility including, amongst other revisions, revising the maximum consolidated senior and the maximum consolidated total debt leverage ratios to 4.85 to 1.0 for the 2017 fiscal year, 4.25 to 1.0 for 2018 fiscal year and 4.0 to 1.0 thereafter. Furthermore, the maturity date of our Revolving Credit Facility was extended from August 2020 to March 2022. On November 30, 2017, the Company amended the Revolving Credit Facility from \$500.0 million to \$560.0 million.

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, 2017, the Company was in compliance with the financial ratios with the senior debt leverage ratio at 4.0 to 1.0, total debt leverage ratio at 4.0 to 1.0, and the interest coverage ratio at 3.7 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, New 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, New 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, 2017, the Company was in compliance with all of its covenants under the Notes, New Notes and the Revolving Credit Facility.

## **Dividends**

The Company is currently paying quarterly dividends to holders of common shares. The amount and timing of any future dividends payable by Gibson will be at the discretion of the Board and to be established on the basis of, among other things, Gibson Energy's 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, 2017, the Company declared a dividend of \$0.33 per share for a total dividend of \$47.3 million, of which the entire amount was paid in cash on January 17, 2018.

## **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 is used to assess the level of cash flow generated and to evaluate the adequacy of internally generated cash flow to fund dividends and is frequently used by securities analysts, investors and other interested parties. 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. 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 an unusual, non-recurring, or non-operating 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. The Company has provided the distributable cash flow from combined operations on a trailing twelve-month basis to reflect the total cash flow available to fund dividends which includes cash available from discontinued operations.

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, 2017, 2016 and 2015.

<b><u>Continuing operations</u></b>	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Cash flow from operating activities .....	\$ 204,970	\$ 175,482	\$ 399,117
Adjustments:			
Changes in non-cash working capital .....	43,117	32,491	(92,458)
Replacement capital .....	(28,182)	(24,841)	(39,130)
Cash interest expense, including capitalized interest.....	(73,960)	(91,236)	(84,965)
Restructuring, severance and other costs <sup>(1)</sup> .....	19,086	10,044	2,830
Income taxes <sup>(2)</sup> .....	-	-	15,596
Distributable cash flow from continuing operations .....	<u>\$ 165,031</u>	<u>\$ 101,940</u>	<u>\$ 200,990</u>

<b><u>Combined operations</u></b>	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Combined cash flow from operating activities .....	\$ 197,381	\$ 207,566	\$ 458,067
Adjustments:			
Combined changes in non-cash working capital .....	52,673	34,333	(118,456)
Combined replacement capital .....	(28,291)	(29,063)	(46,775)
Cash interest expense, including capitalized interest.....	(73,960)	(91,236)	(84,965)
Restructuring, severance and other costs <sup>(1)</sup> .....	19,086	10,044	2,830
Working capital adjustment <sup>(2)</sup> .....	10,503	-	-
Income taxes <sup>(3)</sup> .....	6,202	-	15,596
Distributable cash flow from combined operations .....	<u>\$ 183,594</u>	<u>\$ 131,644</u>	<u>\$ 226,297</u>
Dividends declared to shareholders .....	<u>\$ 188,470</u>	<u>\$ 181,994</u>	<u>\$ 161,002</u>

<b><u>Continuing operations</u></b>	<b>Quarter ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Cash flow from operating activities .....	\$ 45,314	\$ 44,152
Adjustments:		
Changes in non-cash working capital .....	13,125	25,372
Replacement capital .....	(10,660)	(7,670)
Cash interest expense, including capitalized interest.....	(17,400)	(23,477)
Restructuring, severance and other costs <sup>(1)</sup> .....	18,086	4,348
Distributable cash flow from continuing operations .....	<u>\$ 48,465</u>	<u>\$ 42,725</u>



<b>Combined operations</b>	<b>Quarter ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Combined cash flow from operating activities .....	\$ 45,314	\$ 54,888
Adjustments:		
Combined changes in non-cash working capital .....	13,125	20,243
Combined replacement capital .....	(10,660)	(8,388)
Cash interest expense, including capitalized interest.....	(17,400)	(23,477)
Restructuring, severance and other costs <sup>(1)</sup> .....	18,086	4,348
Working capital adjustment <sup>(2)</sup> .....	10,503	-
Income taxes <sup>(3)</sup> .....	6,202	-
Distributable cash flow from combined operations .....	<u>\$ 65,170</u>	<u>\$ 47,614</u>
Dividends declared to shareholders .....	<u>\$ 47,257</u>	<u>\$ 46,772</u>

(1) Represents restructuring, severance and executive payroll related costs incurred during the respective periods.

(2) Represents a one-time adjustment related to working capital at the close of Industrial Propane segment sale whereby \$10.5 million cash balance was required to be left in the businesses prior to close and was repaid back to the Company as part of the sale proceeds. Absent this requirement, the cash flow from operations would have been higher and cash flow from investing activity would be lower by the same amount.

(3) During 2017, the Company paid net \$6.2 million as one-time cash tax on the gain on sale of the Industrial Propane business, net of the realized tax losses related to the repayment of the U.S.\$ Notes. The 2015 amount 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.

Dividends declared in the year ended December 31, 2017 were \$188.5 million, of which the entire amount was paid in cash. In the year ended December 31, 2017, dividends declared represented 103% of the combined distributable cash flow generated.

## Contractual obligations and contingencies

The following table presents, at December 31, 2017, the Company's obligations and commitments to make future payments under contracts and contingent commitments:

	<b>Payments due by period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-term debt .....	\$ 900,000	\$ -	\$ -	\$ 300,000	\$ 600,000
Convertible debentures .....	100,000	-	-	100,000	-
Interest payments on long-term debt and Debentures .....	299,189	52,875	105,750	90,689	49,875
Credit facilities .....	230,180	-	-	230,180	-
Operating lease and other commitments <sup>(1)</sup> .....	223,723	62,598	77,140	29,801	54,184
Total contractual obligations .....	<u>\$ 1,753,092</u>	<u>\$ 115,473</u>	<u>\$ 182,890</u>	<u>\$ 750,670</u>	<u>\$ 704,059</u>

(1) 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.

As at December 31, 2017, the Company has previously identified and approved capital expenditure commitments of \$175.9 million that the Company expects to undertake over the next 12 to 24 months. In addition, the Company had accrued liabilities for obligations with respect to the Company's defined benefit plans of \$6.1 million and provisions associated with site restoration on the retirement of assets and environmental costs of \$183.5 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 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, 2017 and 2016, the Company's proportionate share of property, plant and equipment in the Plato Partnership was \$11.3 million and \$8.9 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 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, 2017, there were 143.2 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 2.5 million restricted share units, performance share units and deferred share units outstanding and 3.3 million stock options outstanding as at December 31, 2017.

At December 31, 2017, awards available to grant under the equity incentive plan were approximately 8.5 million.

As at March 2, 2018, 143.2 million common shares, 2.5 million restricted share units, performance share units and deferred share units and 3.2 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,

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, 2017 and December 31, 2016. 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 \$6.2 million and \$9.7 million as of December 31, 2017 and 2016, respectively. A 15% unfavorable change would decrease the Company's net income by \$6.2 million and \$10.1 million as of December 31, 2017 and 2016, respectively. However, these changes may be offset by the use of one or more risk management strategies.

*Interest rate risk.* 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, U.S. LIBOR, U.S. Base Rate or Canadian Bankers' Acceptance Rate, plus an applicable margin based on the Company's total leverage ratio. At December 31, 2017, the Company had \$230.2 million drawn under the Revolving Credit Facility and 5% favorable and unfavorable change in interest rates in relation to the amounts drawn at December 31, 2017 would have impacted net income by \$0.3 million. As at December 31, 2016, the Company had \$nil drawn under the Revolving Credit Facility and, accordingly, was not subject to the interest rate cash flow risk associated with these amounts.

*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 \$3.4 million and \$1.9 million as at December 31, 2017 and 2016, respectively. A 5% favorable change would increase the Company's net income by \$3.4 million and \$1.8 million as at December 31, 2017 and 2016,

respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

As at December 31, 2017, the Company had \$100.0 million U.S. dollar denominated debt as part of its draw on its Revolving Credit Facility. The Company did not have any foreign currency hedges in place in relation to its use of the Revolving Credit Facility. The Company, as result of repayment of its U.S. dollar denominated debt as described under the Notes section, entered into forward contracts for the settlement of its U.S. dollar forward contracts to buy U.S. dollars on a notional amount of US\$120.0 million at a weighted average rate of \$1.26 for US\$1.00 on October 30, 2017. As a result of the settlement of US\$ Notes and the draw of U.S. dollar amounts on its Revolving Credit Facility the Company's exposure to foreign currency exchange risk related to its long-term debt has been reduced. Accordingly, 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 would decrease the Company's net income by \$5.4 million and \$31.9 million as at December 31, 2017 and 2016, respectively. A corresponding favorable change would increase the Company's net income by \$5.4 million and \$31.9 million as at December 31, 2017 and 2016, respectively. With respect to the related interest payments on the U.S. dollar denominated 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, 2017, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar as of December 31, 2017 would increase the Company's annual interest expense by \$0.2 million. A 5% favorable change in the value of the Canadian dollar relative to the U.S. dollar as of December 31, 2017 would decrease the Company's annual interest expense by \$0.2 million. The Company monitors its exposure to foreign currencies, including associated interest payments, and, where optimal, will consider minimizing exposure using appropriate hedging strategies.

*Equity price risk.* The Company has equity price and dilution exposure to shares that it issues under its stock based compensation programs. Gibson 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, 2017 and 2016, 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 \$1.9 million and \$1.7 million, respectively. A corresponding decrease in the Company's share price would decrease the Company's net income by \$1.9 million and \$1.7 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:

*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***

#### **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 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 adoption of these improvements did not have a material impact on the consolidated financial statements.
- IAS 12 – *Income taxes* (“IAS 12”), has been amended to clarify (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset’s tax base, and (iii) certain other aspects of accounting for deferred tax assets. The amendment to IAS 12 is effective for years beginning on or after January 1, 2017. The adoption of this amendment did not have a material impact on the consolidated financial statements.
- IAS 7 – *Statement of cash flows* (“IAS 7”), has been amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash-flows and non-cash changes. The amendment to IAS 7 is effective for years beginning on or after January 1, 2017. Additional disclosures have been included in the Company’s 2017 consolidated financial statements (note 31).

#### **New standards and interpretations issued but not yet adopted:**

The following accounting interpretations and standards were issued during the year:

- The annual improvements process addresses issues in the 2015-2017 reporting cycles and include changes to IFRS 3 – *Business combinations*, IFRS 11 – *Joint arrangements*, IAS 12 – *Income taxes*, and IAS 23 – *Borrowing costs*. These improvements are effective for periods beginning on or after January 1, 2019. The Company has not currently assessed the impact of adopting these interpretations on its consolidated financial statements.
- IAS 28 – *Interests in associates and joint ventures* (“IAS 28”), has been amended to clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in associate or joint venture to which the equity method is not applied. The amendment to IAS 28 is effective for years beginning on or after January 1, 2018. The Company has determined that the adoption of this interpretation will not have a material impact on its consolidated financial statements.
- IFRS 17 – *Insurance contracts* (“IFRS 17”), has been issued to clarify recognition and measurement accounting principles with respect to insurance contracts. The issuance of IFRS 17 is effective for years beginning on or after January 1, 2021. The Company has not currently assessed the impact of adopting this interpretation on its consolidated financial statements.
- IFRIC 23 – *Uncertainty over income tax treatments* (“IFRIC 23”), has been amended to clarify how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax treatments. The amendment to IFRIC 23 is effective for years beginning on or after January 1, 2019. The Company has not currently assessed the impact of adopting this interpretation on its consolidated financial statements.

### **Update on IFRS 16, “Leases” (“IFRS 16”), IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) and IFRS 9, “Financial Instruments” (“IFRS 9”) adoption**

As disclosed in the 2017 year-end Consolidated Financial Statements, the Company has evaluated the impact of IFRS 16, IFRS 15, and IFRS 9.

IFRS 16 is effective for years beginning on or after January 1, 2019, however the early adoption of IFRS 16 is permitted if IFRS 15 has been adopted. The Company has chosen to early adopt IFRS 16 effective January 1, 2018, concurrent with the adoption date of IFRS 15. These standards may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. The Company has opted to use the modified retrospective approach in its adoption of IFRS 15, IFRS 16 and IFRS 9.

For IFRS 15 and IFRS 16, the Company has completed all technical position papers related to all contracts and arrangements under the scope of these standards. The Company has taken pro-active measures to review the impacts of the adoption of these standards on our debt covenants including certain amendments to our covenants which provides an option to adjust for the impact of these standards or to provide a grandfathering approach. At this stage, the impact of adoption is not considered material on the Company's debt covenant calculations.

On January 1, 2018, the Company's policies and business practices have been updated to reflect the changes required by the adoption of these new standards.

Noted below is the summary of material impacts of IFRS 15, IFRS 16 and IFRS 9 for period beginning January 1, 2018:

## **IFRS 15**

### **(i) Accounting for contract liabilities**

Prior to the adoption of IFRS 15, wholesale product revenues associated with the sales of roofing flux products owned by the Company were recognized at the time of shipment when the risk of ownership and loss are passed to the customer. Under IFRS 15, wherein the contract provides a right to invoice prior to the physical delivery of the product, the Company will defer recognition of such revenues and recognize a contract liability, until such time when the product has been physically delivered and the transfer of control has occurred.

Adoption of the standard will not have any material impacts on the total asset, liabilities or retained earnings of the Company as at January 1, 2018.

### **(ii) Accounting for buy-sell transactions**

Prior to the adoption of IFRS 15, buy/sell transactions involving crude and NGL products whereby the Company effectively is acting as an agent are recorded on a net basis. Under IFRS 15, revenues from buy/sell transactions which are monetary transactions containing commercial substance are recognized on a gross-basis as separate performance obligations. Revenues from buy/sell transactions of non-monetary exchanges of similar products, which lack commercial substance, are recognized on a net basis.

### **(iii) Disclosures**

Under the previous revenue standard, disclosure requirements were specific to the significant categories of revenue arising from the sale of goods, rendering of services, interest, royalties, and dividends. Under IFRS 15, the Company will be required to disclose requirements on the disaggregation of revenue, contract balances, performance obligations, assets recognized to obtain or fulfil a contract, as well as significant judgments in the application of IFRS 15. The Company anticipates providing more robust revenue disclosure under IFRS 15 with respect to the disaggregation of revenue and anticipates the inclusion of disclosure related to the nature, amount, timing, of revenues related to each segment.

## **IFRS 16**

On adoption of IFRS 16, the Company will recognize lease liabilities in relation to leases under the principles of the new standard. These liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2018. The associated rights-of-use (ROU) assets will be measured at the amount equal to the lease liability on January 1, 2018 with no impact on retained earnings.

On initial adoption, the Company will use the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The accounting of leases with a remaining lease term of less than twelve months as at January 1, 2018 as short-term leases;
- The accounting of lease payments as expenses on leases for which the underlying asset is of low dollar value;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Adoption of the standard will result in the recognition of additional ROU assets and lease liabilities for leases of approximately \$173 million as at January 1, 2018.

## **IFRS 9**

The Company has completed the work related to the implementation of the expected credit loss model. Specifically, the Company has concluded that it will have two types of financial assets subject to the requirements of the expected credit losses model which are trade receivables and net investments in finance leases.

The Company has updated its impairment methodology under IFRS 9 for each of these classes of assets and have applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. The Company does not expect any material impact on its accounts receivables and net investments in finance leases balances upon adoption.

## **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, 2017.

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 Gibson DC&P and ICFR were effective as at December 31, 2017. There have been no changes in ICFR that occurred during the period beginning January 1, 2017 and ended on December 31, 2017 that has materially affected or is reasonably likely to materially affect Gibson ICFR.

## **RISK FACTORS**

Shareholders and prospective investors should carefully consider the risk factors noted below before investing in Gibson securities, as each of these risks may negatively affect the trading price of Gibson securities, the amount of dividends paid to shareholders and the ability of Gibson to fund its debt obligations, including debt obligations under its outstanding Debentures and any other debt securities that Gibson 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 Gibson performance and the steps that Gibson takes to mitigate these risks, readers are referred to Gibson AIF, which is available on SEDAR at [www.sedar.com](http://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 Gibson 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. Gibson 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 Gibson assets or reduce revenue, thereby impacting earnings. Additionally, Gibson 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 West Texas Intermediate ("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*

Gibson 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 Gibson 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.

#### *Possible Failure to Realize Anticipated Benefits of Corporate Strategy*

Gibson evaluates the value proposition for expansion projects, new acquisitions or divestitures on an ongoing basis. Planning and investment analysis is highly dependent on accurate forecasting assumptions and to the extent that these assumptions do not materialize, financial performance may be lower or more volatile than expected. Volatility in the economy, change in cost estimates, project scoping and risk assessment could result in a loss in profits for Gibson. Large scale dispositions in particular may involve significant pricing and de-integration risk. Divestitures requires the dedication of management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during such time. The divestiture process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Gibson.

#### *Proposed Pipeline Uncertainty*

The Canadian federal government approved Kinder Morgan Canada Inc's proposed expansion of the Trans Mountain Pipeline in 2016 and TransCanada Corp's Keystone XL pipeline project received federal approval in the U.S. in 2017. However, the future of both projects remains uncertain, as both face ongoing legal, regulatory and stakeholder hurdles. If one or both of these projects failed to move forward, such failure could negatively impact the Company's future terminalling services opportunities. Similarly, Enbridge's



Line 3 replacement project received Canadian Federal approval in 2016, but continues to face legal, regulatory and stakeholder hurdles in the U.S. and Canada. If this project failed to move forward such failure could negatively impact the Company's opportunities for additional terminal services at the Hardisty Terminal.

*Environmental Regulation and Climate Change (NTD: Review AIF language to ensure consistency)*

Gibson 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 Gibson activities, including, but not limited to, the operation of pipelines and facilities, construction activities, emergency response, operational safety and environmental procedures, Gibson 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 Gibson facilities. Operations at Gibson facilities, including the combustion of fossil fuels in engines, heaters and boilers, release carbon dioxide, methane and other minor greenhouse gases. As such, Gibson is subject to various greenhouse gas reporting and reduction programs. Gibson 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", "aim", "target", "must", "commit", "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:*

- *realization of anticipated benefits from reorganization and headcount rationalization efforts;*
- *realization of perceived benefits and ability to close the sale of assets and businesses as per our plans;*
- *timing, the amount of proceeds from sale of non-core businesses along with the execution of planned capital programs as discussed under the strategy section;*
- *achieving the targets including but not limited to segment profits, payout ratio and leverage ratio as discussed under the strategy section;*
- *the addition or disposition of assets and changes in the services to be offered by the Company;*
- *The Company's projections relating to target segment profit, distributable cash flow, distributable cash flow per share, and total cash flow;*
- *The Company's projections relating to target leverage and payout ratios;*
- *the Company's investment in new equipment, technology, facilities and personnel;*
- *the Company's growth strategy to expand in existing and new markets including the anticipated benefits from the Company's basin strategy;*
- *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;
- the impact of future changes in accounting policies on the Company's consolidated financial statements;
- the Company's ability to successfully implement the plans and programs disclosed in the Company's new strategy;
- the Company's ability to divest of its U.S. Environmental Services business and other non-core businesses on acceptable terms, and the timing therefore; and
- the Company's ability to transition to a focused oil infrastructure growth company.

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 5, 2018 as filed on SEDAR at [www.sedar.com](http://www.sedar.com) and available on the Gibson website at [www.gibsonenergy.com](http://www.gibsonenergy.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, Adjusted EBITDA from continuing operations, Adjusted EBITDA from discontinued operations, Adjusted EBITDA from combined operations, Pro Forma Adjusted EBITDA from continuing operations, Pro Forma Adjusted EBITDA from discontinued operations, Pro Forma Adjusted EBITDA from combined operations, distributable cash flow from continued operations and distributable cash flow from combined operations are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS and, therefore, may not be comparable to similar measures reported by other entities. 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 "Results of Continuing Operations" and "Results of Discontinued Operations" for a reconciliation of Segment Profit to net income (loss), the IFRS measure most directly comparable to Segment Profit. See "Summary of Quarterly Results" for a reconciliation of

*Adjusted EBITDA from continuing, discontinued, and combined operations and Pro Forma Adjusted EBITDA from continuing, discontinued and combined operations to Segment Profit from continuing, discontinued and combined operations. Distributable cash flow from continuing 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” 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, 2017 and 2016







March 5, 2018

## **Independent Auditor's Report**

### **To the Shareholders of Gibson Energy Inc.**

We have audited the accompanying consolidated financial statements of the Gibson Energy Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 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 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 the Gibson Energy Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

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**Gibson Energy Inc.**  
**Consolidated Balance Sheets**

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

	December 31,	
	2017	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 32,138	\$ 60,159
Trade and other receivables (note 5) .....	494,901	428,248
Inventories (note 6) .....	169,957	144,595
Income taxes receivable .....	11,102	8,057
Prepaid and other assets .....	18,401	17,976
Net investment in finance leases (note 7) .....	1,828	2,325
Assets held for sale (note 8) .....	-	266,359
Total current assets .....	<u>728,327</u>	<u>927,719</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 9) .....	1,619,688	1,643,294
Long-term prepaid and other assets (note 10) .....	7,364	4,350
Net investment in finance leases (note 7) .....	118,020	118,244
Deferred income tax assets (note 19) .....	75,221	47,165
Intangible assets (note 11) .....	33,849	66,086
Goodwill (note 12) .....	381,965	454,489
Total non-current assets .....	<u>2,236,107</u>	<u>2,333,628</u>
<b>Total assets</b> .....	<u>\$ 2,964,434</u>	<u>\$ 3,261,347</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued charges (note 15) .....	500,662	468,834
Dividends payable (note 18) .....	47,257	46,772
Deferred revenue .....	7,013	9,833
Liabilities related to assets held for sale (note 8) .....	-	39,767
Total current liabilities .....	<u>554,932</u>	<u>565,206</u>
<b>Non-current liabilities</b>		
Long-term debt (note 13) .....	1,118,119	1,271,839
Convertible debentures (note 14) .....	89,919	87,312
Provisions (note 16) .....	183,527	171,038
Other long-term liabilities (note 17) .....	6,512	6,506
Deferred income tax liabilities (note 19) .....	100,823	102,350
Total non-current liabilities .....	<u>1,498,900</u>	<u>1,639,045</u>
Total liabilities .....	<u>2,053,832</u>	<u>2,204,251</u>
<b>Equity</b>		
Share capital (note 18) .....	1,932,103	1,909,032
Contributed surplus .....	48,706	46,899
Accumulated other comprehensive income .....	174,186	201,089
Convertible debentures (note 14) .....	7,023	7,151
Deficit .....	(1,251,416)	(1,107,075)
Total equity .....	<u>910,602</u>	<u>1,057,096</u>
<b>Total liabilities and equity</b> .....	<u>\$ 2,964,434</u>	<u>\$ 3,261,347</u>

**Commitments and contingencies** (note 29)

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 Statements of Operations**

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

	Year ended December 31,	
	2017	2016
<b>Continuing operations</b>		
Revenue (note 20).....	\$ 6,100,839	\$ 4,594,181
Cost of sales (notes 1, 21 and 22) .....	6,013,889	4,569,374
<b>Gross profit</b> .....	86,950	24,807
General and administrative expenses (notes 1, 21 and 22).....	85,144	69,818
Impairment of goodwill (note 12) .....	69,414	130,052
Other operating income (note 23) .....	(4,791)	(3,257)
<b>Operating loss</b> .....	(62,817)	(171,806)
Finance costs, net (note 13) .....	119,066	62,811
<b>Loss before income taxes</b> .....	(181,883)	(234,617)
Income tax recovery (note 19) .....	(66,168)	(56,450)
<b>Net loss from continuing operations</b> .....	\$ (115,715)	\$ (178,167)
Net income from discontinued operations, after tax (note 8).....	159,850	18,453
<b>Net income (loss)</b> .....	\$ 44,135	\$ (159,714)
<b>Earnings/(loss) per share (note 24)</b>		
Basic loss per share from continuing operations .....	\$ (0.81)	\$ (1.32)
Basic earnings per share from discontinued operations.....	1.12	0.14
Basic earnings (loss) per share .....	\$ 0.31	\$ (1.18)
Diluted loss per share from continuing operations.....	\$ (0.81)	\$ (1.32)
Diluted earnings per share from discontinued operations .....	1.10	0.13
Diluted earnings (loss) per share.....	\$ 0.29	\$ (1.18)

*See accompanying notes to the consolidated financial statements*

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

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

	Year ended	
	December 31,	
	2017	2016
<b>Net income (loss)</b> .....	\$ 44,135	\$ (159,714)
<b>Other comprehensive loss</b> .....		
<i>Items that may be reclassified subsequently to statement of operations</i>		
Exchange differences on translating foreign operations – continuing operations .....	(26,903)	(23,777)
<i>Items that will not be reclassified to statement of operations</i>		
Remeasurements of post-employment benefit obligation, net of tax .....	(6)	(220)
<b>Other comprehensive loss, net of tax</b> .....	(26,909)	(23,997)
<b>Comprehensive income (loss)</b> .....	\$ 17,226	\$ (183,711)

See accompanying notes to the consolidated financial statements

## Gibson Energy Inc.

### Consolidated Statements of Changes in Equity

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

	Share capital (note 18)	Contributed surplus	Accumulated other comprehensive income (loss)	Convertible debentures	Deficit	Total Equity
<b>Balance – January 1, 2016</b> .....	\$1,672,323	\$ 34,959	\$224,866	\$ -	\$ (765,147)	\$1,167,001
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 14) .....	-	-	-	7,151	-	7,151
Dividends on common shares (\$0.33 per common share) .....	-	-	-	-	(181,994)	(181,994)
<b>Balance – December 31, 2016</b> ....	<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>
Net income .....	-	-	-	-	44,135	44,135
Other comprehensive loss, net of tax .....	-	-	(26,903)	-	(6)	(26,909)
Comprehensive (loss) income .....	-	-	(26,903)	-	44,129	17,226
Stock based compensation .....	-	22,056	-	-	-	22,056
Convertibles debentures – tax ..	-	-	-	(128)	-	(128)
Proceeds from exercise of stock options .....	2,822	-	-	-	-	2,822
Reclassification of contributed surplus on issuance of awards under equity incentive plan .....	20,249	(20,249)	-	-	-	-
Dividends on common shares (\$0.33 per common share) .....	-	-	-	-	(188,470)	(188,470)
<b>Balance – December 31, 2017</b> ....	<u>\$1,932,103</u>	<u>\$ 48,706</u>	<u>\$174,186</u>	<u>\$ 7,023</u>	<u>\$(1,251,416)</u>	<u>\$ 910,602</u>

See accompanying notes to the consolidated financial statements

**Gibson Energy Inc.****Consolidated Statements of Cash Flows***(tabular amounts in thousands of Canadian dollars, except where noted)*

	Year ended December 31,	
	2017	2016
<b>Cash flows from operating activities</b>		
Net loss from continuing operations .....	\$ (115,715)	\$ (178,167)
Adjustments for non-cash items (note 31) .....	363,383	400,775
Changes in items of working capital (note 31) .....	(43,117)	(32,491)
Income taxes received (paid), net (note 31) .....	419	(14,635)
Cash provided by operating activities from continuing operations .....	204,970	175,482
Cash (used in) provided by discontinued operations (note 8) .....	(7,591)	32,084
<b>Net cash inflow from operating activities</b> .....	<b>197,379</b>	<b>207,566</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment .....	(169,418)	(240,992)
Purchase of intangible assets .....	(6,548)	(13,588)
Proceeds on sale of assets .....	8,630	11,387
Cash used in investing activities from continuing operations .....	(167,336)	(243,193)
Cash provided by (used in) discontinued operations (note 8) .....	423,156	(3,507)
<b>Net cash inflow (outflow) from investing activities</b> .....	<b>255,820</b>	<b>(246,700)</b>
<b>Cash flows from financing activities</b>		
Payment of shareholder dividends .....	(187,985)	(175,586)
Interest paid, net .....	(87,177)	(88,969)
Proceeds from exercise of stock options .....	2,822	1,000
Issuance of common shares, net of cost .....	-	219,817
Issuance of convertible debentures, net of costs .....	-	96,293
Proceeds from issuance of long-term debt, net of cost .....	590,452	-
Repayment of long-term debt, net of cost .....	(1,024,007)	-
Proceeds from credit facilities .....	1,016,412	446,790
Repayment of credit facilities .....	(786,232)	(481,789)
Settlement of financial instruments not affecting operating activities (note 13) .....	(2,218)	-
Cash (used in) provided by financing activities from continuing operations .....	(477,933)	17,556
Cash from discontinued operations (note 8) .....	-	-
<b>Net cash (outflow) inflow from financing activities</b> .....	<b>(477,933)</b>	<b>17,556</b>
<b>Net decrease in cash and cash equivalents</b> .....	<b>(24,734)</b>	<b>(21,578)</b>
Effect of exchange rate on cash and cash equivalents .....	(3,287)	(1,038)
Cash and cash equivalents – beginning of year .....	60,159	82,775
<b>Cash and cash equivalents – end of year</b> .....	<b>\$ 32,138</b>	<b>\$ 60,159</b>

*See accompanying notes to the consolidated financial statements**See note 31 for supplemental disclosures and reconciliation of movements of financial liabilities to cash flows arising from financing activities*

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 1 Description of the business and segmented disclosure

Gibson Energy Inc. (“Gibson”, 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”.

Gibson is engaged in the movement, storage, optimization, 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 and oil-field waste management services. 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.

The Company had the following principal subsidiaries as at December 31, 2017:

Name	Nature of entity	Name	Nature of business
Gibson Energy Inc.	Ultimate Parent Company	Gibson Energy Partnership	Transportation and Storage
Gibson Energy ULC	Holding Company	Gibson Transportation Ltd.	Transportation
Gibson (U.S) Acquisitionco Corp.	Holding Company	Gibson Gas Liquids ULC	Wholesale
Gibson (U.S) Holdco Corp.	Holding Company	Moose Jaw Refinery ULC	Fluids and Refining
		Gibson Energy Partnership	Transportation and Storage

The Company’s reportable segments are:

- (1) **Infrastructure**, which 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 (U.S.); a crude oil processing facility in Moose Jaw, Saskatchewan, and processing, recovery, and disposal terminals located throughout Western Canada and the Northern U.S.
- (2) **Logistics**, which 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**, which 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**, which 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.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

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.

### Year ended December 31, 2017

	Infrastructure	Logistics	Wholesale	Other	Total
<b>Statement of operations</b>					
Revenue					
External .....	\$ 211,664	\$ 484,689	\$ 5,387,948	\$ 16,538	\$ 6,100,839
Inter-segmental .....	131,339	41,656	429,304	191	602,490
External and inter-segmental .....	<u>343,003</u>	<u>526,345</u>	<u>5,817,252</u>	<u>16,729</u>	<u>6,703,329</u>
Segment profit .....	<u>\$ 236,795</u>	<u>\$ 42,671</u>	<u>\$ 30,585</u>	<u>\$ 185</u>	<u>\$ 310,236</u>
<b>Corporate &amp; other reconciling items</b>					
Depreciation and impairment of property, plant and equipment .....					192,302
Amortization and impairment of intangible assets .....					37,425
Impairment of goodwill .....					69,414
General and administrative .....					51,204
Stock based compensation .....					22,056
Corporate foreign exchange loss .....					652
Interest expense, net .....					77,362
Debt extinguishment costs, net .....					60,492
Foreign exchange gain on long-term debt .....					<u>(18,788)</u>
Net loss from continuing operations before income tax .....					(181,883)
Income tax recovery .....					<u>(66,168)</u>
Net loss from continuing operations .....					(115,715)
Net income from discontinued operations, after tax.....					159,850
Net income from operations .....					<u>\$ 44,135</u>

### Year ended December 31, 2016

	Infrastructure	Logistics	Wholesale	Other	Total
<b>Statement of operations</b>					
Revenue					
External .....	\$ 185,351	\$ 462,808	\$ 3,934,922	\$ 11,100	\$ 4,594,181
Inter-segmental.....	112,799	50,127	252,586	191	415,703
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>
<b>Corporate &amp; other reconciling items</b>					
Depreciation and impairment of property, plant and equipment .....					175,346
Amortization and impairment 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, net .....					85,526
Foreign exchange gain on long-term debt .....					<u>(22,715)</u>
Net loss from continuing operations before income tax .....					(234,617)
Income tax recovery .....					<u>(56,450)</u>
Net loss from continuing operations .....					(178,167)
Net income from discontinued operations, after tax.....					18,453
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)

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

	Twelve months ended December 31			
	2017		2016	
	Property, plant and equipment	Intangible Assets	Property, plant and equipment	Intangible Assets
Infrastructure .....	\$ 161,326	\$ 2,849	\$ 194,080	\$ 2,591
Logistics.....	13,364	478	13,814	1,680
Wholesale .....	1,093	35	11,386	92
Corporate & other.....	2,946	3,213	1,055	3,127
Total .....	<u>\$ 178,729</u>	<u>\$ 6,575</u>	<u>\$ 220,335</u>	<u>\$ 7,490</u>

#### Geographic Data

Based on the location of the end user, approximately 21% and 22% of revenue was from customers in the U.S. for the year ended December 31, 2017 and 2016, respectively.

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with 12% and 16% in the U.S. at December 31, 2017 and 2016, respectively.

#### 2 Basis of preparation and statement of compliance

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 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 US\$ are to United States dollars.

These consolidated financial statements were approved for issuance by the Company's board of directors ("Board") on March 5, 2018.

#### 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 on a recurring basis 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.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

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.

#### 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 statements 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 statements 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 statements 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 statements 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

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

Non-compete agreements.....	2 – 10 years
Technology.....	3 – 5 years
Software, license and permits .....	3 – 7 years

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 statements 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 (VIU). Impairments are recognized immediately in the consolidated statements of operations.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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*(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 VIU. VIU 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 triggering event which indicates a change in the recoverable amount. If there is a trigger that impairment loss recognized in the prior periods for an asset other than goodwill may no longer exist or may have decreased, the 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 statements 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 statements 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

## **Gibson Energy Inc.**

### **Notes to Consolidated Financial Statements**

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

recognized in the consolidated statements of operations. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

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 statements 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 statements 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 statements of operations on an accrual basis.

## **Gibson Energy Inc.**

### **Notes to Consolidated Financial Statements**

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

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

#### **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 statements 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 statements 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



## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are 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 statements 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 statements 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 statements 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 differences are then

## Gibson Energy Inc.

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

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.

#### **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 statements of operations in the period in which they are incurred.

#### **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.

#### **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.

*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 the higher of VIU and FVLCD calculations that 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.

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.

*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 determined necessary, to obtain the estimates of the decommissioning and environmental provision.

**Critical judgements in applying the Company's accounting policies***Assets held for sale and discontinued operations*

Subsequent to the year end, the Company considers its U.S Environmental Services business to be held-for-sale. In making this determination, the Company used significant judgment in evaluating whether a sale was considered highly probable. Significant terms of the sale have been negotiated subsequent to December 31, 2017 including the structure of the transaction. As of the date of issuance of these consolidated financial statements, the buyer has substantially completed their due diligence review, such that a sale is now considered highly probable. These conditions were not met as at December 31, 2017. Refer to note 30, subsequent events.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

#### *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 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 statements 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 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 adoption of these improvements did not have a material impact on the consolidated financial statements.
- IAS 12 – *Income taxes* ("IAS 12"), has been amended to clarify (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base, and (iii) certain other aspects of accounting for deferred tax assets. The amendment to IAS 12 is effective for years beginning on or after January 1, 2017. The adoption of this amendment did not have a material impact on the consolidated financial statements.
- IAS 7 – *Statement of cash flows* ("IAS 7"), has been amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash-flows and non-cash changes. The amendment to IAS 7 is effective for years beginning on or after January 1, 2017. Additional disclosures have been included in the Company's 2017 consolidated financial statements (see note 31).

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

**New standards and interpretations issued but not yet adopted**

The following accounting interpretations and standards were issued during the year:

- The annual improvements process addresses issues in the 2015-2017 reporting cycles include changes to IFRS 3 – *Business combinations*, IFRS 11 – *Joint arrangements*, IAS 12 – *Income taxes*, and IAS 23 – *Borrowing costs*. This improvement is effective for periods beginning on or after January 1, 2019. The Company has not currently assessed the impact of adopting these interpretations on its consolidated financial statements.
- IAS 28 – *Interests in associates and joint ventures* (“IAS 28”), has been amended to clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in associate or joint venture to which the equity method is not applied. The amendment to IAS 28 is effective for years beginning on or after January 1, 2018. The Company has determined that the adoption of this interpretation will not have a material impact on its consolidated financial statements.
- IFRS 17 – *Insurance contracts* (“IFRS 17”), has been issued to clarify recognition and measurement accounting principles with respect to insurance contracts. The issuance of IFRS 17 is effective for years beginning on or after January 1, 2021. The Company has not currently assessed the impact of adopting this interpretation on its consolidated financial statements.
- IFRIC 23 – *Uncertainty over income tax treatments* (“IFRIC 23”), has been amended to clarify how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax treatments. The amendment to IFRIC 23 is effective for years beginning on or after January 1, 2019. The Company has not currently assessed the impact of adopting this interpretation on its consolidated financial statements.

**Update on IFRS 16, “Leases” (“IFRS 16”), IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) and IFRS 9, “Financial Instruments” (“IFRS 9”) adoption**

IFRS 16 is effective for years beginning on or after January 1, 2019, however the early adoption of IFRS 16 is permitted if IFRS 15 has been adopted. The Company has chosen to early adopt IFRS 16 effective January 1, 2018, concurrent with the adoption date of IFRS 15. These standards may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. The Company has opted to use the modified retrospective approach in its adoption of IFRS 15 and 16.

Noted below is the summary of material impacts of IFRS 15, 16 and 9 for period beginning January 1, 2018:

**IFRS 15****(i) Accounting for contract liabilities**

Prior to the adoption of IFRS 15, wholesale product revenues associated with the sales of roofing flux products owned by the Company were recognized at the time of shipment when the risk of ownership and loss are passed to the customer. Under IFRS 15, wherein the contract provides a right to invoice prior to the physical delivery of the product, the Company will defer recognition of such revenues and recognize a contract liability, until such time when the product has been physically delivered and the transfer of control has occurred.

Adoption of the standard will not have any material impacts on the total asset, liabilities or retained earnings of the Company as at January 1, 2018.

**(ii) Accounting for buy-sell transactions**

Prior to the adoption of IFRS 15, buy-sell transactions involving crude and NGL products whereby the Company effectively is acting as an agent are recorded on a net basis. Under IFRS 15, revenues from buy/sell transactions which are monetary transactions containing commercial substance is recognized on a gross-basis as separate performance obligations. Revenues from buy/sell transactions of non-monetary exchanges of similar products, which lack commercial substance, are recognized on a net basis, and are not in scope of IFRS 15 and there is no variable consideration specific to these transactions.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### (iii) Disclosures

Under the previous revenue standard, disclosure requirements were specific to the significant categories of revenue arising from the sale of goods, rendering of services, interest, royalties, and dividends. Under IFRS 15, the Company will be required to disclose requirements on the disaggregation of revenue, contract balances, performance obligations, assets recognized to obtain or fulfil a contract, as well as significant judgments in the application of IFRS 15. The Company anticipates providing more robust revenue disclosure under IFRS 15 with respect to the disaggregation of revenue and anticipates the inclusion of disclosure related to the nature, amount, timing, of revenues related to each segment.

### IFRS 16

On adoption of IFRS 16, the Company will recognise lease liabilities in relation to leases under the principles of the new standard. These liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2018. The associated rights-of-use (ROU) assets will be measured at the amount equal to the lease liability on January 1, 2018 with no impact on retained earnings.

On initial adoption, the Company will use the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The accounting of leases with a remaining lease term of less than twelve months as at January 1, 2018 as short-term leases; The accounting for lease payments as expenses on leases for which the underlying asset is of low dollar value;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- The Company did not apply any grandfathering practical expedients.

Adoption of the standard will result in the recognition of additional ROU assets and lease liabilities for leases of approximately \$173 million as at January 1, 2018.

### IFRS 9

The Company has completed the work related to the implementation of the expected credit loss model. Specifically, the Company has concluded that it will have two types of financial assets subject to the requirements of the expected credit losses model which are trade receivables and net investments in finance leases.

The Company has updated its impairment methodology under IFRS 9 for each of these classes of assets and have applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. The Company does not expect any material impact on its accounts receivables and net investments in finance leases balances upon adoption.

In addition, the Company has concluded that there is no impact of debt modification upon the adoption of IFRS 9.

## 5 Trade and other receivables

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Trade receivables.....	\$ 480,084	\$ 410,325
Allowance for doubtful accounts.....	(931)	(1,124)
Trade receivables, net.....	479,153	409,201
Risk management assets (note 28).....	6,032	6,218
Broker accounts receivable.....	4,441	5,329
Indirect taxes receivable.....	2,712	4,375
Other.....	2,563	3,125
	<u>\$ 494,901</u>	<u>\$ 428,248</u>



## 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,	
	2017	2016
Opening balance .....	\$ 1,124	\$ 1,950
Additional allowances .....	238	357
Receivables written off as uncollectible .....	(394)	(718)
Transfers to assets held for sale (note 8) .....	-	(440)
Effect of changes in foreign exchange rates .....	(37)	(25)
Closing balance .....	<u>\$ 931</u>	<u>\$ 1,124</u>

#### 6 Inventories

	December 31,	
	2017	2016
Crude oil and diluent .....	\$ 79,223	\$ 72,998
Asphalt .....	19,817	16,546
Natural gas liquids .....	44,087	31,994
Wellsite fluids and distillate .....	13,150	8,556
Spare parts and other .....	13,680	14,501
	<u>\$ 169,957</u>	<u>\$ 144,595</u>

The cost of the inventory sold included in cost of sales was \$4,741.1 million and \$3,380.5 million for the year ended December 31, 2017 and 2016, respectively.

#### 7 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,	
	2017	2016
Total minimum lease payments receivable .....	\$ 360,107	\$ 388,956
Residual value .....	44,944	44,944
Unearned income .....	(285,203)	(313,331)
	119,848	120,569
Less: current portion .....	1,828	2,325
Net investment in finance lease: non-current portion .....	<u>\$ 118,020</u>	<u>\$ 118,244</u>

The minimum lease receivables are expected to be as follows:

2018 .....	\$ 28,695
2019 .....	28,695
2020 .....	28,695
2021 .....	28,695
2022 .....	28,695
2023 and later .....	\$ 216,632

#### 8 Assets and liabilities held for sale, and discontinued operations

##### Industrial Propane

On March 1, 2017, the Company granted an irrevocable option (the "Option") to Superior Plus LP ("Superior") to purchase its Industrial Propane segment pursuant to an Option Agreement in exchange for an adjusted cash consideration of \$434.8 million, at

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

which time Superior exercised the Option. The Company continued to operate the business based on the terms and covenants of the Option Agreement under the direction of the current management team, until 100% of the partnership units and shares (the "Securities") of the Canwest and Stittco businesses were transferred to Superior. Judgment was applied in accordance with IFRS 10 – *Consolidated Financial Statements* ("IFRS 10") and it was concluded that effective March 1, 2017, the Company did not have the rights and exposure to variable returns and the ability to affect the amount of returns. Accordingly, the Industrial Propane segment was derecognized as at March 1, 2017. On September 27, 2017, the Company completed the final closing of the sale of its Industrial Propane business to Superior and transferred the Securities to Superior. The final sale price after working capital adjustments was \$433.1 million resulting in the recognition of a \$150.7 million post-tax gain on sale, as noted below.

Operating results related to the segment have been included in net income from discontinued operations in the consolidated statements of operations.

Sale price .....	\$ 412,000
Sale price adjustments .....	21,089
Total cash consideration.....	433,089
Cash .....	(10,504)
Accounts receivable .....	(48,076)
Inventories .....	(7,240)
Prepaid expenses and other assets.....	(467)
Property, plant, and equipment.....	(137,673)
Intangible assets.....	(10,305)
Goodwill .....	(77,579)
Other long-term assets .....	(156)
Accounts payable and accrued liabilities .....	24,374
Other current liabilities .....	3,925
Deferred tax liability.....	15,355
Other non-current liabilities .....	989
Decommissioning liability .....	965
Net assets disposed .....	(246,392)
Costs to sell.....	(9,871)
Gain on sale .....	176,826
Income tax provision on gain on sale .....	(26,177)
After-tax gain on sale .....	<u>\$ 150,649</u>

The results of the discontinued operations are presented below:

	Year ended	
	December 31,	
	2017 <sup>1</sup>	2016
Revenue .....	\$ 58,296	\$ 167,699
Cost of sales .....	44,678	152,428
Gross profit .....	13,618	15,271
Other operating income .....	19	523
Segment profit .....	13,637	15,794
Gain on sale .....	176,826	-
Income before income taxes .....	190,463	15,794
Income tax expense – current .....	30,338	3,179
Income tax expense – deferred (recovery) .....	275	(5,838)
Net income from discontinued operations, after tax.....	<u>\$ 159,850</u>	<u>\$ 18,453</u>

1. The Company derecognized the Industrial Propane segment effective March 1, 2017, accordingly, results for year ended December 31, 2017 represent the activity for the period January 1, 2017 to February 28, 2017.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### Supplemental cash flow information:

	Year ended December 31,	
	2017 <sup>1</sup>	2016
<b>Operating Activities</b>		
Net income, after tax	\$ 159,850	\$ 18,453
Depreciation and amortization .....	-	18,572
Income taxes .....	30,613	(2,659)
Gain on sale .....	(176,826)	-
Trade and other receivables.....	(11,338)	(10,366)
Inventories.....	(254)	(1,733)
Other current assets.....	(10,766)	187
Trade payables and accrued charged .....	1,480	9,753
Deferred revenue .....	(350)	(123)
Net cash (used in) provided by operating activities from discontinued operations .....	<u>\$ (7,591)</u>	<u>\$ 32,084</u>
<b>Investing Activities</b>		
Purchase of property, plant and equipment and intangibles.....	\$ (106)	\$ (5,015)
Proceeds from sale of assets .....	-	1,508
Proceeds on sale of discontinued operations .....	433,089	-
Transaction costs paid on sale of discontinued operations .....	(9,827)	-
Net cash provided by (used in) investing activities from discontinued operations .....	<u>\$ 423,156</u>	<u>\$ (3,507)</u>

1. The Company derecognized the Industrial Propane segment effective March 1, 2017, accordingly, results for year ended December 31, 2017 represent the activity for the period January 1, 2017 to February 28, 2017.

## 9 Property, plant and equipment

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
<b>Cost:</b>							
At January 1, 2017 .....	\$ 188,380	\$ 209,454	\$ 608,344	\$ 457,871	\$ 920,843	\$ 104,868	\$ 2,489,760
Additions .....	2,204	5,177	7,579	4,317	16,696	142,876	178,849
Disposals.....	(4,640)	-	(1,523)	(34,475)	(11,283)	-	(51,921)
Change in decommissioning provision (note 16).....	-	2,151	3,956	-	4,606	-	10,713
Reclassifications.....	5,080	8,897	24,805	-	23,058	(61,840)	-
Effect of movements in exchange rates .....	(1,934)	-	(1,024)	(16,019)	(16,542)	(165)	(35,684)
At December 31, 2017.....	<u>\$ 189,090</u>	<u>\$ 225,679</u>	<u>\$ 642,137</u>	<u>\$ 411,694</u>	<u>\$ 937,378</u>	<u>\$ 185,739</u>	<u>\$ 2,591,717</u>
<b>Accumulated depreciation and impairment:</b>							
At January 1, 2017 .....	\$ 31,778	\$ 73,052	\$ 96,609	\$ 275,002	\$ 370,025	\$ -	\$ 846,466
Depreciation .....	6,663	9,140	26,428	42,511	78,328	-	163,070
Impairment.....	-	-	-	12,143	17,089	-	29,232
Disposals.....	(287)	-	(1,408)	(32,554)	(11,143)	-	(45,392)
Effect of movements in exchange rates .....	(289)	-	(456)	(10,921)	(9,681)	-	(21,347)
At December 31, 2017.....	<u>\$ 37,865</u>	<u>\$ 82,192</u>	<u>\$ 121,173</u>	<u>\$ 286,181</u>	<u>\$ 444,618</u>	<u>\$ -</u>	<u>\$ 972,029</u>

## 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
<b>Carrying amounts:</b>							
At January 1, 2017 .....	\$ 156,602	\$ 136,402	\$ 511,735	\$ 182,869	\$ 550,818	\$ 104,868	\$ 1,643,294
At December 31, 2017 .....	\$ 151,225	\$ 143,487	\$ 520,964	\$ 125,513	\$ 492,760	\$ 185,739	\$ 1,619,688
<b>Cost:</b>							
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 16) .....	-	(1,307)	3,221	-	12,984	-	14,898
Transfer to net investment in finance leases (note 7) .....	-	-	-	-	-	(27,258)	(27,258)
Transfers to assets held for sale (note 8) .....	(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 .....	\$ 188,380	\$ 209,454	\$ 608,344	\$ 457,871	\$ 920,843	\$ 104,868	\$ 2,489,760
<b>Accumulated depreciation and impairment:</b>							
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 8) .....	(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 .....	\$ 31,778	\$ 73,052	\$ 96,609	\$ 275,002	\$ 370,025	\$ -	\$ 846,466
<b>Carrying amounts:</b>							
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

Additions to property, plant and equipment include capitalization of interest of \$4.7 million and \$12.9 million for the year ended December 31, 2017 and 2016, 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, 2017, the Company recorded an impairment loss of \$29.2 million that was included within cost of sales in the statement of operations. The impairment loss relates to assets within the U.S. Environmental Services business which is included within the Company's Infrastructure, Logistics and Other reportable segments.

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 Trucking and Transportation business within the Logistics segment and \$1.6 million related to assets within the Terminals and Pipelines business within the Infrastructure segment.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 10 Long-term prepaid and other assets

	December 31,	
	2017	2016
Long-term prepaid .....	\$ 835	\$ 1,296
Risk management assets (note 28) .....	1,367	-
Defined benefit pension plan assets .....	635	1,081
Other assets .....	1,008	1,973
U.S. tax receivable .....	3,519	-
	<u>\$ 7,364</u>	<u>\$ 4,350</u>

### 11 Intangible assets

	Brands	Customer relationships	Long-term customer contracts	Non-compete agreements	Technology and Software	License and Permits	Total
<b>Cost:</b>							
At January 1, 2017 .....	\$ 46,288	\$ 264,587	\$ 42,539	\$ 25,290	\$ 72,515	\$ 5,537	\$ 456,756
Additions .....	-	-	-	-	6,575	-	6,575
Effect of movements in exchange rates .....	(776)	(11,708)	(2,568)	(692)	(419)	(375)	(16,538)
At December 31, 2017 .....	<u>\$ 45,512</u>	<u>\$ 252,879</u>	<u>\$ 39,971</u>	<u>\$ 24,598</u>	<u>\$ 78,671</u>	<u>\$ 5,162</u>	<u>\$ 446,793</u>

#### Accumulated amortization and impairment:

At January 1, 2017 .....	\$ 44,155	\$ 250,665	\$ 29,634	\$ 24,037	\$ 36,642	\$ 5,537	\$ 390,670
Amortization .....	1,090	5,095	12,188	1,202	11,902	-	31,477
Impairment .....	-	5,947	-	-	-	-	5,947
Effect of movements in exchange rates .....	(773)	(11,147)	(1,851)	(688)	(316)	(375)	(15,150)
At December 31, 2017 .....	<u>\$ 44,472</u>	<u>\$ 250,560</u>	<u>\$ 39,971</u>	<u>\$ 24,551</u>	<u>\$ 48,228</u>	<u>\$ 5,162</u>	<u>\$ 412,944</u>

#### Carrying amounts:

At January 1, 2017 .....	\$ 2,133	\$ 13,922	\$ 12,905	\$ 1,253	\$ 35,873	\$ -	\$ 66,086
At December 31, 2017 .....	<u>\$ 1,040</u>	<u>\$ 2,319</u>	<u>\$ -</u>	<u>\$ 47</u>	<u>\$ 30,443</u>	<u>\$ -</u>	<u>\$ 33,849</u>

	Brands	Customer relationships	Long-term customer contracts	Non-compete agreements	Technology and Software	License and Permits	Total
<b>Cost:</b>							
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 8) .....	(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 .....	<u>\$ 46,288</u>	<u>\$ 264,587</u>	<u>\$ 42,539</u>	<u>\$ 25,290</u>	<u>\$ 72,515</u>	<u>\$ 5,537</u>	<u>\$ 456,756</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

Accumulated amortization and impairment:	Long-term						Total
	Brands	Customer relationships	customer contracts	Non-competitve agreements	Technology and Software	License and Permits	
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 8) .....	(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

Intangible assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable. During the year ended December 31, 2017, the Company recorded an impairment loss of \$5.9 million that was included within cost of sales in the statement of operations. The impairment loss relates to assets within the U.S. Environmental Services business which is included within the Company's Logistics segment.

## 12 Goodwill

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

	Year ended December 31,	
	2017	2016
Opening balance .....	\$ 454,489	\$ 670,907
Impairments .....	(69,414)	(130,052)
Transfers to assets held for sale (note 8) .....	-	(77,579)
Effect of changes in foreign exchange rates .....	(3,110)	(8,787)
Closing balance .....	\$ 381,965	\$ 454,489

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,	
	2017	2016
Terminals, Pipelines and Injection Stations .....	\$ 197,538	\$ 197,723
Moose Jaw Facility .....	89,017	89,017
Canadian Trucking and Transportation .....	19,988	19,988
U.S. Trucking and Transportation .....	-	42,942
Canadian Wholesale Marketing .....	75,422	75,422
U.S. Wholesale Marketing .....	-	29,397
	\$ 381,965	\$ 454,489

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, 2017, \$364.8 million, net of impairment, relates to goodwill recognized on the acquisition of the Company on December 12, 2008.



## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

On November 30, 2017, the Company carried out its annual impairment test with respect to goodwill. For all operating segments, other than the U.S. Trucking and Transportation and U.S. Wholesale Marketing, the recoverable amount was greater than the carrying value, including goodwill. The carrying amount of the U.S. Trucking and Transportation was determined to be higher than its recoverable amount of \$46.0 million which resulted in recording an impairment write down of \$41.2 million. The carrying amount of the U.S. Wholesale Marketing operating segment was determined to be higher than its recoverable amount of \$16.9 million which resulted in recording an impairment write down of \$28.2 million.

#### Key assumptions used in 2017 impairment test

To calculate the recoverable amount, management uses the higher of the FVLCD and VIU. The recoverable amount was determined using either a discounted cash flow approach or an earnings multiple approach. The Company references Board approved budgets and cash flow forecast, trailing twelve-month (TTM) earnings before interest, taxes, depreciation and amortization and impairment (EBITDA), implied multiples and appropriate discount rates in the valuation calculations. The implied multiple is calculated by utilizing multiples of comparable public companies by operating segment.

In regards, to the U.S. Trucking and Transportation, U.S. Wholesale Marketing and Canadian Wholesale Marketing operating segments, the recoverable amount was determined by discounting the future cash flows generated from continued use of the operating segments. The model calculated the present value of the estimated future earnings of the above stated operating segments. Estimating future earnings requires judgement, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment. The calculation of the recoverable amount using the discounted cash flow approach was based on the following key assumptions:

	U.S. Trucking and Transportation	U.S. Wholesale Marketing	Canadian Wholesale Marketing
Discount rate .....	12.1%	12.9%	12.9%
Terminal value growth rate .....	2.0%	2.0%	2.0%

- (i) Cash flows were projected based on past experience, actual operating results and the five-year business plan. The range of the five-year average cash flow projections for these operating segments was between \$1.0 million and \$19.3 million.
- (ii) The terminal value growth rate is based on management's best estimate of the long-term growth rate for after the forecast period, considering historic performance and future economic forecasts.
- (iii) Each operating segment discount rate reflects their individual size, risk profile and circumstance and is based on past experience and industry average weighted average cost of capital.

For the remainder of the operating segments, the Company used implied average forward multiples that ranged from 9.2 to 11.5 to calculate the recoverable amounts.

The fair value of calculations are categorized as Level 3 fair value based on the unobservable inputs.

#### Key assumptions used in 2016 impairment test

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. 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 9.6.

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

**Gibson Energy Inc.**  
**Notes to Consolidated Financial Statements**

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

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.

The fair value of calculations are categorized as Level 3 fair value based on the unobservable inputs.

**13 Long-term debt**

***Revolving Credit Facility***

On November 30, 2017, the Company amended the unsecured revolving credit facility from \$500.0 million to \$560.0 million (the “Revolving Credit Facility”), with a maturity date of March 7, 2022, the proceeds of which are available to provide financing for working capital, fund capital expenditures and other general corporate purposes. In addition, the Company has three demand letter of credit facilities totaling \$150.0 million.

The Revolving Credit Facility permits 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 standby fees 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.

Under the terms of Revolving Credit Facility, the Company is required to adhere to certain financial and maintenance covenants including maintaining maximum consolidated senior and the maximum consolidated total debt leverage ratios to 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. 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, 2017, the Company was in compliance with all covenants under the Revolving Credit Facility.

The Company had \$230.2 million (US\$100.0 million; \$105.0 million) and \$nil million drawn against the Revolving Credit Facility as at December 31, 2017 and December 31, 2016, respectively. The Company had issued letters of credit totalling \$68.9 million and \$48.4 million as at December 31, 2017 and December 31, 2016, respectively.

***Long-term debt***

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Revolving credit facility, due March 7, 2020 .....	\$ 230,180	\$ -
US\$550 million 6.75% Notes due July 15, 2021 .....	-	738,485
\$250 million 7.0% Notes due July 15, 2020 .....	-	250,000
\$300 million 5.375% Notes due July 15, 2022 .....	300,000	300,000
\$600 million 5.25% Notes due July 15, 2024 .....	600,000	-
Unamortized issue discount and debt issue costs .....	(12,061)	(16,646)
Long-term debt .....	<u>\$ 1,118,119</u>	<u>\$ 1,271,839</u>

During the year, the Company issued \$600 million 5.25% Senior Unsecured Notes due July 15, 2024 at an issue price of 100.0% plus accrued interest (the “New Notes”). Using the net proceeds of the New Notes along with the proceeds from the sale of Industrial Propane business, the Company fully repaid the US\$550 million 6.75% Notes (the “US\$ Notes”) and \$250 million 7.00% Notes (the “C\$ Notes”) (collectively the “Retired Notes”). The indentures governing the terms of the \$300 million 5.375% Notes (“Notes”) and New Notes including the supplemental indenture thereto (the “Indenture”) remain outstanding as at December 31, 2017.

The Notes and New Notes agreements contain certain redemption options whereby the Company can redeem all or part of the Notes and New Notes, at prices set forth in the agreements, from proceeds of an equity offering or on the dates specified in the agreement. In addition, the Notes and New Notes holders have the right to require the Company to redeem the Notes and New Notes at the redemption prices set forth in the agreement 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 agreement.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

The Company's long-term debt contains non-financial covenants and customary events of default clauses. As of December 31, 2017 and December 31, 2016, the Company was in compliance with all of its covenants.

The components of finance costs are as follows:

	December 31,	
	2017	2016
Interest expense, net of capitalized interest .....	\$ 79,147	\$ 86,619
Interest income.....	(1,785)	(1,093)
Foreign exchange gain on long-term debt .....	(18,788)	(22,715)
Debt extinguishment costs:		
\$250.0 million 7.0% Notes – redemption premium .....	\$ 12,838	\$ -
US\$550.0 million 6.75% Notes – redemption premium.....	33,133	-
\$250.0 million 7.0% Notes – unamortized cost write off .....	4,321	-
US\$550.0 million 6.75% Notes – unamortized cost write off .....	7,982	-
US\$550.0 million 6.75% Notes – realized foreign exchange loss on financial instruments .....	2,218	-
Total debt extinguishment costs.....	60,492	-
Total finance cost, net .....	<u>\$ 119,066</u>	<u>\$ 62,811</u>

#### 14 Convertible debentures

	<u>Liability Component</u>	<u>Equity Component</u>
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>
Accretion of issue costs.....	2,607	-
Deferred taxes .....	-	(128)
Balance as at December 31, 2017 .....	<u>\$ 89,919</u>	<u>\$ 7,023</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 are 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)

#### 15 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	December 31,	
	2017	2016
Trade payables.....	\$ 413,745	\$ 376,767
Accrued compensation charges.....	30,523	18,566
Indirect taxes payable .....	3,122	4,403
Risk management liabilities (note 28) .....	11,276	11,901
Defined benefit plan obligations .....	686	510
Interest payable.....	25,607	41,623
Insurance payable.....	7,114	7,638
Other.....	8,589	7,426
	<u>\$ 500,662</u>	<u>\$ 468,834</u>

#### 16 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,	
	2017	2016
Opening balance.....	\$ 171,038	\$ 155,343
Settlements .....	(3,146)	(2,556)
Additions .....	3,656	22,997
Change in estimated future cash flows .....	-	(1,499)
Change in discount rate.....	9,607	(5,100)
Unwinding of discount .....	3,912	3,251
Transfer to liabilities held for sale (note 8) .....	-	(962)
Effect of changes in foreign exchange rates.....	(1,540)	(436)
Closing balance.....	<u>\$ 183,527</u>	<u>\$ 171,038</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 \$327.2 million and \$312.9 million at December 31, 2017 and 2016, 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 2.2% and 2.3% at December 31, 2017 and 2016, respectively. The provision is expected to be settled to 40 years into the future. A one percent increase or decrease in the risk-free rate would decrease or increase the provision by \$51.1 million, respectively, with a corresponding adjustment to property, plant and equipment.

#### 17 Other long-term liabilities

	December 31,	
	2017	2016
Defined benefit plan obligations.....	\$ 1,262	\$ 1,404
Risk management liabilities (note 28).....	492	274
Other post-retirement benefits obligations .....	4,758	4,244
Other.....	-	584
	<u>\$ 6,512</u>	<u>\$ 6,506</u>

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

#### 18 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, 2017 or 2016.

##### Common Shares – Issued and outstanding

The following table below sets forth the issued and outstanding common shares for the years ended December 31, 2017 and 2016.

	Common Shares	
	Number of Common Shares	Amount
Balance as at January 1, 2016.....	126,135,566	\$ 1,672,323
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.....	141,733,032	\$ 1,909,032
Issuance in connection with the exercise of stock options.....	323,625	2,822
Issuance in connection with other equity awards .....	1,147,731	-
Reclassification of contributed surplus on issuance of awards under equity incentive plans.....	-	20,249
Balance as at December 31, 2017.....	143,204,388	\$ 1,932,103

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 8, 2017, was paid on January 17, 2018. For the year ended December 31, 2017 the Company declared total dividends of \$1.32 per common share.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 19 Income tax

The major components of income tax are as follows:

	Year ended December 31,	
	2017	2016
Current tax (recovery) expense .....	\$ (28,965)	\$ 13,302
Adjustments and true-ups in respect of prior years .....	(4,981)	(1,513)
Current tax – discontinued operations (note 8) .....	30,338	3,179
<b>Total current tax (recovery) provision</b> .....	<b>(3,608)</b>	<b>14,968</b>
Deferred tax recovery .....	(34,768)	(68,731)
Origination and reversal of temporary differences .....	2,546	492
Deferred tax – discontinued operations (note 8) .....	275	(5,838)
<b>Total deferred tax recovery</b> .....	<b>(31,947)</b>	<b>(74,077)</b>
<b>Net income tax recovery</b> .....	<b>\$ (35,555)</b>	<b>\$ (59,109)</b>

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

	Year ended December 31,	
	2017	2016
Loss before income taxes, continuing operations .....	\$ (181,883)	\$ (234,617)
Income before income taxes, discontinued operations .....	190,463	15,794
Income (loss) before income taxes .....	8,580	(218,823)
Statutory income tax rate .....	26.96%	26.97%
Computed income tax expense (recovery) .....	2,313	(59,017)
Changes in income tax expense (recovery) resulting from:		
Recognition of previously unrecognized capital losses, net .....	(19,975)	(3,013)
Foreign exchange (gain) loss, other .....	(2,520)	(3,013)
Non-taxable portion of the gain on sale of Industrial Propane businesses (note 8) .....	(26,177)	-
Non-deductible expenses .....	621	733
Stock based compensation .....	5,627	6,709
Non-taxable dividends .....	-	(14,421)
Rate differential on foreign taxes .....	(18,039)	(12,467)
Goodwill impairment .....	-	33,324
Held for sale classification .....	-	(4,154)
Impact of corporate rate changes in U.S. ....	32,758	-
Recognition of U.S. alternative minimum tax related to prior years .....	(3,194)	-
Adjustments and true-ups in respect of prior years .....	(4,981)	(1,513)
Other .....	(1,988)	(2,277)
	<b>\$ (35,555)</b>	<b>\$ (59,109)</b>
Effective income tax rate – continuing operations .....	36.38%	24.06%
Effective income tax rate – discontinued operations .....	16.07%	(16.84)%
Current tax, from continuing operations .....	\$ (33,946)	\$ 11,789
Current tax, from discontinued operations .....	30,338	3,179
	<b>\$ (3,608)</b>	<b>\$ 14,968</b>



# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

	Year ended December 31,	
	2017	2017
Deferred tax, from continuing operations .....	\$ (32,222)	\$ (68,239)
Deferred tax, from discontinued operations.....	275	(5,838)
	<u>\$ (31,947)</u>	<u>\$ (74,077)</u>
Total current and deferred, from continuing operations.....	(66,168)	(56,450)
Total current and deferred, from discontinued operations.....	30,613	(2,659)

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

Deferred tax assets:

Deferred tax asset to be settled after more than 12 months .....	\$ 70,021	\$ 35,665
Deferred tax asset to be settled within 12 months.....	5,200	11,500
	<u>75,221</u>	<u>47,165</u>

Deferred tax liabilities:

Deferred tax liability to be settled after more than 12 months.....	99,823	100,950
Deferred tax liability to be settled within 12 months .....	1,000	1,400
	<u>100,823</u>	<u>102,350</u>

Deferred tax liabilities, net .....	<u>\$ 25,602</u>	<u>\$ 55,185</u>
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The gross movement on the deferred income tax account is as follows:

	Year ended December 31,	
	2017	2016
Opening balance.....	\$ 55,185	\$ 144,088
Effect of changes in foreign exchange rates.....	2,388	(1,035)
Transfers to assets held for sale (note 8) .....	-	(13,860)
Income statement recovery .....	(31,947)	(74,077)
Tax credit relating to components of other comprehensive income.....	(24)	(59)
Tax charged directly to equity.....	-	128
Closing balance.....	<u>\$ 25,602</u>	<u>\$ 55,185</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 benefit obligations	Goodwill, Intangibles, and other	Total
At January 1, 2016 .....	\$ 30,143	\$ 17,410	\$ 1,412	\$ 14,319	\$ 63,284
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 8).....	-	(81)	(6)	637	550
Effect of changes in foreign exchange rates.....	369	90	-	1,304	1,763
At January 1, 2017 .....	<u>\$ 62,599</u>	<u>\$ 20,279</u>	<u>\$ 1,369</u>	<u>\$ 29,453</u>	<u>\$113,700</u>
Credited (charged) to the statement of operations .....	(15,402)	820	137	5,107	(9,338)
Charged to other comprehensive income.....	-	-	24	-	24
Effect of changes in foreign exchange rates.....	(2,108)	(299)	-	(826)	(3,233)
At December 31, 2017.....	<u>\$ 45,089</u>	<u>\$ 20,800</u>	<u>\$ 1,530</u>	<u>\$ 33,734</u>	<u>\$101,153</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	Goodwill, Intangibles, and other	Total
At January 1, 2016 .....	\$ (12,133)	\$ (178,729)	\$ (16,510)	\$ (207,372)
Credited (charged) to the statement of operations .....	(2,840)	25,616	3,257	26,033
Credited (charged) directly to equity .....	-	-	(128)	(128)
Transfers to assets held for sale (note 8) .....	10,989	2,321	-	13,310
Effect of changes in foreign exchange rates .....	-	(767)	39	(728)
At January 1, 2017 .....	\$ (3,984)	\$ (151,559)	\$ (13,342)	\$ (168,885)
Credited to the statement of operations .....	3,984	23,305	13,996	41,285
Effect of changes in foreign exchange rates .....	-	1,499	(654)	845
At December 31, 2017 .....	\$ -	\$ (126,755)	\$ -	\$ (126,755)

### Income tax losses carry forward

At December 31, 2017 and 2016, the Company had losses available to offset income for tax purposes of \$174.9 million and \$165.3 million, respectively. At December 31, 2017, the Company has \$10.1 million and \$164.8 million of the losses available in Canada and the U.S., respectively that expire as follows:

December 31, 2031 .....	\$ 36,084
December 31, 2032 .....	13,313
December 31, 2033 .....	-
December 31, 2034 .....	-
December 31, 2035 .....	20,568
December 31, 2036 .....	78,874
December 31, 2037 .....	26,033
	<u>\$ 174,872</u>

No income tax liability has been recognized in respect of temporary differences associated with investments in subsidiaries except for as disclosed in note 8 for assets held for sale.

## 20 Revenue

	Year ended December 31,	
	2017	2016
Products .....	\$ 5,256,387	\$ 3,796,643
Services .....	844,452	797,538
	<u>\$ 6,100,839</u>	<u>\$ 4,594,181</u>

## 21 Depreciation, amortization and impairment

	Year ended December 31,	
	2017	2016
Depreciation and impairment of property, plant and equipment (note 9) .....	\$ 192,302	\$ 175,346
Amortization and impairment of intangible assets (note 11) .....	37,425	69,062
	<u>\$ 229,727</u>	<u>\$ 244,408</u>

**Gibson Energy Inc.****Notes to Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)*

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

	Year ended December 31,	
	2017	2016
Cost of sales .....	\$ 217,858	\$ 234,483
General and administrative .....	11,869	9,925
	<u>\$ 229,727</u>	<u>\$ 244,408</u>

**22 Employee salaries and benefits**

	Year ended December 31,	
	2017	2016
Salaries and wages .....	\$ 220,683	\$ 218,086
Post-employment benefits .....	5,553	5,845
Share based compensation .....	22,056	24,876
Termination benefits and restructuring costs .....	16,786	10,044
	<u>\$ 265,078</u>	<u>\$ 258,851</u>

Employee salaries and benefits have been expensed as follows:

	Year ended December 31,	
	2017	2016
Cost of sales .....	\$ 226,000	\$ 216,698
General and administrative .....	39,078	42,153
	<u>\$ 265,078</u>	<u>\$ 258,851</u>

**23 Other operating income**

	Year ended December 31,	
	2017	2016
Gain on sale of property, plant and equipment .....	\$ (6,243)	\$ (4,983)
Foreign exchange loss .....	1,452	1,726
	<u>\$ (4,791)</u>	<u>\$ (3,257)</u>

**24 Per share amounts**

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

	Year ended December 31,	
	2017	2016
Weighted average common shares outstanding – Basic .....	142,500,793	135,202,472
Dilutive effect of:		
Stock options and other awards .....	-	-
Weighted average common shares – Diluted .....	<u>142,500,793</u>	<u>135,202,472</u>

The dilutive effect of 3.0 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, 2017 have 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 from continuing operations

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

per share. 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 have 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 from continuing operations per share.

The dilutive effect of 2.9 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, 2017 have been included in the determination of the weighted average number of common shares outstanding for discontinued operations. 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 have been included in the determination of the weighted average number of common shares outstanding for discontinued operations for the year ended December 31, 2016.

## 25 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, 2017 and 2016, the Company's proportionate share of property, plant and equipment was \$11.3 million and \$9.0 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.

### *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,	
	2017	2016
Salaries and short-term employee benefits .....	\$ 5,852	\$ 4,071
Post-employment benefits .....	1,094	1,064
Share based compensation .....	8,191	6,280
Termination costs .....	3,967	-
	<u>\$ 19,104</u>	<u>\$ 11,415</u>

## 26 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, 2017 and 2016, the status of the defined benefit plans was as follows:

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### Accrued benefit obligation

	Year ended December 31,	
	2017	2016
Accrued benefit obligation, beginning of year .....	\$ 16,869	\$ 16,440
Current service cost .....	53	48
Interest cost .....	584	606
Benefits paid .....	(1,886)	(629)
Actuarial loss (gain) .....	693	393
Other .....	4	11
Accrued benefit obligation, end of year .....	<u>\$ 16,317</u>	<u>\$ 16,869</u>

### Plan assets

	Year ended December 31,	
	2017	2016
Fair value of pension plan assets, beginning of year .....	\$ 16,126	\$ 15,529
Interest on plan assets .....	528	536
Actual contributions .....	613	517
Actual benefits paid .....	(2,466)	(629)
Actuarial gain .....	603	173
Fair value of pension plan assets, end of year .....	<u>\$ 15,404</u>	<u>\$ 16,126</u>

### Accrued benefit liability

	Year ended December 31,	
	2017	2016
Accrued benefit obligation .....	\$ (16,317)	\$ (16,869)
Fair value of plan assets .....	15,404	16,126
Accrued benefit liability .....	<u>\$ (913)</u>	<u>\$ (743)</u>

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

	Year ended December 31,	
	2017	2016
Discount rate .....	3.5%	3.8%
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:

	<u>One % point increase</u>	<u>One % point decrease</u>
Increase/(decrease) in defined benefit plans obligations .....	\$ 2,330	\$ (2,330)

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

#### 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 \$4.7 million and \$6.3 million for the year ended December 31, 2017 and 2016, respectively.

#### 27 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 2017 and 2016 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.

At December 31, 2017, awards available to grant under the equity incentive plan totalled approximately 8.6 million.

A summary of stock option activity is as follows:

	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price (in dollars)</u>
Balance at January 1, 2016 .....	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
Granted .....	1,191,571	17.48
Exercised .....	(323,625)	8.72
Forfeited .....	(639,096)	26.45
Balance at December 31, 2017 .....	3,296,715	\$ 22.89
Vested and exercisable at December 31, 2017 .....	2,046,485	\$ 25.89
Vested and exercisable at December 31, 2016 .....	2,315,301	\$ 23.51

Additional information regarding stock options outstanding as of December 31, 2017 is as follows:

<u>Outstanding</u>			<u>Exercisable</u>		
<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Exercise Price (in dollars)</u>	<u>Number Outstanding</u>	<u>Weighted-Average Remaining Contractual Life (Years)</u>	<u>Exercise Price (in dollars)</u>
93,310	1.0	\$ 9.02	93,310	1.0	\$ 9.02
1,204,976	4.6	17.45	49,284	4.0	18.67
49,965	1.4	21.77	49,965	1.4	21.77
39,747	3.4	23.85	39,747	3.4	23.85
620,606	4.2	25.33	527,504	4.2	25.32
451,635	2.3	25.97	450,199	2.3	25.97
814,709	3.2	28.67	814,709	3.2	28.67
21,767	3.8	35.51	21,767	3.8	35.51
<u>3,296,715</u>	<u>3.7</u>		<u>2,046,485</u>	<u>3.2</u>	



## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

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

	Number of Shares		
	RSUs	PSUs	DSUs
Balance at January 1, 2016.....	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
Granted .....	876,261	535,921	330,756
Issued for common shares .....	(830,803)	(295,283)	(21,646)
Forfeited .....	(220,948)	(740,123)	-
Balance at December 31, 2017.....	937,301	1,030,835	505,692
Vested, Balance at December 31, 2017.....	24,492	-	505,692
Vested, Balance at December 31, 2016.....	49,229	-	196,582

Stock based compensation expense was \$22.1 million and \$24.9 million for the years ended December 31, 2017 and 2016, respectively, and is included in general and administrative expenses.

The fair value of the options granted was estimated at \$2.36 per option for the year ended December 31, 2017. The fair value of options was calculated by using the Black-Scholes model with the following weighted average assumptions:

	Year ended December 31, 2017
Expected dividend rate .....	7.7%
Expected volatility .....	35.3%
Risk-free interest rate .....	1.1%
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.

There were no options granted during the year ended December 31, 2016, accordingly there are no fair value assumptions and calculations for the prior year.

## 28 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 and dividends payable are recorded at amortized cost which approximates fair value due to the short term nature of these instruments.

Long-term debt including credit facility are recorded at amortized cost using the effective interest method of amortization. As at December 31, 2017, the carrying amount of long-term debt was \$1,130.2 million less debt discount and issue costs of \$12.1 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,144.1 million. 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.

The Debentures liability component is recorded at amortized cost using the effective interest method of amortization. As at December 31, 2017, the total carrying amount of the debentures liability and equity components was \$100.0 million less debt discount and issue costs of \$89.9 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 \$105.0 million (December 31, 2016 – \$109.0 million).

## 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, 2017		December 31, 2016	
	Trade and other receivables	Trade payable and accrued charges	Trade and other receivables	Trade payable and accrued charges
Gross amounts.....	\$ 530,965	\$ 433,272	\$ 400,152	\$ 338,824
Amount offset .....	(340,589)	(340,589)	(269,611)	(269,611)
Net amount included in the consolidated financial statements.....	<u>\$ 190,376</u>	<u>\$ 92,683</u>	<u>\$ 130,541</u>	<u>\$ 69,213</u>

#### **Derivative financial instruments (recurring fair value measurements)**

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

	December 31, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Commodity futures .....	\$ 384	\$ 6,257	\$ 595	\$ 5,640
Commodity swaps .....	4,808	2,214	5,578	2,688
Commodity options .....	-	-	38	747
Equity swaps.....	324	3,297	-	1,686
Foreign currency forwards .....	1,883	-	-	1,411
Foreign currency options.....	-	-	7	3
Total.....	<u>\$ 7,399</u>	<u>\$ 11,768</u>	<u>\$ 6,218</u>	<u>\$ 12,175</u>
Less non-current portion:				
Commodity futures .....	384	215	-	-
Commodity swaps .....	567	-	-	-
Equity swaps.....	294	277	-	226
Foreign currency forwards .....	122	-	-	48
	<u>1,367</u>	<u>492</u>	<u>-</u>	<u>274</u>
Current portion.....	<u>\$ 6,032</u>	<u>\$ 11,276</u>	<u>\$ 6,218</u>	<u>\$ 11,901</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.

**Gibson Energy Inc.**  
**Notes to Consolidated Financial Statements**

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

During the year ended December 31, 2017, the Company entered into U.S. dollar forward contracts to buy U.S. dollars on a notional amount of US\$480.0 million at a weighted average rate of \$1.33 for US\$1.00 which settled on March 22, 2017 and on October 5, 2017. The overall value of the U.S. dollar forward contracts settlement was \$2.2 million loss during the year ended December 31, 2017.

**(iii) Equity price financial instruments**

During 2017, the Company had equity swaps of 1.5 million notional amount common shares at an average price of \$20.18 per share (2016 – \$20.33 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, 2017 the Company recognized an unrealized loss in the current period of \$1.2 million (2016 – unrealized gain of \$3.6 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, 2017 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets from financial instrument contracts</b>				
Commodity futures .....	\$ 384	\$ 384	\$ -	\$ -
Commodity swaps .....	4,808	-	4,808	-
Equity swaps.....	324	324	-	-
Foreign currency forwards .....	1,883	-	1,883	-
Total assets.....	<u>\$ 7,399</u>	<u>\$ 708</u>	<u>\$ 6,691</u>	<u>\$ -</u>
<b>Liabilities from financial instrument contracts</b>				
Commodity futures .....	\$ 6,257	\$ 6,257	\$ -	\$ -
Commodity swaps .....	2,214	-	2,214	-
Equity swaps.....	3,297	3,297	-	-
Total liabilities .....	<u>\$ 11,768</u>	<u>\$ 9,554</u>	<u>\$ 2,214</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, 2016 was:

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

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

	<b>Year ended December 31,</b>	
	<u>2017</u>	<u>2016</u>
Cost of sales gain (loss) .....	\$ 2,803	\$ (8,678)
General and administrative (loss) gain .....	(1,188)	3,605
	<b><u>\$ 1,615</u></b>	<b><u>\$ (5,073)</u></b>

**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,	
	2017	2016
<b>U.S. Dollar Forwards and Options</b>		
Favorable 5% change.....	\$ 3,419	\$ 1,796
Unfavorable 5% change.....	(3,419)	(1,998)

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, 2017, the Company has exposure to changes to market interest rates that relate to the \$230.2 million drawn on the Company's credit facility. A 5% increase or decrease in interest rates in relation to the amounts drawn at December 31, 2017 would impact net income by \$0.3 million, when annualized, and assuming a consistent balance over the duration of the year. 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.

#### 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,	
	2017	2016
<b>Crude oil and NGL related prices</b>		
Favorable 15% change.....	\$ 6,224	\$ 9,681
Unfavorable 15% change.....	(6,224)	(10,110)

#### 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, 2017 and 2016, approximately 2% and 2%, 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.

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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,	
	2017	2016
<b>Equity Swaps</b>		
Favorable 10% change.....	\$ 1,930	\$ 1,661
Unfavorable 10% change.....	(1,930)	(1,661)

#### 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 \$560.0 million and three bilateral demand letter of credit facilities totaling \$150.0 million. At December 31, 2017, \$230.2 million was drawn against the Revolving Credit Facility and the Company had outstanding issued letters of credit of \$68.9 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, 2017 and December 31, 2016, the Company was in compliance with these covenants.

Set out below is a maturity analyses of certain of the Company's financial contractual obligations as at December 31, 2017. 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).....	\$ 463,779	\$ -	\$ -	\$ 463,779
Dividend payable .....	47,257	-	-	47,257
Long-term debt .....	-	300,000	600,000	900,000
Credit facilities .....	-	230,180	-	230,180
Debentures (debt and equity component) .....	-	100,000	-	100,000
Interest on long-term debt and Debentures .....	52,875	196,439	49,875	299,189
Commodity futures.....	6,042	215	-	6,257
Commodity swaps.....	2,214	-	-	2,214
Equity swap.....	3,020	277	-	3,297
	<u>\$ 575,187</u>	<u>\$ 827,111</u>	<u>\$ 649,875</u>	<u>\$ 2,052,173</u>



**Gibson Energy Inc.**  
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(tabular amounts in thousands of Canadian dollars, except where noted)

**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.

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Total financial liability borrowings.....	\$ 1,118,119	\$ 1,271,839
Debentures (liability component) <sup>(1)</sup> .....	89,765	89,765
Less: cash and cash equivalents.....	<u>(32,138)</u>	<u>(60,159)</u>
Net debt .....	1,175,746	1,301,445
Total share capital (including Debentures – equity component) .....	<u>1,939,126</u>	<u>1,919,267</u>
Total capital .....	<u>\$ 3,114,872</u>	<u>\$ 3,220,712</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.

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.

**29 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:

2018 .....	\$ 62,598
2019 .....	48,280
2020 .....	28,860
2021 .....	18,351
2022 .....	11,450
2023 and later.....	<u>54,184</u>
	<u>\$ 223,723</u>

Expenses related to operating leases, net of sublease income, were \$66.8 million and \$69.2 million for the year ended December 31, 2017 and 2016, respectively.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

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

With respect to capital expenditures, at December 31, 2017, the Company had an estimated amount of \$175.9 million remaining to be spent that relates to projects approved at that date.

#### Contingencies

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.

#### 30 Subsequent Events

On March 5, 2018, the Company announced that the Board declared a quarterly dividend of \$0.33 per common share for the quarter ending March 31, 2018 on its outstanding common shares. The common share dividend is payable on April 17, 2018 to shareholders of record at the close of business on March 30, 2018.

Subsequent to the year end, the Company considers its U.S Environmental Services business to be held-for-sale. The sale involves all significant assets and related obligations associated with its U.S. Environmental Services operations, which will be considered a discontinued operation, when reported as held-for-sale. Significant terms of the sale have been negotiated subsequent to December 31, 2017 which included the structure of the transaction, and the buyer has substantially completed their due diligence review, such that a sale is now considered highly probable. The Company is targeting to complete the sale within first half of 2018. The assets and related liabilities of the U.S. Environmental Services business are included within the Company's Infrastructure, Logistics and Other reportable segment.

**Gibson Energy Inc.****Notes to Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)***31 Supplemental cash flow information**

	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flow from operating activities</b>		
Net loss from continuing operations .....	\$ (115,715)	\$ (178,167)
Adjustments for non-cash items:		
Finance costs, net .....	119,066	62,811
Income tax recovery .....	(66,168)	(56,450)
Depreciation and impairment of property, plant and equipment.....	192,302	175,346
Amortization and impairment of intangible assets .....	37,425	69,062
Impairment of goodwill .....	69,414	130,052
Stock based compensation .....	22,056	24,876
Gain on sale of property, plant and equipment .....	(6,243)	(4,983)
Other .....	(2,854)	(5,012)
Net (gain) loss on fair value movement of financial instruments.....	(1,615)	5,073
Subtotal of adjustments.....	363,383	400,775
Changes in items of working capital:		
Trade and other receivables .....	(64,547)	(90,595)
Inventories .....	(27,019)	(42,350)
Other current assets .....	(1,842)	(1,780)
Trade payables and accrued charges .....	53,062	99,260
Deferred revenue .....	(2,771)	2,974
Subtotal of changes in items of working capital.....	(43,117)	(32,491)
Income taxes received (paid), net .....	419	(14,635)
Cash provided by operating activities from continuing operations .....	\$ 204,970	\$ 175,482

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### Reconciliation of movements of financial liabilities to cash flows arising from financing activities

	Financial Liabilities			Derivatives (assets)/ liabilities	Equity			Total
	Long-term debt	Accounts payable and accrued charges	Dividend payable	Accounts receivable	Share capital and Contributed Surplus	Net Interest	Deficit	
<b>January 1, 2017</b> .....	\$ 1,271,839	\$ 468,834	\$ 46,772	\$ (428,248)	\$ 1,955,931	\$ -	\$ (1,107,075)	\$ 2,208,053
Payment of shareholder dividends .	-	-	485	-	-	-	(188,470)	(187,985)
Interest paid.....	-	-	-	-	-	(88,954)	-	(88,954)
Interest received.....	-	-	-	-	-	1,777	-	1,777
Proceeds from exercise of share options.....	-	-	-	-	2,822	-	-	2,822
Proceeds from long-term debt, net of debt discount and premium .....	590,196	256	-	-	-	-	-	590,452
Repayment of long-term debt, net of costs .....	(1,024,007)	-	-	-	-	-	-	(1,024,007)
Proceeds from credit facility .....	1,016,412	-	-	-	-	-	-	1,016,412
Repayment of credit facility .....	(786,232)	-	-	-	-	-	-	(786,232)
Net proceeds on settlement of derivative financial instruments ...	-	-	-	(2,218)	-	-	-	(2,218)
<b>Cash (used in) provided by financing activities from continuing operations</b> .....	<b>\$ (203,631)</b>	<b>\$ 256</b>	<b>\$ 485</b>	<b>\$ (2,218)</b>	<b>\$ 2,822</b>	<b>\$ (87,177)</b>	<b>\$ (188,470)</b>	<b>\$ (477,933)</b>
Effect of changes in foreign exchange rates.....	\$ (10,450)	\$ (6,849)	\$ -	\$ (92)	\$ -	\$ -	\$ -	\$ (17,391)
Changes in fair value .....	-	394	-	(2,009)	-	-	-	(1,615)
Interest Expense .....	1,287	(14,998)	-	(5)	-	-	-	(13,716)
Net (gain) loss on financial instruments .....	(2,218)	-	-	2,218	-	-	-	-
Debt extinguishment costs .....	60,492	-	-	-	-	-	-	60,492
Other changes.....	800	53,025	-	-	-	-	-	53,825
Equity-related changes .....	-	-	-	(64,547)	22,056	87,177	44,129	88,815
<b>December 31, 2017</b> .....	<b>\$ 1,118,119</b>	<b>\$ 500,662</b>	<b>\$ 47,257</b>	<b>\$ (494,901)</b>	<b>\$ 1,980,809</b>	<b>\$ -</b>	<b>\$ (1,251,416)</b>	<b>\$ 1,900,530</b>

# CORPORATE INFORMATION

## Head Office

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Calgary, AB Canada  
T2P 5E9

Phone: (403) 206-4000

Fax: (403) 206-4001

Website: [www.gibsonenergy.com](http://www.gibsonenergy.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

Mark Chyc-Cies

*Vice President, Investor Relations*

Phone: (403) 776-3146

Email: [investor.relations@gibsonenergy.com](mailto:investor.relations@gibsonenergy.com)

Media Inquiries

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## Management

Steve Spaulding

*President & Chief Executive Officer*

Sean Brown

*SVP & Chief Financial Officer*

Doug Wilkins

*SVP & President, US Operations*

Sean Wilson

*SVP & Chief Administrative Officer*

Rick Wise

*SVP & Chief Commercial Officer (Interim)*

Mike Lindsay

*SVP, Operations & Engineering*

## Directors

James M. Estey

*Chair of the Board*

Douglas P. Bloom

James J. Cleary

Marshall L. McRae

Mary Ellen Peters

Clayton H. Woitas

Steven R. Spaulding



**Gibson Energy Inc.**

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