



GIBSON ENERGY  
**2020 REPORT TO  
SHAREHOLDERS,  
MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS  
AND ANNUAL  
FINANCIAL  
STATEMENTS**

FOR THE YEAR ENDED  
DECEMBER 31, 2020

TSX:GEI



## IN THIS REPORT

Management's Discussion & Analysis

Consolidated Financial Statements



GIBSONENERGY.COM

A black and white photograph of an industrial facility, likely a refinery or chemical plant. The image shows a complex network of white pipes, valves, and metal structures. In the foreground, there are several large horizontal pipes with various valves and gauges. The background features a tall, dark metal framework with a series of white pipes running along it. The overall scene is industrial and technical.

GIBSON ENERGY  
**MANAGEMENT'S  
DISCUSSION &  
ANALYSIS**

2020 YEAR END REPORT

TSX:GEI



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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", "Gibson Energy" or the "Company") as of February 22, 2021 and should be read in conjunction with the audited consolidated financial statements and related notes of the Company for the years ended December 31, 2020 and 2019, 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 except per share data, unless otherwise noted. Additional information about Gibson, including the Annual Information Form for the year ended December 31, 2020 ("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 statements 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 Statements" and "Non-GAAP Financial Measures" included at the end of this MD&A.

## BUSINESS OVERVIEW

Gibson is a Canadian-based oil infrastructure company with its principal businesses consisting of the storage, optimization, processing, and gathering of crude oil and refined products. Headquartered in Calgary, Alberta, the Company's operations are focused around its core terminal assets located at Hardisty and Edmonton, Alberta, and also include a crude oil processing facility in Moose Jaw, Saskatchewan (the "Moose Jaw Facility") and an infrastructure position in the United States ("U.S.").

## SELECTED FINANCIAL INFORMATION

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
<b>Continuing operations</b>				
Segment profit .....	\$ 84,345	\$ 132,015	\$ 469,047	\$ 494,250
Adjusted EBITDA <sup>(1)</sup> .....	80,356	125,949	447,499	459,219
Cash flow from operating activities .....	44,940	105,670	459,551	362,155
Distributable cash flow <sup>(1)</sup> .....	54,096	75,810	298,888	301,539
Growth capital including equity investments <sup>(3)</sup> .....	\$ 60,807	\$ 46,703	\$ 308,944	\$ 229,081

	Last Twelve Months - As at December 31	
	2020	2019
<b>Debt and dividend payout ratios <sup>(1,2)</sup></b>		
Debt to capitalization ratio .....	46%	49%
Interest coverage ratio .....	8.6	6.7
Dividend payout ratio .....	66%	64%

	Years ended December 31		
	2020	2019	2018
Revenue .....	\$ 4,938,066	\$ 7,336,322	\$ 6,846,589
Net income .....	121,309	176,339	81,125
Basic income per share .....	0.83	1.21	0.57
Diluted income per share .....	0.82	1.19	0.56
Dividends declared .....	198,667	192,001	190,326
Dividends \$ per share .....	\$ 1.36	\$ 1.32	\$ 1.32

	As at December 31		
	2020	2019	2018
Total assets .....	\$ 3,067,160	\$ 2,976,690	\$ 2,809,576
Total non-current liabilities.....	1,856,236	1,626,916	1,461,685

1. Adjusted Earnings Before Interest, Tax, Depreciation and Amortization and other adjustments ("Adjusted EBITDA"), Distributable Cash Flow and Dividend Payout Ratio are non-GAAP measures as noted in the section titled "Non-GAAP Financial Measures". See definition and reconciliation of these non-GAAP measures to the closest GAAP measures in sections titled "Summary of Quarterly Results" and "Distributable Cash flows"

2. Dividend payout ratio is based on results from continuing operations

3. Growth capital expenditures include contributions to the equity accounted for investments

## 2020 REVIEW

### Financial highlights

- Segment profit for the Infrastructure segment of \$374.4 million increased by \$75.3 million, for the year ended December 31, 2020 compared to \$299.1 million, for the year ended December 31, 2019 primarily due to additional tankage brought into service in the fourth quarter of 2019 under take-or-pay, stable fee-based contracts, higher fees related to the expansion of the Moose Jaw Facility and a \$15.0 million future environmental remediation provision recorded in the second quarter of 2019.
- Segment profit for the Marketing segment of \$94.6 million decreased by \$100.5 million, for the year ended December 31, 2020 compared to \$195.1 million, for the year ended December 31, 2019. The decrease was driven by reduced margins and lower sales volumes for Refined Products as well as limited locational and quality based opportunities arising in 2020 for Crude Marketing, whereas 2019 benefited from a stronger market for Refined Products and higher earnings in the first quarter of 2019 as a result of the opportunities created by volatility in crude differentials.
- Segment profit from continuing operations of \$469.0 million decreased by \$25.3 million, for the year ended December 31, 2020 compared to \$494.3 million, for the year ended December 31, 2019. The decrease was primarily driven by a lower contribution from the Marketing segment partly offset by stronger performance from the Infrastructure segment as noted above.
- Adjusted EBITDA from continuing operations of \$447.5 million decreased by \$11.7 million, for the year ended December 31, 2020 compared to \$459.2 million, for the year ended December 31, 2019 primarily due to lower segment profit as discussed above, lower general and administrative expenses in the comparative period primarily due to the recognition of a \$10.8 million credit related to the amendment of the Company's retirement benefits plan and the impact of net unrealized losses from financial instruments recorded in the current year compared to net unrealized gains from financial instruments recorded in the prior year.
- Distributable cash flow from continued operations of \$298.9 million decreased by \$2.6 million for the year ended December 31, 2020 compared to \$301.5 million, for the year ended December 31, 2019 resulting in a payout ratio of approximately 66% for the year ended December 31, 2020.
- Net income from continuing operations of \$121.3 million decreased by \$55.0 million, for the year ended December 31, 2020 compared to a net income of \$176.3 million, for the year ended December 31, 2019.
- The Company declared quarterly dividends totaling \$1.36 per common share for the year ended December 31, 2020 compared to \$1.32 per common share for the year ended December 31, 2019. Total dividends declared for the year ended December 31, 2020 were \$198.7 million, and \$192.0 million for the year ended December 31, 2019.

### Capital projects highlights

- During the year ended December 31, 2020, the Company incurred total growth capital expenditures of \$308.9 million on construction of new tanks and related infrastructure at the Hardisty and Edmonton Terminals, the Company's contribution to the diluent recovery unit project ("DRU") and the construction of gathering and related infrastructure in the U.S.
- During the first quarter of 2020, the Company along with US Development Group, LLC (through a wholly-owned affiliate, collectively, "USD") jointly announced the receipt of all required regulatory approvals from the Government of Alberta to proceed with the construction of the DRU. Additionally, the Company and USD finalized all required commercial agreements with ConocoPhillips Canada to fully underpin and sanction the construction of the initial phase of the DRU at 50,000 barrels per day of inlet bitumen capacity under a long-term, take-or-pay agreement. Construction of the DRU commenced on April 1, 2020.
- The Company continued to progress the fourth phase of development at the Hardisty Top of the Hill expansion ("Top of the Hill"). The fourth phase consisted of three tanks, representing 1.5 million barrels of storage, and was placed into service in December 2020, increasing our tankage in service at the Hardisty Terminal by 12.5% to approximately 13.5 million barrels.
- On December 7, 2020, the Company announced the approval of the 2021 growth capital expenditure budget of up to \$200 million with an additional allocation of between \$25 million and \$30 million in replacement capital expenditures. Approximately two-thirds of 2021 growth capital is currently sanctioned, or with a strong line of sight thereto, with at least

half of 2021 growth capital expenditures towards projects that are beneficial on an Environmental, Social, Governance (“ESG”) and Sustainability basis, whether directly to the Company or in the infrastructure built on behalf of the our customers.

#### Capital structure

- On February 14, 2020, the Company amended its Revolving Credit Facility to increase the capacity from \$560.0 million to \$750.0 million and, amongst other amendments, extended the maturity date from March 2024 to February 2025.
- On July 14, 2020, the Company issued \$650.0 million of Senior Unsecured Medium Term Notes consisting of \$325.0 million of 2.45% notes with a maturity date of July 14, 2025 (“2025 Notes”) and \$325.0 million of 2.85% notes with a maturity date of July 14, 2027 (“2027 Notes”).
- On July 22, 2020, the Company redeemed all of its outstanding \$600.0 million Senior Unsecured Notes due July 15, 2024 carrying a coupon rate of 5.25%, (“2024 Notes”) at a redemption price of \$1,039.38 per \$1,000 principal amount plus accrued and unpaid interest of \$1.02 per \$1,000 principal amount.
- On August 27, 2020, the Company announced the initiation of a Normal Course Issuer Bid (“NCIB”) enabling the Company to purchase and cancel up to 10%, or approximately 11.8 million, outstanding common shares of the Company through August 31, 2021. For the year ended December 31, 2020, the Company purchased for cancellation 0.9 million common shares at an average price of \$21.42 per common share for total consideration of \$18.6 million.
- On December 22, 2020, the Company issued \$250 million Unsecured Hybrid Term Notes (“2080 Hybrid Notes”). The 2080 Hybrid Notes have an initial coupon rate of 5.25% per annum, payable, semi-annually, and matures on December 22, 2080.
- On December 23, 2020, the Company redeemed all of its outstanding Convertible Debentures (“Debentures”) at a redemption price of \$1,000 per \$1,000 principal amount plus accrued and unpaid interest of \$23.16 per \$1,000 principal amount. The outstanding Debentures were redeemed for an aggregate of approximately \$96.4 million, paid in cash. Approximately \$3.5 million of the principal amount of Debentures were converted to common shares prior to the redemption date.

#### Credit Ratings

- On April 29, 2020, DBRS Limited (“DBRS Morningstar”) confirmed the Company’s Issuer Rating of “BBB (low)” with a “Stable” trend.
- On July 23, 2020, S&P maintained its long-term issuer credit rating and senior unsecured debt ratings on the Company of “BBB-” with a “Stable” outlook.

#### COVID-19

- Since March 2020, the coronavirus (“COVID-19”) global health pandemic has significantly impacted the global economy including demand for hydrocarbon products. This demand destruction continues to have a significant impact on global energy markets and has resulted in a significant volatility in crude based commodity prices. Overall, economic activity and refined product demand has not recovered to pre-pandemic levels and the path to an eventual recovery remains uncertain given successive waves of COVID-19 or strain variants in some regions are prompting lockdowns and other restrictions on certain activities.
- As noted in our Q1 2020 MD&A, the Company activated a business continuity plan and enacted its emergency response plan to provide centralized, cross-functional, strategic direction as the safety of its people, customers and assets are a priority. Specifically, Gibson continues to prioritize the health and safety of its workforce, including enabling employees to work remotely from home pursuant to the Company’s business continuity plan. For employees at the Company’s facilities, Gibson continues to operate under stringent safety and hygiene protocols to both protect employees and ensure uninterrupted delivery of critical services to continue to meet the needs of customers and other stakeholders. Gibson believes that the organization has remained effective operating the business from a remote work environment, and as a result, will be cautious regarding its re-entry plans back into its business offices.
- Please also refer to “Risk Factors” section in the MD&A for a further discussion of the risk associated with COVID-19 pandemic on Gibson’s business.

## SUBSEQUENT EVENTS

### Dividend

- On February 22, 2021, the Company announced that the Board declared a quarterly dividend on its outstanding common shares of \$0.35 per common share, an increase of \$0.01 per common share, for the first quarter of 2021. The common share dividend is payable on April 16, 2021 to shareholders of record at the close of business on March 31, 2021.

## PROJECT DEVELOPMENTS AND MARKET OUTLOOK

### Major growth projects

The Company continued to progress several major growth projects within its Infrastructure segment, including placing into service three tanks, or 1.5 million barrels of storage, and advancing the DRU. The following represents key activities with respect to major growth projects during 2020:

#### Tankage growth projects:

- The Company progressed the fourth phase of development at the Top of the Hill during the year placing it into service in the fourth quarter of 2020. The fourth phase consisted of three tanks, representing 1.5 million barrels of storage.
- Gibson currently has approximately 13.5 million barrels of storage capacity at its Hardisty Terminal, with the three additional tanks representing an approximately 12.5% expansion of the terminal.

#### DRU:

- During the first quarter of 2020, the Company, along with USD, jointly announced the receipt of all required regulatory approvals from the Government of Alberta to proceed with the construction of the DRU.
- Also during the first quarter of 2020, Gibson and USD finalized all required commercial agreements with ConocoPhillips Canada to fully underpin and sanction the construction of the initial phase of the DRU at 50,000 barrels per day of inlet bitumen capacity under a long-term, take-or-pay agreement.
- The Company commenced construction on the DRU on April 1, 2020 with an expected mid-year 2021 in service date. The cost of construction is currently tracking to expectations.

#### Other growth projects:

- The Company continued to advance several infrastructure projects in the U.S., including the completion of the Gibson Wink Terminal, connections to adjacent terminals and pipelines as well as extending the reach of its gathering pipeline network.

In addition to the sanctioned major growth projects currently under construction and discussed above, the Company continues to engage in numerous commercial discussions for additional infrastructure at both its Hardisty and Edmonton Terminals and around its Permian position in the U.S. The ability to reach long-term commercial agreements on these opportunities remains challenging in the current environment, as customers continue to evaluate and respond to the impacts of COVID-19 as well as greater focus within the upstream industry on capital discipline.



## Market outlook

Gibson regularly evaluates its long-range strategic plan in order to assess the implications of emerging macroeconomic, societal, political and industry trends, and how these trends have the potential to affect Gibson's business and prospects over the short-term (generally less than two years) and the medium to long-term (generally two to five years and beyond, respectively).

### *COVID-19*

In the short-term, the effects from COVID-19 have had a profound impact on the global economy. Specific to the energy industry, COVID-19 has resulted in a significant decrease in demand for refined products which has resulted in a substantial decrease in crude oil prices as the current global supply of crude oil meaningfully exceeds crude oil consumption. While there has been a partial recovery in certain refined product demand and crude oil prices, the timing of a more fulsome recovery remains highly uncertain notwithstanding vaccination programs now underway.

This current environment has resulted in upstream customers facing a decrease in the profitability of their operations, driving a reduction of planned capital expenditures and shutting in of certain higher-cost production volumes. Gibson's refining customers continue to face compressed margins, and many have, at times, reduced refinery runs.

Accordingly, the Company anticipates that the persistence of these factors has the potential to drive a decrease in volume throughput through the Company's pipelines, a decrease in margins and demand for refined products from the Moose Jaw Facility, a decrease in certain opportunities within the Crude Marketing business and a potentially negative impact on the advancement of commercial opportunities for the Infrastructure segment. At the same time, very short-term price fluctuations between crude oil types as well as differences in crude pricing between various markets and time periods often creates incremental margin opportunities in multiple areas of the Company's operations. Crude price differentials remain volatile and the Company remains attentive to potential opportunities.

### *Availability of Egress*

The Company continues to believe that its existing storage will remain vital to facilitating the flow of crude oil out of the Western Canadian Sedimentary Basin ("WCSB") and towards refining markets under reasonable planning horizons and egress availability scenarios, with several factors that may lead customers to secure additional storage with Gibson, including the Government of Canada's Trans Mountain Pipeline Expansion ("TMX") entering service, the ability to access value added services within Gibson's terminals, the importance of storage during periods of limited egress such as during pipeline upsets or to facilitate the transportation of crude oil by rail. To the extent that egress is not viewed as constrained by market participants, it will decrease demand for crude by rail capacity at the Hardisty Unit Rail Facility ("HURC Facility"). In instances where egress out of the WCSB is constrained, differentials typically widen, which improves margins at the Moose Jaw Facility, and, in conjunction with increased price volatility, typically provides increased opportunities within the Crude Marketing business.

There are a number of factors that affect customers' views of market access over the short, medium and long-term, particularly in the WCSB. These views impact customers' capital expenditure programs and market access strategies, which creates a meaningful portion of opportunities at the Hardisty and Edmonton Terminals:

- With TC Energy's Keystone XL Pipeline's presidential permit being revoked, committed shippers to that project may choose to assess alternative committed egress solutions, which could increase demand for DRU capacity.
- The Enbridge Mainline contracting process is currently under review by the Canadian Energy Regulator. To the extent it proceeds in a form largely similar to the current proposal, it is anticipated that many shippers would seek to secure firm capacity, thereby reducing egress available on an uncommitted basis.
- The Enbridge Line 3 Replacement Project ("L3R") is expected to enter in-service in the fourth quarter of 2021. The Company expects increased demand for crude by rail capacity at the HURC Facility until the L3R has been placed in service, at which point, demand for crude by rail capacity out of the WCSB is expected to decrease.
- The construction of TMX continues to proceed, with indications from its proponent that it could be in service by the end of 2022. As noted above, TMX entering service is expected to result in increased tankage demand at the Company's Edmonton Terminal.
- At the same time, numerous smaller scale egress options, including increasing throughput on existing pipelines and utilization of existing rail capacity, continue to remain available to increase takeaway capacity in the WCSB albeit in smaller increments than the larger pipeline projects mentioned above

- Over the medium- to long-term, visibility to egress provided by the completion of L3R, TMX and smaller scale egress options could encourage additional oil sands development. To the extent that additional egress is available, it could lead to additional development of upstream projects which would drive further demand for tankage at the Company's Hardisty and Edmonton Terminals as well as for the Company's existing and potential new gathering pipelines.

#### *Upstream Customers*

Some upstream companies and their investors have spoken to a preference towards business models with a lower focus on production growth, reduced leverage as well as a preference for industry consolidation. While potentially only a short-term sentiment, to the extent to which these preferences continue to drive the behavior of some of the Company's upstream customers, these trends are likely to have the impact of strengthening the financial position and credit quality of some of the Company's counterparties, though these factors likely diminish the pace of production growth and thereby could potentially impact the number of growth opportunities available to the Infrastructure segment.

#### *Energy Transition and Sustainability*

Gibson acknowledges the energy transition that is underway and will continue to unfold as the world shifts towards a lower carbon economy with the understanding that the pace and magnitude of this energy transition remains uncertain and may vary between jurisdictions.

In the short- to medium-term, as Gibson's customers continue to respond to the energy transition, this is expected to provide a new suite of growth opportunities to the Infrastructure segment. At the same time, this could potentially result in increased costs for the energy industry, stemming from, among other things, carbon taxes, emissions limits, additional regulation and decreased growth in end-user demand for hydrocarbons. At its extreme, this has also resulted in certain investors and service providers, to varying degrees, electing to no longer invest in or do business with, respectively, companies involved in some or all parts of the hydrocarbon value chain, potentially resulting in increased costs, and reduced availability, of capital and certain services.

Over the long-term, energy transition is expected to reduce the proportion of hydrocarbons as a share of the global energy mix, as well as eventually drive decreases in absolute demand of certain commodities including crude oil, though there are a very wide range of estimates and possible outcomes. While the Company believes that its core operating basins are well positioned to remain competitive relative to the global supply alternatives through the energy transition over the long-term, there remains the potential for reinvestment by upstream customers into these basins to slow, which could reduce demand for the Company's infrastructure and services as well as could potentially impact the number of growth opportunities available to the Infrastructure segment.

Over the past few years, there has also been an increasing importance among investors, as well as society as a whole, for companies to consider a broader range of stakeholders as part of their decision making framework and to adhere to the principles of ESG. The Company believes that given its strong existing ESG profile and significant efforts to continue to advance its sustainability practices and profile, this could be an opportunity for the Company to differentiate itself to ESG-focused investors and customers, potentially improving the Company's access to capital and improving the Infrastructure segment's ability to further differentiate its offering to customers, as well as improve the Company's ability to attract and retain a highly-skilled workforce.

For more information about the Company's approach to ESG please refer to our annual Sustainability Report available on our website at [www.gibsonenergy.com/our-sustainability-esg-approach/](http://www.gibsonenergy.com/our-sustainability-esg-approach/) .

## 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 charges) 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 such as income taxes, interest and general and administrative expenses, as senior management looks at each period's earnings before corporate expenses and non-cash items, 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, 2020 and 2019 and the following table sets forth revenue and profit by segment for those periods:

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
<b>Segment revenue</b>				
Infrastructure .....	\$ 116,214	\$ 112,217	\$ 465,320	\$ 413,441
Marketing.....	1,262,729	1,672,341	4,665,425	7,455,237
Total segment revenue .....	1,378,943	1,784,558	5,130,745	7,868,678
Revenue – inter-segmental.....	(58,254)	(117,998)	(192,679)	(532,356)
Total revenue – external .....	1,320,689	1,666,560	4,938,066	7,336,322
<b>Segment profit (loss)</b>				
Infrastructure .....	93,239	85,677	374,424	299,140
Marketing.....	(8,894)	46,338	94,623	195,110
Total segment profit .....	84,345	132,015	469,047	494,250
General and administrative.....	7,836	11,598	33,081	30,166
Depreciation and impairment.....	33,477	42,919	124,057	121,731
Right-of-use asset depreciation .....	9,257	10,404	37,962	40,527
Amortization and impairment.....	1,832	3,389	7,403	12,836
Stock based compensation .....	5,726	5,021	21,144	14,562
Debt extinguishment costs.....	2,001	-	31,833	6,057
Gain on net assets held for sale .....	-	(2,246)	-	(4,990)
Foreign exchange loss (gain) .....	1,034	1,496	(1,698)	3,961
Net interest expense.....	13,691	17,667	64,587	72,488
Income before income tax .....	9,491	41,767	150,678	196,912
Income tax (recovery) expense.....	(2,951)	4,323	29,369	20,573
Net income from continuing operations.....	\$ 12,442	\$ 37,444	\$ 121,309	\$ 176,339

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 and connections and plant and equipment) caused by use, aging and wear and tear. Repair and maintenance expenditures that do not extend the useful life, improve the efficiency or expand the operating capacity of the Company's capital assets are charged to operating expense as incurred.

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

## INFRASTRUCTURE

The Infrastructure segment is comprised of a network of oil infrastructure assets that include oil terminals, rail loading and unloading facilities, gathering pipelines, a crude oil processing facility and other small terminals. The primary facilities within this segment include the Hardisty and Edmonton Terminals, which are the principal hubs for aggregating and exporting oil and refined products out of the WCSB; gathering pipelines which are connected to the Hardisty Terminal; an infrastructure position located in the U.S.; and a crude oil processing facility in Moose Jaw, Saskatchewan. The Moose Jaw Facility is impacted by maintenance turnarounds typically occurring within the spring period.

The following tables set forth the operating results from the Company's Infrastructure segment for the for the three months and years ended December 31, 2020 and 2019:

Volumes (barrels in thousands)	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
<b>Terminals and facilities</b>				
Hardisty Terminal.....	91,832	107,592	345,702	375,680
Edmonton Terminal .....	12,729	11,729	48,928	47,432
Moose Jaw Facility .....	1,822	1,941	6,117	6,146
Pipelines .....	2,450	1,401	7,680	7,318
Total terminals and facilities .....	108,833	122,663	408,427	436,576
	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
<b>Revenue</b>				
Hardisty Terminal .....	\$ 75,241	\$ 69,763	\$ 297,441	\$ 249,163
Edmonton Terminal.....	19,072	18,237	74,726	70,667
Moose Jaw Facility.....	12,030	12,029	48,117	43,748
Pipelines .....	9,871	12,188	45,036	49,863
Revenue .....	116,214	112,217	465,320	413,441
Operating expenses and other.....	22,975	26,540	90,896	114,301
Segment profit .....	\$ 93,239	\$ 85,677	\$ 374,424	\$ 299,140

### Operational performance

In the three months and year ended December 31, 2020 compared to the three months and year ended December 31, 2019:

Hardisty Terminal volumes decreased 15% and 8%, respectively. The decrease in both comparative periods was predominantly driven by reduced production as a result of depressed market pricing and reduced volumes at the HURC Facility. Volumes at the Hardisty Terminal were also impacted during 2020 by an outage at one of our customer's upstream facilities and lower throughput volumes from certain customers that have dedicated tankage at the facility, partly offset by the full year availability of four tanks, representing 2.0 million barrels of additional storage capacity, that were brought into service in late 2019 and the partial contribution from the commissioning of three new tanks, representing 1.5 million barrels of additional storage capacity during the fourth quarter of 2020.

Edmonton Terminal volumes increased 9% and 3%, respectively. The increase in both comparative periods was mainly due to increased throughput from certain customers more fully utilizing their existing tankage capacity.

Moose Jaw Facility volumes decreased 6% and were relatively flat, respectively. The decrease in the three month period was primarily due to an unplanned outage in the month of December 2020.

Pipelines volumes increased 75% and 5%, respectively. The increase in the three month period relates primarily to additional volume within U.S. Pipelines relating to usage of infrastructure to benefit from market opportunities in the current period. Year over year volumes were relatively flat due to the opportunities in the three month period as noted above, as well as higher volumes from U.S. pipelines as additional production was tied into the Gibson Wink Terminal, offset by meaningfully lower volumes from Canadian pipelines and injection stations.

## Financial performance

In the three months and year ended December 31, 2020 compared to the three months and year ended December 31, 2019:

Revenue at the Hardisty Terminal increased by \$5.5 million and \$48.3 million, respectively. The increase in both comparative periods was largely driven by the full year contribution of 2.0 million barrels of additional tankage being placed into service in the fourth quarter of 2019 and the expansion of the HURC Facility placed into service in the third quarter of 2019, both underpinned by long-term take-or-pay contracts.

Revenue at the Edmonton Terminal increased by \$0.8 million and \$4.1 million, respectively. The increase in both comparative periods was related to incremental throughput volumes and fees earned from certain customers.

Revenue at the Moose Jaw Facility remained relatively flat quarter over quarter, while annual revenue increased by \$4.4 million. The year over year increase is entirely due to the increase in the inter-segment fee charged by the Marketing segment to the Infrastructure segment for use of the Moose Jaw Facility, reflective of the increased throughput capacity as noted above.

Pipelines revenues decreased by \$2.3 million and \$4.8 million, respectively. The decrease was mainly due to lower revenues within Canadian pipelines offset by higher revenue at the U.S. pipelines due to the change in volumes as mentioned above.

Segment profit increased by \$7.6 million and \$75.3 million, respectively. The increase in the three month comparative period was primarily due to higher revenues from the Hardisty and Edmonton Terminals and lower operating expenses. The year over year comparative period increase was primarily related to higher revenue from the Hardisty and Edmonton Terminals, higher revenues from the Moose Jaw Facility and lower operating expenses. Prior year operating expenses were also impacted by the \$15.0 million environmental remediation provision recorded in the second quarter of 2019 for costs related to future periods.

## Capital expenditures and equity investments

Below is the summary of Infrastructure capital expenditures for the years ended December 31, 2020 and 2019:

	Years ended December 31	
	2020	2019
Growth capital and equity investments .....	\$ 296,047	\$ 228,629
Replacement capital .....	19,560	18,269
Acquisition .....	-	21,292

The increase in growth capital expenditures and equity investments for the year ended December 31, 2020 compared to the year ended December 31, 2019 was primarily due to the capital contributions made by the Company for the construction of the DRU, increased spending on gathering pipelines and infrastructure construction in the U.S., offset by reduced spending on tankage at our Hardisty and Edmonton Terminals given the construction of three tanks in 2020, as compared to four in 2019. During the current year, the Company made capital contributions of \$120.7 million for funding the construction of the DRU.

Replacement capital increased slightly over the comparative period primarily due to additional costs required at the Moose Jaw Facility to replace a feeder line as well as from an extended turnaround in 2020.

The prior year acquisition comprised of a purchase of a joint venture interest in a crude-by-rail, storage terminal and a pipeline connection to a common carrier crude oil pipeline in Joliet, Illinois.

## MARKETING

The Marketing segment involves the purchasing, selling, storing and optimizing of hydrocarbon products as part of supplying the Moose Jaw Facility and marketing its refined products as well as helping to drive volumes through the Company's key infrastructure assets. The Marketing segment also engages in optimization opportunities which are typically location, quality and time-based. The hydrocarbon products include crude oil, natural gas liquids, road asphalt, roofing flux, frac oils, light and heavy straight run distillates and an oil-based mud product. The Marketing segment sources the majority of its hydrocarbon products from Western Canada as well as the Permian basin and markets those products throughout Canada and the U.S.

The Marketing 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. For more information about the risks associated with our use of financial instruments please refer to "Quantitative and Qualitative Disclosures about Market Risks" and "Risk Factors" sections in the MD&A.

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 natural gas liquids ("NGL") is also highest in the colder months of the year.

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Western Texas Intermediate ("WTI") average price (\$USD/bbl) .....	\$ 42.66	\$ 56.96	\$ 39.40	\$ 57.03
Western Canadian Select ("WCS") average differential (\$USD/bbl) ..	9.30	15.83	12.60	12.76
Average foreign exchange rates (\$CAD/\$USD) .....	1.30	1.32	1.34	1.33

The following tables set forth operating results from the Company's Marketing segment for the three months and years ended December 31, 2020 and 2019:

Volumes (barrels in thousands)	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Crude, refined and other products .....	40,892	36,118	159,748	146,018

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
<b>Revenue</b>				
Revenue .....	\$ 1,262,729	\$ 1,672,341	\$ 4,665,425	\$ 7,455,237
Cost of sales .....	1,268,493	1,614,643	4,539,027	7,208,288
Operating expenses and other .....	3,130	11,360	31,775	51,839
Segment (loss) profit .....	\$ (8,894)	\$ 46,338	\$ 94,623	\$ 195,110

### Operational performance

In the three months and year ended December 31, 2020 compared to the three months and year ended December 31, 2019:

Sales volumes for crude, refined, and other products increased by 13% and 9%, respectively. The increase in both comparable periods was mainly due to greater activity facilitated by higher available storage at the Company's infrastructure assets, and an increase in U.S. volumes attributable to the activity from the U.S. Marketing business, partially offset by lower refined product volumes which was driven by the deterioration in market conditions reducing demand for these products.

### Financial performance

In the three months and year ended December 31, 2020 compared to the three months and year ended December 31, 2019:

Revenue for crude, refined, and other products decreased by 24% and 37%, respectively. The decrease in the both comparative periods was largely due to lower average prices for crude, refined and other products, partially offset by higher volumes as noted above.

Segment profit decreased 119% and 52%, respectively. The decrease in both comparative periods was driven by reduced margins and lower sales volumes for Refined Products as well as limited locational and quality based opportunities arising in 2020 for Crude Marketing, whereas 2019 benefited from a stronger market for Refined Products and higher earnings in the first quarter of 2019 as a result of the opportunities created by volatility in crude differentials.

## EXPENSES

### General and administrative, excluding depreciation and amortization

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
General and administrative.....	\$ 7,836	\$ 11,598	\$ 33,081	\$ 30,166

The quarter over quarter decrease was primarily due to the recognition of higher legal and other costs related to a post-closing indemnification adjustment from a previous divestiture in the comparative period. The year over year increase was primarily due to the recognition of a credit for \$10.8 million related to the amendment of the Company's retirement benefits plan during 2019, impact of higher legal and other costs related to a post-closing indemnification adjustment from a previous divestiture in the prior year, offset by lower consulting and travel costs during the current year.

### Depreciation and impairment

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Depreciation and impairment .....	\$ 33,477	\$ 42,919	\$ 124,057	\$ 121,731

The quarter over quarter decrease was primarily due to the impact of an impairment recorded in the fourth quarter of 2019 for assets held for sale, partially offset by new assets commissioned throughout 2020. The year over year period is fairly consistent, with the aforementioned impairment and newly commissioned assets largely offsetting each other.

### Right-of-use asset depreciation

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Right-of-use depreciation .....	\$ 9,257	\$ 10,404	\$ 37,962	\$ 40,527

In both the quarterly and annual comparative periods, right of use asset depreciation has decreased due to a reduction in rail car leases.

### Amortization and impairment

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Amortization and impairment.....	\$ 1,832	\$ 3,389	\$ 7,403	\$ 12,836

The quarter over quarter and year over year reductions are primarily driven by certain intangible assets becoming fully amortized, partially offset by the impact of intangible assets added largely relating to investments in new software and other technology.

### Stock based compensation

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Stock based compensation .....	\$ 5,726	\$ 5,021	\$ 21,144	\$ 14,562

The quarter over quarter increase was due to accelerated vesting of rewards relating to terminations in the quarter., with the year over year increase primarily due to the settlement of equity swaps in 2019 resulting in a mark to market gain of \$6.5 million.

### Foreign exchange loss/(gain) not affecting segment profit

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Foreign exchange loss/(gain) .....	\$ 1,034	\$ 1,496	\$ (1,698)	\$ 3,961

During the quarter and year ended December 31, 2020, results were driven by the net movements in exchange rates on the translation of certain working capital items denominated in U.S. dollars.

### Debt extinguishment costs

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Debt extinguishment costs .....	\$ 2,001	\$ -	\$ 31,833	\$ 6,057

The quarter over quarter increase relates to the unamortized costs written off upon repayment of the Debentures in the current period. The year over year increase primarily relates to the early redemption premium paid on the retirement of the 2024 Notes during the current year.

### Net interest expense

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Net interest expense .....	\$ 13,691	\$ 17,667	\$ 64,587	\$ 72,488

Net interest expense decreased in both the quarter over quarter and year over year periods, primarily due to lower interest rates on long-term debt due to refinancing activities as discussed in the "Capital structure" section of this MD&A.

### Income taxes

	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Current income tax expense (recovery) .....	\$ (5,354)	\$ 5,737	\$ 20,279	\$ 17,882
Deferred income tax expense (recovery) .....	2,403	(1,414)	9,090	2,691
Total tax expense (recovery) .....	\$ (2,951)	\$ 4,323	\$ 29,369	\$ 20,573

The Company recorded an income tax recovery of \$3.0 million and income tax expense of \$29.4 million for the three months and year ended December 31, 2020, compared to income tax expense of \$4.3 million and \$20.6 million for the three months and year ended December 31, 2019. The effective tax rate was negative 31.1% and 19.5% during the three months and year ended December 31, 2020 and was 10.4% and 10.5% during the three months and year ended December 31, 2019, respectively.

The effective tax rate was lower during the three months ended December 31, 2020 compared to the same period in the prior year due to tax recoveries booked for a tax rate adjustment related to the Alberta Job Creation Tax Cut. The effective tax rate for the year ended December 31, 2020 was higher than the prior year due to the recognition of a cumulative tax recovery related to the change in tax treatment of an equity benefit in 2019. In addition, a deferred income tax recovery was recognized in the prior year on the remeasurement of temporary differences for the decrease in the Alberta corporate income tax rate from 12% to 8%.



## SUMMARY OF QUARTERLY RESULTS

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

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Continuing operations</b>								
Revenue .....	\$1,320,689	\$1,364,213	\$794,474	\$1,458,690	\$1,666,560	\$1,993,440	\$1,927,634	\$1,748,688
Net income .....	12,442	17,550	41,314	50,003	37,444	45,525	34,693	58,677
Adjusted EBITDA .....	80,356	95,677	142,769	128,697	125,949	121,232	93,555	118,483
Earnings per share								
Basic .....	\$ 0.09	\$ 0.12	\$ 0.28	\$ 0.34	\$ 0.25	\$ 0.31	\$ 0.24	\$ 0.41
Diluted .....	\$ 0.08	\$ 0.11	\$ 0.28	\$ 0.34	\$ 0.25	\$ 0.30	\$ 0.24	\$ 0.40
<b>Discontinued operations</b>								
Revenue .....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,733	\$ 44,693
Net (loss) income.....	-	-	-	-	(1,948)	2,794	2,094	3,622
Adjusted EBITDA .....	-	-	-	-	-	-	3,035	5,062
Earnings (loss) per share								
Basic .....	\$ -	\$ -	\$ -	\$ -	\$ (0.01)	\$ 0.02	\$ 0.01	\$ 0.02
Diluted .....	\$ -	\$ -	\$ -	\$ -	\$ (0.01)	\$ 0.02	\$ 0.01	\$ 0.02

Adjusted EBITDA for continuing and discontinued operations is 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 because it believes such measure is frequently used by securities analysts, investors and other interested parties as measures of financial performance. Adjusted EBITDA, as presented herein, is not a recognized measure 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, gains and losses on the sale of businesses, stock based compensation expense, impairment of long-term assets, unrealized gains and losses on foreign exchange movements and asset write-downs. It also removes the impact of debt extinguishment expenses and other adjustments that are considered unusual, non-recurring or non-operating in nature. The Company's calculation of Adjusted EBITDA may not be comparable to such calculations used by other companies. In addition, in evaluating Adjusted EBITDA, readers should be aware that in the future the Company may incur expenses similar to those eliminated in the presentation herein.

The Company presents 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. Adjusted EBITDA has limitations as an analytical tool, and readers should not consider this item in isolation, or as substitute for an analysis of the Company's results as reported under IFRS. Some of these limitations are:

- Adjusted EBITDA:
  - excludes 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;

- does not reflect the significant interest expense, or the cash requirements necessary to service interest payments on the Company's long-term debt and lease liabilities; and
- excludes gains and losses recorded on the sale of businesses.
- 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 Adjusted EBITDA differently than the Company does, limiting its usefulness as a comparative measure.

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

The following tables reconciles segment profit to Adjusted EBITDA for continuing operations for each of the last eight quarters and for the twelve months ended December 31, 2020 and 2019:

	Three months ended				Twelve months ended
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2020
<b>Continuing operations</b>					
Segment profit .....	\$ 84,345	\$ 116,704	\$ 133,887	\$ 134,111	\$ 469,047
Interest income .....	5	45	22	145	217
Foreign exchange (loss) gain – corporate .....	(1,034)	(2,531)	(2,363)	7,626	1,698
General and administrative .....	(7,834)	(7,947)	(8,377)	(8,923)	(33,081)
Net unrealized (gain) loss from financial instruments <sup>(1)</sup> .....	4,874	(10,594)	19,600	(4,262)	9,618
Adjusted EBITDA .....	\$ 80,356	\$ 95,677	\$ 142,769	\$ 128,697	\$ 447,499

	Three months ended				Twelve months ended
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2019
<b>Continuing operations</b>					
Segment profit .....	\$ 132,015	\$ 131,217	\$ 95,244	\$ 135,774	\$ 494,250
Interest income .....	714	695	37	312	1,758
Foreign exchange (loss) gain – corporate .....	(1,496)	(1,086)	1,763	(3,142)	(3,961)
General and administrative .....	(11,598)	2,652	(10,189)	(11,031)	(30,166)
Net unrealized (gain) loss from financial instruments <sup>(1)</sup> .....	6,314	(12,246)	6,700	(3,430)	(2,662)
Adjusted EBITDA .....	\$ 125,949	\$ 121,232	\$ 93,555	\$ 118,483	\$ 459,219

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

The results of Adjusted EBITDA are driven primarily by segment profit for the respective reportable segments as well as the adjustments discussed in the tables above. 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, with the completion of construction of 1.5 million barrels fully in service in the fourth quarter of 2020, a full year of contribution of 2.0 million barrels of additional tankage placed into service in the fourth quarter of 2019 and the expansion of the HURC Facility placed into service in the third quarter of 2019, all underpinned by long-term take-or-pay contracts. This increase in capacity was primarily driven by the sustained demand for crude terminalling and storage services at its current Hardisty and Edmonton Terminals which supported the increase in segment profits.

Marketing – The Marketing segment earns margins by purchasing, selling, storing and optimizing of hydrocarbon products as part of supplying the Moose Jaw Facility and marketing its refined products as well as helping to drive volumes through the Company’s key infrastructure assets. The Marketing segment also engages in optimization opportunities which are typically location, quality and time-based. The hydrocarbon products include crude oil, natural gas liquids, road asphalt, roofing flux, frac oils, light and heavy straight run distillates and an oil-based mud product. Accordingly, this segment has been impacted by commodity price fluctuations in the pricing differentials between different geographic markets and product grades, most notably related to crude oil and NGLs. Additionally, the market impacts from the COVID-19 pandemic have created further volatility and fluctuations in overall volumes, prices and differentials. These fluctuations have been, and continue to be, 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.

Discontinued operations – The results for discontinued operations include results from the Truck Transportation Canada business. The Truck Transportation Canada business earned margins by providing transportation and related services which included providing hauling services for crude, condensate, sulphur, waste water and drilling fluids. Accordingly, results have been impacted by the reduction and volatility in crude oil and other related commodity prices.

## **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, the Revolving Credit Facility, and debt and equity financings.

As at December 31, 2020, the Company had an available cash balance of \$53.7 million, and had the ability to utilize borrowings under the Revolving Credit Facility of \$690.0 million. On February 14, 2020, the Company amended its Revolving Credit Facility to increase the capacity from \$560.0 million to \$750.0 million, and, amongst other amendments, extended the maturity date from March 2024 to February 2025. In addition, the Company has two bilateral demand facilities, which are available for use for general corporate purposes or letters of credit, totaling \$150.0 million under which it had issued letters of credit totaling \$34.7 million. With the issuance of the 2080 Hybrid Notes in fourth quarter of 2020 and the result of the refinancing activity that occurred in 2019 and 2020, the Company has improved its liquidity position by extending the maturity profile of its debt as well as reducing its interest costs. During the year ended December 31, 2020, cash flows from operations and the results of the refinancing activity funded our ongoing capital expenditures, dividend payments, debt and finance lease service requirements and working capital needs. In regard to the challenges posed by the COVID-19 pandemic and reduction in crude oil prices, the current financial position provides the Company with appropriate financial flexibility and resources to manage its liquidity requirements. Accordingly, over the short-term the Company expects to maintain sufficient liquidity sources to fund its ongoing capital expenditures, debt and finance lease service requirements, dividend payments and working capital needs.

Over the medium to long-term, the Company’s ability to generate meaningful contributions from cash from operations combined with the Company’s conservative capital structure and improved liquidity as discussed above, will provide support for the Company’s funding of debt service requirements. Management may make adjustments to the Company’s capital structure as a result of changes in economic conditions and continues to maintain diligence in assessing its capital structure given the current market conditions as discussed above.

## 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.

The following table summarizes the Company's sources and uses of funds for the years ended December 31, 2020 and 2019 from continuing operations:

	2020	2019
<b>Statement of cash flows</b>		
<b>Cash flows provided by (used in):</b>		
Operating activities .....	\$ 459,551	\$ 362,155
Investing activities.....	(303,954)	(278,128)
Financing activities.....	\$ (149,399)	\$ (202,130)

### Cash provided by operating activities

Cash provided by operating activities was \$459.6 million in the year ended December 31, 2020, compared to \$362.2 million in the year ended December 31, 2019. The changes were driven by the following:

- Lower cash flow from operations before income taxes and working capital changes of \$440.4 million in the current year compared to \$457.3 million in the prior period primarily due to lower segment profit;
- Net income tax payments of \$8.2 million in the current year compared to \$93.0 million in the prior year; and
- Cash generated by changes in working capital of \$27.3 million in the current year compared to cash used by changes in working capital of \$2.2 million in the prior year driven by changes in items of working capital balances during the respective periods (refer to the respective section in "Results of Continuing Operations" for more details).

Cash used in and provided by operating activities and working capital requirements for the Marketing segment are 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, 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 amounts related to sale of products such as crude oil, asphalt and other products and fees for services associated with the Company's Infrastructure segment. Offsetting these collections are payments for purchases of crude oil and other products, primarily within the Marketing segment, and other expenses. Historically, the Marketing 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.

### Cash used in investing activities

Cash used in investing activities was \$304.0 million in the year ended December 31, 2020, compared to \$278.1 million in the year ended December 31, 2019 and consists primarily of capital expenditures related to the construction of new tanks and related infrastructure at the Hardisty and Edmonton Terminals, the capital contributions for the construction of the DRU, the construction of gathering pipelines and related infrastructure in the U.S. and replacement capital expenditures. The increase has largely been offset by proceeds received from the sale of the Edmonton building in the current year and the sale of non-core ESN business in the prior year. For a summary of capital expenditures including acquisitions, see the "Capital expenditures" discussion throughout this MD&A.

### Cash used in financing activities

Cash used in financing activities was \$149.4 million in the year ended December 31, 2020 compared to \$202.1 million in the year ended December 31, 2019. The net decrease of \$52.7 million is primarily due to the refinancing activity occurring in both years as discussed in the "Capital structure" section, offset by the repurchase of Company's common shares under the NCIB for \$18.6 million in the current year.

## Capital expenditures and equity investments

The following table summarizes growth capital, replacement capital and equity investments for the years ended December 31, 2020 and 2019:

	Years ended December 31	
	2020	2019
Growth capital and equity investments <sup>(1)</sup> .....	\$ 308,944	\$ 229,081
Replacement capital <sup>(2)</sup> .....	22,750	24,792
Acquisition <sup>(3)</sup> .....	-	21,292
Total .....	\$ 331,694	\$ 275,165

1. During the year ended December 31, 2020, the Company made capital contributions of \$120.7 million towards the construction of the DRU. Growth capital also includes \$12.9 million incurred on information systems upgrades and linefill additions during the year ended December 31, 2020
2. Replacement capital expenditures in the year ended December 31, 2020 include corporate capital of \$3.1 million compared to \$2.8 million in the year ended December 31, 2019. 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 the "Results of Continuing Operations" section
3. The prior year acquisition comprised of a purchase of a joint venture interest in a crude-by-rail, storage terminal and a pipeline connection to a common carrier crude oil pipeline in Joliet, Illinois

### 2021 planned capital expenditures

On December 7, 2020, the Company announced the approval of the 2021 growth capital expenditure budget of up to \$200 million with an additional allocation of between \$25 million and \$30 million in replacement capital expenditures. Approximately two-thirds of 2021 growth capital is currently sanctioned, or with a strong line of sight thereto. At least half of 2021 growth capital expenditures towards projects that, while meeting the Company's expected financial return objectives, are also beneficial on an ESG and Sustainability basis, whether directly to the Company or in the infrastructure built on behalf of the Company's customers. 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, 2020	December 31, 2019
Revolving Credit Facility .....	\$ 60,000	\$ 60,000
2024 Notes .....	-	600,000
2025 Notes .....	325,000	-
2027 Notes .....	325,000	-
2029 Notes <sup>(1)</sup> .....	500,000	500,000
2080 Hybrid Notes <sup>(2)</sup> .....	250,000	-
Unamortized issue discount and debt issue costs .....	(10,519)	(11,293)
Debentures (liability component) <sup>(2)</sup> .....	-	89,655
Lease liability .....	102,742	131,808
Total debt outstanding .....	1,552,223	1,370,170
Cash and cash equivalents .....	(53,676)	(47,231)
Net debt .....	1,498,547	1,322,939
Total share capital .....	1,977,104	1,980,850
Total capital .....	\$ 3,475,651	\$ 3,303,789

1. Represents the \$500 million 3.6% Senior Unsecured Notes due September 17, 2029
2. The 2080 Hybrid Notes and Debentures are included in the above total capital calculation in accordance with the Company's view of its capital structure which includes shareholders' equity and long-term debt, lease liabilities and working capital. The 2080 Hybrid Notes, Debentures and associated interest payments are excluded from the definition of consolidated debt for the purposes of debt to capitalization as well as the consolidated interest coverage covenant ratios

## **Revolving credit facility**

On February 14, 2020, the Company amended its Revolving Credit Facility to increase the capacity from \$560.0 million to \$750.0 million, and, amongst other amendments, extended the maturity date from March 31, 2024 to February 14, 2025. On December 18, 2020, certain amendments were made as a result of redemption of the Debentures and issuance of the 2080 Hybrid Notes.

The Revolving Credit Facility is available to provide financing for working capital, fund capital expenditures and other general corporate purposes, has an extendible term of five years, expiring on February 14, 2025. 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 credit rating. 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.

On May 4, 2020 the Company amended its two bilateral demand letter of credit facilities to bilateral demand credit facilities, which provide for Canadian and U.S. dollar loans and letters of credit available for general corporate purposes, with an aggregate capacity totaling \$150 million. Borrowings under the bilateral demand credit facilities 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 applicable margin. The applicable margin for borrowings under the bilateral demand credit facilities is subject to step up and step down based on the Company's credit rating.

As at December 31, 2020, the Company had \$60.0 million drawn on its \$750.0 million Revolving Credit Facility and had issued letters of credit totaling \$34.7 million under its demand credit facilities.

## **2024 Notes**

On July 22, 2020, the Company fully redeemed the 2024 Notes. The indenture governing the terms of the 2024 Notes, as supplemented, permitted the Company to optionally redeem all or part of the 2024 Notes at prices set forth therein.

## **2025 and 2027 Notes**

On July 14, 2020, the Company issued the 2025 Notes having a maturity date of July 14, 2025 and the 2027 Notes having a maturity date of July 14, 2027. The fixed coupons are payable semi-annually, on January and July 14 of each year for both the 2025 Notes and the 2027 Notes. The indenture governing the terms of the 2025 Notes and the 2027 Notes, as supplemented, contains certain redemption options whereby the Company can redeem all or part of the 2025 Notes and the 2027 Notes at such prices and on such dates as set forth therein. In addition, the holders of the 2025 Notes and the 2027 Notes have the right to require the Company to repurchase the 2025 Notes and the 2027 Notes at the purchase prices set forth in the applicable indenture in the event of a change of control triggering event, being both a change in control of the Company or a ratings decline of the applicable notes to below an investment grade rating, as such terms are defined in the applicable indenture.

## **2029 Notes**

On September 17, 2019, the Company issued the 2029 Notes. The 2029 Notes have a fixed coupon rate of 3.6% per annum, payable, semi-annually, on March 17 and September 17 of each year, and mature on September 17, 2029. The indenture governing the terms of the 2029 Notes, as supplemented, contains certain redemption options whereby the Company can redeem all or part of the 2029 Notes at such prices and on such dates as set forth therein. In addition, the holders of the 2029 Notes have the right to require the Company to purchase the 2029 Notes at the redemption prices set forth in the applicable indenture in the event of a change of control triggering event, being both a change of control of the Company or a ratings decline of the applicable notes to below an investment grade rating, as such terms are defined in the applicable indenture.

## **2080 Hybrid Notes**

On December 22, 2020, the Company issued the 2080 Hybrid Notes due December 22, 2080. The 2080 Hybrid Notes receive a 50% equity treatment by the Company's rating agencies, under certain conditions.

Interest is payable semi-annually on June 22 and December 22 of each year the notes are outstanding from December 22, 2020 to, but excluding, December 22, 2030. From, and including, December 22, 2030, during each Interest Reset Period (as defined in the applicable indenture) during which the notes are outstanding, the interest rate on the 2080 Hybrid Notes will be reset at a fixed rate per annum equal to the 5-Year Government of Canada Yield on the business day prior to such Interest Reset Date (as defined in the applicable indenture) plus, (i) for the period from, and including, December 22, 2030 to, but not including, December 22, 2050, 4.715% and (ii) for the period from, and including, December 22, 2050 to, but not including, the maturity date, 5.465% in each case, to be

reset by the Calculation Agent (as defined in the applicable indenture) on each Interest Reset Date and with the interest during such period payable in arrears, in equal semi-annual payments on June 22 and December 22 in each year.

The indenture governing the terms of the 2080 Hybrid Notes, as supplemented, contains certain redemption options whereby the Company can redeem all or part of the 2080 Hybrid Notes at such prices and on such dates as set forth therein. In addition, the holders of the 2080 Hybrid Notes have the right to require the Company to repurchase the 2080 Hybrid Notes at the purchase prices set forth in the applicable indenture in the event of a change in control triggering event, being both a change of control of the Company or a ratings decline of the applicable notes to below an investment grade rating, as such terms are defined in the applicable indenture.

### **Debentures**

The Company had an aggregate \$99.9 million principle amount of Debentures outstanding at the beginning of 2020. During the fourth quarter of 2020, the Company announced its intention to redeem the Debentures at a redemption price of \$1,000 per \$1,000 principal amount plus accrued and unpaid interest of \$23.16 per \$1,000 principal amount. Pursuant to the terms of the indenture governing the Debentures, holders of the Debentures had the right to convert their Debentures into the Company's common shares at a conversion price of \$21.65, being a rate of 46.1894 common shares per \$1,000 principal amount of Debentures. On December 23, 2020, the Company redeemed all of the then outstanding Debentures at a redemption price of \$1,000 per \$1,000 principal amount plus accrued and unpaid interest of \$23.16 per \$1,000 principal amount. The outstanding Debentures were redeemed for an aggregate of approximately \$96.4 million, paid in cash. Approximately \$3.5 million of the principal amount of Debentures were converted to common shares prior to the redemption date.

### **Covenants**

The Company is required to meet certain specific and customary affirmative and negative financial covenants under its Revolving Credit Facility, including the maintenance of certain financial ratios, requiring the Company to maintain a total consolidated debt to capitalization ratio not greater than 65% as well as to maintain a minimum consolidated interest coverage ratio of no less than 2.5 to 1.0. The consolidated total debt to capitalization ratio represents the ratio of all debt obligations on the financial statements to total capitalization (total debt plus total shareholders' equity, including certain adjustments). The consolidated interest coverage ratio represents the ratio of Consolidated EBITDA (as defined by the Revolving Credit Facility) to consolidated cash interest expense calculated in accordance with the Revolving Credit Facility. Refer to the terms defined in the Revolving Credit Facility, which is available at [www.sedar.com](http://www.sedar.com).

As at December 31, 2020, the Company was in compliance with the financial ratios with the total consolidated debt to capitalization ratio at 46% and the consolidated interest coverage ratio at 8.6 to 1.0. The covenant tests used for debt purposes excludes 100% of the 2080 Hybrid Notes, and the interest thereon, in the calculation. 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 2025 Notes, the 2027 Notes, the 2029 Notes, the 2080 Hybrid 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 2025 Notes, the 2027 Notes, the 2029 Notes, the 2080 Hybrid 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, 2020, the Company was in compliance with all existing covenants under the 2025 Notes, the 2027 Notes, the 2029 Notes, the 2080 Hybrid 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 the Company will be at the discretion of the Board and to be established on the basis of, among other items, the Company's earnings, funding requirements for operations, the satisfaction of a solvency calculation, and the terms of the Company's debt agreements and indentures. In addition, in connection with Company's dividend policy, after each fiscal year end the Board will formally review the annual dividend amount. During the year ended December 31, 2020, the Board declared dividends of \$1.36 per common share.

## 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 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 and lease payments 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 in nature. The following is a reconciliation of distributable cash flow from continuing operations to its most closely related IFRS measure, cash flow from operating activities for three months and years ended December 31, 2020 and 2019.

<b>Continuing operations</b>	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Cash flow from operating activities .....	\$ 459,551	\$ 362,155
Adjustments:		
Changes in non-cash working capital and taxes paid .....	(19,109)	95,145
Replacement capital .....	(22,751)	(24,792)
Cash interest expense, including capitalized interest .....	(53,557)	(64,455)
Lease payments .....	(44,967)	(48,632)
Current income tax.....	(20,279)	(17,882)
Distributable cash flow from continuing operations .....	<u>\$ 298,888</u>	<u>\$ 301,539</u>

<b>Continuing operations</b>	<b>Quarter ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Cash flow from operating activities .....	\$ 44,940	\$ 105,670
Adjustments:		
Changes in non-cash working capital and taxes paid .....	31,253	15,047
Replacement capital .....	(5,069)	(10,194)
Cash interest expense, including capitalized interest .....	(11,618)	(15,436)
Lease payments .....	(10,764)	(13,540)
Current income tax.....	5,354	(5,737)
Distributable cash flow from continuing operations .....	<u>\$ 54,096</u>	<u>\$ 75,810</u>
Dividends declared to shareholders .....	<u>\$ 49,494</u>	<u>\$ 48,073</u>

Dividends declared in the twelve months ended December 31, 2020 were \$198.7 million, of which the entire amount was paid in cash. In the twelve months ended December 31, 2020, dividends declared represented 66% of the distributable cash flow generated.



## Contractual obligations and contingencies

The following table presents, at December 31, 2020, the Company's obligations and commitments to make future payments under contracts and contingent commitments:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt .....	\$ 1,460,000	\$ -	\$ -	\$ 385,000	\$ 1,075,000
Interest payments on long-term debt.....	1,042,473	48,350	96,700	102,645	794,778
Lease and other commitments <sup>(1)</sup> .....	111,013	34,737	45,017	22,102	9,157
Total contractual obligations .....	<u>\$ 2,613,486</u>	<u>\$ 83,087</u>	<u>\$ 141,717</u>	<u>\$ 509,747</u>	<u>\$ 1,878,935</u>

1. Lease and other commitments relate to office leases, rail cars, vehicles, field buildings, various equipment leases and terminal services arrangements

The Company had accrued liabilities for obligations with respect to the Company's defined benefit plans of \$2.4 million and provisions associated with site restoration on the retirement of assets and environmental costs of \$237.0 million but the timing of such payments is uncertain due to the estimates used to calculate these amounts and the long-term nature of these balances. The Company also has commitments relating to its risk management contracts which are discussed further in "Quantitative and Qualitative Disclosures about Market Risks".

### Contingencies

The Company is 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.

### 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, 2020, there were 145.6 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 2.4 million restricted share units, performance share units and deferred share units outstanding and 1.9 million stock options outstanding as at December 31, 2020.

During the fourth quarter of 2020, 0.9 million shares were repurchased for cancellation, the average price of repurchase was \$21.42 for a total cost of \$18.6 million.

At December 31, 2020, awards available to grant under the equity incentive plan were approximately 4.4 million.

As at February 19, 2021, 145.7 million common shares, 2.3 million restricted share units, performance share units and deferred share units and 1.9 million stock options were outstanding.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is involved in various commodity related marketing activities that are intended to enhance the Company's operations and increase profitability. These activities often create exposure to price risk between the time contracted volumes are purchased and sold and to foreign exchange risk when contracts are in different currencies (Canadian dollar versus U.S. dollar). The Company is also exposed to various market risks, including volatility in (i) crude oil, refined products, natural gas and NGL prices, (ii) interest rates, (iii) currency exchange rates and (iv) equity prices. The Company utilizes various derivative instruments from time to time to manage commodity price, interest rate, currency exchange rate, and equity price exposure and, in certain circumstances, to realize incremental margin during volatile market conditions. The Company's commodity trading and risk management policies and procedures are designed to establish and manage to an approved level of value at risk. The Company has a Commodity Risk Management Committee that has direct responsibility and authority for the Company's risk policies and the Company's trading controls and procedures. Additionally, certain aspects of corporate risk management are handled within the Risk Management Group. The Company's approved strategies are intended to mitigate risks that are inherent in the Company's Marketing business. 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, differentials and NGLs, and expected purchases and sales of these commodities (relating primarily to crude oil, roofing flux 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. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil, differentials 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 \$12.2 million and \$9.9 million as of December 31, 2020 and 2019, respectively. A 15% unfavorable change would decrease the Company's net income by \$12.2 million and \$9.9 million as of December 31, 2020 and 2019, 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, excluding the Revolving Credit Facility, accrues interest at fixed interest rates and accordingly, changes in market interest rates do not expose the Company to future interest cash outflow variability. At December 31, 2020, the Company had \$60 million drawn under the Revolving Credit Facility which 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 current balances and rates, the interest rate risk is not significant for the Company.

*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 \$3.9 million and \$2.7 million as at December 31, 2020 and 2019, respectively. A 5% favorable change would increase the Company's net income by \$3.9 million and \$2.7 million as at December 31, 2020 and 2019, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

As at December 31, 2020, the Company had \$nil U.S. dollar denominated debt as part of its draw on its Revolving Credit Facility.

## **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 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 value in use ("VIU") and fair value less costs of disposal ("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 are budgeted earnings before interest, taxes, depreciation and amortization less corporate expenses (EBITDA) which involves estimating revenue growth rates, future commodity prices, expected margins, expected sales volumes, cost structures, multiples of comparable public companies of the operating segment, terminal value and discount rates.

These assumptions and estimates are uncertain and are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates.

*Income 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.

*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 several 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. Several 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.

*Assets held for sale:* As at December 31, 2020 and December 31, 2019, the Company considered certain assets as held-for-sale. In making these determinations, the Company used significant judgment in evaluating whether a sale was considered highly probable and considered the progress of negotiations specific to significant terms of the sales, including the structure of the transaction and if the buyer has substantially completed their due diligence review. These conditions were all met during the year ended December 31, 2020.

### ***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.

- IFRS 3 – Business Combinations (“IFRS 3”), has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 is effective for the years beginning on or after January 1, 2020 and applied prospectively. The Company assessed the impact of this amendment and has determined that there is currently no impact on its financial statements. However, going forward, more business acquisitions will likely qualify for assets purchases rather than business combinations.

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

- IAS 1 – Presentation of Financial Statements (“IAS 1”), has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2023. The Company is currently assessing the impact of this amendment.
- The annual improvements process addresses issues in the 2018-2020 reporting cycles including changes to IFRS 9, Financial Instruments, IFRS 1, First Time Adoption of IFRS, IFRS 16, Leases, and IAS 41, Biological Assets. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.

- IAS 37 – Provisions (“IAS 37”), has been amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. These amendments are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- IAS 16 – Property, Plant and Equipment (“IAS 16”), has been amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.

## 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, 2020. 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, 2020.

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 the Company’s DC&P and ICFR were effective as at December 31, 2020. There have been no changes in ICFR that occurred during the period beginning January 1, 2020 and ended on December 31, 2020 that has materially affected or is reasonably likely to materially affect the Company’s ICFR.

## RISK FACTORS

Shareholders and prospective investors should carefully consider the risk factors noted below before investing in the Company’s securities, as each of these risks may negatively affect the trading price of the Company’s securities, the amount of dividends paid to shareholders and the ability of the Company to fund its debt obligations, including debt obligations under its outstanding notes and any other debt securities that the Company 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 the Company’s performance and the steps that the Company takes to mitigate these risks, readers are referred to the Company’s AIF, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### COVID-19

Given the rapid global spread of COVID-19 and with the majority of jurisdictions in which the Company operates declaring a state of emergency in response to the COVID-19 pandemic, the Company’s financial and/or operating performance could be materially adversely impacted by way of suspensions of the Company’s projects, either by its customers or due to a broader government directives, slowdowns or stoppages in the performance of projects due to labor shortages, union action and/or high levels of absenteeism, supply chain disruptions, and increased collection risk from customers. The Company has implemented a business continuity plan and has enacted its emergency response plan to provide centralized, cross-functional, strategic direction during the COVID-19 pandemic. While these measures may partially mitigate the impact of the COVID-19 pandemic, minimize recovery time and reduce business losses, the plan can neither account for nor control all possible events. The COVID-19 pandemic, therefore, may continue to have adverse financial and operational implications for the Company.

Additionally, the duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as 1) the severity, transmission rate and resurgence of the COVID-19 virus or any variations thereof, 2) the timing, extent and effectiveness of containment actions, including the availability and effectiveness of vaccines, approvals thereof and speed of vaccine distribution, 3) the speed and extent to which normal economic and operating conditions resume worldwide, and 4) the impact of these and other factors on our stakeholders, particularly those upon whom we have a major reliance, including our customers, vendors and employees. This situation is changing rapidly and future impacts may materialize that are not yet known. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 may have,

and, as a result, the ultimate impact of the outbreak on the Company's business, operations and financial condition is highly uncertain and subject to change.

#### *Hazards and Operational Risks*

The Company's operations are subject to the many hazards inherent in the transportation, storage, processing, treating and distribution of crude oil, NGLs and petroleum products, including:

- explosions, fires and accidents, including road and rail accidents;
- damage to the Company's tanker trucks, pipelines, storage tanks, terminals and related equipment;
- ruptures, leaks or releases of crude oil or petroleum products into the environment;
- acts of terrorism or vandalism; and
- other accident or hazards that may occur at or during transport to, or from, commercial or industrial sites.

If any of these events were to occur, the Company could suffer substantial losses because of the resulting impact on the Company's reputation, personal injury or loss of life, severe damage to and destruction of property, equipment, information technology systems, related data and control systems, environmental damage, which may include polluting water, land or air, resulting in regulatory enforcement, curtailment or suspension of the related operations. Mechanical malfunctions, faulty measurement or other errors may also result in significant costs or lost revenues.

#### *Market and Commodity Price Risk*

The Company's business includes activities related to product storage, terminalling and hub services. These activities expose the Company to certain risks including that the Company may experience volatility in revenue and impairments related to the book value of stored product, due to the fluctuations in commodity prices. Primarily, the Company enters into contracts to purchase and sell crude oil, NGLs and refined products at floating market prices. The prices of the products that are marketed by the Company are subject to volatility as a result of factors such as seasonal demand changes, extreme weather conditions (including flooding, wind and increased annual levels of rainfall), market inventory levels, general economic conditions, changes in crude oil markets and other factors. The Company manages its risk exposure by balancing purchases and sales to lock-in margins; however, the Company may not be successful in balancing its purchases and sales. Also, in certain situations, 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.

Notwithstanding the Company's management of price and quality risk, marketing margins for commodities can vary and have varied significantly from period to period. This variability could have an adverse effect on the results of the Company.

In particular, since March 2020, the COVID-19 global health pandemic has significantly impacted the global economy including demand for hydrocarbon products. This demand destruction has had a significant impact on global energy markets and has resulted in a significant drop in crude based commodity prices. Although commodity prices have partially recovered, financial markets continue to remain volatile, impacting overall economic activity.

Since crude oil margins can be earned by capturing spreads between different qualities of crude oil, the Company's marketing business is subject to volatility in price differentials between crude oil streams and blending agents. Due to this volatility, the Company's margins and profitability can vary significantly. The Company expects that commodity prices will continue to fluctuate significantly in the future. The Company utilizes financial derivative instruments as part of its overall risk management strategy to assist in managing the exposure to commodity prices, as well as interest rates and foreign exchange risks. For example, as NGL and refined product prices are somewhat related to the price of crude oil, crude oil financial contracts are one of the more common price risk management strategies that the Company uses. Also, with respect to crude oil, the Company manages its exposure using WTI based futures, options and swaps. These strategies are subject to basis risk between the prices of crude oil streams, WTI, NGL and refined product values and, therefore, may not fully offset future price movements. Furthermore, there is no guarantee that these strategies and other efforts to manage marketing and inventory risks will generate profits or mitigate all the market and inventory risk associated with these activities. If the Company utilizes price risk management strategies, the Company may forego the benefits that may otherwise be experienced if commodity prices were to increase. In addition, any non-compliance with the Company's trading policies could result in significantly adverse financial effects. To the extent that the Company engages in these kinds of activities, the Company is also subject to credit risks associated with counterparties with whom the Company has contracts. The Company does not trade financial instruments for speculative purposes.

## *Reputation*

The Company 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 has the potential for negative impacts that could result from the deterioration of the Company's 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 among other things may impact the Company's ability 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 Canada-United States-Mexico 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.

### *Jointly Owned Facilities*

Certain of the Company's facilities are jointly owned with third parties. Approvals must be obtained from such joint owners for proposals to make capital expenditures regarding such facilities. These approvals typically require that a capital expenditure proposal be approved by the owners holding a specified percentage of the ownership interests in the relevant facility. It may not be possible for the Company to obtain the required levels of approval from co-owners of facilities for future proposals for capital expenditures to expand or improve its jointly owned facilities. In addition, agreements for joint ownership often contain restrictions on transfer of an interest in a facility. The most frequent restrictions require a transferor who is proposing to transfer an interest to offer such interest to the other holders of interests in the facility prior to completing the transfer. Such provisions may restrict the Company's ability to transfer its interests in facilities or to acquire partners' interests in facilities and may also restrict the Company's ability to maximize the value of a sale of its interest.

As part of the Company's effort to minimize these risks, the Company maintains communication with its co-owners through participation in operating committees and formal decision-making processes. The Company also utilizes its knowledge of industry activity and relationships with other owners to mitigate the risk of uncooperative behavior. However, there is no guarantee that the Company will be able to proceed with its plans for any facilities which are jointly owned.

### *Capital Project Delivery and Success*

The Company has a number of organic growth projects that require the expenditure of significant amounts of capital. Many of these projects involve numerous regulatory, environmental, commercial, short- and long-term weather-related, political and legal uncertainties that will be beyond the Company's control. As these projects are undertaken, required regulatory and other approvals may not be obtained, may be delayed or may be obtained with conditions that materially alter the expected return associated with the underlying projects. Moreover, the Company will incur financing costs during the planning and construction phases of its growth projects, but the operating cash flow the Company expects these projects to generate will not materialize until after the projects are completed. These projects may be completed behind schedule or in excess of budgeted cost. For example, the Company must compete with other companies for the materials and construction services required to complete these projects, and competition for these materials or services could result in significant delays and/or cost overruns. Any such cost overruns, or unanticipated delays in the completion or commercial development of these projects, could reduce the Company's liquidity. The Company may construct facilities or other assets in anticipation of market demand that dissipates during the intervening period between project conception and delivery to market or never materializes. As a result of these uncertainties, the anticipated benefits associated with the Company's capital projects may be lower than expected.

### *Regulatory Approvals*

The Company's operations require it to obtain approvals from various regulatory authorities and there are no guarantees that it will be able to obtain all necessary licenses, permits and other approvals that may be required to conduct its business. In addition, obtaining certain approvals from regulatory authorities can involve, among other things, stakeholder and Indigenous consultation, environmental impact assessments and public hearings. Regulatory approvals obtained may be subject to the satisfaction of certain conditions, including, but not limited to: security deposit obligations; ongoing regulatory oversight of projects; mitigating or avoiding project impacts; habitat assessments; and other commitments or obligations. Failure to obtain applicable regulatory approvals or satisfy any of the conditions thereto on a timely basis on satisfactory terms could result in delays, abandonment or restructuring of projects and increased costs.

### *Environmental and Health and Safety Regulations*

Each of the Company's segments are subject to the risk of incurring substantial costs and liabilities under environmental and health and safety laws and regulations. These costs and liabilities arise under increasingly stringent environmental and health and safety laws, including regulations and governmental enforcement policies and legislation, and as a result of third-party claims for damages to property or persons arising from the Company's operations. Environmental laws and regulations impose, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances into the environment. Environmental laws and regulations also require that pipelines, facilities and other properties associated with the Company's operations be constructed, operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Health and safety laws and regulations impose, among other things, requirements designed to ensure the protection of workers and to limit the exposure of persons to certain hazardous substances. In addition, certain types of projects may be required to submit and obtain approval of environmental impact assessments, to obtain and maintain environmental permits and approvals and to implement mitigative measures prior to the implementation of such projects.



Failure to comply with environmental and health and safety laws and regulations, including related permits and approvals, may result in assessment of administrative, civil and criminal penalties, the issuance of regulatory or judicial orders, the imposition of remedial obligations such as clean-up and site restoration requirements, the payment of deposits, liens, the amendment, suspension or revocation of permits and approvals and the potential issuance of injunctions to limit or cease operations. If the Company were unable to recover these costs through increased revenues, the Company's ability to meet its financial obligations could be adversely affected.

Some of the Company's facilities have been used for many years to transport, distribute or store petroleum products. Over time the Company's operations, or operations by the Company's predecessors or third parties not under the Company's control, may have resulted in the disposal or release of hydrocarbons or wastes at or from these properties upon which the facilities are situated along or over pipeline rights-of-way. In addition, some of the Company's facilities are located on or near current or former refining and terminal sites, and there is a risk that contamination is present on those sites. The Company may be subject to strict joint and several liability under a number of these environmental laws and regulations for such disposal and releases of hydrocarbons or wastes or the existence of contamination, even in circumstances where such activities or conditions were caused by third parties not under the Company's control or were otherwise lawful at the time they occurred.

Further, the transportation of hazardous materials and/or other substances in the Company's pipelines or by truck or rail may result in environmental damage, including accidental releases that may cause death or injuries to humans, damage to third parties and natural resources, and/or result in federal and/or provincial and state civil and/or criminal penalties that could be material to the Company's results of operations and cash flow.

The Company engages in operations which handle hazardous materials. As a result of these and other activities, the Company is subject to a variety of federal, provincial, state, local and foreign laws and regulations relating to the generation, transport, use handling, storage, treatment and exposure to and disposal of these materials, including record keeping, reporting and registration requirements. The Company has incurred and expects to continue to incur expenditures to maintain compliance with environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which the Company is subject could become more stringent or be more stringently enforced in the future. Failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures or remedial actions.

Certain environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and comparable state laws in the U.S., impose joint and several liability, without regard to fault or legality of the operations, on certain categories of persons, including current and prior owners or operators of a facility where there is a release or threatened release of hazardous substances, transporters of hazardous substances and entities that arranged for disposal of the hazardous substances at the site. Under CERCLA, these "responsible persons" may be held jointly and severally liable for the costs of cleaning up the hazardous substances, as well as for damages to natural resources and for the costs of certain health studies, relocation expenses and other response costs.

CERCLA generally exempts "petroleum" from the definition of hazardous substance; however, in the course of the Company's operations, the Company has accepted, handled, transported and/or generated materials that are considered "hazardous substances." Further, hazardous substances or hazardous wastes may have been released at properties owned or leased by the Company now or in the past, or at other locations where these substances or wastes were taken for treatment or disposal. Given the nature of the Company's environmental services business, it has incurred, and will in the future periodically incur, liabilities under CERCLA or other environmental cleanup laws, at its current or former facilities, adjacent or nearby third-party facilities, or offsite disposal locations. There can be no assurance that the costs associated with future cleanup activities that the Company may be required to conduct or finance will not be material. Additionally, the Company may become liable to third parties for damages, including personal injury and property damage, resulting from the disposal or release of hazardous substances into the environment.

Failure to comply with environmental regulations could have an adverse impact on the Company's reputation. There is also risk that the Company could face litigation initiated by third parties relating to climate change or other environmental regulations.

#### *Climate Change Legislation*

Climate change legislation related risks are considered by the Company as part of its ongoing risk management processes. The materiality of such risks varies among the business operations of the Company and the jurisdictions in which such operations are conducted. Despite the potential uncertainties and longer time horizon associated with any such risks, the Board and management considers the impacts of climate change legislation over the short-, medium- and long-terms.

In 2018, the Canadian federal government enacted the Greenhouse Gas Pollution Pricing Act (the “GGPPA” or “Federal Backstop”) which established a national carbon-pricing regime requiring each province to implement a price on carbon of \$10/tonne of CO<sub>2</sub>e in 2018, escalating by \$10 each year, to an ultimate carbon price of \$50/tonne of CO<sub>2</sub>e in 2022. The Federal Backstop allows provinces some flexibility in structuring their carbon price regimes with cap and trade, carbon tax or output-based pricing systems, all being acceptable methods for implementing such carbon pricing. In December 2020, the Canadian federal government released its plan to accelerate climate action in Canada, titled “A Healthy Environment and a Healthy Economy”. The plan proposes an increasing cost on carbon to \$170 per tonne in 2030. To reach that level, the price imposed on carbon will rise from the 2022 rate of \$50 per tonne by \$15 per tonne each year. If this proposal is made into law, it will have a significant impact on Canadian industry participants, consumers and the Company alike.

To the extent each province implements a carbon pricing system that meets the stringency requirements of the GGPPA, the GGPPA will not apply. However, if such a provincial pricing system is not implemented, or does not meet the stringency requirements of the GGPPA, the Federal Backstop will apply to the extent of such deficiency.

Prior to 2020, the Federal Backstop did not apply in Alberta as Alberta’s Carbon Competitiveness Incentive Regulation (“CCIR”) applicable to large emitters, paired with the Climate Leadership Regulation (“CLR”) which implemented a province-wide carbon tax, met the stringency requirements of the Federal Backstop.

In 2019, the Alberta UCP government made several legislative changes including repealing the CLR, thereby eliminating Alberta’s carbon tax and replacing the CCIR with the Technology Innovation and Emission Reduction Regulation (“TIER”).

TIER became effective on January 1, 2020 and requires large emitters (facilities that emit 100,000 tonnes or more of CO<sub>2</sub>e in 2016 or any subsequent year, or that are otherwise eligible to opt-in to the TIER regime) to reduce their emissions intensity by 10% relative to such facility’s historical production-weighted average emission intensity. This reduction requirement “tightens” by an additional 1% annually, and on January 1, 2021, the reduction target became 11%.

Facilities regulated under TIER have a number of compliance options including physical abatement of emissions, use of emission performance credits, use of emission offsets, the purchase of TIER fund credits, or a combination of the foregoing. Persons responsible for such regulated facilities must file annual compliance reports with the government demonstrating their compliance with TIER’s emission intensity reduction requirements and such facilities emitting 1 MT or more CO<sub>2</sub>e will have an additional requirement to file forecasts of anticipated emission for the following year.

The Alberta government has indicated that it will increase the rate of its TIER levy from \$30/tonne of CO<sub>2</sub>e in 2020 to \$40/tonne of CO<sub>2</sub>e in 2021 to stay within the Federal Backstop. However, Alberta’s repeal of the provincial carbon tax has resulted in the province’s overall carbon pricing regime not meeting the stringency requirements of the Federal Backstop. This resulted in Alberta being added as a “listed province” under the GGPPA such that the federal carbon tax contemplated by the Federal Backstop will be levied in on fossil fuels imported into or otherwise consumed within Alberta, other than in respect of TIER-regulated facilities.

While none of the Company’s Alberta facilities are considered large emitters under TIER, the Company has voluntarily submitted to TIER regulation in respect of several of its facilities via an “aggregate facility” designation available under TIER. Certain conventional oil and gas facilities which do not satisfy the large emitter criteria under TIER can be aggregated together and be treated as if they were a single aggregate facility. Accordingly, the Company is required to reduce its emission intensity in respect of such aggregate facility in accordance with TIER, but in doing so, has avoided the application of the carbon tax pursuant to the Federal Backstop, in respect of fuels used by such aggregate facility.

Like Alberta, Saskatchewan has implemented an output-based pricing system applicable to large emitters pursuant to its Management and Reduction of Greenhouse Gases Act (“MRGGA”) and related regulations including the Management and Reduction of Greenhouse Gases (Reporting and General) Regulations (the “MRGGR”). Large emitters under the MRGGR are facilities in certain sectors that emit 25,000 or more tonnes of CO<sub>2</sub>e, and those that emit 10,000 tonnes of CO<sub>2</sub>e per year and who opt-in to the MRGGR. Annual emission intensity reduction requirements are specific to the product produced by the applicable regulated facility and increase in stringency over time in prescribed increments. Like Alberta’s TIER, persons responsible for such regulated facilities must file annual compliance reports demonstrating their compliance. Compliance options include physical abatement of emissions, using emission offsets, using emission performance credits, purchasing technology fund credits, or a combination of the foregoing.

Saskatchewan has consistently opposed implementation of a carbon tax and the output-based pricing system contemplated by the MRGGR does not apply to certain industrial sectors. The Federal Backstop applies in Saskatchewan in respect of: (i) electricity generating facilities and natural gas transmission pipelines, in the form of its own output-based pricing system applicable to such facilities that emit 50,000 tonnes or more of CO<sub>2</sub>e in a year (with the ability for such facilities that emit 10,000 tonnes of CO<sub>2</sub>e or

more in an year to opt-in); and (ii) fossil fuels imported into or otherwise consumed within Saskatchewan, in the same manner as how the Federal Backstop's carbon tax is applied in Alberta.

While none of the Company's Saskatchewan facilities are considered large emitters under the MRGGR, it has elected to "opt-in" to the MRGGR in respect of its Moose Jaw Facility. Accordingly, the Company has been required to reduce its emission intensity in respect of such facility in accordance with the MRGGR, and in doing so has avoided the application of the carbon tax pursuant to the Federal Backstop in respect of fuels used by such facility.

Alberta, Saskatchewan and Ontario launched constitutional challenges of the Federal Backstop at their respective appellate courts. The Saskatchewan Court of Appeal and the Ontario Court of Appeal found the Federal Backstop to be constitutional, while the Alberta Court of Appeal found the Federal Backstop to be unconstitutional. Appeals of the decisions were heard by the Supreme Court of Canada ("SCC") in September 2020; however, as of December 31, 2020, the SCC's decision has not yet been issued.

Federal Backstop applies to all provinces that do not meet the federal threshold, which as of December 31, 2020 includes Alberta, Manitoba, New Brunswick, Ontario, and Saskatchewan.

The U.S. Energy Independence and Security Act of 2007 precludes agencies of the U.S. federal government from procuring mobility-related fuels from non-conventional petroleum sources that have lifecycle carbon dioxide, methane and other greenhouse gases ("GHGs") emissions greater than equivalent conventional fuel. This may have implications for the Company's marketing of some heavy oil and oil sands production in the U.S., but the impact cannot be determined at this time.

USEPA issued an Endangerment Finding in December 2009 providing that emissions of GHG present an endangerment to public health and the environment because emissions of such gases contribute to warming of the earth's atmosphere and other climatic changes. USEPA's findings permit the agency to adopt and implement regulations restricting emissions of GHGs under existing provisions of the federal Clean Air Act, including rules which regulate emissions of GHGs. In response to its endangerment finding, the EPA adopted two sets of rules regarding possible future regulation of GHG emissions under the Clean Air Act. The motor vehicle rule, which became effective in January 2011, purports to limit emissions of GHGs from motor vehicles. The EPA adopted the stationary source rule (or the "tailoring rule") on May 13, 2010, and it also became effective January 2011.

The "tailoring rule" imposed requirements in two phases on U.S.'s largest emitters of GHGs. On June 23, 2014 the U.S. Supreme Court invalidated a portion of the tailoring rule, however, it essentially held up EPA's ability to regulate GHG emissions for certain facilities including those facilities required to obtain a Prevention of Significant Deterioration ("PDS") permit due to the emissions of other regulated pollutants. The U.S. Supreme Court held that stationary sources could not become subject to PSD or Title V permitting solely by reason of their GHG emissions; however, EPA may require installation of best available control technology for GHG emissions at sources otherwise subject to the PSD and Title V programs. Additionally, in September 2009, the EPA issued a final rule requiring the reporting of GHG emissions from specified large GHG emission sources in the U.S., including NGLs fractionators and local natural gas and distribution companies, beginning in 2011 for emissions occurring in 2010. In November 2010, the EPA expanded its existing GHG reporting rule to include onshore and offshore oil and natural gas production and onshore processing, transmission, storage and distribution facilities, which may include certain of the Company's facilities, beginning in 2012 for emissions occurring in 2011. In addition, the USEPA has continued to adopt GHG regulations for other industries, such as the June 2019 Affordable Clean Energy Rule, establishing emission guidelines for states to use when developing plans to limit carbon dioxide at coal-fired electric generating units.

The U.S.'s withdrawal from the Paris Agreement, became effective in November 2020; however, the newly-elected Democratic administration has committed to rejoining the agreement. The USEPA is working on regulations to limit greenhouse gas emissions within its existing statutory authority under the Clean Air Act. In addition, more than one-third of the states already have begun implementing legal measures to reduce emissions of greenhouse gases.

On January 28, 2020, the House Energy and Commerce Committee members released draft text of the Climate Leadership and Environmental Action for our Nation's (CLEAN) Future Act, proposing a new climate plan to ensure the United States achieves net-zero greenhouse gas pollution no later than 2050. The CLEAN Future Act proposes sector-specific and economy-wide solutions to address the "climate crisis." Feedback and recommendations from all stakeholders have been requested to refine the CLEAN Future Act. The Committee intends to hold hearings and stakeholder meetings throughout 2020.

A number of U.S. states have formed regional partnerships to regulate emissions of GHGs such as the Transportation and Climate Initiative (TCI) enacted on December 17, 2019 and involving thirteen jurisdictions in the Northwest and Mid-Atlantic United States. In general, climate change legislation imposes, among other things, costs, restrictions, liabilities and obligations in connection with the handling, use, storage and transportation of crude oil and petroleum products. The complexities of changes in environmental

regulations make it difficult to predict the potential future impact to the Company. However, compliance with climate change legislation requires significant expenditures and it is likely that such legislation will materially impact the nature of oil and gas operations, including those carried out by the Company and its customers. In addition, changes to such legislation or future legislation may apply to more facilities over time and result in further regulatory requirements that could affect the Company's business, or the business of its customers. At present, it is not possible to predict the impact such legislation will, or new legislation or regulatory programs could, have on the Company's business, operations and/or finances. Future capital expenditures and operating expenses could continue to increase as a result of, among other things, developments in the Company's business, operations, plans and objectives and changes to existing, or implementation of new and more stringent, climate change legislation. Regulatory focus on other air emissions criteria such as VOC emissions, particulate matter and ground level ozone may also impact the oil and gas sector, particularly the midstream component. Failure to comply with climate change legislation may result in, among other things, the imposition of fines, penalties, environmental protection orders, suspension of operations, and could adversely affect the Company's reputation. The costs of complying with climate change legislation are not presently expected to have a material adverse effect on the Company's operations or financial condition, however, the implementation of new climate change legislation, the modification of existing climate change legislation, changes in climate change policy that seek to promote adaptation to climate change which affect the energy industry generally could reduce demand for crude oil and petroleum products and materially impact the Company's current or future business (including, without limitation, increasing costs of compliance) and could have an adverse effect on the Company's operations, margins, profitability and results.

The extent and magnitude of any adverse impacts of current or additional programs or regulations beyond reasonably foreseeable requirements cannot be reliably or accurately estimated at this time, in part because certain specific legislative and regulatory requirements have not been finalized and uncertainty exists with respect to the additional measures being considered and the time frames for compliance. Consequently, no assurances can be given that the effect of future climate change legislation will not be significant to the Company. There is also risk that the Company could face claims initiated by third parties relating to climate change or climate change legislation. These claims could, among other things, result in litigation targeted against the Company and the oil and gas industry generally, and should any such litigation claims arise, they may have a material adverse effect on the Company's business.

#### *Demand for Crude Oil and Petroleum Products*

Any sustained decrease in demand for crude oil and petroleum products in the markets the Company serves could result in a significant reduction in the volume of products and services that the Company provides and thereby could significantly reduce cash flow and revenues. Factors that could lead to a decrease in market demand include:

- lower demand by consumers for refined products, including asphalt and wellsite fluids, as a result of recession, pandemic or other adverse economic conditions or due to high prices caused by an increase in the market price of crude oil, which is subject to wide fluctuations in response to changes in global and regional supply over which the Company has no control;
- an increase in fuel economy, whether as a result of a shift by consumers to more fuel-efficient vehicles, technological advances by manufacturers, governmental or regulatory actions or otherwise;
- provincial, state and federal legislation either already in place or under development, including carbon taxes or equivalents or requiring the inclusion of ethanol and use of biodiesel which may negatively affect the overall demand for crude oil products;
- lower demand by the oil and gas drilling industry for products such as drilling mud additives and for wellsite fluids as a result of legislation regulating hydraulic fracturing currently being considered by the U.S. Congress, a number of U.S. states and the Province of Quebec;
- technological advances in the production and longevity of fuel cells and solar, electric and battery-powered engines; and
- fluctuations in demand for crude oil, such as those caused by refinery downtime or shutdowns.

The Company cannot predict and does not have control over the impact of future economic and political conditions on the energy and petrochemical industries, which, in turn, could affect the demand for crude oil and petroleum products. As a result of decreased demand, the Company may experience a decrease in the Company's margins and profitability.

#### *Federal Review of Environmental and Regulatory Processes*

In 2016, the Government of Canada commenced a review of federal environmental and regulatory processes under various acts and in February 2018, the Government of Canada proposed the enactment of the Impact Assessment Act and the Canadian Energy

Regulator Act and certain amendments to the Fisheries Act and the Navigation Protection Act.

The Impact Assessment Act came into force in August 2019 and replaced the Canadian Environmental Assessment Act, 2012. It established the Impact Assessment Agency of Canada, which leads and coordinates impact assessments for all designated projects. The Impact Assessment Act applies to designated projects listed in the Physical Activities Regulations and physical activities designated by the Minister of Environment and Climate Change Canada on an ad hoc basis. The legislation expanded the assessment considerations beyond the environment to expressly include health, economic, social and gender impacts, as well as considerations related to sustainability and Canada's climate change commitments. Increased environmental assessment obligations may create risk of increased costs and project development delays. The Canadian Energy Regulator Act also came into force in August 2019 and replaced the National Energy Board with the Canada Energy Regulator and modified the regulator's role in federal impact assessments.

The amendments to the Fisheries Act restored the previous prohibition against harmful alteration, disruption or destruction of fish habitat and the prohibition against causing the death of fish by means other than fishing. The amendments also introduced several new requirements to expand the scope of protection and role of Indigenous groups and interests. The prohibitions against the death of fish, and the harmful alteration, disruption or destruction of fish habitat may result in increased permitting requirements where the Company's operations potentially impact fish or fish habitat. The amendments came into force in August 2019.

The changes to the Navigation Protection Act, including its renaming to the Canadian Navigable Waters Act, expanded its scope to all navigable waters, created greater oversight for navigable waters and, consistent with the Fisheries Act, introduced requirements to expand the scope of protection and the role of Indigenous groups and interests. The broader application of the Canadian Navigable Waters Act may result in increased permitting requirements where the Company's operations potentially impact navigable waters. These amendments came into force in August 2019.

#### *ESG Targets and Performance*

Generally speaking, Gibson's ESG targets depend significantly on the Company's ability to execute its current business strategy, related milestones and schedules, each of which can be impacted by the numerous risks and uncertainties associated with Gibson's business and the industries in which it operates, as outlined in the other risk factors described in this MD&A.

The Company recognizes that its ability to adapt and succeed in a lower-carbon economy will be compared against its peers. Investors and stakeholders increasingly compare companies based on ESG-related performance, including climate-related performance. Failure by the Company to achieve its ESG targets, or a perception among key stakeholders that our ESG targets are insufficient, could adversely affect, among other things, our reputation and ability to attract capital.

There is also a risk that some of all of the expected benefits and opportunities of achieving the various ESG targets may fail to materialize, may cost more to achieve or may not occur within the anticipated time periods. In addition, there are risks that the actions by the Company in implementing targets and ambitions relating to ESG focus areas may have a negative impact on its existing business and operations and increase capital expenditures, which could have a negative impact on the Company's business, financial condition, results of operations and cash flows.

#### *Pipeline egress*

There are currently large pipeline projects at various stages of development and/or regulatory approval that have the potential to impact the Company over the medium to long-term. Over the long-term, the Company could benefit from incremental egress from the completion of work on various pipeline projects under construction, including those currently under regulatory review. A major egress pipeline is also currently advancing a contracting process which is currently under review by the regulators. Given the uncertainty of the review, at this time, it is uncertain how the outcome will potentially impact how customers utilize the Company's infrastructure and services. In addition, certain pipelines currently in operations are facing challenges at various levels of government and the outcome of these challenges and the impact to the Company cannot be determined at this time.



## FORWARD-LOOKING INFORMATION

Certain statements and information included or referred to in this MD&A constitute forward-looking information (as such term is defined under applicable Canadian securities laws). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking information. The use of any of the words "anticipate", "plan", "contemplate", "continue", "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 expressing future outcomes or statements regarding an outlook are intended to identify forward-looking information. Forward-looking information, included or referred to in this MD&A include, but are not limited to statements with respect to:

- the effect of the COVID-19 pandemic on the Company's projections relating to segment profit, distributable cash flow and total cash flow and the government's responses thereto;
- achieving the targets including but not limited to segment profits, payout ratio, leverage ratio and credit ratings;
- 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 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 key attributes of the Company's business strategy and strengths;
- the Company's ability to execute its current business strategy, related milestones and ability to meet its ESG targets and the associated impacts to the Company's reputation and ability to attract capital;
- the Company's ability to position itself as a sustainability and ESG leader and integrate the principles of sustainability and ESG into the evaluation and pursuit of the Company's business strategy and commercial opportunities;
- the availability of sufficient capital and 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 planned construction and in service date of the DRU and the anticipated benefits thereof;
- the impact of the presidential revocation of TC Energy's Keystone XL Pipeline and the potential for increased demand on DRU capacity;
- the planned construction of TMX and expected results at the Company's Edmonton Terminal;
- the potential effect of the Enbridge L3R on the demand for crude by rail capacity;
- the Company's advancement of infrastructure projects in the U.S., including the completion of the Gibson Wink Terminal;
- the effect of competition in regions of North America, including the likelihood of new competitors seeking to replicate the Company's asset base and service offerings in the foreseeable future, 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 and new projects 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 Company's projections with respect to the adoption and implementation of new accounting standards and policies;
- the sources of the Company's cash flows;
- 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:

- the impact of COVID-19, including related government responses related thereto;
- 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 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 ability to maintain a strong balance sheet and financial position;
- the Company's future debt levels;
- the impact of increasing competition on the Company;
- the ability of the Company and its joint venture partner to construct the DRU and place into service as currently planned and scheduled;
- the impact of future changes in accounting policies on the Company's consolidated financial statements; and
- the Company's ability to successfully implement the plans and programs disclosed in the Company's strategy.

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 "Risk Factors" included in this MD&A. Readers should also refer to "Forward-Looking Information" and "Risk Factors" included in the Company's current Annual Information Form and to the risk factors described in other documents Gibson files from time to time with securities regulatory authorities, available at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.gibsonenergy.com](http://www.gibsonenergy.com). No assurance can be given that these expectations will prove to be correct. As such, forward-looking information included or referred to in this MD&A and the Company's other filings with Canadian securities regulatory authorities should not be unduly relied upon. These statements speak only as of the date of this MD&A.

Information on, or connected to, the Company's website [www.gibsonenergy.com](http://www.gibsonenergy.com) does not form part of this MD&A.

The forward-looking information included or referred to in this MD&A are expressly qualified by this cautionary statement and are made as of the date of this MD&A. The Company does not undertake any obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise except as required by applicable securities laws.

## **NON-GAAP FINANCIAL MEASURES**

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. Adjusted EBITDA and distributable cash flow 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" 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 to Segment Profit. Distributable cash flow and Dividend payout ratio are 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.

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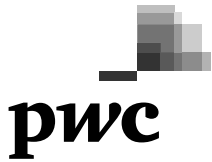


GIBSON ENERGY  
**CONSOLIDATED  
FINANCIAL  
STATEMENTS**

FOR THE YEARS  
ENDED DECEMBER 31,  
2020 AND 2019

TSX:GEI





## Independent auditor's report

To the Shareholders of Gibson Energy Inc.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Gibson Energy Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2020 and 2019;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

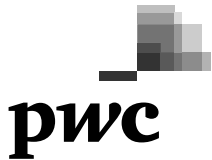
### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP  
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3  
T: +1 403 509 7500, F: +1 403 781 1825

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

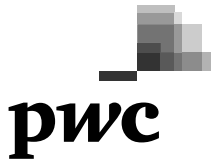




## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Refer to note 3 – Significant accounting policies and note 13 – Goodwill to the consolidated financial statements.</i></p> <p>The Company had goodwill of \$360.1 million as at December 31, 2020. Management performs an impairment assessment annually or more frequently if events or circumstances indicate that the carrying value may be impaired. An impairment assessment is conducted over a group of assets that generate independent cash inflows; management has grouped these cash-generating units at the operating segment level. An impairment loss is recognized if the carrying amount of an operating segment to which the goodwill relates exceeds its recoverable amount. The recoverable amount was based on a fair value less cost of disposal method using an earnings multiple approach or a discounted cash flow model.</p> <p>Key assumptions used in the earnings multiple approach were: budgeted earnings before interest, taxes, depreciation and amortization less corporate expenses (EBITDA) and earnings multiples. Budgeted EBITDA involves estimating revenue growth rates, future commodity prices, expected margins, expected sales volumes and cost structures. The earnings multiple is calculated using multiples of comparable public companies of the relevant operating segment.</p> <p>Key assumptions used in the discounted cash flow model included revenue growth rates, expected</p>	<p>Our approach to addressing the matter involved the following procedures, among others:</p> <ul style="list-style-type: none"> <li>· Evaluated how management determined the recoverable amount of the operating segment, which included the following: <ul style="list-style-type: none"> <li>– Tested the appropriateness of the method used and the mathematical accuracy of the models used.</li> <li>– When an earnings multiple approach was used, tested the reasonableness of the assumptions used by management in determining the budgeted EBITDA such as revenue growth rates, expected margins, expected sales volumes and cost structures by considering (i) the past and actual performance of the operating segment, (ii) the comparability with external market and industry data and (iii) whether these assumptions were aligned with evidence obtained in other areas of the audit.</li> <li>– When a discounted cash flow approach was used, tested the reasonableness of the revenue growth rates and expected margins (if applicable) applied by management by comparing to management’s strategic plans approved by the Board, industry growth rates, and available third party published economic data.</li> <li>– Professionals with specialized skill and knowledge in the field of valuation assisted</li> </ul> </li> </ul>



Key audit matter margins and discount rates.	How our audit addressed the key audit matter in testing the reasonability of the multiples and discount rates.
<p>We considered this a key audit matter due to (i) the significance of the goodwill balance and (ii) the significant judgment made by management in determining the recoverable amount of the operating segments, including the use of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing the audit procedures. Professionals with skill and knowledge in the field of valuation assisted us in performing our procedures.</p>	<ul style="list-style-type: none"><li>- Tested the underlying data used in determining the recoverable amount.</li></ul>

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### Other information

Management is responsible for the other information. The other information comprises the document titled Management’s Discussion and Analysis and the information, other than the consolidated financial statements and our auditor’s report thereon, included in the document titled 2020 Report to Shareholders, Management’s Discussion and Analysis and Annual Financial Statements.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

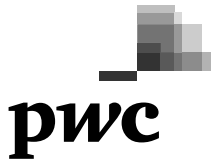
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.



In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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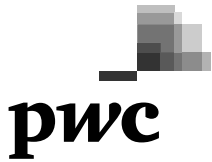
### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.





- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Reynold Tetzlaff.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Calgary, Alberta  
February 22, 2021

# Gibson Energy Inc.

## Consolidated Balance Sheets

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

	As at December 31,	
	2020	2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 53,676	\$ 47,231
Trade and other receivables (note 5).....	333,641	428,892
Inventories (note 6).....	163,113	137,168
Income taxes receivable.....	-	8,592
Prepaid and other assets.....	7,595	6,227
Net investment in finance leases (note 7) .....	8,454	7,476
Assets held for sale (note 8).....	18,557	49,394
<b>Total current assets</b> .....	<b>585,036</b>	<b>684,980</b>
<b>Non-current assets</b>		
Property, plant and equipment (note 9) .....	1,663,649	1,558,762
Right-of-use assets (note 10) .....	69,195	95,485
Long-term prepaid and other assets .....	1,535	2,757
Net investment in finance leases (note 7) .....	172,466	181,074
Investment in equity accounted investees (note 11).....	142,556	20,519
Deferred income tax assets (note 20).....	36,820	38,869
Intangible assets (note 12).....	35,781	33,597
Goodwill (note 13) .....	360,122	360,647
<b>Total non-current assets</b> .....	<b>2,482,124</b>	<b>2,291,710</b>
<b>Total assets</b> .....	<b>\$ 3,067,160</b>	<b>\$ 2,976,690</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued charges (note 17) .....	\$ 403,719	\$ 432,067
Income taxes payable.....	1,496	-
Dividends payable (note 19) .....	49,494	48,073
Contract liabilities .....	45,357	66,147
Lease liabilities – current portion (note 15).....	31,208	36,308
Liabilities related to assets held for sale (note 8) .....	-	6,569
<b>Total current liabilities</b> .....	<b>531,274</b>	<b>589,164</b>
<b>Non-current liabilities</b>		
Long-term debt (note 14).....	1,449,481	1,148,707
Lease liabilities – non-current portion (note 15).....	71,534	95,500
Convertible debentures (note 16).....	-	95,129
Provisions (note 18) .....	236,952	197,002
Other long-term liabilities .....	6,671	6,169
Deferred income tax liabilities (note 20).....	91,598	84,409
<b>Total non-current liabilities</b> .....	<b>1,856,236</b>	<b>1,626,916</b>
<b>Total liabilities</b> .....	<b>\$ 2,387,510</b>	<b>\$ 2,216,080</b>
<b>Equity</b>		
Share capital (note 19) .....	1,977,104	1,973,827
Contributed surplus .....	61,820	46,316
Accumulated other comprehensive income .....	24,066	32,594
Convertible debentures (note 16).....	-	7,023
Deficit .....	(1,383,340)	(1,299,150)
<b>Total equity</b> .....	<b>679,650</b>	<b>760,610</b>
<b>Total liabilities and equity</b> .....	<b>\$ 3,067,160</b>	<b>\$ 2,976,690</b>

### Commitments and contingencies (note 28)

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

	Year ended December 31,	
	2020	2019
<b>Continuing operations</b>		
Revenue (note 21).....	\$ 4,938,066	\$ 7,336,322
Cost of sales (notes 22 and 23) .....	4,631,926	7,002,402
<b>Gross profit</b> .....	306,140	333,920
General and administrative expenses (notes 22 and 23).....	65,853	64,580
Other operating income, net.....	(6,811)	(6,112)
<b>Operating income</b> .....	247,098	275,452
Finance costs, net (note 14) .....	96,420	78,540
<b>Income before income taxes</b> .....	150,678	196,912
Income tax expense (note 20).....	29,369	20,573
<b>Net income from continuing operations</b> .....	121,309	176,339
Net income from discontinued operations, after tax.....	-	6,562
<b>Net income</b> .....	<u>\$ 121,309</u>	<u>\$ 182,901</u>
<b>Earnings per share (note 24)</b>		
Basic earnings per share from continuing operations .....	\$ 0.83	\$ 1.21
Basic earnings per share from discontinued operations.....	-	0.04
Basic earnings per share.....	<u>\$ 0.83</u>	<u>\$ 1.25</u>
Diluted earnings per share from continuing operations .....	\$ 0.82	\$ 1.19
Diluted earnings per share from discontinued operations .....	-	0.04
Diluted earnings per share .....	<u>\$ 0.82</u>	<u>\$ 1.23</u>

*See accompanying notes to the consolidated financial statements*



**Gibson Energy Inc.**

**Consolidated Statements of Comprehensive Income**

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Net income</b> .....	<u>\$ 121,309</u>	<u>\$ 182,901</u>
<b>Other comprehensive loss</b> .....		
<i>Items that may be reclassified subsequently to statement of operations</i>		
Exchange differences from translating foreign operations – continuing operations ....	(8,363)	(8,767)
<i>Items that will not be reclassified to statement of operations</i>		
Remeasurements of post-employment benefit obligation, net of tax .....	<u>(165)</u>	<u>(289)</u>
<b>Other comprehensive loss, net of tax</b> .....	<u>(8,528)</u>	<u>(9,056)</u>
<b>Comprehensive income</b> .....	<u>\$ 112,781</u>	<u>\$ 173,845</u>

*See accompanying notes to the consolidated financial statements*

## Gibson Energy Inc.

### Consolidated Statements of Changes in Equity

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

	Share capital (note 19)	Contributed surplus	Accumulated other comprehensive income (loss)	Convertible debentures	Deficit	Total Equity
<b>Balance – January 1, 2019</b> .....	\$ 1,955,146	\$ 44,461	\$ 41,650	\$ 7,023	\$ (1,290,050)	\$ 758,230
Net income .....	-	-	-	-	182,901	182,901
Other comprehensive loss, net of tax .....	-	-	(9,056)	-	-	(9,056)
Comprehensive (loss) income .....	-	-	(9,056)	-	182,901	173,845
Exercise of debentures conversion option	110	-	-	-	-	110
Share based compensation .....	-	19,167	-	-	-	19,167
Proceeds from exercise of stock options ....	1,259	-	-	-	-	1,259
Reclassification of contributed surplus .....	17,312	(17,312)	-	-	-	-
Dividends on common shares (\$1.32 per common share) .....	-	-	-	-	(192,001)	(192,001)
<b>Balance – December 31, 2019</b> .....	<b>\$ 1,973,827</b>	<b>\$ 46,316</b>	<b>\$ 32,594</b>	<b>\$ 7,023</b>	<b>\$ (1,299,150)</b>	<b>\$ 760,610</b>
<b>Balance – January 1, 2020</b> .....	<b>\$ 1,973,827</b>	<b>\$ 46,316</b>	<b>\$ 32,594</b>	<b>\$ 7,023</b>	<b>\$ (1,299,150)</b>	<b>\$ 760,610</b>
Net income .....	-	-	-	-	121,309	121,309
Other comprehensive loss, net of tax .....	-	-	(8,528)	-	-	(8,528)
Comprehensive (loss) income .....	-	-	(8,528)	-	121,309	112,781
Exercise of debentures conversion option..	3,515	-	-	-	-	3,515
Share based compensation .....	-	18,660	-	-	-	18,660
Excess deferred tax on equity settled awards .....	117	269	-	-	-	386
Proceeds from exercise of stock options ....	927	-	-	-	-	927
Reclassification of contributed surplus .....	10,448	(3,425)	-	(7,023)	-	-
Repurchase of shares under Normal Course Issuer Bid .....	(11,730)	-	-	-	(6,832)	(18,562)
Dividends on common shares (\$1.36 per common share) .....	-	-	-	-	(198,667)	(198,667)
<b>Balance – December 31, 2020</b> .....	<b>\$ 1,977,104</b>	<b>\$ 61,820</b>	<b>\$ 24,066</b>	<b>\$ -</b>	<b>\$ (1,383,340)</b>	<b>\$ 679,650</b>

See accompanying notes to the consolidated financial statements

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Net income from continuing operations .....	\$ 121,309	\$ 176,339
Adjustments (note 30) .....	319,133	280,961
Changes in items of working capital (note 30) .....	27,286	(2,169)
Income tax payment, net (note 30) .....	(8,177)	(92,976)
Cash provided by operating activities from continuing operations .....	459,551	362,155
Cash provided by operating activities from discontinued operations .....	-	6,465
<b>Net cash provided by operating activities</b> .....	<b>459,551</b>	<b>368,620</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and intangible assets .....	(215,098)	(271,421)
Deferred consideration paid on prior period acquisition .....	-	(39,551)
Investment in equity accounted investees (note 11) .....	(120,705)	(21,292)
Proceeds from sale of assets held for sale, net .....	31,366	48,359
Proceeds from sale of assets .....	483	5,777
Cash used in investing activities from continuing operations .....	(303,954)	(278,128)
Cash provided by investing activities from discontinued operations .....	-	67,735
<b>Net cash used in investing activities</b> .....	<b>(303,954)</b>	<b>(210,393)</b>
<b>Cash flows from financing activities</b>		
Payment of shareholder dividends .....	(197,246)	(191,633)
Interest paid, net .....	(62,534)	(64,577)
Proceeds from exercise of stock options .....	927	1,259
Finance lease payments (note 15) .....	(44,967)	(48,632)
Proceeds from issuance of long-term debt, net of issuance costs .....	892,972	495,485
Repayment of long-term debt .....	(719,989)	(304,032)
Repayment of credit facility, net .....	-	(90,000)
Repurchase of shares under normal course issuer bid (note 19) .....	(18,562)	-
Cash used in financing activities from continuing operations .....	(149,399)	(202,130)
Cash used in financing activities from discontinued operations .....	-	(847)
<b>Net cash used in financing activities</b> .....	<b>(149,399)</b>	<b>(202,977)</b>
<b>Net increase (decrease) in cash and cash equivalents</b> .....	<b>6,198</b>	<b>(44,750)</b>
Effect of exchange rate on cash and cash equivalents .....	247	(3,320)
Cash and cash equivalents – beginning of year .....	47,231	95,301
<b>Cash and cash equivalents – end of year</b> .....	<b>\$ 53,676</b>	<b>\$ 47,231</b>

*See accompanying notes to the consolidated financial statements**See notes 14, 15 and 19 for reconciliation of movement of financial liabilities and equity.*

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

### 1 Description of the business and segmented disclosure

Gibson Energy Inc. (the “Company”) was incorporated pursuant to the Business Corporations Act (Alberta) on April 11, 2011. 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’s common shares are traded on the Toronto Stock Exchange under the symbol “GEI”.

The Company had the following principal subsidiaries as at December 31, 2020:

<b>Name</b>	<b>Nature of entity</b>
Gibson Energy Inc.	Ultimate Parent Company
Gibson Energy ULC	Holding Company
Gibson (U.S.) Holdco Corp.	Holding Company

<b>Name</b>	<b>Nature of business</b>
Moose Jaw Refinery Partnership	Crude oil processing
Gibson Energy Infrastructure Partnership	Marketing and Infrastructure
Gibson (U.S.) Acquisitionco Corp.	Marketing and Infrastructure

Gibson is an oil Infrastructure company with our principal businesses consisting of storage, optimization, processing, and gathering of crude oil and refined products.

The Company’s reportable segments are:

**Infrastructure**, which includes a network of oil infrastructure assets that include oil terminals, rail loading and unloading facilities, gathering pipelines, a crude oil processing facility, and other small terminals. The primary facilities within this segment include the Hardisty and Edmonton Terminals, 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; an infrastructure position located in the United States (“U.S.”); and a crude oil processing facility in Moose Jaw, Saskatchewan (the “Moose Jaw Facility”). The Moose Jaw Facility is impacted by maintenance turnarounds typically occurring within the spring.

**Marketing**, which is involved in the purchasing, selling, storing and optimizing of hydrocarbon products as part of supplying the Moose Jaw Facility and marketing its refined products as well as helping to drive volumes through the Company’s key infrastructure assets. The Marketing segment also engages in optimization opportunities which are typically location, quality and time-based. The hydrocarbon products include crude oil, natural gas liquids, and road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil and an oil-based mud product. The Marketing segment sources the majority of its hydrocarbon products from Western Canada as well as the Permian basin and markets those products throughout Canada and the U.S. The Moose Jaw Facility business is impacted by certain seasonality of operations specific to the oil and gas industry and asphalt product demand.

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

Accounting policies used for segment reporting are consistent with the accounting policies used for the preparation of the Company’s consolidated financial statements. Inter-segmental transactions are eliminated upon consolidation and the Company does not recognize margins on inter-segmental transactions.

**Gibson Energy Inc.****Notes to Consolidated Financial Statements***(Amounts in thousands of Canadian dollars, except where noted)***Year ended December 31, 2020**

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<b>Statement of operations</b>			
Revenue			
External .....	\$ 303,859	\$ 4,634,207	\$ 4,938,066
Inter-segmental .....	<u>161,461</u>	<u>31,218</u>	<u>192,679</u>
External and inter-segmental .....	<u>465,320</u>	<u>4,665,425</u>	<u>5,130,745</u>
Segment profit .....	<u>\$ 374,424</u>	<u>\$ 94,623</u>	<u>\$ 469,047</u>
<b>Corporate &amp; other reconciling items</b>			
Depreciation and impairment of property, plant and equipment .....			124,057
Depreciation of right-of-use assets .....			37,962
Amortization of intangible assets .....			7,403
General and administrative .....			33,081
Stock based compensation .....			21,144
Corporate foreign exchange gain .....			(1,698)
Debt extinguishment costs .....			31,833
Interest expense, net .....			<u>64,587</u>
Net income from continuing operations before income tax .....			150,678
Income tax expense .....			<u>29,369</u>
Net income .....			<u>\$ 121,309</u>

**Year ended December 31, 2019**

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<b>Statement of operations</b>			
Revenue			
External .....	\$ 265,124	\$ 7,071,198	\$ 7,336,322
Inter-segmental .....	<u>148,317</u>	<u>384,039</u>	<u>532,356</u>
External and inter-segmental .....	<u>413,441</u>	<u>7,455,237</u>	<u>7,868,678</u>
Segment profit .....	<u>\$ 299,140</u>	<u>\$ 195,110</u>	<u>\$ 494,250</u>
<b>Corporate &amp; other reconciling items</b>			
Depreciation and impairment of property, plant and equipment .....			121,731
Depreciation of right-of-use assets .....			40,527
Amortization of intangible assets .....			12,836
General and administrative .....			30,166
Stock based compensation .....			14,562
Corporate foreign exchange loss .....			3,961
Debt extinguishment costs .....			6,057
Interest expense, net .....			72,488
Gain on sale of assets held for sale .....			(4,990)
Net income from continuing operations before income tax .....			196,912
Income tax expense .....			<u>20,573</u>
Net income from continuing operations .....			176,339
Net income from discontinued operations, after tax .....			<u>6,562</u>
Net income .....			<u>\$ 182,901</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

The breakdown of additions to property, plant and equipment, investment in equity accounted investees and intangible assets, including acquisitions through business combinations, by reportable segments are as follows:

	Year ended December 31,	
	2020	2019
Infrastructure.....	\$ 315,607	\$ 246,898
Marketing .....	12,945	3,758
Corporate.....	3,142	3,217
Total.....	<u>\$ 331,694</u>	<u>\$ 253,873</u>

### Geographic Data

Based on the location of the end user, approximately \$1,476.2 million and \$1,791.9 million of revenue was from customers in the U.S. for the year ended December 31, 2020 and 2019, respectively.

The Company's non-current assets, excluding investment in finance leases, investment in equity accounted investees and deferred tax assets, are primarily concentrated in Canada with \$207.6 million and \$145.2 million in the U.S. at December 31, 2020 and 2019, 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.

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 U.S. dollars.

These consolidated financial statements were approved for issuance by the Company's board of directors ("Board") on February 22, 2021.

### 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 the applicable 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 arrangements.

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.

Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for the relevant financial and operational decisions. A joint arrangement is either a joint operation,

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

whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets. Where the Company has assessed the nature of its joint arrangements to be joint operations, it has recognized its proportionate share of revenues, expenses, assets and liabilities relating to these joint operations. The Company's joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The joint ventures are adjusted thereafter for the post-acquisition change in the Company's share of the equity accounted investment's net assets. The Company's consolidated financial statements include its share of the equity accounted investment's profit or loss and other comprehensive income, until the date that joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. Distributions from investments in equity accounted investees are recognized when received.

Acquisition of an incremental ownership in a joint arrangement where the Company maintains joint control is recorded at cost or fair value if acquired as part of a business combination. Where the Company has a partial disposal, including a deemed disposal, of a joint arrangement and maintains joint control, the resulting gains or losses are recorded in earnings at the time of disposal.

All intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements. Gains arising from transactions with investments in equity accounted investees are eliminated against the investment to the extent of Company's interest in the investee. Losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### **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.

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

#### **Business combinations and goodwill**

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

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

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

**Intangible assets**

Intangible assets are stated at cost, less accumulated amortization and 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:

Long-term customer contracts .....	6 – 10 years
Technology, software and license .....	3 – 10 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 impairment losses.

The initial cost of an asset comprises of 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 of 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
Pipelines and connections .....	8 – 30 years
Tanks .....	20 – 30 years
Plant .....	10 – 25 years
Disposal wells.....	20 – 25 years
Rolling Stock.....	5 – 13 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 from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of operations in the period the item is derecognized.

**Impairments**

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

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

**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**

All leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of operations over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments on short term leases with lease terms of less than twelve months or leases on which the underlying asset is of low value are accounted for as expenses in the consolidated statement of operations.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects exercising that option. These lease payments are discounted using the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable.

Right-of-use assets are measured at cost comprising of the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date, any initial direct costs, and restoration costs.

**Leases - lessor**

Leases in contractual arrangements which transfer substantially all the risks and benefits of ownership of property to the lessee are accounted for as finance leases, while all other leases are accounted for as operating leases.

Finance leases are recorded as a net investment in a finance lease. The present value of minimum lease receivable under such arrangements are recorded as an investment in finance lease and the finance income is recognized in a manner that produces a consistent rate of return on the investment in the finance lease and is included in revenue.

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

**Provisions and contingencies**

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

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

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

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

#### *Decommissioning 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. Actual expenditures incurred are charged against the accumulated liability.

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

#### *Environmental liabilities*

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

#### **Employee benefits**

##### *Defined benefit pension plan*

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

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

##### *Defined contribution pension plans*

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

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

### *Share-based payments*

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

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

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

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

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

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

### *Termination benefit*

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

### **Income taxes**

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

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

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

The Company maintains provisions for uncertain income tax positions using the best estimate of the amount expected to be paid in resolution of the uncertainty. To ensure the adequacy of these provisions, the Company reviews uncertain tax positions at the end of each reporting period to give effect to changes in facts and circumstances and the availability of new information.

**Revenue recognition**

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer, at a point in time or over time. The Company does not have contracts where the period between the transfer of the promised goods or services to the customer and payments by the customer exceeds one year. As such, no adjustments are made to the transaction prices for the time value of money.

Revenue generated through the provision of services charged through long-term fixed-fee contracts related to midstream infrastructure assets and includes a fixed and/or take or pay portion for the use of the midstream infrastructure and a variable portion related to the servicing of volume throughput. The Company accounts for individual services separately if they are distinct, indicated by the fact that they are separately identifiable from other services provided and the customer can benefit from these distinct services. The stand-alone prices on services are determined by the rates listed within the individual contracts related to the service. The Company recognizes revenue over time as services are provided on a monthly basis, consistent with when the services are billed and paid. 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 breakage rights. Breakage amounts 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 breakage at the earlier of when the breakage volume is shipped, the rights expires or when it is determined that the likelihood that the shipper will utilize the right is remote.

Revenues generated through the purchasing, selling, storing and blending of hydrocarbon products as well as by providing aggregation services to producers and/by capturing quality, locational or time-based arbitrage opportunities are typically short to long term in accordance with a customer's current product demands which are generally grouped as spot sales where no commitment exists prior to the day of the transaction. Term sales where a commitment exists over a period of time for negotiated sales, and evergreen sales where contracts are automatically renewed on a month to month basis. The Company accounts for individual product sales separately if they are distinct, indicated by the fact that they are separately identifiable from other enforceable rights and obligations and the customer can benefit from these distinct services. The stand-alone prices on product sales are determined by the rates listed within market indexes and benchmarks and usually include quality or transportation adjustments. The Company recognizes revenue at a point in time as products are delivered and control of the product has transferred to the customer, consistent with when the products are billed and paid. All payments received before delivery are recorded as a contract liability and are recognized as revenue when delivery occurs, assuming all other criteria are met. Revenues from buy/sell transactions which are monetary transactions containing commercial substance is recognized on a gross-basis as separate performance obligation. Revenues from buy/sell transactions of non-monetary exchanges of similar products, which lack commercial substance, are recognized on a net basis.

Revenues generated from the provision of transportation and related services such as hauling services for crude oil within the U.S. are typically short-term in accordance with a customer's current hauling requirements. The Company accounts for individual hauling services separately if they are distinct, indicated by the fact that they are separately identifiable from other hauling services provided and the customer can benefit from these distinct services. The stand-alone prices on services are determined by the rates listed by the Company and are predetermined based on the volume of products serviced. The Company recognizes revenue over time as hauling and transportation services are provided and control of the service transfers to the customer, consistent with when the services are billed and paid.

**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,

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

until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the consolidated statement of operations in the period in which they are incurred.

**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.

**Non-derivative financial instruments – recognition and measurement***Financial assets*

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

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

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.

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

*Financial liabilities*

Financial liabilities classified as other liabilities include 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, modification or cancellation of liabilities are recognized in the consolidated statement of operations.

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

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 – recognition and measurement**

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

#### **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 are budgeted earnings before interest, taxes, depreciation and amortization less corporate expenses (EBITDA) which involves estimating revenue growth rates, future commodity prices, expected margins, expected sales volumes, cost structures, multiples of comparable public companies of the operating segment, terminal value and discount rates.

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.

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

### *Provisions*

Provisions for decommissioning and environmental remediation are recorded when it is considered probable and the costs can be reasonably estimated. The eventual costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and constructive obligations, the application of new technologies, and the Company's past experience in comparable decommissioning and environmental remediation activities. The Company uses third-party evaluators, where determined necessary, to obtain the estimates of the decommissioning and environmental provision.

### ***Critical judgements in applying the Company's accounting policies***

#### *Identification of cash generating unit ("CGU")*

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

#### *Critical judgements in determining lease terms*

The Company uses hindsight in determining the lease term where a contract contains options to extend or terminate the lease. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed upon a trigger by a significant event or a significant change in circumstances.

#### *Assessment of joint control over joint arrangements*

The determination of joint control requires judgment about the influence the Company has over the financial and operating decisions of an arrangement and the extent of the benefits it obtains based on the facts and circumstances of the arrangement during the reporting period. Joint control exists when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Ownership percentage alone may not be a determinant of joint control.

#### *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 if the arrangement conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where such rights do not exist, the arrangement is considered a service contract. For those arrangements considered to be a lease, further judgement is required to determine whether if 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.

#### *Impact of the coronavirus ("COVID-19") Pandemic*

Following the World Health Organization declaring the COVID-19 outbreak to be a pandemic, many governments have taken steps to contain the spread of the virus, resulting in a slowdown of the global economy, which has led to a significant disruption of business operations and a significant increase in economic uncertainty. This uncertainty has created volatility in asset prices, currency exchange rates and a marked decline in long-term interest rates. In addition, the resulting decrease in demand for crude oil has resulted in a decline in global energy prices. Management applied judgment and will continue to assess the situation in determining the impact of the significant uncertainties created by these events and conditions on the carrying amounts of assets and liabilities in the consolidated financial statements.



*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 statement of operations in the period in which the change occurs. 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****A. Adoption of new accounting standards**

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

- IFRS 3 – Business Combinations (“IFRS 3”), has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 is effective for the years beginning on or after January 1, 2020 and applied prospectively. The Company assessed the impact of this amendment and has determined that there is currently no impact on its financial statements. However, the Company believes that going forward, more business acquisitions will likely qualify for assets purchases rather than business combinations.

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

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

- IAS 1 – Presentation of Financial Statements (“IAS 1”), has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2023. The Company is currently assessing the impact of this amendment.
- The annual improvements process addresses issues in the 2018-2020 reporting cycles including changes to IFRS 9, Financial Instruments, IFRS 1, First Time Adoption of IFRS, IFRS 16, Leases, and IAS 41, Biological Assets. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- IAS 37 – Provisions (“IAS 37”), has been amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. These amendments are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- IAS 16 – Property, Plant and Equipment (“IAS 16”), has been amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

#### 5 Trade and other receivables

	December 31,	
	2020	2019
Trade receivables .....	\$ 320,779	\$ 410,226
Allowance for doubtful accounts .....	(566)	(131)
Trade receivables, net .....	320,213	410,095
Risk management assets (note 27) .....	3,279	4,634
Indirect taxes receivable .....	7,896	11,241
Other .....	2,253	2,922
	<u>\$ 333,641</u>	<u>\$ 428,892</u>

#### Allowance for doubtful accounts

	Year ended December 31,	
	2020	2019
Opening balance .....	\$ (131)	\$ (133)
Additional allowances .....	(2,064)	-
Receivables written off as uncollectible .....	1,628	-
Effect of changes in foreign exchange rates .....	1	2
Closing balance .....	<u>\$ (566)</u>	<u>\$ (131)</u>

#### 6 Inventories

	December 31,	
	2020	2019
Crude oil and diluent .....	\$ 115,809	\$ 78,291
Asphalt .....	20,852	30,065
Natural gas liquids .....	14,479	13,114
Wellsite fluids and distillate .....	11,973	15,698
	<u>\$ 163,113</u>	<u>\$ 137,168</u>

The cost of the inventory sold included in cost of sales was \$4,380 million and \$6,831 million for the years ended December 31, 2020 and 2019, respectively.

During the year ended December 31, 2020 the Company recorded \$28.2 million (December 31, 2019 – \$4.2 million) within the Marketing segment as a result of a write-down of inventories to net realizable value. These were recognized as an expense and included in cost of sales in the consolidated statements of operations.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

#### 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 infrastructure assets owned by the Company. These arrangements are accounted for as finance leases:

	December 31,	
	2020	2019
Total minimum lease payments receivable .....	\$ 545,311	\$ 590,990
Residual value .....	68,464	68,464
Unearned income .....	(432,855)	(470,904)
	180,920	188,550
Less: current portion .....	8,454	7,476
Net investment in finance lease: non-current portion .....	\$ 172,466	\$ 181,074

The minimum lease receivables are expected to be as follows:

2021 .....	\$ 45,516
2022 .....	43,878
2023 .....	34,957
2024 .....	33,035
2025 .....	33,301
2026 and later .....	\$ 354,624

#### 8 Assets and liabilities held for sale and disposals

During 2019, the U.S. Trucking and Transportation business and certain assets relating to injection stations were classified as held for sale. During the third quarter of 2020, the Company concluded that the disposal group no longer met the criteria for a highly probable sale which resulted in the removal of the disposal group out of held for sale classification. The net assets were measured for impairment and no impairment charge was recorded during 2020.

During the first quarter of 2019, the Company sold its non-core Environmental Services North business for gross proceeds of \$51.8 million and incurred transaction costs of \$3.3 million, which resulted in the recognition of a pre-tax gain of \$2.7 million included in other operating income within the continuing operations. Major net assets disposed consists of property, plant and equipment of \$66.0 million, right-of-use assets of \$1.0 million, finance lease liabilities of \$0.8 million and decommissioning provisions of \$21.1 million.

During the third quarter of 2019, the Company completed the sale of the Truck Transportation Canada business for gross proceeds of \$69.5 million and recognized a post-tax gain of \$0.86 million. The terms of the sale allows for additional proceeds depending on the performance of the business over the next five years, however, no contingent consideration was recorded as at December 31, 2020. Major net assets disposed consisted of property plant and equipment of \$50.9 million, trade receivables of \$34.4 million, right-of-use assets of \$8.9 million, trade and other payables of \$16.1 million, lease liabilities of \$7.9 million and deferred income tax liability of \$8.8 million. In accordance with the terms of an agreement entered into at the time of the Truck Transportation Canada sale with an affiliate of the same purchaser, the Company completed the sale of the Edmonton field office and shop facilities for \$30.0 million in the second quarter of 2020.

As at December 31, 2020, certain disposal assets are presented within the assets held for sale primarily consisting of property, plant and equipment for \$18.6 million. The assets have been tested for impairment resulting in an immaterial impairment charge. The sale is expected to close in the first quarter of 2021.

**Gibson Energy Inc.****Notes to Consolidated Financial Statements***(Amounts in thousands of Canadian dollars, except where noted)***9 Property, plant and equipment**

	Land & Buildings	Pipelines and Connections	Tanks	Plant, Equipment & Other	Work in Progress	Total
<b>Cost:</b>						
At January 1, 2020.....	\$ 125,414	\$ 413,590	\$ 727,660	\$ 783,088	\$ 110,343	\$ 2,160,095
Additions and adjustments.....	1,748	48,770	51,388	51,847	47,530	201,283
Disposals.....	-	-	(257)	(5,083)	-	(5,340)
Reclassifications.....	2,685	15,854	20,384	37,254	(76,177)	-
Change in decommissioning provision (note 18).....	-	6,278	20,109	10,182	-	36,569
Effect of movements in exchange rates	(122)	(2,142)	(510)	(1,311)	(1,675)	(5,760)
Transferred from (to) held for sale and disposals, net.....	(6,064)	-	5,097	46,243	-	45,276
At December 31, 2020.....	\$ 123,661	\$ 482,350	\$ 823,871	\$ 922,220	\$ 80,021	\$ 2,432,123
<b>Accumulated depreciation and impairment:</b>						
At January 1, 2020.....	\$ 22,923	\$ 106,125	\$ 154,506	\$ 317,779	\$ -	\$ 601,333
Depreciation and adjustments.....	5,061	22,674	29,936	66,386	-	124,057
Disposals.....	-	-	(131)	(4,581)	-	(4,712)
Effect of movements in exchange rates	-	(159)	(13)	(566)	-	(738)
Transferred from (to) held for sale and disposals, net.....	(257)	-	1,663	47,128	-	48,534
At December 31, 2020.....	\$ 27,727	\$ 128,640	\$ 185,961	\$ 426,146	\$ -	\$ 768,474
<b>Carrying amounts:</b>						
At January 1, 2020.....	\$ 102,491	\$ 307,465	\$ 573,154	\$ 465,309	\$ 110,343	\$ 1,558,762
At December 31, 2020.....	\$ 95,934	\$ 353,710	\$ 637,910	\$ 496,074	\$ 80,021	\$ 1,663,649

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

	Land & Buildings	Pipelines and Connections	Tanks	Plant, Equipment & Other	Work in Progress	Total
<b>Cost:</b>						
At January 1, 2019 .....	\$ 91,397	\$ 299,229	\$ 607,012	\$ 732,927	\$ 256,906	\$ 1,987,471
Additions and adjustments.....	13,103	42,309	57,683	73,663	62,910	249,668
Disposals.....	(22)	-	(990)	(19,653)	-	(20,665)
Reclassifications.....	21,322	66,351	49,878	70,713	(208,264)	-
Change in decommissioning provision (note 18).....	-	6,775	19,927	(3,128)	-	23,574
Effect of movements in exchange rates .....	(15)	(1,016)	(335)	(4,699)	(1,209)	(7,274)
Transferred to held for sale and disposals .....	(371)	(58)	(5,515)	(66,735)	-	(72,679)
At December 31, 2019.....	<u>\$ 125,414</u>	<u>\$ 413,590</u>	<u>\$ 727,660</u>	<u>\$ 783,088</u>	<u>\$ 110,343</u>	<u>\$ 2,160,095</u>
<b>Accumulated depreciation and impairment:</b>						
At January 1, 2019 .....	\$ 19,079	\$ 90,441	\$ 130,601	\$ 323,139	\$ -	\$ 563,260
Depreciation and adjustments ..	4,265	15,684	26,549	75,233	-	121,731
Disposals.....	(22)	-	(359)	(18,765)	-	(19,146)
Effect of movements in exchange rates .....	(7)	-	(160)	(3,175)	-	(3,342)
Transferred to held for sale and disposals .....	(392)	-	(2,125)	(58,653)	-	(61,170)
At December 31, 2019.....	<u>\$ 22,923</u>	<u>\$ 106,125</u>	<u>\$ 154,506</u>	<u>\$ 317,779</u>	<u>\$ -</u>	<u>\$ 601,333</u>
<b>Carrying amounts:</b>						
At January 1, 2019 .....	\$ 72,318	\$ 208,788	\$ 476,411	\$ 409,788	\$ 256,906	\$ 1,424,211
At December 31, 2019.....	\$ 102,491	\$ 307,465	\$ 573,154	\$ 465,309	\$ 110,343	\$ 1,558,762

Additions to property, plant and equipment include capitalization of interest of \$2.9 million and \$4.6 million for the year ended December 31, 2020 and 2019, respectively. Amounts in relation to infrastructure assets are under operating lease arrangements.

During the first quarter of 2020, as a result of the deterioration of certain economic indicators related to the COVID-19 pandemic and the reduction in global crude oil prices, the Company carried out an impairment test with respect to property plant and equipment and intangible assets related to its U.S. Pipelines and Refined Product operating segments. There were no triggers noted for the remainder of the operating segments.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

### 10 Right-of-use assets

	Buildings	Rail cars	Surface Leases & Other	Total
<b>Cost:</b>				
At January 1, 2020.....	\$ 54,553	\$ 110,249	\$ 11,971	\$ 176,773
Additions and adjustments .....	(1,141)	15,452	638	14,949
Disposals.....	(3,869)	(14,866)	(71)	(18,806)
Effects of movements in exchange rates .....	(43)	-	(104)	(147)
Transferred from held for sale and disposals.....	-	-	330	330
At December 31, 2020.....	<u>\$ 49,500</u>	<u>\$ 110,835</u>	<u>\$ 12,764</u>	<u>\$ 173,099</u>
<b>Accumulated depreciation:</b>				
At January 1, 2020.....	\$ 15,009	\$ 60,808	\$ 5,471	\$ 81,288
Depreciation and adjustments .....	5,818	27,460	4,725	38,003
Disposals.....	(430)	(14,866)	(31)	(15,327)
Effects of movements in exchange rates .....	(45)	-	(221)	(266)
Transferred from held for sale and disposals.....	-	-	206	206
At December 31, 2020.....	<u>\$ 20,352</u>	<u>\$ 73,402</u>	<u>\$ 10,150</u>	<u>\$ 103,904</u>
<b>Carrying amounts:</b>				
At January 1, 2020.....	\$ 39,544	\$ 49,441	\$ 6,500	\$ 95,485
At December 31, 2020.....	\$ 29,148	\$ 37,433	\$ 2,614	\$ 69,195

	Buildings	Rail cars	Surface Leases & Other	Total
<b>Cost:</b>				
At January 1, 2019.....	\$ 53,558	\$ 80,886	\$ 6,259	\$ 140,703
Additions and adjustments .....	1,425	63,538	7,050	72,013
Disposals.....	(161)	-	(92)	(253)
Reclassified to net investment in finance leases (note 7).....	-	(34,175)	-	(34,175)
Effects of movements in exchange rates .....	(203)	-	(440)	(643)
Transferred to held for sale and disposals .....	(66)	-	(806)	(872)
At December 31, 2019.....	<u>\$ 54,553</u>	<u>\$ 110,249</u>	<u>\$ 11,971</u>	<u>\$ 176,773</u>
<b>Accumulated depreciation:</b>				
At January 1, 2019.....	\$ 7,623	\$ 31,949	\$ 1,951	\$ 41,523
Depreciation and adjustments .....	7,608	28,859	3,865	40,332
Disposals.....	(156)	-	(7)	(163)
Effects of movements in exchange rates .....	(66)	-	(132)	(198)
Transferred to held for sale and disposals .....	-	-	(206)	(206)
At December 31, 2019.....	<u>\$ 15,009</u>	<u>\$ 60,808</u>	<u>\$ 5,471</u>	<u>\$ 81,288</u>
<b>Carrying amounts:</b>				
At January 1, 2019.....	\$ 45,935	\$ 48,937	\$ 4,308	\$ 99,180
At December 31, 2019.....	\$ 39,544	\$ 49,441	\$ 6,500	\$ 95,485

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

### 11 Investment in equity accounted investees

	Ownership interest at		Share of profit (loss), for the period ended		Investment in equity accounted investees at	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Hardisty Energy Terminal Limited Partnership .....	50%	-	\$ -	\$ -	\$ 120,705	\$ -
Zenith Energy Terminals Joliet Holdings LLC	36%	36%	2,670	(552)	21,851	20,519
Total.....			\$ 2,670	\$ (552)	\$ 142,556	\$ 20,519

On April 9, 2020, the Company entered into an arrangement to acquire a 50% interest in the Hardisty Energy Terminal Limited Partnership (“HET”) for the purpose of constructing and operating a Diluent Recovery Unit (“DRU”) adjacent to the Company’s Hardisty Terminal. HET is jointly owned by US Development Group, LLC (through a wholly-owned affiliate, collectively “USD”) and the Company, with each party owning a 50% interest. The project is currently in the construction phase with an expected mid-year 2021 in service date. The arrangement is considered a joint venture and is accounted for using the equity method. The investment of \$120.7 million represents the capital contributions made by the Company during 2020 for the construction of the DRU facility. The majority of net assets presented below relate to HET as at December 31, 2020 primarily comprising of cash, property, plant and equipment and trade payables.

On October 21, 2019, the Company acquired a 36% interest in Zenith Energy Terminals Holding LLC (“Zenith”) for \$21.3 million (US\$16.3 million). The investment in Zenith is accounted for using the equity method. Zenith owns and operates a crude-by-rail and storage terminal and a pipeline connection to a common carrier crude oil pipeline in Joliet, Illinois.

Summarized financial information (presented at 100 percent):

#### Net income (loss) and comprehensive income (loss)

	Period ended December 31	
	2020	2019
Revenue.....	\$ 14,280	\$ 3,184
Cost of sales.....	6,898	1,827
General and administrative .....	1,743	590
Depreciation and amortization .....	3,015	563
Other (income) expenses .....	(4,781)	1,734
Net income (loss) and comprehensive income (loss).....	7,405	(1,530)
Net income (loss) and comprehensive income (loss) attributable to the Company .....	\$ 2,670	\$ (552)

#### Balance sheet

	As at December 31	
	2020	2019
Current assets.....	\$ 68,379	\$ 5,465
Non-current assets .....	263,061	74,809
Current liabilities .....	48,959	7,495
Non-current liabilities.....	\$ 12,020	\$ 16,458

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

### 12 Intangible assets

	Brands	Customer relationships	Long-term customer contracts	Non-compete agreements	Technology, Software, and License	Total
<b>Cost:</b>						
At January 1, 2020 .....	\$ 22,700	\$ 52,445	\$ 25,445	\$ 2,230	\$ 71,363	\$ 174,183
Additions and adjustments .....	-	-	-	-	3,396	3,396
Disposals .....	-	-	-	-	(493)	(493)
Effect of movements in exchange rates .....	-	(309)	(908)	(113)	(18)	(1,348)
Transferred from held for sale .....	-	5,860	35,237	5,442	654	47,193
At December 31, 2020 .....	\$ 22,700	\$ 57,996	\$ 59,774	\$ 7,559	\$ 74,902	\$ 222,931

#### Accumulated amortization and impairment:

At January 1, 2020 .....	\$ 22,700	\$ 52,445	\$ 8,434	\$ 2,230	\$ 54,777	\$ 140,586
Amortization and adjustments .....	-	-	2,012	-	(919)	1,093
Disposals .....	-	-	-	-	(493)	(493)
Effect of movements in exchange rates .....	-	(309)	(731)	(113)	(21)	(1,174)
Transferred from held for sale .....	-	5,860	35,237	5,442	599	47,138
At December 31, 2020 .....	\$ 22,700	\$ 57,996	\$ 44,952	\$ 7,559	\$ 53,943	\$ 187,150

#### Carrying amounts:

At January 1, 2020 .....	\$ -	\$ -	\$ 17,011	\$ -	\$ 16,586	\$ 33,597
At December 31, 2020 .....	\$ -	\$ -	\$ 14,822	\$ -	\$ 20,959	\$ 35,781

	Brands	Customer relationships	Long-term customer contracts	Non-compete agreements	Technology and Software	Total
<b>Cost:</b>						
At January 1, 2019 .....	\$ 34,837	\$ 99,431	\$ 63,625	\$ 20,398	\$ 74,642	\$ 292,933
Additions and adjustments .....	-	-	-	-	5,497	5,497
Disposals .....	(12,125)	(40,125)	-	(12,361)	(7,988)	(72,599)
Effect of movements in exchange rates .....	-	(1,001)	(2,943)	(365)	(134)	(4,443)
Transferred to held for sale .....	(12)	(5,860)	(35,237)	(5,442)	(654)	(47,205)
At December 31, 2019 .....	\$ 22,700	\$ 52,445	\$ 25,445	\$ 2,230	\$ 71,363	\$ 174,183



## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

#### Accumulated amortization and impairment:

At January 1, 2019 .....	\$ 34,825	\$ 98,206	\$ 43,674	\$ 20,398	\$ 53,834	\$ 250,937
Amortization and adjustments .....	-	1,225	1,987	-	9,624	12,836
Disposals .....	(12,125)	(40,125)	-	(12,361)	(7,988)	(72,599)
Effect of movements in exchange rates .....	-	(1,001)	(1,990)	(365)	(94)	(3,450)
Transferred to held for sale .....	-	(5,860)	(35,237)	(5,442)	(599)	(47,138)
At December 31, 2019 .....	<u>\$ 22,700</u>	<u>\$ 52,445</u>	<u>\$ 8,434</u>	<u>\$ 2,230</u>	<u>\$ 54,777</u>	<u>\$ 140,586</u>

#### Carrying amounts:

At January 1, 2019 .....	\$ 12	\$ 1,225	\$ 19,951	\$ -	\$ 20,808	\$ 41,996
At December 31, 2019 .....	\$ -	\$ -	\$ 17,011	\$ -	\$ 16,586	\$ 33,597

### 13 Goodwill

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,	
	2020	2019
Terminals .....	\$ 195,662	\$ 195,662
U.S. Pipelines .....	31,888	32,413
Moose Jaw Facility .....	89,017	89,017
Marketing Canada .....	43,555	43,555
	<u>\$ 360,122</u>	<u>\$ 360,647</u>

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, 2020, \$325.6 million, net of impairment, relates to goodwill recognized on the acquisition of the Company on December 12, 2008.

On November 30, 2020, the Company carried out its annual impairment test with respect to goodwill. For all operating segments the recoverable amount was greater than the carrying value, including goodwill.

#### Key assumptions used in 2020 impairment test

The recoverable amount was determined using either a discounted cash flow approach, an earnings multiple approach, or market based approach. The Company references Board approved budgets and cash flow forecasts, trailing twelve-month 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. To determine fair value, historic and implied forward market multiples were applied to each operating segment's budgeted EBITDA less corporate expenses. In calculating fair value for each operating segment, other than U.S. Pipelines, the Company used historic and implied forward market multiples that ranged from 7 to 14. Cash flows were projected based on past experience, actual operating results and the 2021 budget.

The recoverable amount of the U.S. Pipelines segment was determined by discounting the forecasted future cash flows generated from continued use of the operating segments due to absence of historical periodic results. 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:

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

	<u>U.S. Pipelines</u>
Discount rate .....	10.5%
Terminal value growth rate .....	1.0%

- (i) Cash flows were projected based on past experience, actual operating results and the long-term business plan.
- (ii) The terminal value growth rate is based on management's best estimate of the long-term revenue and margin growth rates 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.

The fair value of each operating segment was categorized as Level 3 fair value based on the unobservable inputs.

#### 14 Long-term debt

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Revolving credit facility, due February 2025 .....	\$ 60,000	\$ 60,000
\$600 million 5.25% Senior Unsecured Notes due July 15, 2024 ("2024 Notes") .....	-	600,000
\$325 million 2.45% Senior Unsecured Notes due July 14, 2025 ("2025 Notes") .....	325,000	-
\$325 million 2.85% Senior Unsecured Notes due July 14, 2027 ("2027 Notes") .....	325,000	-
\$500 million 3.6% Senior Unsecured Notes due September 17, 2029 ("2029 Notes") .....	500,000	500,000
\$250 million 5.25% Unsecured Notes due December 22, 2080 ("2080 Hybrid Notes") .....	250,000	-
Unamortized issue discount and debt issue costs .....	(10,519)	(11,293)
Total long-term debt.....	<u>\$ 1,449,481</u>	<u>\$ 1,148,707</u>

The Company had \$60.0 million drawn on its unsecured revolving credit facility ("Revolving Credit Facility") as of December 31, 2020 (\$60 million – December 31, 2019) against the credit limit available of \$750.0 million. In addition, the Company has two bilateral demand facilities, which are available for use for general corporate purposes or letters of credit, totaling \$150.0 million under which it had issued letters of credit totaling \$34.7 million as at December 31, 2020 (December 31, 2019 – \$36.9 million).

On July 14, 2020, the Company issued the 2025 Notes and the 2027 Notes. The fixed coupon on these notes is payable semi-annually.

On July 22, 2020, the Company redeemed all of the 2024 Notes at a redemption price of \$1,039.38 per \$1,000 principal amount plus accrued and unpaid interest of \$1.02 per \$1,000 principal amount. Along with the redemption of convertible debentures (note 16) and the 2024 Notes, the Company incurred \$31.8 million of debt extinguishment costs related to the acceleration of unamortized debt issue costs during the year ended December 31, 2020 (December 31, 2019 – \$6.1 million).

On December 22, 2020, the Company issued the 2080 Hybrid Notes. The 2080 Hybrid Notes initially have a coupon of 5.25% per annum with a maturity date of December 22, 2080. The coupon is payable semi-annually, on June 22 and December 22, of each year. On December 22, 2030, and on every fifth anniversary thereafter, the coupon rate will reset at a new fixed rate until, but excluding, maturity. The indenture governing the terms of these notes, as supplemented, permits the company to redeem the notes at a redemption price equal to the principal amount plus accrued and unpaid interest, on certain dates as specified in the indenture. The indenture also permits the company to convert these notes into conversion preference shares, at a rate of one conversion preference share for each \$1,000 principal amount of the 2080 Hybrid Notes plus accrued and unpaid interest (including fractional shares, if applicable) for an issue price of \$1,000 per share. These notes are also subject to several automatic conversion features, in the event of bankruptcy or insolvency events. These options are considered to be embedded derivatives and are determined to be immaterial as at December 31, 2020. These notes are subordinated to the Company's senior indebtedness.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

The Company is required to meet certain specific and customary affirmative and negative financial covenants under its Revolving Credit Facility, the 2025 Notes, the 2027 Notes, the 2029 Notes and the 2080 Hybrid Notes, including the maintenance of certain financial ratios. As of December 31, 2020 and December 31, 2019, the Company was in compliance with all of its covenants.

The indenture governing the terms of the 2025 Notes, the 2027 Notes, the 2029 Notes, as supplemented, contains certain redemption options whereby the Company can redeem all or part of the 2025 Notes, the 2027 Notes and the 2029 Notes at such prices and on such dates as set forth therein. In addition, the holders of the 2025 Notes, the 2027 Notes and the 2029 Notes have the right to require the Company to repurchase the 2025 Notes, the 2027 Notes and the 2029 Notes at the purchase prices set forth in the applicable indenture in the event of a change in control triggering event, being both a change of control of the Company or a ratings decline of the applicable notes to below an investment grade rating, as such terms are defined in the applicable indenture. These options are considered to be embedded derivatives and are determined to be immaterial as at December 31, 2020.

The components of finance costs are as follows:

	December 31,	
	2020	2019
Interest expense .....	\$ 62,579	\$ 73,615
Capitalized interest .....	(2,885)	(4,646)
Interest expense, finance lease (note 15) .....	5,110	5,272
Interest income .....	(217)	(1,758)
Debt extinguishment costs .....	31,833	6,057
Total finance cost, net .....	<u>\$ 96,420</u>	<u>\$ 78,540</u>

#### Reconciliation of cash flows arising from financing activities (long term debt and convertible debentures)

	Year Ended December 31,	
	2020	2019
Opening balance .....	\$ 1,243,836	\$ 1,132,044
Proceeds from Issuance of long term debt, net of costs .....	892,972	495,485
Repayments .....	(719,989)	(304,032)
Repayment of Revolving Credit Facility, net .....	-	(90,000)
Net cash provided by financing activities from financing activities .....	1,416,819	1,233,497
Deferred financing costs and other .....	4,344	4,392
Redemption of convertible debentures into common shares .....	(3,515)	(110)
Debt extinguishment costs .....	31,833	6,057
Closing balance .....	<u>\$ 1,449,481</u>	<u>\$ 1,243,836</u>

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

#### 15 Lease Liabilities

	Year ended December 31, 2020	Year ended December 31, 2019
Opening balance.....	\$ 131,808	\$ 109,071
Additions .....	14,974	72,013
Disposals.....	(3,547)	(380)
Interest expense.....	5,110	5,272
Lease payments.....	(44,967)	(49,479)
Effect of movements in exchange rates.....	(636)	(4,286)
Transferred to held for sale and disposals .....	-	(403)
Closing balance.....	102,742	131,808
Less: current portion .....	31,208	36,308
Closing balance– non-current portion.....	<u>\$ 71,534</u>	<u>\$ 95,500</u>

The Company incurs lease payments related to rail cars, head office facilities, vehicles, equipment, and surface leases. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company has recognised lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2020 at a weighted average borrowing rate of 4.6% (December 31, 2019 – 4.4%).

#### 16 Convertible debentures

	Liability Component	Equity Component
Opening balance .....	\$ 92,466	\$ 7,023
Accretion of issue costs .....	2,773	-
Redemption .....	(110)	-
At December 31, 2019.....	\$ 95,129	\$ 7,023
Accretion and debt extinguishment costs .....	4,761	-
Repayment.....	(96,375)	-
Redemption into common shares.....	(3,515)	-
Reclassified to contributed surplus.....	-	(7,023)
Closing balance .....	<u>\$ -</u>	<u>\$ -</u>

The Company had an aggregate \$99.9 million principle amount of unsecured subordinated convertible debentures (“Debentures”) outstanding at the beginning of the year. During the fourth quarter of 2020, the Company announced its intention to redeem the Debentures at a redemption price of \$1,000 per \$1,000 principal amount plus accrued and unpaid interest of \$23.16 per \$1,000 principal amount. Pursuant to the terms of the indenture governing the Debentures, holders of the Debentures had the right to convert their Debentures into the Company’s common shares at a conversion price of \$21.65, being a rate of 46.1894 common shares per \$1,000 principal amount of Debentures.

The aggregate outstanding principal amount of the Debentures was \$99.3 million on the date of redemption announcement. Pursuant to the conversion option available to holders of the Debentures, an aggregate of 134,916 common shares were issued in relation to the conversion option exercised, while the remaining outstanding principal amount of Debentures was redeemed for \$96.4 million, using the proceeds of the 2080 Hybrid Notes (note 14). The remaining unaccreted value was expensed into the statement of operations and the equity component was reclassified to contributed surplus.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

#### 17 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	December 31,	
	2020	2019
Trade payables.....	\$ 339,293	\$ 369,256
Accrued compensation charges.....	21,981	20,979
Indirect taxes payable .....	1,010	848
Risk management liabilities (note 27) .....	10,154	2,094
Interest payable.....	13,900	22,493
Insurance payable.....	3,359	2,333
Other.....	14,022	14,064
	<u>\$ 403,719</u>	<u>\$ 432,067</u>

#### 18 Provisions

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

	Year ended December 31,	
	2020	2019
Opening balance.....	\$ 197,002	\$ 162,811
Settlements .....	(6,270)	(5,023)
Additions .....	17,881	28,310
Disposals.....	(275)	-
Change in estimated future cash flows .....	-	(16,000)
Change in discount rate.....	22,079	27,167
Unwinding of discount .....	2,708	3,325
Transfer from (to) liabilities held for sale .....	4,222	(3,332)
Effect of changes in foreign exchange rates.....	(395)	(256)
Closing balance .....	<u>\$ 236,952</u>	<u>\$ 197,002</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 \$322.0 million and \$298.7 million at December 31, 2020 and 2019, 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 1.2% and 1.7% at December 31, 2020 and 2019, respectively. The undiscounted cash flows at the time of decommissioning are calculated using an estimated timing of economic outflows ranging up to 44 years with the majority estimated at 30 years.

A one percent increase or decrease in the risk-free rate would decrease or increase the provision by \$51.5 million, respectively, with a corresponding adjustment to property, plant and equipment.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

### 19 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, 2020 or 2019. The 2080 Hybrid Notes issued during the year include terms which could result in conversion into conversion preference shares, refer to note 14.

On August 27, 2020, the Company announced the initiation of a Normal Course Issuer Bid ("NCIB") enabling the Company to purchase and cancel up to 10%, or 11,765,180, of the public float for the issued and outstanding common shares through August 31, 2021 in accordance with the applicable rules and policies of the TSX and applicable securities laws. For the year ended December 31, 2020 the Company purchased 866,546 common shares at a weighted average price of \$21.42 per common share for a total cost of \$18.6 million. Retained earnings was reduced by \$6.8 million, representing the excess of the purchase price of common shares over their average carrying value. All purchases were made in accordance with the NCIB at prevailing market prices plus brokerage fees, with consideration allocated to share capital up to the average carrying amount of the shares, with any excess allocated to retained earnings.

#### Common Shares – Issued and Outstanding

The following table below sets forth the issued and outstanding common shares for the years ended December 31, 2020 and 2019.

	Common Shares	
	Number of Common Shares	Amount
At January 1, 2019 .....	144,558,790	\$ 1,955,146
Issuance in connection with the exercise of stock options.....	60,210	1,259
Exercise of debentures conversion option .....	5,078	110
Reclassification of contributed surplus on issuance of awards under equity incentive plans.....	1,051,403	17,312
At December 31, 2019 .....	145,675,481	\$ 1,973,827
Issuance in connection with the exercise of stock options.....	44,535	927
Exercise of debentures conversion option .....	162,350	3,515
Excess deferred tax on equity settled awards	-	117
Reclassification of contributed surplus on issuance of awards under equity incentive plans.....	555,635	10,448
Purchased of common shares under NCIB .....	(866,546)	(11,730)
At December 31, 2020 .....	145,571,455	\$ 1,977,104

A dividend of \$0.34 per share, declared on November 2, 2020, was paid on January 15, 2021. For the year ended December 31, 2020 the Company declared total dividends of \$1.36 per common share.

**Gibson Energy Inc.****Notes to Consolidated Financial Statements***(Amounts in thousands of Canadian dollars, except where noted)***20 Income tax**

The major components of income tax are as follows:

	Year ended December 31,	
	2020	2019
Current tax expense .....	\$ 32,788	\$ 33,784
Adjustments and true-ups in respect of prior years.....	(12,509)	(15,902)
Current tax expense – discontinued operations .....	-	853
Total current tax provision .....	20,279	18,735
Deferred tax (recovery) expense .....	(626)	2,717
Origination and reversal of temporary differences .....	9,716	(26)
Deferred tax expense – discontinued operations .....	-	1,272
Total deferred tax expense.....	9,090	3,963
Net income tax expense .....	\$ 29,369	\$ 22,698

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

	Year ended December 31,	
	2020	2019
Income before income taxes, continuing operations .....	\$ 150,678	\$ 196,912
Income before income taxes, discontinued operations .....	-	7,825
Income before income taxes .....	150,678	204,737
Statutory income tax rate .....	24.38%	26.58%
Computed income tax expense.....	36,735	54,419
Changes in income tax expense (recovery) resulting from:		
Non-taxable portion of the gain on sale of net assets held for sale .....	-	(247)
Share based compensation .....	-	(1,578)
Cumulative tax recovery related to change in tax treatment of equity benefit .....	-	(20,344)
Statutory and other rate differences .....	(4,678)	(6,696)
Adjustments and true ups in prior years.....	(2,757)	(3,110)
Other .....	69	254
	\$ 29,369	\$ 22,698
Effective income tax rate – continuing operations .....	19.49%	10.5%
Effective income tax rate – discontinued operations.....	-	27.2%

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Current tax, from continuing operations.....	\$ 20,279	\$ 17,882
Current tax, from discontinued operations.....	-	853
	<u>\$ 20,279</u>	<u>\$ 18,735</u>
Deferred tax, from continuing operations .....	\$ 9,090	\$ 2,691
Deferred tax, from discontinued operations.....	-	1,272
	<u>\$ 9,090</u>	<u>\$ 3,963</u>
Total current and deferred, from continuing operations.....	\$ 29,369	\$ 20,573
Total current and deferred, from discontinued operations .....	\$ -	\$ 2,125

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 .....	\$ 32,418	\$ 32,206
Deferred tax asset to be settled within 12 months.....	4,402	6,663
	<u>\$ 36,820</u>	<u>\$ 38,869</u>
Deferred tax liabilities:		
Deferred tax liability to be settled after more than 12 months.....	\$ 90,414	\$ 83,949
Deferred tax liability to be settled within 12 months .....	1,184	460
	<u>\$ 91,598</u>	<u>\$ 84,409</u>
Deferred tax liabilities, net .....	<u>\$ 54,778</u>	<u>\$ 45,540</u>

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Opening balance.....	\$ 45,540	\$ 41,766
Effect of changes in foreign exchange rates.....	470	117
Income statement expense .....	9,090	3,963
Tax relating to components of other comprehensive income .....	(322)	(306)
Closing balance.....	<u>\$ 54,778</u>	<u>\$ 45,540</u>



## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

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	Goodwill, Intangibles, and other	Total
At January 1, 2019 .....	\$ 21,973	\$ 20,976	\$ 23,204	\$ 66,153
Charged to the statement of operations.....	15,477	1,456	(916)	16,017
Charged to other comprehensive income.....	-	-	306	306
Effect of changes in foreign exchange rates.....	(532)	(29)	286	(275)
At January 1, 2020 .....	\$ 36,918	\$ 22,403	\$ 22,880	\$ 82,201
(Charged) credited to the statement of operations	(401)	2,440	4,061	6,100
Charged to other comprehensive income.....	-	-	322	322
Effect of changes in foreign exchange rates.....	(1,661)	(82)	549	(1,194)
At December 31, 2020.....	\$ 34,856	\$ 24,761	\$ 27,812	\$ 87,429

#### Deferred tax liabilities

At January 1, 2019 .....	\$ (107,918)
Credited to the statement of operations .....	(19,980)
Effect of changes in foreign exchange rates.....	158
At January 1, 2020 .....	\$ (127,740)
Credited to the statement of operations .....	(15,190)
Effect of changes in foreign exchange rates.....	725
At December 31, 2020.....	\$ (142,205)

#### Income tax losses carry forward

At December 31, 2020 and 2019, the Company had losses available to offset income for tax purposes of \$147.1 million and \$154.2 million, respectively. Certain losses arising in taxable years beginning after December 31, 2018 may be carried forward indefinitely with the net operating loss deduction limited to 80% of taxable income which is determined without regard to the deduction. At December 31, 2020, the Company has \$145.5 million of the losses available in the U.S. and \$1.6 million available in Canada that expire as follows:

December 31, 2032.....	\$ 1,918
December 31, 2035.....	19,052
December 31, 2036.....	60,355
December 31, 2037.....	12,575
December 31, 2039 and beyond.....	53,215
	\$ 147,115

No income tax liability has been recognized in respect of temporary differences associated with investments in subsidiaries, except for assets held for sale and investments in equity accounted investees, as the Company can control the timing of the reversal of the temporary difference and the reversal is not probable in the foreseeable future.

**Gibson Energy Inc.****Notes to Consolidated Financial Statements***(Amounts in thousands of Canadian dollars, except where noted)***21 Revenue**

	Year ended December 31,	
	2020	2019
Revenue from contracts with customers recognized at a point in time .....	\$ 4,631,657	\$ 7,065,869
Revenue from contracts with customers recognized over time .....	133,629	129,759
Total revenue from contracts with customers.....	4,765,286	7,195,628
Total revenue from lease arrangements.....	172,780	140,694
	<u>\$ 4,938,066</u>	<u>\$ 7,336,322</u>

During the year ended December 31, 2020, the Company recognized \$66.1 million of revenues which were included in the contract liability balance at the beginning of the period (2019 – \$ 15.5 million).

**Year ended December 31, 2020**

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<u>Canada</u>			
External Service Revenue			
Terminals storage and throughput/pipeline transportation ...	\$ 72,052	\$ -	\$ 72,052
Rail.....	56,227	-	56,227
Other .....	2,609	-	2,609
External Product Revenue			
Crude, diluent and other products .....	-	3,075,996	3,075,996
Refined products.....	-	82,140	82,140
Total revenue – Canada.....	<u>\$ 130,888</u>	<u>\$ 3,158,136</u>	<u>\$ 3,289,024</u>
<u>U.S.</u>			
External Service Revenue			
Hauling and transportation and other .....	\$ 191	\$ 2,550	\$ 2,741
External Product Revenue			
Crude, diluent and other products.....	-	1,274,987	1,274,987
Refined products.....	-	198,534	198,534
Total revenue – U.S. ....	<u>\$ 191</u>	<u>\$ 1,476,071</u>	<u>\$ 1,476,262</u>
Total revenue from contract with customers.....	<u>\$ 131,079</u>	<u>\$ 4,634,207</u>	<u>\$ 4,765,286</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

### Year ended December 31, 2019

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<u>Canada</u>			
External Service Revenue			
Terminals storage and throughput/pipeline transportation ...	\$ 70,749	\$ -	\$ 70,749
Rail.....	46,144	-	46,144
Other .....	5,797	-	5,797
External Product Revenue			
Crude, diluent and other products.....	-	5,161,532	5,161,532
Refined products.....	-	118,313	118,313
Other .....	1,108	-	1,108
Total revenue – Canada.....	<u>\$ 123,798</u>	<u>\$ 5,279,845</u>	<u>\$ 5,403,643</u>
<u>U.S.</u>			
External Service Revenue			
Hauling and transportation and other .....	\$ 632	\$ 6,437	\$ 7,069
External Product Revenue			
Crude, diluent and other products.....	-	1,467,391	1,467,391
Refined products.....	-	317,525	317,525
Total revenue – U.S. ....	<u>\$ 632</u>	<u>\$ 1,791,353</u>	<u>\$ 1,791,985</u>
Total revenue from contract with customers.....	<u>\$ 124,430</u>	<u>\$ 7,071,198</u>	<u>\$ 7,195,628</u>

## 22 Depreciation, amortization and impairment

	<u>Year ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Depreciation and impairment of property, plant and equipment (note 9).....	\$ 124,057	\$ 121,731
Depreciation of right-of-use asset (note 10) .....	37,962	40,527
Amortization and impairment of intangible assets (note 12).....	7,403	12,836
	<u>\$ 169,422</u>	<u>\$ 175,094</u>

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

	<u>Year ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Cost of sales .....	\$ 158,068	\$ 157,928
General and administrative .....	11,354	17,166
	<u>\$ 169,422</u>	<u>\$ 175,094</u>

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

#### 23 Employee salaries and benefits

	Year ended December 31,	
	2020	2019
Salaries and wages.....	\$ 79,503	\$ 79,676
Post-employment benefits (recovery) <sup>(1)</sup> .....	3,631	(9,104)
Share based compensation .....	21,144	21,245
Termination costs .....	2,879	4,530
	<u>\$ 107,157</u>	<u>\$ 96,347</u>

(1) Post employment benefits (recovery) include a credit recognized during 2019 for \$10.8 million relating to the amendment of the Company's retirement benefits plan (note 25).

Employee salaries and benefits have been expensed as follows:

	Year ended December 31,	
	2020	2019
Cost of sales.....	\$ 63,274	\$ 60,824
General and administrative .....	43,883	35,523
	<u>\$ 107,157</u>	<u>\$ 96,347</u>

#### 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,	
	2020	2019
Salaries and short-term employee benefits .....	\$ 6,362	\$ 5,410
Post-employment benefits .....	90	73
Share based compensation .....	8,444	5,971
Termination costs .....	1,716	1,630
	<u>\$ 16,612</u>	<u>\$ 13,084</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,	
	2020	2019
Weighted average common shares outstanding – Basic.....	146,120,871	145,266,245
Dilutive effect of:		
Stock options and other awards.....	2,616,653	2,373,281
Weighted average common shares – Diluted .....	<u>148,737,524</u>	<u>147,639,526</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

The dilutive effect of 2.6 million (2019 – 2.4 million) stock options and other awards for the year ended December 31, 2020 have been included in the determination of the weighted average number of common shares outstanding. The impact of 0.6 million (2019 – 0.6 million) stock options have not been included in the determination of weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net income from continuing operations per share.

### 25 Post-retirement benefits

#### Defined benefit plans

The Company maintains a funded defined benefit pension plan and an unfunded defined benefit other post-retirement benefits plan (“OPRB”).

The Company’s defined benefit pension plans are funded based upon the advice of independent actuaries. The Company is required to file an actuarial valuation of the defined benefit pension plan with the provincial regulator every three years, with the most recent actuarial valuation filing as at December 31, 2019. Based on the actuarial valuations as at December 31, 2020 and 2019, the status of the defined benefit plans was as follows:

	Year ended December 31,			
	2020		2019	
	Pension	OPRB	Pension	OPRB
Accrued benefit obligation, January 1 .....	\$ 16,102	\$ 4,650	\$ 14,667	\$ 15,198
Current service cost.....	65	279	54	839
Past service cost .....	-	-	-	(11,616)
Interest cost.....	475	157	539	171
Benefits paid.....	(718)	(173)	(674)	(287)
Actuarial loss (gain) .....	1,328	(515)	1,512	345
Other .....	3	-	4	-
Accrued benefit obligation, December 31.....	<u>\$ 17,255</u>	<u>\$ 4,398</u>	<u>\$ 16,102</u>	<u>\$ 4,650</u>
Fair value of pension plan assets, January 1.....	\$ 14,540	\$ -	\$ 13,447	\$ -
Interest on plan assets .....	427	-	492	-
Actual contributions .....	46	173	43	287
Actual benefits paid.....	(718)	(173)	(674)	(287)
Actuarial gain (loss) .....	595	-	1,232	-
Other .....	(21)	-	-	-
Fair value of pension plan assets, December 31 .....	<u>\$ 14,869</u>	<u>\$ -</u>	<u>\$ 14,540</u>	<u>\$ -</u>
Accrued benefit obligation .....	\$ (17,255)	\$ (4,398)	\$ (16,102)	\$ (4,650)
Fair value of plan assets .....	14,869	-	14,540	-
Accrued benefit liability <sup>(1)</sup> .....	<u>\$ (2,386)</u>	<u>\$ (4,398)</u>	<u>\$ (1,562)</u>	<u>\$ (4,650)</u>

(1) Included on balance sheet within other long term liabilities.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

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

	Year ended December 31,	
	2020	2019
Discount rate.....	2.5%	3.0%
Rate of compensation increase .....	3.0%	3.0%

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

	One % point increase	One % point decrease
Increase/(decrease) in defined benefit plans obligations.....	\$ (2,841)	\$ 3,552

#### **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 \$3.0 million and \$2.8 million for the year ended December 31, 2020 and 2019, respectively.

## **26 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 2020 and 2019 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, 2020, awards available to grant under the equity incentive plan are approximately 4.4 million.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

A summary of stock option activity is as follows:

	Number of units	Weighted average exercise price (in dollars)
At January 1, 2019 .....	2,283,617	\$ 21.39
Granted.....	515,471	22.70
Exercised.....	(60,210)	20.90
Forfeited .....	(723,935)	26.74
At December 31, 2019 .....	2,014,943	\$ 19.81
Granted.....	65,000	17.53
Exercised.....	(44,535)	20.83
Forfeited .....	(104,099)	26.58
At December 31, 2020 .....	1,931,309	\$ 19.35
Vested and exercisable at December 31, 2020 .....	1,400,834	\$ 18.32
Vested and exercisable at December 31, 2019 .....	1,137,949	\$ 19.35

Additional information regarding stock options outstanding as of December 31, 2020 is as follows:

Outstanding			Exercisable		
Number outstanding	Weighted average remaining contractual life (years)	Exercise price (in dollars)	Number outstanding	Weighted average remaining contractual life (years)	Exercise Price (in dollars)
105,382	2.2	\$ 16.70	105,382	2.2	\$ 16.70
1,028,571	1.5	17.09	1,028,571	1.5	17.09
172,572	3.4	18.70	107,572	2.9	19.41
505,471	3.2	22.70	39,996	3.2	22.70
46,183	1.3	24.73	46,183	1.3	24.73
14,436	1.2	26.59	14,436	1.2	26.59
37,221	0.2	28.41	37,221	0.2	28.41
21,473	0.6	34.65	21,473	0.6	34.65
1,931,309	2.1		1,400,834	1.6	

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

	Number of units		
	RSUs	PSUs	DSUs
At January 1, 2019 .....	767,555	747,385	516,348
Granted .....	401,933	581,741	170,844
Issued for common shares .....	(373,174)	(448,615)	(229,614)
Forfeited .....	(178,040)	(197,910)	-
At December 31, 2019 .....	618,274	682,601	457,578
Granted .....	559,933	603,907	164,106
Issued for common shares .....	(297,633)	(220,255)	(37,747)
Forfeited .....	(50,134)	(81,634)	-
At December 31, 2020 .....	830,440	984,619	583,937
Vested, balance at December 31, 2020 .....	-	-	583,937
Vested, balance at December 31, 2019 .....	-	-	457,578

Share based compensation expense was \$18.7 million and \$19.2 million for the years ended December 31, 2020 and 2019, respectively, and is included in general and administrative expenses.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

The fair value of the options granted was estimated at \$1.65 and \$2.39 per option for the year ended December 31, 2020 and 2019. The fair value of options was calculated by using the Black-Scholes model with the following weighted average assumptions:

	Year ended December 31, 2020	Year ended December 31, 2019
Expected dividend rate .....	9.1%	5.8%
Expected volatility .....	31.29%	25.31%
Risk-free interest rate .....	0.5%	1.6%
Expected life of option (years).....	3.0	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.

## 27 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, 2020, the carrying amount of long-term debt was \$1,460.0 million less debt discount and issue costs of \$10.5 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,483.9 million. As at December 31, 2019, the carrying amount of long-term debt was \$1,160.0 million less debt discount and issue costs of \$11.3 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,195.6 million.

The Debentures liability component was recorded at amortized cost using the effective interest method of amortization. As at December 31, 2020 no convertible debentures remain outstanding as described in note 16.

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, 2020		December 31, 2019	
	Trade and other receivables	Trade payable and accrued charges	Trade and other receivables	Trade payable and accrued charges
Gross amounts.....	\$ 474,759	\$ 482,104	\$ 544,565	\$ 513,420
Amount offset .....	(371,830)	(371,830)	(405,993)	(405,993)
Net amount .....	<u>\$ 102,929</u>	<u>\$ 110,274</u>	<u>\$ 138,572</u>	<u>\$ 107,427</u>



## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

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

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

	December 31, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Commodity futures.....	\$ 24	\$ 6,645	\$ 1,069	\$ 700
Commodity swaps .....	1,952	1,338	1,119	1,212
WTI differential futures .....	488	1,828	1,042	92
Foreign currency forwards .....	815	343	1,419	171
Total.....	\$ 3,279	\$ 10,154	\$ 4,649	\$ 2,175
Less non-current portion:				
Commodity swaps .....	-	-	(15)	(81)
Current portion.....	\$ 3,279	\$ 10,154	\$ 4,634	\$ 2,094

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) Equity price financial instruments**

The company did not transact during the year or hold any equity swaps as at December 31, 2020. During the year ended December 31, 2019, the Company settled all of the notional shares of its equity swaps and as a result recognized a mark to market gain of \$6.5 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 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 forward contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present values.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2020 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 .....	\$ 24	\$ 24	\$ -	\$ -
Commodity swaps .....	1,952	-	1,952	-
WTI differential futures .....	488	488	-	-
Foreign currency forwards .....	815	-	815	-
<b>Total assets.....</b>	<b>\$ 3,279</b>	<b>\$ 512</b>	<b>\$ 2,767</b>	<b>\$ -</b>
<b>Liabilities from financial instrument contracts</b>				
Commodity futures .....	\$ 6,645	\$ 6,645	\$ -	\$ -
Commodity swaps .....	1,338	-	1,338	-
WTI differential futures .....	1,828	1,828	-	-
Foreign currency forwards .....	343	-	343	-
<b>Total liabilities .....</b>	<b>\$ 10,154</b>	<b>\$ 8,473</b>	<b>\$ 1,681</b>	<b>\$ -</b>

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2019 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 .....	\$ 1,069	\$ 1,069	\$ -	\$ -
Commodity swaps .....	1,119	-	1,119	-
Equity swaps.....	1,042	1,042	-	-
Foreign currency forwards .....	1,419	-	1,419	-
<b>Total assets.....</b>	<b>\$ 4,649</b>	<b>\$ 2,111</b>	<b>\$ 2,538</b>	<b>\$ -</b>
<b>Liabilities from financial instrument contracts</b>				
Commodity futures .....	\$ 700	\$ 700	\$ -	\$ -
Commodity swaps .....	1,212	-	1,212	-
Equity swaps.....	92	92	-	-
Foreign currency forwards .....	171	-	171	-
<b>Total liabilities .....</b>	<b>\$ 2,175</b>	<b>\$ 792</b>	<b>\$ 1,383</b>	<b>\$ -</b>

The impact of the movement in the fair value of financial instruments has been recognized as a (loss)/gain in the consolidated statements of operations as follows:

	<b>Year ended December 31,</b>	
	<u>2020</u>	<u>2019</u>
Cost of sales .....	\$ (9,618)	\$ 2,661
Share based compensation.....	-	6,496
	<b>\$ (9,618)</b>	<b>\$ 9,157</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.

**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:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>U.S. Dollar Forwards</b>		
Favorable 5% change.....	\$ 3,936	\$ 2,720
Unfavorable 5% change.....	(3,936)	(2,720)

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, 2020, the Company has insignificant exposure to changes to market interest rates that relate to the \$60.0 million (2019 – \$60.0 million) drawn on the Company’s Revolving Credit Facility.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

#### 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,	
	2020	2019
<b>Crude oil and NGL related prices</b>		
Favorable 15% change.....	\$ 12,162	\$ 9,933
Unfavorable 15% change.....	(12,162)	(9,933)

#### 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.

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. In order to appropriately address the credit risk in light of the recent market impacts from the COVID-19 pandemic and the reduction in crude oil prices, the Company completed a comprehensive analysis during the year. As a result of this analysis, certain immaterial accounts receivable balances were deemed uncollectible and were written-off. Furthermore, the Company reassessed certain assumptions included within its expected credit loss model. This reassessment resulted in an immaterial increase in the expected credit loss provision.

The carrying amount of the Company's net trade and other receivables represents the maximum counterparty credit exposure, without taking into account any security held. The Company defines current as outstanding accounts receivable under 30 days past due. The Company believes the unimpaired amounts that are past due by greater than 30 days are fully collectible based on historical default rates of customers and assessment of counterparty credit risk through established credit management techniques as discussed above. At December 31, the aging of trade and other receivables was as follows:

	2020	2019
Current .....	\$ 330,072	\$ 415,959
Past due 31-60 days.....	604	1,311
Past due over 60 days.....	2,965	11,622
Total trade and other receivables .....	<u>\$ 333,641</u>	<u>\$ 428,892</u>

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.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

#### e) 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. As at December 31, 2020, the Company had a Revolving Credit Facility of \$750.0 million and two credit facilities totaling \$150.0 million. At December 31, 2020, \$60.0 million (December 31, 2019 – \$60.0 million) was drawn against the Revolving Credit Facility and the Company had outstanding issued letters of credit of \$34.7 million (December 31, 2019 – \$36.9 million).

The terms of the 2025 Notes, the 2027 Notes, the 2029 Notes, the 2080 Hybrid 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. As at December 31, 2020 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, 2020. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

	<u>On demand or within one year</u>	<u>Between one and three years</u>	<u>Between three and five years</u>	<u>After five years</u>	<u>Total</u>
Trade payables and accrued charges (excluding derivative financial instruments and accrued interest) .....	\$ 379,665	\$ -	\$ -	\$ -	\$ 379,665
Dividend payable .....	49,494	-	-	-	49,494
Long-term debt .....	-	-	385,000	1,075,000	1,460,000
Interest on long-term debt .....	48,350	96,700	102,645	794,778	1,042,473
Financial instrument liabilities .....	10,154	-	-	-	10,154
Lease liabilities .....	34,737	45,017	22,102	9,157	111,013
	<u>\$ 522,400</u>	<u>\$ 141,717</u>	<u>\$ 509,747</u>	<u>\$ 1,878,935</u>	<u>\$ 3,052,799</u>

#### Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity, long-term debt, Debentures, Revolving Credit Facility, lease liabilities 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.

## Gibson Energy Inc.

### Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

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

	December 31,	
	2020	2019
Total financial liability borrowings .....	\$ 1,552,223	\$ 1,280,515
Debentures (liability component) .....	-	89,655
Less: cash and cash equivalents.....	(53,676)	(47,231)
Net debt <sup>(1)</sup> .....	1,498,547	1,322,939
Total share capital (including Debentures – equity component) .....	1,977,104	1,980,850
Total capital .....	<u>\$ 3,475,651</u>	<u>\$ 3,303,789</u>

(1) The 2080 Hybrid Notes and 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 and working capital. The 2080 Hybrid Notes, Debentures and associated interest payments are excluded from the definition of consolidated debt for the purposes of debt to capitalization as well as the consolidated interest coverage covenant ratios.

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 are sufficient to service this debt and support ongoing operations.

## 28 Commitments and contingencies

### Commitments

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

2021 .....	\$ 55,264
2022 .....	43,909
2023 .....	34,818
2024 .....	21,879
2025 .....	10,809
2026 and later .....	9,157
	<u>\$ 175,836</u>

### Commitments to Equity Accounted Investees

The Company is committed to provide HET with its share of funding to complete the construction and commissioning of the DRU facility, which is expected to be completed in mid-2021.

### 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.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except where noted)

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.

### 29 Subsequent Events

On February 22, 2021, the Company announced that the Board declared a quarterly dividend of \$0.35 per common share, an increase of \$0.01 per common share, for the first quarter on its outstanding common shares. The common share dividend is payable on April 16, 2021 to shareholders of record at the close of business on March 31, 2021.

### 30 Supplemental cash flow information

	Year ended December 31,	
	2020	2019
<b>Cash flow from operating activities</b>		
Net income from continuing operations .....	\$ 121,309	\$ 176,339
Adjustments:		
Finance costs, net .....	96,420	78,540
Income tax expense .....	29,369	20,573
Depreciation and impairment of property, plant and equipment .....	124,057	121,731
Depreciation on right-of-use asset .....	37,962	40,527
Amortization and impairment of intangible assets .....	7,403	12,836
Share based compensation .....	21,144	14,562
Share of (profit) loss from investments in equity accounted investees .....	(2,670)	552
Distributions from equity accounted investees .....	691	-
Gain on sale of property, plant and equipment .....	(853)	(3,035)
Provisions .....	3,391	16,747
Net loss (gain) on fair value movement of financial instruments .....	9,618	(2,661)
Other .....	(7,399)	(19,411)
Subtotal of adjustments .....	319,133	280,961
Changes in items of working capital:		
Trade and other receivables .....	101,351	(153,939)
Inventories .....	(26,361)	(52,008)
Other current assets .....	5,569	3,249
Trade payables and accrued charges .....	(32,266)	149,847
Contract liabilities .....	(21,007)	50,682
Subtotal of changes in items of working capital .....	27,286	(2,169)
Income tax payment, net .....	(8,177)	(92,976)
Cash provided by operating activities from continuing operations .....	\$ 459,551	\$ 362,155
Cash provided by operating activities from discontinued operations .....	-	6,465
Net cash provided by operating activities .....	\$ 459,551	\$ 368,620

**Notes:**



**Notes:**

**Notes:**

# CORPORATE INFORMATION

## HEAD OFFICE

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**Fax:** (403) 206-4001

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## AUDITORS

**PricewaterhouseCoopers LLP**

## BANKERS

**Royal Bank of Canada**  
**BMO Capital Markets**

## LEGAL COUNSEL

**Bennett Jones LLP**

## TRUSTEES, REGISTRAR & TRANSFER AGENT

**Computershare Trust  
Company of Canada**  
Calgary, Alberta, Canada

## BNY Mellon

New York, New York, U.S.

## STOCK EXCHANGE

**Toronto Stock Exchange**

Trading Symbol: GEI

## INVESTOR RELATIONS & MEDIA

**Mark Chyc-Cies**

*VP. Strategy, Planning & Investor Relations*

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## MANAGEMENT

**Steve Spaulding**

*President & Chief Executive Officer*

**Sean Brown**

*SVP & Chief Financial Officer*

**Sean Wilson**

*SVP & Chief Administrative Officer*

**Kyle OeGruchy**

*SVP, Supply & Marketing*

**Omar Saif**

*SVP, Operations & Engineering*

## DIRECTORS

**James M. Estey**

*Chair of the Board*

**Douglas P. Bloom**

**James J. Cleary**

**Judy E. Cotte**

**John L. Festival**

**Marshall L. McRae**

**Mary Ellen Peters**

**Steven R. Spaulding**





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