Gibson Energy Inc.

Condensed Consolidated Financial Statements

March 31, 2017 and 2016

Gibson Energy Inc.

Condensed Consolidated Balance Sheet

(tabular amounts in thousands of Canadian dollars)

	March 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 79,731	$ 60,159
Trade and other receivables (note 5)	409,831	428,248
Inventories (note 6)	135,767	144,595
Income taxes receivable	9,873	8,057
Prepaid and other assets	14,842	17,976
Net investment in finance leases	2,189	2,325
Assets held for sale (note 4)	-	266,359
Total current assets	652,233	927,719
Non-current assets		
Property, plant and equipment (note 7)	1,623,240	1,643,294
Long-term prepaid and other assets	4,325	4,350
Net investment in finance leases	117,846	118,244
Deferred income tax assets	58,982	47,165
Intangible assets	61,905	66,086
Goodwill	453,902	454,489
Total non-current assets	2,320,200	2,333,628
Total assets	$ 2,972,433	$ 3,261,347
Liabilities		
Current liabilities		
Trade payables and accrued charges (note 10)	421,458	468,834
Dividends payable	47,057	46,772
Deferred revenue	6,152	9,833
Income taxes payable	18,064	-
Liabilities related to assets held for sale (note 4)	-	39,767
Total current liabilities	492,731	565,206
Non-current liabilities		
Long-term debt (note 9)	958,165	1,271,839
Convertible debentures	87,890	87,312
Provisions (note 11)	171,737	171,038
Other long-term liabilities (note 9)	6,282	6,506
Deferred income tax liabilities	100,890	102,350
Total non-current liabilities	1,324,964	1,639,045
Total liabilities	1,817,695	2,204,251
Equity		
Share capital (note 12)	1,922,611	1,909,032
Contributed surplus	33,255	46,899
Accumulated other comprehensive income	198,074	201,089
Convertible debentures	7,023	7,151
Deficit	(1,006,225)	(1,107,075)
Total equity	1,154,738	1,057,096
Total liabilities and equity	$ 2,972,433	$ 3,261,347

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.
Condensed Consolidated Statement of Operations

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

	Three months ended March 31, 2017	(Restated – note 4) 2016
Revenue (note 14)	$ 1,449,562	$ 906,227
Cost of sales (notes 13 and 15)	1,410,543	890,856
Gross profit	39,019	15,371
General and administrative expenses (notes 13 and 15)	10,925	17,509
Other operating (income) loss	(1,697)	1,034
Income (loss) from operating activities	29,791	(3,172)
Interest expense	24,884	19,807
Interest income	(665)	(124)
Debt extinguishment costs (note 9)	49,327	-
Foreign exchange loss (gain) on long-term debt (note 9)	(4,928)	(47,795)
(Loss) Income before income taxes	(38,827)	24,940
Income tax recovery (note 8)	(28,919)	(10,635)
Net (loss) income from continuing operations	(9,908)	35,575
Net income from discontinued operations, after tax (note 4)	157,756	8,534
Net income	$ 147,848	$ 44,109
(Loss) earnings per share		
Basic (loss) earnings per share from continuing operations	$ (0.07)	$ 0.28
Basic earnings per share from discontinued operations	1.11	0.07
Basic earnings per share	$ 1.04	$ 0.35
Diluted (loss) per share from continuing operations	$ (0.07)	$ 0.28
Diluted earnings per share from discontinued operations	1.09	0.06
Diluted earnings per share	$ 1.02	$ 0.34

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.

Condensed Consolidated Statement of Comprehensive Income

(tabular amounts in thousands of Canadian dollars)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Net income	$ 147,848	$ 44,109
Other comprehensive income (loss)		
Items that may be reclassified subsequently to statement of operations		
Exchange differences on translating foreign operations	(3,015)	(37,247)
Items that will not be reclassified to statement of operations		
Remeasurements of post-employment benefit obligation, net of tax	59	-
Other comprehensive loss, net of tax	(2,956)	(37,247)
Comprehensive income	$ 144,892	$ 6,862

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.

Condensed Consolidated Statement of Changes in Equity

(tabular amounts in thousands of Canadian dollars)

	Share capital (note 12)	Contributed surplus	Accumulated other comprehensive income (loss)	Convertible debentures	Deficit	Total Equity
Balance – January 1, 2016	$1,672,323	$ 34,959	$224,866	$ -	$ (765,147)	$1,167,001
Net income	-	-	-	-	44,109	44,109
Other comprehensive loss, net of tax	-	-	(37,247)	-	-	(37,247)
Comprehensive (loss) income	-	-	(37,247)	-	44,109	6,862
Stock based compensation	-	3,356	-	-	-	3,356
Reclassification of contributed surplus on issuance of awards under equity incentive plan	8,532	(8,532)	-	-	-	-
Dividends on common shares ($0.33 per common share)	-	-	-	-	(41,743)	(41,743)
Balance – March 31, 2016	$ 1,680,855	$ 29,783	$187,619	$ -	$ (762,781)	$1,135,476
Balance – January 1, 2017	$1,909,032	$ 46,899	$201,089	$ 7,151	$(1,107,075)	$1,057,096
Net income	-	-	-	-	147,848	147,848
Other comprehensive (loss) income, net of tax	-	-	(3,015)	-	59	(2,956)
Comprehensive (loss) income	-	-	(3,015)	-	147,907	144,892
Stock based compensation	-	(1,145)	-	-	-	(1,145)
Convertible debentures - tax	-		-	(128)	-	(128)
Proceeds from exercise of stock options	1,080	-		-	-	1,080
Reclassification of contributed surplus on issuance of awards under equity incentive plan	12,499	(12,499)	-	-	-	-
Dividends on common shares ($0.33 per common share)	-	-	-	-	(47,057)	(47,057)
Balance – March 31, 2017	$ 1,922,611	$ 33,255	$198,074	$ 7,023	$ (1,006,225)	$1,154,738

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.

Condensed Consolidated Statement of Cash Flows

(tabular amounts in thousands of Canadian dollars)

	Three months ended March 31, 2017	(Restated – note 4) 2016
Cash provided by (used in)		
Operating activities		
Income (loss) from operating activities	$ 29,791	$ (3,172)
Items not affecting cash		
Depreciation of property, plant and equipment (notes 7)	42,581	40,087
Amortization of intangible assets	5,706	10,652
Stock based compensation	(1,145)	3,356
Gain on sale of property, plant and equipment	(2,577)	(1,002)
Other	(642)	(554)
Net (gain) loss on fair value movement of financial instruments (note 15)	(4,329)	826
Changes in items of working capital		
Trade and other receivables	19,097	18,287
Inventories	8,593	20,345
Other current assets	2,771	1,647
Trade payables and accrued charges	5,092	(18,550)
Deferred revenue	(3,656)	417
Income taxes received (paid), net	726	(12,985)
Net cash provided by operating activities from continuing operations	102,008	59,354
Net cash (used in) provided by operating activities from discontinued operations (note 4)	(7,589)	26,190
Net cash provided by operating activities	94,419	85,544
Investing activities		
Purchase of property, plant and equipment	(46,692)	(89,109)
Purchase of intangible assets	(1,649)	(9,294)
Proceeds on sale of assets	3,262	1,777
Net cash used in investing activities from continuing operations	(45,079)	(96,626)
Net cash provided by (used in) investing activities from discontinued operations (note 4)	432,967	(1,043)
Net cash provided by (used in) investing activities	387,888	(97,669)
Financing activities		
Payment of shareholder dividends	(46,772)	(40,363)
Interest paid	(54,775)	(44,798)
Interest received	428	124
Proceeds from exercise of stock options	1,080	-
Proceeds from issuance of long-term debt, net of issuance costs	345,600	-
Repayment of debt	(668,023)	-
Debt extinguishment costs paid	(35,460)	-
Proceeds from credit facilities	175,000	183,737
Repayment of credit facilities	(175,000)	(128,429)
Net payment on settlement of derivative financial instruments (note 15)	(5,079)	-
Net cash used in financing activities	(463,001)	(29,729)
Effect of exchange rate on cash and cash equivalents	266	(1,762)
Net increase (decrease) in cash and cash equivalents	19,572	(43,616)
Cash and cash equivalents – beginning	60,159	82,775
Cash and cash equivalents – ending	$ 79,731	$ 39,159

See accompanying notes to the condensed consolidated financial statements

1 General Information

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

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

2 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, as set out in IAS 34, "Interim Financial Reporting". The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB. These condensed consolidated financial statements were approved for issuance by the Company's board of directors ("Board") on May 8, 2017. These condensed consolidated financial statements are presented in Canadian dollars, the Company's functional currency, and all values are rounded to the nearest thousands of dollars, except where indicated otherwise. All references to $ are to Canadian dollars and references to U.S.$ are to United States dollars.

3 Changes in accounting policies and disclosures

New and amended standards adopted by the Company

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

- The annual improvements process addresses issues in the 2014-2016 reporting cycles include changes to IFRS 12 - *Disclosure of interests in other entities*. This improvement is effective for periods beginning on or after January 1, 2017. The adoption of these improvements did not have a material impact on the condensed consolidated financial statements.
- IAS 12 – *Income taxes* ("IAS 12"), has been amended to clarify (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base, and (iii) certain other aspects of accounting for deferred tax assets. The amendment to IAS 12 is effective for years beginning on or after January 1, 2017. The adoption of this amendment did not have a material impact on the condensed consolidated financial statements.
- IAS 7 – *Statement of cash flows* ("IAS 7"), has been amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash-flows and non-cash changes. The amendment to IAS 7 is effective for years beginning on or after January 1, 2017. The adoption of this amendment did not have a material impact on the condensed consolidated financial statements, however additional disclosures will be included in the Company's 2017 annual financial statements.

New standards and interpretations issued but not yet adopted

There were no new accounting standards or interpretations issued during the quarter. As disclosed in the 2016 year-end Financial Statements, the Company is currently evaluating the impact of IFRS 16, "Leases" ("IFRS 16") and IFRS 15, *"Revenue From Contracts With Customers*" ("IFRS 15").

IFRS 16 is effective for years beginning on or after January 1, 2019, however the early adoption of IFRS 16 is permitted if IFRS 15 has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. It is anticipated that the adoption of IFRS 16 will have a material impact on the Company's Consolidated Balance Sheets due to material operating lease commitments. For Lessor accounting, the Company anticipates that the accounting treatment remains materially the same. The Company has decided to early adopt IFRS 16 effective January 1, 2018, consistent with the adoption date of IFRS 15.

For IFRS 15 and IFRS 16, the Company is in the process of developing an implementation plan to identify all contracts and arrangements which will fall within the scope of IFRS 15 and 16. The Company's management believes that it has sufficient resources allocated to the project to ensure timely implementation and has commenced its assessment of key contracts. Once all applicable contracts and arrangements are identified and reviewed, the Company will assess applicable impacts. These include, but are not limited to, impacts to (i) recognition and measurement of revenue and expenses on the Company's consolidated financial statements; (ii) company policies and business practices; (iii) information technology systems; (iv) key operating metrics; (v) internal controls; (vi) financial covenants; and (vii) significant judgments and estimations required.

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

4 Assets and liabilities held for sale, and discontinued operations

On March 1, Gibsons granted an Option Right to Superior Plus LP ("Superior") to purchase Gibsons' Industrial Propane segment pursuant to the Option Agreement in exchange for an adjusted cash consideration of $434.8 million, at which time Superior exercised the Option Right in accordance with the Option Agreement. Gibsons will continue to operate the business based on the terms and covenants of the Option Agreement under the direction of the current management team, until 100% of the partnership units and shares (the "Securities") of the Canwest and Stittco businesses are transferred to Superior, which is expected to occur no later than the fourth quarter of 2017, subject to the receipt of customary regulatory approvals. Judgment was applied in accordance with IFRS 10 - *Consolidated Financial Statements* ("IFRS 10") and it was concluded that effective March 1, 2017, the Company does not have the rights and exposure to variable returns and the ability to affect the amount of returns. Accordingly, the Industrial Propane segment was derecognized as at March 1, 2017 and Gibsons recognized a gain on sale of $148.6 million, net of tax, as noted below.

Operating results related to the segment have been included in net income from discontinued operations in the condensed consolidated statement of operations. Comparative period balances of the condensed consolidated statement of operations and cash flows have been restated.

Purchase price	$ 412,000
Purchase price adjustments	22,806
Total cash consideration	434,806
Cash	(10,504)
Accounts receivable	(48,076)
Inventories	(7,240)
Prepaid expenses and other assets	(467)
Property, plant, and equipment	(137,673)
Intangible assets	(10,305)
Goodwill	(77,579)
Other long-term assets	(156)
Accounts payable and accrued liabilities	24,374
Other current liabilities	180
Deferred tax liability	13,860
Other non-current liabilities	989
Decommissioning liability	965
Net assets disposed	(251,632)
Costs to sell	(10,068)
Purchase price adjustment balance receivable	2,258
Gain on sale	175,364
Income tax provision on gain on sale	(26,809)
After-tax gain on sale	$ 148,555

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

The results of the discontinued operations are presented below:

	Three months ended March 31, 2017 [1]	2016
Revenue	$ 58,296	$ 52,817
Cost of sales	44,678	41,463
Gross profit	13,618	11,354
Other operating income	19	206
Gain on sale	175,364	-
Income before income taxes	189,001	11,560
Income tax provision - current	30,970	3,625
Income tax recovery – deferred	275	(599)
Net income from discontinued operations, after tax	$ 157,756	$ 8,534

Supplemental cash flow information:

	Three months ended March 31, 2017 [1]	2016
Investing Activities		
Cash used in investing activities from discontinued operations	$ (106)	$ (1,043)
Proceeds on sale of discontinued operations	434,806	-
Transaction costs paid on sale of discontinued operations	(1,733)	-
Net cash provided by (used in) investing activities from discontinued operations	$ 432,967	$ (1,043)

1. *The Company derecognized the Industrial Propane segment effective March 1, 2017, accordingly, results for three months ending March 31, 2017 represent the activity for the period January 1, 2017 to February 28, 2017.*

5 Trade and other receivables

	March 31, 2017	December 31, 2016
Trade receivables	$ 399,913	$ 410,325
Allowance for doubtful accounts	(1,170)	(1,124)
Trade receivables - net	398,743	409,201
Risk management assets (note 15)	1,139	6,218
Broker accounts receivable	1,448	5,329
Indirect taxes receivable	5,612	4,375
Other	2,889	3,125
	$ 409,831	$ 428,248

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

6 Inventories

	March 31, 2017	December 31, 2016
Crude oil	$ 67,971	$ 71,627
Diluent	2,304	1,371
Asphalt	21,151	16,546
Natural gas liquids	16,156	31,994
Wellsite fluids and distillate	13,465	8,556
Spare parts and other	14,720	14,501
	$ 135,767	$ 144,595

7 Property, plant and equipment

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
Cost:							
At January 1, 2017	$188,380	$209,454	$608,344	$457,871	$920,843	$104,868	$2,489,760
Additions	109	-	4	360	2,543	25,467	28,483
Disposals	(4,141)	-	(332)	(14,247)	(2,185)	-	(20,905)
Reclassifications	1,409	275	(482)	-	1,928	(3,130)	-
Change in decommissioning provision (note 11)	-	146	331	-	397	-	874
Effect of movements in exchange rates	(222)	-	(121)	(1,949)	(1,896)	(46)	(4,234)
At March 31, 2017	$185,535	$209,875	$607,744	$ 442,035	$ 921,630	$127,159	$2,493,978
Accumulated depreciation:							
At January 1, 2017	$31,778	$73,052	$96,609	$275,002	$370,025	-	$846,466
Depreciation	1,678	2,235	6,667	11,653	20,348	-	42,581
Disposals	-	-	(317)	(13,712)	(2,062)	-	(16,091)
Effect of movements in exchange rates	(26)	-	(51)	(1,189)	(952)	-	(2,218)
At March 31, 2017	$33,430	$75,287	$102,908	$271,754	$387,359	-	$870,738
Carrying amounts:							
At January 1, 2017	$ 156,602	$ 136,402	$511,735	$ 182,869	$ 550,818	$ 104,868	$1,643,294
At March 31, 2017	$ 152,105	$ 134,588	$504,836	$ 170,281	$ 534,271	$ 127,159	$ 1,623,240

Additions to property, plant and equipment include capitalization of interest of $0.9 million and $3.6 million for the three months ended March 31, 2017 and 2016, respectively.

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

8 Income tax provision (recovery)

The income tax provision (recovery) included in the condensed consolidated statement of operations is classified as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Current, from continuing operations	$ (14,982)	$ 3,095
Current, from discontinued operations (Note 4)	30,970	3,625
	15,988	6,720
Deferred, from continuing operations	(13,937)	(13,730)
Deferred, from discontinued operations (Note 4)	275	(599)
	(13,662)	(14,329)
Total current and deferred, from continuing operations	(28,919)	(10,635)
Total current and deferred, from discontinued operations (Note 4)	$ 31,245	$ 3,026
Effective income tax rate	1.53%	20.85%

9 Loans and Borrowings

Revolving Credit Facility

The Company has established an unsecured revolving credit facility of up to $500.0 million (the “Revolving Credit Facility”), with a maturity date of March 7, 2022, the proceeds of which are available to provide financing for working capital and other general corporate purposes. In addition, the Company has three demand letter of credit facilities totaling $150.0 million.

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

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

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

As at March 31, 2017, the Company was in compliance with all covenants under the Revolving Credit Facility. The Company had $nil and $nil drawn against the Revolving Credit Facility as at March 31, 2017 and December 31, 2016, respectively. The Company had issued letters of credit totalling $50.6 million and $48.4 million as at March 31, 2017 and December 31, 2016, respectively.

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

Long-term debt

	March 31, 2017	December 31, 2016
U.S.$211.2 million (U.S. $550 million – December 31, 2016) 6.75% Notes due July 15, 2021	$ 281,361	$ 738,485
$38.9 million ($250 million – December 31, 2016) 7.0% Notes due July 15, 2020	38,948	250,000
$300.0 million 5.375% Notes due July 15, 2022	300,000	300,000
$350.0 million 5.25% Notes due July 15, 2024	350,000	-
Unamortized issue discount and debt issue costs	(12,144)	(16,646)
Long-term debt: non-current portion	$ 958,165	$ 1,271,839

On March 22, 2017, the Company refinanced its existing U.S.$550.0 million 6.75% Notes and $250.0 million 7.00% Notes under which it repaid U.S.$338.8 million principal amount of 6.75% Senior Unsecured Notes due July 15, 2021 at a tender price of 105.13% (the "U.S.$ Notes") and $211.1 million principal amount of 7.00% Senior Unsecured Notes due July 15, 2020 at a tender price of 105.31% (the “C$ Notes”) (the C$ Notes, U.S.$ Notes and $300.0 million 5.375% Notes, altogether referred to as the “Notes"). Concurrently with the closing of the tender offers of the C$ Notes and U.S.$ Notes, the Company issued $350.0 million 5.25% Senior Unsecured Notes due July 15, 2024 at an issue price of 100.0% plus accrued interest (the “New Notes”). Interest is payable semi–annually on January 15 and July 15 of each year the Notes and New Note are outstanding.

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

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

Debt extinguishment costs

Concurrent with the completion of the refinancing of the Notes the Company recognized debt extinguishment costs of $49.3 million comprising unamortized debt issue discount and debt issue costs of $9.6 million, loss on financial instruments relating to long-term debt of $5.1 million and tender offer premium consideration of $34.6 million.

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

10 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	March 31, 2017	December 31, 2016
Trade payables	$ 360,515	$ 376,767
Accrued compensation charges	17,692	18,566
Indirect taxes payable	4,823	4,403
Risk management liabilities (note 15)	3,513	11,901
Defined benefit plan obligations	510	510
Interest payable	9,611	41,623
Insurance payable	6,900	7,638
Other	17,894	7,426
	$ 421,458	$ 468,834

11 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:

	Three months ended March 31, 2017	Year ended December 31, 2016
Opening balance	$ 171,038	$ 154,343
Settlements	(967)	(2,556)
Additions	-	22,997
Change in estimated future cash flows	-	(1,499)
Change in discount rate	874	(5,100)
Unwinding of discount	967	3,251
Liabilities transferred to held for sale (note 4)	-	(962)
Effect of changes in foreign exchange rates	(175)	(436)
Closing balance	$ 171,737	$ 171,038

In order to determine the current provision, the estimated future values were discounted using an average risk-free rate of 2.28% and 2.34% at March 31, 2017 and December 31, 2016, respectively. The provision is expected to be settled up to 40 years into the future.

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

12 Share capital

Common Shares – Issued and Outstanding

	Common Shares	
	Number of Common shares	Amount
At January 1, 2017	141,733,032	$ 1,909,032
Issuance in connection with the exercise of stock options	125,000	1,080
Issuance in connection with other equity awards	739,614	-
Reclassification of contributed surplus on issuance of awards under equity incentive plans	-	12,499
At March 31, 2017	142,597,646	$ 1,922,611

Share based compensation

A summary of activity under the equity incentive plan is as follows:

	Stock Options		Restricted Share Units	Performance Share Units	Deferred Share Units
	Number of shares	Weighted average exercise price (in dollars)	Number of Shares		
Balance at January 1, 2017	3,067,865	$ 24.24	1,112,791	1,530,320	196,582
Granted	163,000	19.97	791,870	415,802	139,877
Exercised and released for common shares	(125,000)	8.64	(611,854)	(127,760)	-
Forfeited	(146,307)	26.18	(36,396)	(345,660)	-
Balance at March 31, 2017	2,959,558	$ 24.57	1,256,419	1,472,702	336,459
Vested	2,190,301	23.98	47,729	-	336,459

Per share amounts

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

	Three months ended March 31,	
	2017	2016
Weighted average common shares outstanding - Basic	141,850,719	126,228,456
Dilutive effect of:		
Stock options and other awards	-	2,055,170
Weighted average common shares outstanding - Diluted	141,850,719	128,283,626

The dilutive effect of 2.8 million stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the three months ended March 31, 2017 have not been included in the determination of the weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net loss from continuing operations per share. The dilutive effect of 2.8 million stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures have been included in the determination of the weighted average number of common shares outstanding for discontinued operations.

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

13 Employee salaries and benefits

	Three months ended March 31, 2017	Three months ended March 31, 2016
Salaries and wages	$ 55,719	$ 57,464
Post-employment benefits	1,411	1,631
Share based compensation (recovery) expense	(1,145)	3,356
Termination benefits	863	5,695
	$ 56,848	$ 68,146

Employee salaries and benefits have been expensed as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cost of sales	$ 52,908	$ 60,108
General and administrative	3,940	8,038
	$ 56,848	$ 68,146

14 Revenue

	Three months ended March 31, 2017	Three months ended March 31, 2016
Products	$ 1,240,239	$ 696,626
Services	209,323	209,601
	$ 1,449,562	$ 906,227

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

15 Financial instruments

Derivative financial instruments (recurring fair value measurements)

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

	March 31, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Commodity futures	$ 272	$ 585	$ 595	$ 5,640
Commodity swaps	37	45	5,578	2,688
Commodity options	341	80	38	747
Equity swaps	934	2,506	-	1,686
Foreign currency forwards	269	297	-	1,411
Foreign currency options	57	-	7	3
Total	$ 1,910	$ 3,513	$ 6,218	$ 12,175
Less non-current portion:				
Equity swaps	771	-	-	226
Foreign currency forwards	-	-	-	48
	771	-	-	274
Current portion	$ 1,139	$ 3,513	$ 6,218	$ 11,901

During the three months ended March 31, 2017, the Company entered into U.S. dollar forward contracts to buy U.S. dollars on a notional amount of U.S.$310.0 million at a weighted average rate of $1.3504 for U.S.$1.00 settling on March 22, 2017. The value of the U.S. dollar forward contracts at settlement was $5.1 million.

During the three months ended March 31, 2017, the Company recognized an unrealized gain of $0.2 million on its equity swaps.

The fair value of financial instrument contracts by fair value hierarchy at March 31, 2017 was:

	Total	Level 1	Level 2	Level 3
Assets from financial instrument contracts				
Commodity futures	$ 272	$ 272	$ -	$ -
Commodity swaps	37	-	37	-
Commodity options	341	-	341	-
Equity swap	934	934	-	-
Foreign currency forward	269	-	269	-
Foreign currency options	57	-	57	-
Total assets	$ 1,910	$ 1,206	$ 704	$ -
Liabilities from financial instrument contracts				
Commodity futures	$ 585	$ 585	$ -	$ -
Commodity swaps	45	-	45	-
Commodity options	80	-	80	-
Equity swaps	2,506	2,506	-	-
Foreign currency forwards	297	-	297	-
Total liabilities	$ 3,513	$ 3,091	$ 422	$ -

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

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

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

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

	Three months ended March 31, 2017	2016
Cost of sales	$ 4,115	$ 2,676
General and administrative	214	(1,850)
Foreign exchange loss on financial instruments related to long-term debt (note 9)	(5,079)	-
	$ (750)	$ 826

As at March 31, 2017 and December 31, 2016, the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was $989.1 million and $1,336.8 million, respectively.

As at March 31, 2017 and December 31, 2016, the fair value of the Debentures based on period end trading prices on the secondary market (Level 2) was $106.0 million and $109.0 million, respectively.

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:

	March 31, 2017	2016
U.S. Dollar Forwards and Options		
Favorable 5% change	$ 1,942	$ 1,342
Unfavorable 5% change	(2,179)	(1,342)

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.

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

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.

	March 31,	
	2017	**2016**
Crude oil and NGL related prices		
Favorable 15% change	$ 6,337	$ 9,681
Unfavorable 15% change	(5,471)	(10,110)

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

	March 31,	
	2017	**2015**
Equity Swaps		
Favorable 10% change	$ 1,636	$ 700
Unfavorable 10% change	(1,636)	(700)

Set out below is a maturity analyses of certain of the Company's financial contractual obligations as at March 31, 2017. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

	On demand or within one year	**Between one and five years**	**After five years**	**Total**
Trade payables and accrued charges, excluding derivative financial instruments and accrued interest	$ 408,334	$ -	$ -	$ 408,334
Dividend payable	47,057	-	-	47,057
Long-term debt	-	320,309	650,000	970,309
Debentures (debt and equity component)	-	100,000	-	100,000
Interest on long-term debt and Debentures	55,649	200,754	76,213	332,616
Commodity futures	585	-		585
Commodity swaps	45	-		45
Commodity options	80	-		80
Equity swap	2,506	-		2,506
Foreign currency forwards	297	-		297
	$ 514,553	$ 621,063	$ 726,213	$ 1,861,829

16 Segmental information

The Company has defined its operations into the following operating segments: (1) Infrastructure, (2) Logistics, (3) Wholesale, and (4) Other.

(1) **Infrastructure** includes a network of midstream infrastructure assets that includes oil terminals, rail loading and unloading facilities, injection stations, gathering pipelines and processing facilities that collect, store, and process oil and other liquid hydrocarbon production and by-products before eventual distribution to end-use markets. The primary facilities within this segment include the terminals located at Edmonton and Hardisty, which are the principal hubs for aggregating and exporting oil and refined products out of the Western Canadian Sedimentary Basin (WCSB); gathering pipelines, which are connected to the Hardisty Terminal; injection stations, which are located in the United States; a crude oil processing facility in Moose Jaw, Saskatchewan, and processing, recovery, and disposal terminals (PRD) located throughout Western Canada and the Northern United States. The PRD business is dependent upon the drilling activity in WCSB, Bakken and the Northern U.S. As a result, the PRD business is impacted by seasonality due to road bans as part of spring break-up.

(2) **Logistics** includes a suite of logistical wellsite services that enable oil and liquids production to access fixed midstream infrastructure. This segment provides transportation and related services that allow the Company to service its customers' needs several times between the wellhead and the end market, and includes providing hauling services for crude, condensate, propane, butane, asphalt, methanol, sulfur, petroleum coke, gypsum, emulsion, waste water and drilling fluids for many of North America's leading oil and gas producers. Additionally, the Company also provides several ancillary services to production companies. Generally, the segment's second quarter results are impacted by road bans and other restrictions which impact overall activity levels in the WCSB and the Northern U.S., and, therefore, negatively impact the business. Also, for certain services and geographical regions, the activity is generally the lowest in the winter months when daylight hours are shorter.

(3) **Wholesale** includes the purchasing, selling, storing and blending of hydrocarbon products, including crude oil, NGL's, road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil, and an oil based mud product. This segment earns margins by providing aggregation services to producers and/by capturing quality, locational or time-based arbitrage opportunities. Canadian road asphalt activity, related to Refined Products, is affected by the impact of weather conditions on road construction. Road asphalt demand peaks during the summer months when most of the road construction activity in Canada takes place. In the off peak demand months for road asphalt, the demand for roofing flux continues. Demand for wellsite fluids is dependent on overall well drilling and completion activities, with activity normally the busiest in the winter months. Demand for propane and other NGLs is also highest in the colder months of the year.

(4) **Other** includes the provision of other services to the oil and gas industry including exploration support services and accommodation services.

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

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

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

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

Three months ended March 31, 2017

	Infrastructure	Logistics	Wholesale	Other	Total
Statement of operations					
Revenue					
External	$ 53,581	$ 114,981	$ 1,276,933	$ 4,067	$ 1,449,562
Inter-segmental	32,045	11,909	109,694	30	153,678
External and inter-segmental	85,626	126,890	1,386,627	4,097	1,603,240
Segment profit	$ 60,262	$ 8,581	$ 17,916	$ 7	$ 86,766
Corporate & other reconciling items					
Depreciation of property, plant and equipment					42,581
Amortization of intangible assets					5,706
General and administrative					9,305
Stock based compensation recovery					(1,145)
Corporate foreign exchange loss					528
Interest expense					24,884
Interest income					(665)
Debt extinguishment costs					44,248
Foreign exchange loss on financial instruments related to long-term debt					5,079
Foreign exchange gain on long-term debt					(4,928)
Net loss from continuing operations before income tax					(38,827)
Income tax recovery					(28,919)
Net loss from continuing operations					(9,908)
Net income from discontinued operations (Note 4)					157,756
Net income from operations					$ 147,848

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

Three months ended March 31, 2016 (restated[1])

	Infrastructure	Logistics	Wholesale	Other	Total
Statement of operations					
Revenue					
External	$ 45,370	$ 126,942	$ 727,947	$ 5,968	$ 906,227
Inter-segmental	26,253	13,107	57,826	58	97,244
External and inter-segmental	71,623	140,049	785,773	6,026	1,003,471
Segment profit	$ 48,361	$ 9,683	$ 5,165	$ 538	$ 63,747
Corporate & other reconciling items					
Depreciation of property, plant and equipment					40,087
Amortization of intangible assets					10,652
General and administrative					12,022
Stock based compensation					3,356
Corporate foreign exchange loss					802
Interest expense					19,807
Interest income					(124)
Foreign exchange gain on long-term debt					(47,795)
Net income from continuing operations before income tax					24,940
Income tax recovery					(10,635)
Net income from continuing operations					35,575
Net income from discontinued operations (Note 4)					8,534
Net income from operations					$ 44,109

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

	Three months ended March 31			
	2017		2016 (restated[1])	
	Property, plant and equipment	Intangible Assets	Property, plant and equipment	Intangible Assets
Infrastructure	$ 26,038	$ 246	$ 52,929	$ 844
Logistics	2,366	33	3,500	768
Wholesale	-	-	-	56
Corporate & other	79	1,464	303	1,618
	$ 28,483	$ 1,743	$ 56,732	$ 3,286

1. *Comparative period was restated to reflect the results of continuing operations separately from discontinued operations.*

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

Geographic Data

Based on the location of the end user, approximately 24% and 29% of revenue was from customers in the United States for the three months ended March 31, 2017 and 2016, respectively.

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with 15% and 16% in the United States at March 31, 2017 and December 31, 2016, respectively.

17 Subsequent Events

On May 8, 2017, the Board declared a quarterly dividend of $0.33 per common share for the three months ended June 30, 2017 on its outstanding common shares. The dividend is payable on July 17, 2017 to shareholders of record at the close of business on June 30, 2017.