Management's Discussion and Analysis 2016 Year End Report

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

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

BUSINESS OVERVIEW

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

Our strategy and strengths

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

To achieve this, our strategy is to:

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

We believe that our business model provides significant competitive advantages:

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

SELECTED FINANCIAL INFORMATION

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

Consolidated balance sheet and ratios

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

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

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

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

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

2016 REVIEW

Financial highlights

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

Capital expenditure highlights

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

SUBSEQUENT EVENTS

Industrial Propane sale

- Subsequent to December 31, 2016, the Company entered into an agreement to sell its Industrial Propane business for non-refundable cash consideration of $412.0 million, subject to certain adjustments, to Superior Plus LP ("Superior"). The sale will be completed through a series of transactions. Pursuant to an option purchase agreement, dated February 13, 2017, subject to the fulfilment of customary conditions, Gibsons and Superior agreed to complete the initial transaction pursuant to which Superior would pay $412.0 million in exchange for the grant of an irrevocable option (the "Option") to Superior to acquire 100% of the partnership units and shares (the "Securities") of the Canwest and Stittco businesses. On March 1, 2017, the Company received the cash payment of $412.0 million in exchange for the grant of the Option and, effective this date, Superior became entitled to the economics of the Canwest and Stittco propane businesses. Following granting of the Option by Gibsons, closing risk resides with Superior. Gibsons will continue to operate the business based on the terms and covenants of the Option agreement under the direction of the current management team, with no disruption to its employee base and customer service levels, until the final closing of the divestiture, which is expected to occur no later than the fourth quarter of 2017. Upon exercise of the Option by Superior, and receipt of regulatory approvals, the Securities will be transferred to Superior for nominal consideration. From an accounting perspective, the Company will derecognize the Industrial Propane segment effective March 1, 2017. The proceeds of the sale will be utilized to strengthen our capital structure through debt reduction and to support previously announced 2017 and 2018 capital programs within our Infrastructure business.

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

<u>Credit facility</u>

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

<u>Dividend</u>

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

PROJECT DEVELOPMENTS AND MARKET OUTLOOK

<u>Major growth projects</u>

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

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

<u>Market outlook</u>

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

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

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

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

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

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

RESULTS OF CONTINUING OPERATIONS

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

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

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

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

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

INFRASTRUCTURE

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

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

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

	Three months ended December 31		Year ended December 31	
Volumes (barrels in thousands)	**2016**	**2015**	**2016**	**2015**
Terminals and facilities				
Hardisty Terminal	56,802	54,902	211,699	208,292
Edmonton Terminal	5,421	3,544	16,922	14,510
Moose Jaw Facility	1,628	1,410	5,180	5,438
PRD Terminals	3,201	3,496	10,904	15,059
Injection Stations	6,419	10,093	32,310	40,511
Total terminals and facilities	73,471	73,445	277,015	283,810

	Three months ended December 31		Year ended December 31	
	2016	**2015**	**2016**	**2015**
Revenue	$ 83,458	$ 69,965	$ 298,150	$ 271,341
Operating expenses and other	27,187	19,939	97,843	90,274
Segment profit	$ 56,271	$ 50,026	$ 200,307	$ 181,067

Operational performance

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

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

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

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

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

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

Financial performance

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

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

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

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

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

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

Capital expenditures

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

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

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

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

LOGISTICS

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

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

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

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

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

Operational performance

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

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

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

Financial performance

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

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

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

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

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

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

Capital expenditures

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

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

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

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

WHOLESALE

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

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

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

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

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

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

Operational performance

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

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

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

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

Financial performance

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

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

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

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

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

Capital expenditures

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

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

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

OTHER

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

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

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

Operational and financial performance

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

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

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

General and administrative and other, excluding depreciation and amortization

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

Depreciation and impairment

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

Amortization and impairment

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

Impairment of goodwill

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

Stock based compensation

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

Foreign exchange loss not affecting segment profit

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

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

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

Net interest expense

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

Income tax recovery

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

RESULTS OF DISCONTINUED OPERATIONS

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

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

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

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

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

Operational and financial performance

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

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

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

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

Capital expenditures

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

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

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

SUMMARY OF QUARTERLY RESULTS

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

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

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

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

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

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

- EBITDA and Adjusted EBITDA:
  - each exclude certain income tax payments that may represent a reduction in cash available to the Company;
  - do not reflect the Company's cash expenditures, or future requirements for capital expenditures or contractual commitments;
  - do not reflect changes in, or cash requirements for, the Company's working capital needs; and
  - do not reflect the significant interest expense, or the cash requirements necessary to service interest payments on the Company's debt, including the Debentures, Notes (as defined herein) and the Revolving Credit Facility 9as defined herein);
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and
- Other companies in the industry may calculate EBITDA and Adjusted EBITDA differently than the Company does, limiting its usefulness as a comparative measure.

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

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

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

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

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

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

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

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

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

(1) *Non-cash adjustment representing the unrealized foreign exchange gain and loss and foreign exchange gain and loss related to long-term debt as a result of the movement in exchange rates in the periods.*

(2) *Reflects the exclusion of the movement in the mark-to-market valuation of financial instruments used in risk management activities. The Company uses crude oil and NGL priced futures, options and swaps to manage the exposure to commodities price movements and foreign currency forward contracts and options to manage foreign exchange risks, although the Company does not formally designate these financial instruments as hedges for accounting purposes. Accordingly, the unrealized gains or losses on these financial instruments are recorded directly to the income statement. Management believes that this adjustment better correlates the effect of risk management activities to the underlying operating activities to which they relate.*

(3) *Represents the non-cash stock based compensation relating to the Company's equity incentive plan.*

(4) *Represents the non-cash impairment of goodwill charge recorded in the years ended December 31, 2016 and 2015.*

(5) *Represents the severance costs incurred related to a headcount rationalization review throughout 2016.*

(6) *Represents transaction fees that were expensed in connection with acquisitions made by the Company.*

(7) *Reflects the pro forma impact of acquisitions on the Company's Adjusted EBITDA as if the acquisitions that took place in the twelve month period occurred on January 1 of each twelve month period. The pro forma impact of acquisitions is calculated on the same basis as Adjusted EBITDA.*

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Sources

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

Cash flow summary

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

Continuing operations

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

	Year ended December 31	
	2016	**2015**
Statement of cash flows		
Cash flows provided by (used in):		
Operating activities	$ 175,482	$ 399,117
Investing activities	(243,193)	(364,565)
Financing activities	$ 17,556	$ (141,862)

Cash provided by operating activities

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

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

Cash used in investing activities

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

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

Cash provided by (used in) financing activities

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

Discontinued operations

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

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

Cash provided by operating activities

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

Cash used in investing activities

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

Cash provided by (used in) financing activities

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

Capital expenditures

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

	Year ended December 31	
	2016	**2015**
Growth capital (1)	$ 202,984	$ 343,766
Upgrade and replacement capital (2)	24,841	39,130
Total	$ 227,825	$ 382,896

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

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

Planned capital expenditures

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

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

Capital structure

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

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

Notes

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

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

Debentures

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

Credit facility

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

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

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

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

Share capital

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

Dividends

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

Distributable cash flow

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

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

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

Continuing operations	Year ended December 31 2016	2015 [1]	2014 [1]
Cash flow from operating activities	$ 175,482	$ 399,117	$ 307,040
Adjustments:			
Changes in non-cash working capital	32,491	(92,458)	3,858
Upgrade and replacement capital	(24,841)	(39,130)	(53,874)
Cash interest expense, including capitalized interest	(91,236)	(84,965)	(68,708)
Non-recurring items:			
Severance costs [(2)]	10,044	2,830	-
Income taxes paid [(3)]	-	15,596	-
Distributable cash flow from continuing operations	$ 101,940	$ 200,990	$ 188,316

Combined operations	Year ended December 31 2016	2015 [1]	2014 [1]
Combined cash flow from operating activities	$ 207,566	$ 458,067	$ 336,228
Adjustments:			
Combined changes in non-cash working capital	34,333	(118,456)	29,302
Combined upgrade and replacement capital	(29,063)	(46,775)	(59,035)
Cash interest expense, including capitalized interest	(91,236)	(84,965)	(68,708)
Non-recurring items:			
Severance costs [(2)]	10,044	2,830	-
Income taxes paid [(3)]	-	15,596	-
Distributable cash flow from combined operations	$ 131,644	$ 226,297	$ 237,787
Dividends declared to shareholders	$ 181,994	$ 161,002	$ 148,573

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

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

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

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

Contractual obligations

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

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

(1) *The exchange rate used to translate the U.S. dollar obligations on the Company's long-term debt and interest payments is the rate as of December 31, 2016 of U.S.$0.7448 to CAD$1.00.*

(2) *Operating lease and other commitments relate to an office lease for the Company's Calgary head office, rail tank cars, vehicles, field buildings, various equipment leases and terminal services arrangements.*

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

Contingencies

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

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

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

OUTSTANDING SHARE DATA

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

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

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

Under the Revolving Credit Facility, the Company is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either the Canadian Prime Rate or U.S. LIBOR, U.S. Base Rate or Canadian Bankers' Acceptance Rate, plus an applicable margin based on the Company's total leverage ratio. As at December 31, 2016, the Company had $nil drawn under the Revolving Credit Facility and, accordingly, is currently not subject to the interest rate cash flow risk associated with these amounts. At December 31, 2015, the Company had $35.0 million drawn under the Revolving Credit Facility and 1% favorable and unfavorable change in interest rates in relation to the amounts drawn at December 31, 2015 would have impacted net income by $0.3 million.

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

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

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

ACCOUNTING POLICIES

Critical accounting policies and estimates

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

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

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

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

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

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

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

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

Liabilities for site restoration on the retirement of assets are recognized when the Company has an obligation to restore the site and when a reliable estimate of that liability can be made. An obligation may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The present value is determined by discounting the expenditures expected to be required to settle the obligation using a risk-free discount rate. Estimated future expenditure is based on all known facts at the time and current expected plans for decommissioning. Among the many uncertainties that may impact the estimates are changes in laws and regulations, public expectations, prices and changes in technology. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also recorded. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

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

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

Initial adoption of accounting policies

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

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

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

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

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

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

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

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

Amended standards adopted by the Company

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

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

New standards and interpretations issued but not yet adopted

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

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

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

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

DISCLOSURE CONTROLS & PROCEDURES

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

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

RISK FACTORS

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

Operational Risks

Operational risks include: tank and pipeline leaks; the breakdown or failure of equipment related to, pipelines and facilities, information systems or processes; the compromise of information and control systems; spills at truck terminals and terminal hubs; spills associated with the loading and unloading of harmful substances onto rail cars and trucks; failure to maintain adequate supplies of spare parts; operator error; labour disputes; disputes with interconnected facilities and carriers; operational disruptions or apportionment on third-party systems or refineries which may prevent the full utilization of Gibsons' facilities and pipelines; and catastrophic events including but not limited to natural disasters, fires, floods, explosions, train derailments, earthquakes, acts of terrorists and saboteurs, and other similar events, many of which are beyond the Company's control. Gibsons may also be exposed from time to time, to additional operational risks not stated in the immediately preceding sentences. The occurrence or continuance of any of these events could increase the cost of operating Gibsons' assets or reduce revenue, thereby impacting earnings. Additionally, Gibsons' facilities and pipelines are reliant on electrical power for their operations. A failure or disruption within the local or regional electrical power supply or distribution or transmission systems could significantly affect ongoing operations. In addition, a significant increase in the cost of power or fuel could have a materially negative effect on the level of profit realized in cases where the relevant contracts do not provide for recovery of such costs.

Market and Commodity Price Risk

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

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

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

Reputation

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

Decommissioning, Abandonment and Reclamation Costs

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

Legislative and Regulatory Changes

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

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

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

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

Environmental Regulation and Climate Change

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

Greenhouse gases, mainly carbon dioxide and methane, are components of the raw natural gas processed and handled at Gibsons' facilities. Operations at Gibsons' facilities, including the combustion of fossil fuels in engines, heaters and boilers, release carbon dioxide, methane and other minor greenhouse gases. As such, Gibsons is subject to various greenhouse gas reporting and reduction programs. Gibsons uses an engineering consulting firm to compile inventories of greenhouse gas emissions and reports these inventories in accordance with federal and provincial programs. Second party audits or verifications of inventories are conducted for facilities that are required to meet regulatory targets.

FORWARD-LOOKING INFORMATION

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

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

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

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

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

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

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

NON-GAAP FINANCIAL MEASURES

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

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