



**Management's
Discussion and Analysis**
2019 Second Quarter Report



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The following Management's Discussion and Analysis ("MD&A") was prepared and approved by the Board of Directors (the "Board") of Gibson Energy Inc. ("we", "our", "us", "its", "Gibson" or the "Company") as of August 6, 2019 and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes of Gibson Energy Inc. for the three and six months ended June 30, 2019 and 2018, the audited consolidated financial statements and related notes for the years ended December 31, 2018 and 2017, 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, and the MD&A for the year ended December 31, 2018. The unaudited condensed consolidated financial statements referred to above include all adjustments of a normal recurring nature necessary for the fair statement of the Company's financial position as of June 30, 2019, its results of operations for the three and six months ended June 30, 2019 and 2018, and its cash flows for the three and six months ended June 30, 2019 and 2018. The unaudited condensed consolidated financial statements do not include all the annual disclosures required by IFRS and should be read in conjunction with the annual audited consolidated financial statements and related notes for the fiscal year ended December 31, 2018. Certain reclassifications of prior period amounts have been made to conform to the current period presentation and current information presented are not comparable due to the presentation of continuing operations separately from discontinued operations. The results for the interim periods are not necessarily indicative of the results to be expected for any future period or for the fiscal year ending December 31, 2019. Amounts are stated in Canadian dollars unless otherwise noted. Additional information about Gibson Energy, is available on SEDAR at www.sedar.com and on our website at www.gibsonenergy.com.

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

BUSINESS OVERVIEW

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

SELECTED FINANCIAL INFORMATION

| | Three months ended June 30 | | Six months ended June 30 | |
|--|----------------------------|-------------------|--------------------------|-------------------|
| | 2019 | 2018 ¹ | 2019 | 2018 ¹ |
| Continuing operations¹ | | | | |
| Revenue ² | \$ 1,927,634 | \$ 1,714,335 | \$ 3,676,322 | \$ 3,401,962 |
| Segment profit ² | 95,244 | 95,801 | 231,018 | 191,291 |
| Net income ² | 34,693 | 15,242 | 93,370 | 27,027 |
| Basic income per share ² | 0.24 | 0.11 | 0.65 | 0.19 |
| Diluted income per share ² | 0.24 | 0.11 | 0.64 | 0.19 |
| Adjusted EBITDA | 93,555 | 96,113 | 212,038 | 182,866 |
| Distributable cash flow ^{2,3,4} | 74,840 | 54,343 | 153,790 | 98,609 |
| Dividends declared | 47,980 | 47,562 | 95,917 | 95,034 |
| Cash flow from operating activities ² | 37,651 | 27,669 | 25,154 | 146,803 |
| Growth capital expenditures ² | \$ 59,124 | \$ 49,372 | \$ 100,198 | \$ 75,751 |
| Combined operations¹ | | | | |
| Combined Adjusted EBITDA ^{1,3} | \$ 96,590 | \$ 101,499 | \$ 220,135 | \$ 202,979 |
| Distributable cash flow ^{1,2,3,4} | \$ 79,786 | \$ 56,874 | \$ 162,619 | \$ 113,689 |

Last twelve months – As at June 30,

| | 2019 | 2018 |
|--|------|------|
|--|------|------|

Debt and dividend payout ratios

| | | |
|---|-----|-----|
| Total and senior debt leverage ratio | 2.5 | 3.5 |
| Interest coverage ratio | 7.3 | 4.8 |
| Combined dividend payout ratio ⁴ | 58% | 84% |

1. See definition of non-GAAP measures on pages 15 to 16 and 28. Combined Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) and Combined distributable cash flow, represents the aggregated results of both continuing and discontinued operations.
2. Comparative period information has been represented to reflect the impact of discontinued operations.
3. See pages 16 to 17 and 22 to 23 for a reconciliation of Adjusted EBITDA to segment profit and distributable cash flow to cash flow from operations, respectively.
4. The distributable cash flow calculation was revised during 2018 and comparative information has been restated, refer to page 23 for details.

Q2 2019 REVIEW

Financial highlights

- Segment profit for the Infrastructure segment of \$57.3 million and \$131.9 million decreased by \$10.4 million and \$4.4 million, for the three and six months ended June 30, 2019 compared to \$67.7 million and \$136.3 million, for the three and six months ended June 30, 2018 primarily due to the impact of a \$15.0 million future environmental remediation provision recorded related to a claim filed against an adjacent operator at the Hardisty Terminal, partially offset by additional tankage brought into service at the beginning of 2019 under take-or-pay, stable fee-based contracts, the expansion of the Hardisty Unit Rail Facility (the “HURC Facility”), and the Viking Pipeline Project (“Viking Pipeline”) entering service. Absent the \$15.0 million future environmental remediation provision, Infrastructure segment profit increased by \$4.6 million and \$10.6 million, for the three and six months ended June 30, 2019.
- Segment profit for the Marketing segment of \$37.9 million and \$99.1 million increased by \$9.8 million and \$44.1 million, for the three and six months ended June 30, 2019 compared to \$28.1 million and \$55.0 million, for the three and six months ended June 30, 2018 due to higher margins earned from the Crude Marketing businesses.
- Segment profit from continuing operations of \$95.2 million and \$231.0 million decreased by \$0.6 million and increased by \$39.7 million, for the three and six months ended June 30, 2019 compared to \$95.8 million and \$191.3 million, for the three and six months ended June 30, 2018 driven by stronger performance from both the Infrastructure and Marketing segments, partially offset by the \$15.0 million future environmental remediation provision noted above.
- Adjusted EBITDA from continuing operations of \$93.6 million and \$212.0 million decreased by \$2.5 million and increased by \$29.1 million, for the three and six months ended June 30, 2019 compared to \$96.1 million and \$182.9 million, for the three and six months ended June 30, 2018 due to higher segment profits from the Infrastructure and Marketing segments, partially offset by the \$15.0 million future environmental remediation provision as noted above. As at June 30, 2019, the debt to Adjusted EBITDA leverage ratio was 2.5 on a trailing twelve-month basis.
- Distributable cash flow from combined operations of \$79.8 million and \$162.6 million increased by \$22.9 million and \$48.9 million, for the three and six months ended June 30, 2019 compared to \$56.9 million and \$113.7 million, for the three and six months ended June 30, 2018. Distributable cash flow from combined operations during the twelve months ended June 30, 2019 of \$331.9 million resulted in a payout ratio of approximately 58%.
- Net income from continuing operations of \$34.7 million and \$93.4 million increased by \$19.5 million and \$66.4 million, for the three and six months ended June 30, 2019 compared to a net income of \$15.2 million and \$27.0 million, for the three and six months ended June 30, 2018.
- In both the first and second quarter of 2019 and 2018, the Company declared a dividend of \$0.33 per common share. Total dividends declared for the three and six months ended June 30, 2019 were \$47.9 million and \$95.9 million, compared to \$47.6 million and \$95.0 million for the three and six months ended June 30, 2018.

Capital projects highlights

- During the three and six months ended June 30, 2019, the Company incurred total growth capital expenditures of \$58.9 million and \$99.5 million on construction of new tanks and related infrastructure at the Hardisty and Edmonton Terminals and for the Viking Pipeline, and U.S. pipelines.

Capital Structure & Credit Ratings

- On April 1, 2019, DBRS Limited (“DBRS”) assigned to the Company an Issuer Rating of “BBB (low)” with a “Stable” trend. DBRS also assigned the same rating and trend to the Company’s \$600 million 5.25% Notes and \$300 million 5.375% Notes (collectively “Notes”).
- On April 3, 2019, the Company amended certain terms of its unsecured revolving credit facility (“Revolving Credit Facility”) including extending the maturity date from March 2023 to March 2024. The amended Revolving Credit Facility also moved to a ratings based pricing grid from a leverage based pricing grid which could result in reduced borrowing rates to the Company. Additionally, with the Company having received its second investment grade credit rating, as discussed below, amendments to the Revolving Credit Facility and the Notes have taken effect as of July 29, 2019.
- On April 8, 2019, Gibson notified Moody’s Investors Service (“Moody’s”) that the Company has chosen to discontinue its credit rating relationship with Moody’s, including for the rating of its Notes. Moody’s subsequently notified the Company that it intends to continue to publish a credit rating on Gibson. Such credit rating will be published on an unsolicited and non-participating basis. Gibson cautions investors that the Company is no longer providing access to management nor engaging with Moody’s in any capacity regarding its credit rating.

Disposition of non-core businesses

- On February 28, 2019, the Company completed the sale of its non-core Environmental Services North (“non-core ESN”) business for gross proceeds of \$51.8 million.
- On April 2, 2019, the Company entered into a definitive agreement with Trimac Transportation (“Trimac”) for the sale of substantially all the assets of its Canadian Truck Transportation business (“TT Canada”) for proceeds of approximately \$70 million, with the potential for additional proceeds depending on the performance of the business over the next five years. In addition, Gibson entered into an agreement with an entity affiliated with Trimac for the sale of a field office and shop facilities situated on 31 acres of land in Edmonton, Alberta, subject to the satisfaction of certain conditions, for approximately \$30 million.

SUBSEQUENT EVENTS

Disposition of non-core businesses

- On July 2, 2019, the Company completed the sale of the TT Canada business for gross proceeds of approximately \$70 million, prior to customary closing adjustments. The Company anticipates to close the sale of the field office and shop facilities by the end of Q1 2020, subject to the satisfaction of certain conditions, with Trimac utilizing the properties under a lease arrangement in the interim period.

Capital Structure & Credit Ratings

- On July 24, 2019, S&P Global Ratings (“S&P”) raised its long-term issuer credit rating and senior unsecured debt ratings on the Company to “BBB–” with a “Stable” outlook. This represents the Company’s second Investment Grade rating, as Gibson is currently assigned a “BBB (low)” rating by DBRS. Accordingly, with the Company having received its second investment grade credit rating, certain amendments to the Revolving Credit Facility and Notes have taken effect as of July 29, 2019, including but not limited to, the replacement of the maximum senior and total debt leverage ratios with a total debt to capitalization ratio up to 65% and the removal of certain covenants including certain non-financial covenants and customary events of default clauses with respect to the Notes.

Dividend

- On August 6, 2019, the Board declared a quarterly dividend of \$0.33 per common share for the second quarter on its outstanding common shares. The dividend is payable on October 17, 2019 to shareholders of record at the close of business on September 30, 2019.

PROJECT DEVELOPMENTS AND MARKET OUTLOOK

Major growth projects

The Company continues to progress several major growth projects within its Infrastructure segment, including advancing the construction of five tanks, or 2.5 million barrels of storage, representing a 25 percent expansion of the Hardisty Terminal. All major growth projects currently under construction are expected to be completed within or ahead of initial timelines. The following represents key activities with respect to major growth projects over the three and six months ended June 30, 2019:

Tankage growth projects:

- The first phase of development at the Top of the Hill portion of the Hardisty Terminal was successfully placed into service ahead of schedule with capital costs in-line with budget. With the three tanks from the first phase at the Top of the Hill adding an incremental 1.1 million barrels of storage, the Hardisty Terminal reached an aggregate storage capacity of 10 million barrels.
- Construction of the second and third phases of development at the Top of the Hill, collectively representing four tanks and 2.0 million barrels of storage, continue to advance and are now expected to be in service by the end of the year. Previously, phase three was expected in service in the first quarter of 2020.
- Foundation work for the fourth phase, a 500,000 barrel tank, is expected to commence over the summer, with the tank expected to enter service in the fourth quarter of 2020.

Other growth projects:

- The HURC Facility expansion and Viking Pipeline were also placed into service and fully commissioned in the first quarter of 2019.
- The expansion of the Moose Jaw Facility was placed into service during the second quarter of 2019.
- The construction of the Pyote pipeline and related infrastructure continues to progress and is expected to be placed into service during the third quarter of 2019.

In addition to the sanctioned major growth projects currently under construction and discussed above, the Company continues to advance numerous commercial development opportunities at its Hardisty and Edmonton Terminals, outside its Terminals within Canada and around its Permian position in the U.S. The ability to reach long-term commercial agreements on these opportunities, and underpin the sanction of the construction of additional infrastructure for the Company's existing and potential customers, would help increase the Infrastructure segment's revenues and segment profit in the future.

Market outlook

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

There are a number of factors that affect 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, impact capital expenditure programs and ultimately the growth in production that creates a meaningful portion of opportunities at the Hardisty and Edmonton Terminals, as well as services that support those assets:

- In the short-term, crude oil pricing, location and quality disconnects, combined with the existing shortage of pipeline takeaway capacity from the WCSB, increase demand for terminal services as well as the use of crude by rail as a solution for market access. The Company believes that increased reliance on storage during periods of limited egress, especially during pipeline upsets or to facilitate crude by rail, may lead customers to consider increasing their available storage. Wider differentials improve margins at the Moose Jaw Facility, and, in conjunction with increased price fluctuations, typically provide increased opportunities within the Crude Marketing business.
- There are currently three large pipeline projects at various stages of development and/or regulatory approval that have the potential to impact the Company over the short, medium to long-term. Over the long-term, the Company would expect to benefit from incremental egress from Enbridge's Line 3 pipeline, TC Pipeline's Keystone XL project and the recent re-approval of the Government of Canada's Trans Mountain Pipeline Expansion, as it would encourage additional oil sands development. This increase in production in the WCSB would lead to further demand for tankage at the Company's Hardisty

and Edmonton Terminals, which are either connected or in close proximity to the respective starting points of these pipeline projects. There is a risk that these projects may be substantially delayed or cancelled, which would likely result in increased demand for rail capacity at the HURC and the Company's Edmonton Terminal, as well as related services at both of Gibson's Terminals.

- At the same time, numerous smaller scale egress options, including increasing throughput on existing pipelines and increasing utilization of existing rail capacity, continue to increase takeaway in the WCSB. To the extent the additional egress is available, it could lead to further demand for tankage at the Company's Hardisty and Edmonton Terminals as well as for the Company's existing and potential new gathering pipelines.

The stabilization and recent recovery in the global oil price as well as improving cost efficiencies has resulted in an improved outlook for many of Gibson's producer customers. More recently, the Government of Alberta's mandated production curtailments and U.S. sanctions on imported crude grades have strengthened Canadian crude differentials which has further improved the economics for Gibson's producer customers. While these factors provide some short-term benefit for Gibson's producer customers, additional egress access remains the key to Canadian producers sanctioning new brownfield and greenfield projects.

Price fluctuations between crude oil types can create incremental margin opportunities in multiple areas of the Company's operations. Crude price differentials remain somewhat volatile and the Company remains attentive to potential opportunities.

RESULTS OF CONTINUING OPERATIONS

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

During the six months ended June 30, 2019, the Company renamed its Wholesale reportable segment as Marketing and realigned its remaining U.S Truck Transportation assets into the Marketing reportable segment. This realignment reflects management's view of how information of the business is regularly reviewed internally for the purposes of decision making, allocating resources and assessing performance.

The following is a discussion of the Company's segmented results of operations for the three and six months ended June 30, 2019 and 2018 and the following table sets forth revenue and profit by segment for those periods:

| | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|-------------------|-----------------------------|-------------------|
| | 2019 | 2018 ¹ | 2019 | 2018 ¹ |
| Segment revenue | | | | |
| Infrastructure..... | \$ 97,584 | \$ 91,313 | \$ 197,095 | \$ 183,862 |
| Marketing..... | 1,975,814 | 1,810,071 | 3,782,377 | 3,592,445 |
| Total segment revenue | 2,073,398 | 1,901,384 | 3,979,472 | 3,776,307 |
| Revenue – inter-segmental | (145,764) | (187,049) | (303,150) | (374,345) |
| Total revenue - external..... | 1,927,634 | 1,714,335 | 3,676,322 | 3,401,962 |
| Segment profit | | | | |
| Infrastructure..... | 57,348 | 67,669 | 131,936 | 136,250 |
| Marketing..... | 37,896 | 28,132 | 99,082 | 55,041 |
| Total segment profit | 95,244 | 95,801 | 231,018 | 191,291 |
| General and administrative..... | 10,189 | 6,804 | 21,220 | 15,273 |
| Depreciation and impairment | 26,599 | 29,746 | 50,985 | 54,470 |
| Right-of-use asset depreciation | 10,632 | 7,623 | 20,402 | 19,728 |
| Amortization and impairment..... | 3,059 | 2,447 | 6,118 | 5,272 |
| Stock based compensation | 4,186 | 5,884 | 4,792 | 10,382 |
| Goodwill impairment | - | - | - | 1,979 |
| Gain on sale of assets held for sale | - | - | (2,744) | - |
| Foreign exchange (gain) loss | (1,763) | 2,930 | 1,379 | 6,588 |
| Net interest expense | 19,752 | 18,270 | 37,352 | 37,628 |
| Income before income tax | 22,590 | 22,097 | 91,514 | 39,971 |
| Income tax (recovery) expense | (12,103) | 6,855 | (1,856) | 12,944 |
| Net income from continuing operations..... | \$ 34,693 | \$ 15,242 | \$ 93,370 | \$ 27,027 |

1. Comparative period segment information was represented to reflect the results of continuing operations separately from discontinued operations (see note 4 of the Q2 2019 condensed consolidated financial statements and note 8 of the 2018 consolidated financial statements).

The exclusion of depreciation, amortization and impairment expense could be viewed as limiting the usefulness of segment profit as a performance measure because it does not take into account, in current periods, the implied reduction in value of the Company's capital assets (such as, tanks, pipelines, plant and equipment 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 oil infrastructure assets that include oil terminals, rail loading and unloading facilities, injection stations, gathering pipelines, a crude oil processing facility and other small terminals. The primary facilities within this segment include the Hardisty and Edmonton Terminals, which are the principal hubs for aggregating and exporting oil and refined products out of the WCSB; gathering pipelines which are connected to the Hardisty Terminal; an infrastructure position located in the U.S.; and a crude oil processing facility in Moose Jaw, Saskatchewan. The Moose Jaw Facility is impacted by maintenance turnarounds typically occurring within the spring period.

The following tables set forth the operating results from the Company's Infrastructure segment for the three and six months ended June 30, 2019 and 2018:

| Volumes (barrels in thousands) | Three months ended June 30 | | Six months ended June 30 | |
|--------------------------------------|-------------------------------|-----------|-----------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Terminals and facilities | | | | |
| Hardisty Terminal..... | 90,731 | 76,127 | 167,074 | 147,852 |
| Edmonton Terminal | 11,698 | 6,031 | 22,772 | 11,471 |
| Moose Jaw Facility | 821 | 1,288 | 2,322 | 2,636 |
| Pipelines..... | 1,618 | 6,182 | 4,434 | 11,742 |
| Total terminals and facilities | 104,868 | 89,628 | 196,602 | 173,701 |
| | | | | |
| | Three months ended June 30 | | Six months ended June 30 | |
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | | | | |
| Hardisty Terminal | \$ 59,074 | \$ 50,474 | \$ 115,802 | \$ 101,168 |
| Edmonton Terminal..... | 17,376 | 17,692 | 34,739 | 34,719 |
| Moose Jaw Facility..... | 9,845 | 9,845 | 19,690 | 19,690 |
| Pipelines | 11,288 | 13,302 | 26,864 | 28,285 |
| Revenue | 97,583 | 91,313 | 197,095 | 183,862 |
| Operating expenses and other..... | 40,235 | 23,644 | 65,159 | 47,612 |
| Segment profit | \$ 57,348 | \$ 67,669 | \$ 131,936 | \$ 136,250 |

Operational performance

In the three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018:

Hardisty Terminal volumes increased 19% and 13%, respectively. The increase in both comparative periods was largely driven by the commissioning of three new tanks and related infrastructure, representing 1.1 million barrels of storage capacity, which provided for higher throughput volumes primarily from certain customers that have dedicated tankage underpinned by long-term take or pay contracts, higher customer contract tankage volumes and increased traffic from the expansion of the HURC Facility. The increase was partially offset by the impacts of oil production curtailments which were enacted on January 1, 2019 by the Alberta Provincial Government.

Edmonton Terminal volumes increased 94% and 99%, respectively. The increase in both comparative periods was mainly due to increased throughput from certain customers fully utilizing their existing tankage capacity.

Moose Jaw Facility volumes decreased 36% and 12%, respectively. The decrease in both comparative periods was primarily due to a longer turnaround maintenance schedule and additional work for the facility expansion in the current quarter.

Pipelines volumes decreased 74% and 62%, respectively. The decrease in both comparative periods was mainly due to the sale of the non-core ESN business during the first quarter.

Financial performance

In the three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018:

Revenue at the Hardisty Terminal increased by \$8.6 million and \$14.6 million, respectively, which was largely driven by additional tankage being placed into service and the expansion of the HURC Facility, both underpinned by long-term take or pay contracts.

Revenue at the Edmonton Terminal was consistent for both comparative periods, primarily due to long-term take or pay contracts based on fixed rates with minimal volume throughput adjustments.

There was no change in the revenue for the Moose Jaw Facility, which represents the inter-segment charge by Infrastructure to the Marketing segment for use of the Moose Jaw Facility.

Pipelines revenues decreased by \$2.0 million and \$1.4 million, respectively. The decrease was mainly due to the impact of sale of the non-core ESN business in the first quarter of 2019.

Segment profit decreased by \$10.3 million and \$4.3 million, respectively. The decrease was primarily due the impact of a \$15.0 million environmental remediation provision booked for costs related to future periods as discussed in the highlights section, partially offset by higher revenues from the Hardisty Terminal.

Capital expenditures

Below is the summary of Infrastructure capital expenditures for the three and six months ended June 30, 2019 and 2018:

| | Three months ended June 30 | | Six months ended June 30 | |
|--------------------------|-------------------------------|-----------|-----------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Growth capital | \$ 58,854 | \$ 49,318 | \$ 99,468 | \$ 75,423 |
| Replacement capital..... | \$ 2,492 | \$ 4,769 | \$ 5,452 | \$ 7,342 |

The increase in growth capital expenditures for the three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018 primarily relate to an increase in project development activities specific to additional tanks and related infrastructure at the Hardisty Terminal, the HURC Facility expansion, the Viking Pipeline and U.S. pipelines in the current periods.

Replacement capital decreased over both comparative periods primarily due to lower inspection costs at the Hardisty Terminal in the current periods.

MARKETING

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

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|----------|-----------------------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Western Texas Intermediate ("WTI") average price (\$USD/bbl) | \$ 54.90 | \$ 67.88 | \$ 57.36 | \$ 65.37 |
| Western Canadian Select ("WCS") average differential (\$USD/bbl) .. | 12.29 | 19.27 | 11.48 | 21.77 |
| Average foreign exchange rates (\$CAD/\$USD) | 1.33 | 1.29 | 1.33 | 1.28 |

The following tables set forth operating results from the Company's Marketing segment for the three and six months ended June 30, 2019 and 2018:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|-------------------|-----------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Volumes (barrels in thousands) | | | | |
| Crude, refined and other products | 34,375 | 30,934 | 69,505 | 65,545 |
| | | | | |
| | Three months ended June 30 | | Six months ended June 30 | |
| | 2019 | 2018 ¹ | 2019 | 2018 ¹ |
| Revenue | | | | |
| Total revenue | \$ 1,975,814 | \$ 1,810,071 | \$ 3,782,377 | \$ 3,592,445 |
| Cost of sales | 1,924,525 | 1,768,624 | 3,655,505 | 3,511,026 |
| Operating expenses and other..... | 13,393 | 13,315 | 27,790 | 26,378 |
| Segment profit | \$ 37,896 | \$ 28,132 | \$ 99,082 | \$ 55,041 |

1. The comparative period segment information was represented to reflect the results of U.S. Truck Transportation business in accordance with current period presentation.

Operational performance

In the three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018:

Sales volumes for crude, refined, and other products increased by 11% and 6%, respectively. The increase in both comparative periods was mainly due to higher available storage at the Company's integrated assets, and an increase in U.S. volumes attributable to the activity from the U.S. Marketing business.

Financial performance

In the three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018:

Revenue for crude, refined, and other products increased by 9% and 5%, respectively. The increase both comparative periods was largely due to higher volumes sold as discussed above, partially offset by lower prices in the current periods.

Segment profit increased significantly. The increase in both comparative periods was driven by higher crude margins due to higher volumes sold and crude pricing spreads from locational, quality, and time-based differential opportunities, partially offset by lower other product margins due to lower volumes sold and lower realized prices for drilling fluids.

EXPENSES

General and administrative, excluding depreciation and amortization

| | Three months ended June 30 | | Six months ended June 30 | |
|---------------------------------|-------------------------------|----------|-----------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| General and administrative..... | \$ 10,189 | \$ 6,804 | \$ 21,220 | \$ 15,273 |

The increase in both comparative periods was primarily due to changes in allocation of certain overhead costs resulting in an increase in support service costs, salaries and benefit costs classified under general and administrative, as well as the incurrence of costs related to executive severance during the current period.

Depreciation and impairment

| | Three months ended June 30 | | Six months ended June 30 | |
|-----------------------------------|-------------------------------|-----------|-----------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Depreciation and impairment | \$ 26,599 | \$ 29,746 | \$ 50,985 | \$ 54,470 |

Depreciation and impairment costs decreased in both comparative periods primarily due to the impact of impairment related to assets held for sale in the prior period, partially offset by additional depreciation on asset additions in the current period.

Right-of-use asset depreciation

| | Three months ended June 30 | | Six months ended June 30 | |
|---------------------------------|-------------------------------|----------|-----------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Right-of-use depreciation | \$ 10,632 | \$ 7,623 | \$ 20,402 | \$ 19,728 |

The increase in both comparative periods was due to the addition of new rail and tank leases in the current year partially offset by the disposition of the Wholesale Propane business in the fourth quarter of 2018.

Amortization and impairment

| | Three months ended June 30 | | Six months ended June 30 | |
|----------------------------------|-------------------------------|----------|-----------------------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Amortization and impairment..... | \$ 3,059 | \$ 2,447 | \$ 6,118 | \$ 5,272 |

The increase in both comparative periods was driven by the impact of intangible assets added during the current periods, partially offset by certain intangible assets becoming fully amortized in the prior period.

Stock based compensation

| | Three months ended June 30 | | Six months ended June 30 | |
|--------------------------------|-------------------------------|----------|-----------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Stock based compensation | \$ 4,186 | \$ 5,884 | \$ 4,792 | \$ 10,382 |

The quarter over quarter decrease was primarily due to lower performance share unit and deferred share units related expense incurred in the current quarter, partially offset by the recognition of a mark to market gain of \$0.3 million compared to a mark to market gain of \$1.3 million related to equity swaps in the comparative period. During the six months ended June 30, 2019, the decrease was primarily due to the settlement of equity swaps resulting in a mark to market gain of \$6.5 million compared to a mark to market loss of \$0.9 million in the prior period.

Goodwill impairment

During the six months ended June 30, 2018 the Company incurred a goodwill impairment charge of \$2.0 million relating to the U.S. pipelines operating segment.

Gain on sale of assets held for sale

During the six months ended June 30, 2019 the Company completed the sale of its non-core ESN business for gross proceeds of \$51.8 million resulting in the recognition of a net pre-tax gain on sale of \$2.7 million (see note 4 in the Q2 2019 condensed consolidated financial statements).

Foreign exchange (gain) loss not affecting segment profit

| | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|-----------------|-----------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Unrealized foreign exchange (gain) loss on the movement in exchange rates on U.S. dollar Revolving Credit Facility and long-term debt..... | \$ - | \$ (3,808) | \$ - | \$ 21 |
| Realized foreign exchange loss on settlement of U.S. dollar Revolving Credit Facility and long-term debt..... | - | 4,380 | - | 4,380 |
| Corporate foreign exchange (gain) loss | (1,763) | 2,358 | 1,379 | 2,188 |
| Total foreign exchange (gain) loss..... | <u>\$ (1,763)</u> | <u>\$ 2,930</u> | <u>\$ 1,379</u> | <u>\$ 6,589</u> |

During the three and six months ended June 30, 2019, the (gain) losses recorded is primarily driven by the net (favorable) unfavorable movements in exchange rates on the translation of corporate foreign exchange primarily driven on U.S. receivables and during the three and six months ended June 30, 2018, the losses were primarily driven by the unfavorable movements in exchange rates on the translation of the Company's U.S dollar denominated Revolving Credit Facility and corporate foreign exchange loss.

Net interest expense

| | Three months ended June 30 | | Six months ended June 30 | |
|---------------------------|-------------------------------|-----------|-----------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Net interest expense..... | \$ 19,752 | \$ 18,270 | \$ 37,352 | \$ 37,628 |

The quarter over quarter net interest expense increase was primarily due to lower capitalized interest amounts related to our long-term capital projects in the current quarter, and the acceleration of amortization costs related to the potential refinancing of the \$300 million 5.375% Notes. Net interest expense for the six month comparative period was relatively consistent.

Income taxes

| | Three months ended June 30 | | Three months ended June 30 | |
|--|-------------------------------|-----------------|-------------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Current income tax (recovery) expense..... | \$ (197) | \$ 8,776 | 4,345 | 15,503 |
| Deferred income tax recovery | (11,906) | (1,921) | (6,201) | (2,559) |
| Total tax (recovery) expense..... | <u>\$ (12,103)</u> | <u>\$ 6,855</u> | <u>(1,856)</u> | <u>12,944</u> |

Income tax recovery from continuing operations was \$12.1 million and \$1.9 million for the three and six months ended June 30, 2019, compared to income tax expense of \$6.9 million and \$12.9 million for the three and six months ended June 30, 2018. The effective tax rate was negative 53.6% and negative 2.0% during the three and six months ended June 30, 2019 and was 31.0% and 32.4% during the three and six months ended June 30, 2018, respectively. The total income tax recovery and the effective tax rate decrease in the current period were due to the recognition of a cumulative benefit in the current period for certain deductible items as well as the impact of the corporate income tax rate reduction in Alberta on taxable temporary differences, partially offset by an increase in earnings before taxes.

RESULTS OF DISCONTINUED OPERATIONS

As at June 30, 2019, the TT Canada and U.S. Truck Transportation ("TT U.S.") disposal groups continue to be presented within assets and liabilities held for sale. The TT Canada disposal group is currently presented within discontinued operations, and the TT U.S. disposal group is presented in the Marketing reportable segment.

TT Canada business

On April 2, 2019, the Company entered into a definitive agreement with Trimac for the sale of the TT Canada disposal group. On July 2, 2019 the Company completed the sale of the TT Canada disposal group for gross proceeds of approximately \$70.0 million prior to customary closing adjustments, with the potential for additional proceeds depending on the performance of the business over the next five years. As part of the sale, the Company also entered into an agreement with an entity affiliated with Trimac for the sale of

a field office and shop facilities for approximately \$30 million. The Company expects this portion of the sale to close by the end of the first quarter of 2020.

The TT Canada business includes a suite of logistical wellsite services that enable oil and liquids production to access fixed midstream infrastructure. This segment provides truck transportation and related services that allow the Company to service its customers' needs between the wellhead and the end market and includes providing hauling services for crude, condensate, propane, butane, asphalt, methanol, sulphur, petroleum coke, emulsion, waste water and drilling fluids for many of Canada's leading oil and gas producers. For certain services and geographical regions, the activity is generally the lowest in the winter months when daylight hours are shorter. The business is also dependent upon drilling activity in various areas of operations and is impacted by seasonality due to road bans as part of spring break-up.

The following tables set forth operating results from the discontinued operations of TT Canada for the three and six months ended June 30, 2019 and 2018:

| Volumes (barrels in thousands) | Three months ended June 30 | | Six months ended June 30 | |
|--------------------------------|-------------------------------|--------|-----------------------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| Crude and other products..... | 11,031 | 10,835 | 22,460 | 21,658 |

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|-------------------|-----------------------------|-------------------|
| | 2019 | 2018 ¹ | 2019 | 2018 ¹ |
| Revenue | \$ 50,007 | \$ 50,090 | \$ 98,815 | \$ 106,634 |
| Cost of sales | 46,972 | 45,790 | 90,683 | 95,793 |
| Segment profit | 3,035 | 4,300 | 8,132 | 10,841 |
| Depreciation and amortization | - | 5,013 | - | 10,186 |
| Finance costs and other income, net | 178 | 165 | 307 | 132 |
| Income (loss) income before taxes | 2,857 | (878) | 7,825 | 523 |
| Income tax expense (recovery) | 763 | (193) | 2,109 | 169 |
| Net income (loss) from discontinued operations, after tax | \$ 2,094 | \$ (685) | \$ 5,716 | \$ 354 |

1. Comparative period segment information was represented to reflect the results of continuing operations separately from discontinued operations (see note 4 of the Q2 2019 condensed consolidated financial statements and note 8 of the 2018 consolidated financial statements).

Operational performance

In the three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018:

Crude and other product hauling barrels were relatively consistent with the prior period.

Financial performance

In the three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018:

Crude and other product revenue was consistent and decreased by 7%, respectively. The decrease in the six month comparative period was primarily due to lower crude and condensate, liquid petroleum gas mix and sulphur sales driven by a competitive business environment and plant shutdowns.

Segment profit decreased by 29% and 25%, respectively. The decrease in both comparative periods was mainly due to lower margins from reduced revenue as discussed above, and a loss on asset sale of \$1.5 million and \$1.8 million in the current periods compared to a gain on asset sale of \$nil and \$1.0 million in the prior periods, partially offset by lower operating and overhead expenses.

Income taxes

Net income tax was an expense of \$0.7 million and \$2.1 million for the three and six months ended June 30, 2019 compared to a recovery of \$0.2 million and expense \$0.2 million for the three and six months ended June 30, 2018, as disclosed in note 4 in the Q2 2019 condensed consolidated financial statements.

U.S. Environmental Services business

The Company derecognized the U.S. Environmental Services business effective May 3, 2018, accordingly the results for the six months ended June 30, 2018 represent activity for the period ending May 3, 2018. During this period the Company had total revenues of \$93.3 million, segment profit of \$9.2 million, and net gain after tax of \$99.5 million.

Cash flow summary – Discontinued operations

The following table summarizes the sources and uses of funds for the three and six months ended June 30, 2019 and 2018 from discontinued operations:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|----------|---------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Statement of Cash Flows | | | | |
| Cash flows (used in) provided by: | | | | |
| Operating activities | \$ (2,727) | \$ 1,022 | \$ 6,465 | \$ 18,697 |
| Investing activities..... | 3,148 | 115,027 | 3,211 | 114,942 |
| Financing activities..... | (421) | (534) | (910) | (939) |

Cash (used in) provided by operating activities

Cash (used in) and provided by operating activities in the three and six months ended June 30, 2019 was \$2.8 million and \$6.5 million compared to cash provided by operating activities of \$1.0 million and \$18.7 million for the three and six months ended June 30, 2018. The change was primarily due to the completion of the sale of the U.S. Environmental Services business in May 2018 as noted above and movement in non-cash working capital.

Cash provided by investing activities

Cash provided by investing activities in the three and six months ended June 30, 2019 was \$3.1 million and \$3.2 million compared to cash provided by operating activities of \$115.0 million and \$114.9 million for the three and six months ended June 30, 2018. The change was primarily due to proceeds received from the sale of the U.S. Environmental Services business in the prior period.

Cash used in financing activities

Cash used in financing activities was relatively consistent period over period.

SUMMARY OF QUARTERLY RESULTS

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

| | 2019 | | 2018 ¹ | | | | 2017 ¹ | |
|--------------------------------------|--------------|--------------|-------------------|--------------|--------------|--------------|-------------------|--------------|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Continuing operations | | | | | | | | |
| Revenue | \$ 1,927,634 | \$ 1,748,688 | \$ 1,314,605 | \$ 2,130,022 | \$ 1,714,335 | \$ 1,687,627 | \$ 1,650,445 | \$ 1,293,863 |
| Net income (loss) | 34,693 | 58,677 | 47,275 | 6,822 | 15,242 | 11,785 | (55,851) | (5,410) |
| Adjusted EBITDA ⁽²⁾ | 93,555 | 118,483 | 134,001 | 140,448 | 96,113 | 86,753 | 68,475 | 42,762 |
| Earnings (loss) per share | | | | | | | | |
| Basic | \$ 0.24 | \$ 0.41 | \$ 0.33 | \$ 0.05 | \$ 0.11 | \$ 0.08 | \$ (0.40) | \$ (0.04) |
| Diluted | \$ 0.24 | \$ 0.40 | \$ 0.32 | \$ 0.05 | \$ 0.11 | \$ 0.08 | \$ (0.40) | \$ (0.04) |
| Discontinued operations | | | | | | | | |
| Revenue | \$ 46,733 | \$ 44,693 | \$ 49,643 | \$ 47,922 | \$ 68,499 | \$ 117,860 | \$ 116,442 | \$ 110,331 |
| Net income (loss) | 2,094 | 3,622 | (31,210) | (4,470) | 122,693 | (17,090) | (30,696) | (6,233) |
| Adjusted EBITDA ⁽²⁾ | 3,035 | 5,062 | 6,478 | 6,177 | 5,386 | 14,727 | 13,796 | 12,946 |
| Earnings (loss) per share | | | | | | | | |
| Basic | \$ 0.01 | \$ 0.02 | \$ (0.22) | \$ (0.03) | \$ 0.85 | \$ (0.12) | \$ (0.21) | \$ (0.04) |
| Diluted | \$ 0.01 | \$ 0.02 | \$ (0.22) | \$ (0.03) | \$ 0.83 | \$ (0.12) | \$ (0.21) | \$ (0.04) |
| Combined operations | | | | | | | | |
| Revenue ⁽³⁾ | \$ 1,974,367 | \$ 1,793,381 | \$ 1,364,248 | \$ 2,177,944 | \$ 1,782,834 | \$ 1,805,487 | \$ 1,766,887 | \$ 1,404,194 |
| Net income (loss) | 36,787 | 62,299 | 16,065 | 2,352 | 137,935 | (5,305) | (86,547) | (11,643) |
| Adjusted EBITDA ⁽²⁾ | 96,590 | 123,545 | 140,479 | 146,625 | 101,499 | 101,480 | 82,271 | 55,708 |
| Earnings (loss) per share | | | | | | | | |
| Basic | \$ 0.25 | \$ 0.43 | \$ 0.11 | \$ 0.02 | \$ 0.96 | \$ (0.04) | \$ (0.61) | \$ (0.08) |
| Diluted | \$ 0.25 | \$ 0.42 | \$ 0.10 | \$ 0.02 | \$ 0.94 | \$ (0.04) | \$ (0.61) | \$ (0.08) |

1. Comparative period information was represented to reflect the results of continuing operations separately from discontinued operations (see note 4 of the Q2 2019 condensed consolidated financial statements and note 8 of the 2018 consolidated financial statements). Furthermore, 2019 and 2018 periodic results include the impacts from the adoption of new accounting standards as discussed on page 34 of the 2018 annual MD&A. Comparative information has not been restated and, therefore, may not be comparable.
2. Adjusted EBITDA is defined as net income (loss) before interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including movement in the unrealized gains and losses on the Company's financial instruments, stock based compensation expense, impairment of long-term assets and asset write-downs. It also removes the impact of foreign exchange movements in the Company's U.S. dollar denominated long-term debt, debt extinguishment expenses and adjustments that are considered unusual, non-recurring or non-operating in nature. Combined Adjusted EBITDA includes results from continuing and discontinued operations, while Adjusted EBITDA from continuing operations only includes results from continuing operations.
3. 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.

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

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

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

Because of these limitations, Combined Adjusted EBITDA and Adjusted EBITDA should not be considered to be a measure of discretionary cash available to the Company to invest in the growth of the Company's business. The Company compensates for these limitations by relying primarily on the Company's IFRS results and using Combined Adjusted EBITDA and Adjusted EBITDA only as supplemental measures.

The following tables reconcile segment profit to Adjusted EBITDA for continuing operations, discontinued operations and combined operations for each of the last eight quarters and for the twelve months ended June 30, 2019 and 2018:

| | Three months ended (restated ³) | | | | Twelve months ended (restated ³) |
|--|---|-------------------|-------------------|--------------------|--|
| | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2019 |
| Continuing operations | | | | | |
| Segment profit | \$ 95,244 | \$ 135,774 | \$ 153,569 | \$ 142,227 | \$ 526,814 |
| Interest income | 37 | 312 | 346 | 368 | 1,063 |
| Foreign exchange gain (loss) – corporate | 1,763 | (3,142) | 1,732 | 2,542 | 2,895 |
| General and administrative | (10,189) | (11,031) | (8,597) | (8,286) | (38,103) |
| Net unrealized (gain) loss from financial instruments ⁽¹⁾ | 6,700 | (3,430) | (13,049) | 3,597 | (6,182) |
| Adjusted EBITDA | <u>\$ 93,555</u> | <u>\$ 118,483</u> | <u>\$ 134,001</u> | <u>\$ 140,448</u> | <u>\$ 486,487</u> |
| Discontinued operations | | | | | |
| Segment profit and adjusted EBITDA | <u>\$ 3,035</u> | <u>\$ 5,062</u> | <u>\$ 6,478</u> | <u>\$ 6,177</u> | <u>\$ 20,752</u> |
| Combined operations | | | | | |
| Segment profit | \$ 98,279 | \$ 140,836 | \$ 160,047 | \$ 148,404 | \$ 547,566 |
| Interest income | 37 | 312 | 346 | 368 | 1,063 |
| Foreign exchange gain (loss) – corporate | 1,763 | (3,142) | 1,732 | 2,542 | 2,895 |
| General and administrative | (10,189) | (11,031) | (8,597) | (8,286) | (38,103) |
| Net unrealized (gain) loss from financial instruments ⁽¹⁾ | 6,700 | (3,430) | (13,049) | 3,597 | (6,182) |
| Combined Adjusted EBITDA | <u>\$ 96,590</u> | <u>\$ 123,545</u> | <u>\$ 140,479</u> | <u>\$ 146,625</u> | <u>\$ 507,239</u> |

| | Three months ended (restated ³) | | | | Twelve months ended (restated ³) |
|--|---|----------------|-------------------|--------------------|--|
| | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2018 |
| Continuing operations | | | | | |
| Segment profit | \$ 95,802 | \$ 95,489 | \$ 71,431 | \$ 51,265 | \$ 313,987 |
| Interest income | 485 | 294 | 500 | 320 | 1,599 |
| Foreign exchange gain (loss) – corporate | (2,357) | 170 | 755 | (1,031) | (2,463) |
| General and administrative | (6,804) | (8,468) | (22,316) | (6,428) | (44,016) |
| Net unrealized loss (gain) from financial instruments ⁽¹⁾ | 8,987 | (732) | 19 | (1,364) | 6,910 |
| Restructuring, severance and other costs ⁽²⁾ | - | - | 18,086 | - | 18,086 |
| Adjusted EBITDA | \$ 96,113 | \$ 86,753 | \$ 68,475 | \$ 42,762 | \$ 294,103 |
| Discontinued operations | | | | | |
| Segment profit and adjusted EBITDA | \$ 5,386 | \$ 14,727 | \$ 13,796 | \$ 12,946 | \$ 46,855 |
| Combined operations | | | | | |
| Segment profit | \$ 101,188 | \$ 110,216 | \$ 85,227 | \$ 64,211 | \$ 360,842 |
| Interest income | 485 | 294 | 500 | 320 | 1,599 |
| Foreign exchange gain (loss) – corporate | (2,357) | 170 | 755 | (1,031) | (2,463) |
| General and administrative | (6,804) | (8,468) | (22,316) | (6,428) | (44,016) |
| Net unrealized loss (gain) from financial instruments ⁽¹⁾ | 8,987 | (732) | 19 | (1,364) | 6,910 |
| Restructuring, severance and other costs ⁽²⁾ | - | - | 18,086 | - | 18,086 |
| Combined Adjusted EBITDA | \$ 101,499 | \$ 101,480 | \$ 82,271 | \$ 55,708 | \$ 340,958 |

1. Reflects the exclusion of the movement in the mark-to-market valuation of financial instruments used in risk management activities. The Company uses crude oil and NGL priced futures, options and swaps to manage the exposure to commodities price movements and foreign currency forward contracts and options to manage foreign exchange risks, although the Company does not formally designate these financial instruments as hedges for accounting purposes. Accordingly, the unrealized gains or losses on these financial instruments are recorded directly to the income statement. Management believes that this adjustment better correlates the effect of risk management activities to the underlying operating activities to which they relate.
2. Represents the restructuring and severance costs incurred related to a headcount rationalization review, and executive payroll related costs.
3. Comparative periods were restated to reflect the results of continuing operations separately from discontinued operations. Furthermore, the Q2 2019 and 2018 period results include the impacts from the adoption of new accounting standards as discussed on page 34 of the 2018 annual MD&A. Comparative information has not been restated and, therefore, may not be comparable.

The results of Adjusted EBITDA are driven primarily by segment profit for the respective reportable segments as well as the adjustments discussed in the tables above. For more details on the specific factors driving the periodic movements in segment profit, refer to the results of continuing and discontinued operations included in this MD&A. The following identifies the key drivers in segment profitability over the last eight quarters:

Infrastructure – The Infrastructure segment has progressively commissioned new storage capacity and related infrastructure, with 1.1 million barrels of additional capacity, as well as the HURC and Viking Pipeline expansions, which include related take-or-pay and stable fee-based cash flows added in 2019. This increase in capacity was primarily driven by the sustained demand for crude terminalling and storage services combined with the effective operation, including cost management, of its current Hardisty and Edmonton Terminals and has provided for the increase in segment profits.

Marketing – The Marketing segment earns margins by capturing quality, locational or time-based arbitrage opportunities related to the purchasing, selling, storing, and optimization of hydrocarbon products, including crude oil and refined products, and includes logistical services that enable crude production to access fixed midstream infrastructure in the U.S. Accordingly, this segment has been impacted by commodity price fluctuations in the pricing differentials between different geographic markets and product grades, most notably related to crude oil and NGLs. These fluctuations have been managed by purchasing and selling products through physical and financial contracts that include energy-related derivatives which have both supported and reduced segment profits from quarter to quarter in the form of realized or unrealized gains and losses.

Discontinued operations – The results for discontinued operations include results from both the TT Canada and the U.S Environmental Services businesses. The TT Canada business earns margins by providing transportation and related services which includes providing

hauling services for crude, condensate, sulphur, waste water and drilling fluids for many of the WCSB leading oil and gas producers. The U.S. Environmental Services business earns margins by providing environmental and production services, such as emulsion hauling and treating, water hauling and disposal services and oilfield waste management services to the oil and gas industry. Accordingly, results have been impacted by the reduction and volatility in crude oil and other related commodity prices which has reduced production and exploration activities thus lowering available demand from these producers. However, the more recent gradual increase in the price of crude oil which has translated into slowly increasing activity and production coupled with the availability of other commodity hauling, such as sulphur, as well as the recovery of demand for the Company's U.S. Environmental Service business as activity levels strengthened over the latter half of 2017 and into 2018 has provided support for the segment's earnings.

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

The Company's calculation of Adjusted EBITDA may not be comparable to such calculations used by other companies. In addition, in evaluating Adjusted EBITDA, readers should be aware that in the future the Company may incur expenses similar to those eliminated in the presentation herein.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Sources

The Company's primary liquidity and capital resource needs are to fund ongoing capital expenditures, growth opportunities, and its dividend. In addition, the Company must service its debt, including interest payments, and finance working capital needs. The Company's short-term and long-term liquidity needs are met through cash flow from operations, the Revolving Credit Facility, and debt and equity financings.

As at June 30, 2019, the Company had a positive working capital position, with an available cash balance of \$72.0 million, and the ability to utilize borrowings under the Revolving Credit Facility. Also, the proceeds from the closing of the sale of the TT Canada disposal group are expected to further reduce debt and lower net debt to Adjusted EBITDA ratios which will allow the Company to fund its ongoing capital expenditures, debt service requirements, dividend payments, and working capital needs. Accordingly, over the short-term the Company expects to maintain sufficient liquidity sources to fund its ongoing capital expenditures, debt service requirements, dividend payments and working capital needs.

Over the medium to long-term, the Company's ability to generate meaningful contributions from cash from operations combined with the Company's extended maturity profile and low interest cost of the Company's debt, will provide support for the Company's funding of liquidity requirements.

Cash flow summary – Continuing operations

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

The following table summarizes the Company's sources and uses of funds for the three and six months ended June 30, 2019 and 2018 from continuing operations:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|-----------|---------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| (in thousands) | | | | |
| Statement of Cash Flows | | | | |
| Cash flows provided by (used in): | | | | |
| Operating activities..... | \$ 37,651 | \$ 27,669 | \$ 25,154 | \$ 146,803 |
| Investing activities..... | (16,245) | (25,760) | (33,688) | (73,070) |
| Financing activities..... | (17,823) | (132,694) | (21,652) | (199,443) |

Cash provided by operating activities

Cash provided by operating activities was \$37.7 million and \$25.2 million in the three and six months ended June 30, 2019, compared to \$27.7 million and \$146.8 million in the three and six months ended June 30, 2018. The quarter over quarter increase was primarily due to lower cash utilized for working capital of \$62.2 million in the current quarter compared to cash utilized for working capital of \$84.4 million in the prior quarter, partially offset by income taxes paid in the current period of \$6.1 million compared to an income tax refund of \$12.2 million in the prior period. The six month comparative periods decrease was primarily due to income taxes paid for fiscal year 2018 and six months of 2019 in the current period of \$83.3 million, compared to an income tax refund of \$13.5 million in the prior period. Furthermore, the decrease is due to cash utilized for working capital of \$115.2 million in the current period compared to cash utilized for working capital of \$53.4 million in the prior quarter. Partially offsetting this decrease was the higher segment profit related to the Marketing segment in the current period (refer to the respective section in "Results of Continuing Operations" for more details).

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

Cash used in investing activities

Cash used in investing activities was \$16.2 million and \$33.7 million in the three and six months ended June 30, 2019, compared to \$25.8 million and \$73.1 million in the three and six months ended June 30, 2018 and consists primarily of capital expenditures related to the additional tanks and related infrastructure at the Hardisty Terminal, the HURC Facility expansion, the Viking Pipeline and U.S. pipelines in the current period, partially offset by proceeds received from the sale of the non-core ESN business. For a summary of capital expenditures including acquisitions, see "Capital expenditures" discussion throughout this MD&A.

Cash used in financing activities

Cash used in financing activities was \$17.8 million and \$21.7 million in three and six months ended June 30, 2019 compared to cash used in financing activities of \$132.7 million and \$199.4 million in the three and six months ended June 30, 2018. The quarter over quarter decrease was primarily due to net proceeds on the Revolving Credit Facility of \$45.0 million in the three months ended June 30, 2019 compared to net repayment on the Company's borrowings of \$68.2 million in the three months ended June 30, 2018. The decrease in the six month comparative period was primarily due to net proceeds on the Revolving Credit Facility of \$130.0 million in the six months ended June 30, 2019 compared to net repayment on the Company's borrowings of \$42.3 million in the six months ended June 30, 2018. The decrease is also due to lower finance lease payments of \$24.5 million in the six months ended June 30, 2019 compared \$28.1 million in the six months ended June 30, 2018.

Capital expenditures

The following table summarizes growth and replacement capital expenditures for the three and six months ended June 30, 2019 and 2018:

| | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|-----------|-----------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Growth capital ⁽¹⁾ | \$ 59,124 | \$ 49,372 | \$ 100,198 | \$ 75,751 |
| Replacement capital ⁽²⁾ | 3,282 | 5,772 | 8,314 | 9,810 |
| Total | \$ 62,406 | \$ 55,144 | \$ 108,512 | \$ 85,561 |

1. Growth capital expenditures in the three and six months ended June 30, 2019 include Corporate expenditures of \$0.3 million and \$0.5 million compared to \$0.1 million and \$0.2 million in the three and six months ended June 30, 2018, 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 operations earlier in the MD&A. Growth capital expenditures related to discontinued operations expenditures were \$nil and \$1.0 million in the three and six months ended June 30, 2019 and \$0.8 million and \$2.7 million in the three and six months ended June 30, 2018, respectively.
2. Replacement capital expenditures in the three and six months ended June 30, 2019 include Corporate expenditures of \$0.7 million to \$0.8 million and \$0.7 million to \$1.7 million in the three and six months ended June 30, 2018, respectively. These expenditures mainly relate to replacement costs associated with the Company's information and operational systems. The remainder of the replacement capital expenditures have been discussed in continuing operations earlier in the MD&A. Replacement capital expenditures related to discontinued operations expenditures were \$0.2 million and \$0.3 million in the three and six months ended June 30, 2019 and \$0.3 million and \$1.5 million in the three and six months ended June 30, 2018, respectively.

Capital structure

| | As at | |
|---|------------------|----------------------|
| | June 30, 2019 | December 31, 2018 |
| Revolving Credit Facility | \$ 280,000 | \$ 150,000 |
| 5.375% Notes due July 15, 2022..... | 300,000 | 300,000 |
| 5.25% Notes due July 15, 2024..... | 600,000 | 600,000 |
| Unamortized issue discount and debt issue costs | (8,831) | (10,422) |
| \$100 million Debentures 5.25% due July 15, 2021 (liability component) ⁽¹⁾ | 89,715 | 89,765 |
| Lease liability | 138,224 | 109,071 |
| Total debt outstanding | 1,399,108 | 1,238,414 |
| Cash and cash equivalents..... | (71,993) | (95,301) |
| Net debt | 1,327,115 | 1,143,113 |
| Total share capital (including Debentures – equity component) | 1,975,678 | 1,962,169 |
| Total capital | \$ 3,302,793 | \$ 3,105,282 |

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, lease liabilities 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

The Indentures governing the terms of the Notes including the supplemental indenture thereto, contain certain redemption options whereby the Company can redeem all or part of the Notes at prices set forth in the applicable Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of Notes 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 applicable Indenture.

Debentures

On June 2, 2016, the Company issued \$100.0 million aggregate principal amount of debentures (the "Debentures") at a price of \$1,000 per Debenture for net proceeds of approximately \$96.3 million, including debt issuance costs of \$3.7 million. The Debentures, issued at par, bear interest at a rate of 5.25% per annum, payable semi-annually on January 15 and July 15 in each year commencing

January 15, 2018, 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

On April 3, 2019, the Company amended certain terms of its Revolving Credit Facility including extending the maturity date from March 2023 to March 2024. The amended Revolving Credit Facility also moved to a ratings based pricing grid from a leverage based pricing grid which could result in reduced borrowing rates to the Company. Additionally, on any date where the Company has at least two investment grade ratings at the same time, further amendments to the Revolving Credit Facility will take effect, including but not limited to, the replacement of the maximum senior and total debt leverage ratios with a total debt to capitalization ratio up to 65% and the removal of certain covenants including certain non-financial covenants and customary events of default clauses related to the Notes. Accordingly, with the Company having received its second investment grade credit rating, as of July 29, 2019, amendments to the Revolving Credit Facility and Notes have taken effect.

The Revolving Credit Facility is available to provide financing for working capital, fund capital expenditures and other general corporate purposes, has an extendible term of five years, expiring on March 31, 2024 (effective April 3, 2019). The Revolving Credit Facility permits letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate, as the case may be, plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company's credit rating (effective April 3, 2019). In addition, the Company must pay standby fees on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins determined in a manner similar to the interest. In addition, as at June 30, 2019, the Company has three bilateral demand letter of credit facilities totaling \$150.0 million. Also, as at June 30, 2019, the Company had \$280.0 million drawn on its \$560.0 million Revolving Credit Facility and had issued letters of credit totaling \$113.1 million under its bilateral demand letter of credit facilities.

As at June 30, 2019, the Revolving Credit Facility contains certain covenants, including financial covenants requiring the Company to maintain ratios of maximum consolidated senior and total debt leverage ratios at 4.5 to 1.0 for 2019 fiscal year and 4.0 to 1.0 thereafter as well as 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 Adjusted EBITDA. The consolidated total debt ratio represents the ratio of total debt to Adjusted EBITDA. The consolidated interest coverage ratio represents the ratio of Adjusted EBITDA to consolidated cash interest expense.

As at June 30, 2019, the Company was in compliance with the financial ratios with the senior debt leverage ratio at 2.5 to 1.0, total debt leverage ratio at 2.5 to 1.0, and the interest coverage ratio at 7.3 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. Both the leverage ratio and interest coverage ratio are based on calculations using adjusted EBITDA calculated in accordance with the Company's debt agreements.

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 August 6, 2019, June 30, 2019 and December 31, 2018, the Company was in compliance with all of its existing covenants under the Notes and the Revolving Credit Facility.

Dividends

The Company is currently paying quarterly dividends to holders of common shares. The amount and timing of any future dividends payable by Gibson will be at the discretion of the Board and to be established on the basis of, among other things, Gibson's earnings, financial requirements for operations, the satisfaction of a solvency calculation and the terms of the Company's debt agreements. In addition, in connection with Company's dividend policy, after each fiscal year end the Board will formally review the annual dividend amount. During the three and six months ended June 30, 2019, the Board declared dividends of \$0.33 per share.

Distributable cash flow

Distributable cash flow is not a standard measure under IFRS and, therefore, may not be comparable to similar measures reported by other entities. Distributable cash flow from continuing and combined operations is used to assess the level of cash flow generated and to evaluate the adequacy of internally generated cash flow to fund dividends and is frequently used by securities analysts, investors and other interested parties. Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of fluctuations in product inventories or other temporary changes. Replacement capital expenditures are deducted from distributable cash flow as there is an ongoing requirement to incur these types of expenditures. Lease payments are also deducted for the period starting January 1, 2018 due to the adoption of IFRS 16 – Leases ("IFRS 16"). The Company may deduct or include additional items in its calculation of distributable cash flow. These items would generally, but not necessarily, be items of an unusual, non-recurring, or non-operating in nature. In 2018, the Company reflected non-recurring items relating to severance costs in distributable cash flow to approximate the internally generated cash flow available to the Company within its normal operating cycle. The Company has provided the distributable cash flow from combined operations on a trailing twelve-month basis to reflect the total cash flow available to fund dividends which includes cash available from discontinued operations. The following is a reconciliation of distributable cash flow from combined operations to its most closely related IFRS measure, cash flow from operating activities for the twelve, three and six months ended June 30, 2019 and 2018.

| | Twelve months ended June 30 | |
|---|-----------------------------|---------------------------------|
| | 2019 | 2018 (restated) ¹ |
| Continuing operations | | |
| Cash flow from operating activities | \$ 405,440 | \$ 174,677 |
| Adjustments: | | |
| Changes in non-cash working capital and taxes paid | 94,241 | 100,872 |
| Replacement capital | (23,729) | (23,700) |
| Cash interest expense, including capitalized interest | (66,392) | (68,721) |
| Lease payments | (47,546) | (28,084) |
| Current income tax..... | (49,019) | 7,077 |
| Other ⁽²⁾ | - | 18,086 |
| Distributable cash flow from continuing operations | \$ 312,995 | \$ 180,207 |
| | | |
| | Twelve months ended June 30 | |
| | 2019 | 2018 (restated) ¹ |
| Combined operations | | |
| Combined cash flow from operating activities | \$ 429,860 | \$ 216,057 |
| Adjustments: | | |
| Combined changes in non-cash working capital and taxes paid | 93,650 | 101,718 |
| Combined replacement capital | (24,117) | (28,800) |
| Cash interest expense, including capitalized interest | (66,392) | (68,721) |
| Lease payments..... | (49,287) | (29,023) |
| Current income tax..... | (51,817) | 6,393 |
| Other ⁽²⁾ | - | 18,086 |
| Working capital adjustment ⁽³⁾ | - | 10,503 |
| Distributable cash flow from combined operations | \$ 331,897 | \$ 226,213 |
| Dividends declared to shareholders | \$ 191,209 | \$ 189,372 |

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|---|-----------------------------|--|
| | 2019 | 2018 | 2019 | 2018 |
| Continuing operations | | | | |
| Cash flow from operating activities | \$ 37,651 | \$ 27,669 ^{(restated)¹} | \$ 25,154 | \$ 146,803 ^{(restated)¹} |
| Adjustments | | | | |
| Changes in non-cash working capital | 68,270 | 72,236 | 198,427 | 39,886 |
| Replacement capital | (3,282) | (5,772) | (8,314) | (9,810) |
| Cash interest expense, including capitalized interest | (16,491) | (17,182) | (32,602) | (34,683) |
| Lease payments | (11,505) | (13,832) | (24,530) | (28,084) |
| Current income tax | 197 | (8,776) | (4,345) | (15,503) |
| Distributable cash flow from continuing operations..... | \$ 74,840 | \$ 54,343 | \$ 153,790 | \$ 98,609 |

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|---|-----------------------------|--|
| | 2019 | 2018 | 2019 | 2018 |
| Combined operations | | | | |
| Cash flow from operating activities | \$ 34,924 | \$ 28,691 ^{(restated)¹} | \$ 31,619 | \$ 165,500 ^{(restated)¹} |
| Adjustments | | | | |
| Changes in non-cash working capital | 76,361 | 74,978 | 202,681 | 39,989 |
| Replacement capital | (3,498) | (6,088) | (8,592) | (11,275) |
| Cash interest expense, including capitalized interest | (16,491) | (17,182) | (32,601) | (34,683) |
| Lease payments | (11,926) | (14,366) | (25,440) | (29,023) |
| Current income tax | 416 | (9,159) | (5,048) | (16,819) |
| Distributable cash flow from combined operations..... | \$ 79,786 | \$ 56,874 | \$ 162,619 | \$ 113,689 |
| Dividends declared to shareholders..... | 47,980 | 47,562 | 95,917 | 95,034 |

1. During 2018, the Company revised its distributable cash flow calculations whereby income taxes were adjusted to include the impact of current income tax expense (recovery), instead of cash taxes paid (refunds). In management's view the revised calculation provides a more representative measure of distributable cash flow to the users of the MD&A.
2. Represents restructuring, severance and executive payroll related costs incurred during the respective periods.
3. Represents a one-time adjustment related to working capital at the close of Industrial Propane segment sale.

Dividends declared in the twelve months ended June 30, 2019 were \$191.2 million, of which the entire amount was paid in cash. In the twelve months ended June 30, 2019, dividends declared represented 58% of the combined distributable cash flow generated.

Contractual obligations and contingencies

The following table presents, at June 30, 2019, 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 | \$ 900,000 | \$ - | \$ - | \$ 300,000 | \$ 600,000 |
| Convertible debentures | 99,950 | - | - | 99,950 | - |
| Interest payments on long-term debt and Debentures | 219,876 | 85,797 | 68,454 | 63,000 | 2,625 |
| Credit facilities | 280,000 | - | - | 280,000 | - |
| Lease obligations..... | 155,208 | 42,032 | 52,386 | 33,327 | 27,463 |
| Total contractual obligations | \$ 1,655,034 | \$ 127,829 | \$ 120,840 | \$ 776,277 | \$ 630,088 |

1. *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.*

Contingencies

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at June 30, 2019, there were 145.4 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 2.0 million restricted share units, performance share units and deferred share units outstanding and 2.3 million stock options outstanding as at June 30, 2019.

At June 30, 2019, awards available to grant under the equity incentive plan were approximately 10.2 million.

As at August 6, 2019, 145.4 million common shares, 2.0 million restricted share units, performance share units and deferred share units and 2.3 million stock options were outstanding.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Commodity Price Risk. The Company hedges its exposure to price fluctuations with respect to crude oil, refined products, natural gas, differentials 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 June 30, 2019 and 2018. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil, differentials and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by \$8.7 million and \$13.2 million as of June 30, 2019 and 2018, respectively. A 15% unfavorable change would decrease the Company's net income by \$8.7 million and \$13.2 million as of June 30, 2019 and 2018, respectively. However, these changes may be offset by the use of one or more risk management strategies.

Interest rate risk. The Company's long-term debt, excluding the Revolving Credit Facility, accrues interest at fixed interest rates and accordingly, changes in market interest rates do not expose the Company to future interest cash outflow variability. At June 30, 2019, the Company had \$280.0 million drawn under the Revolving Credit Facility which is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either the Canadian Prime Rate, U.S. LIBOR, U.S. Base Rate or Canadian Bankers' Acceptance Rate, plus an applicable margin based on the Company's total leverage ratio. At current balances and rates the interest rate risk is not significant.

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 \$6.6 million and \$6.1 million as at June 30, 2019 and 2018, respectively. A 5% favorable change would increase the Company's net income by \$6.6 million and \$6.1 million as at June 30, 2019 and 2018, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

As at June 30, 2019, the Company had \$nil U.S. dollar denominated debt as part of its draw on its Revolving Credit Facility. Due to the repayment of US\$ Notes in 2018 and repayment of U.S dollar Revolving Credit Facility in 2019, the Company has no debt in foreign currency and as such the currency risk is minimal.

ACCOUNTING POLICIES

Critical accounting policies and estimates

The preparation of condensed 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 to the financial statements. 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 condensed consolidated financial statements. The Company's critical accounting policies and estimates are discussed in the Company's Annual 2018 MD&A dated March 4, 2019 as filed on SEDAR.

Initial adoption of accounting policies

New and amended standards adopted by the Company:

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

- The annual improvements process addresses issues in the 2015-2017 reporting cycles include changes to IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes, and IAS 23 – Borrowing costs. This improvement is effective for periods beginning on or after January 1, 2019. The adoption of these improvements did not have a material impact on the condensed consolidated financial statements.
- The annual improvements IAS 19 – *Employee benefits* (“IAS 19”), has been amended to (i) require current service cost and net interest for the period after the re-measurement to be determined using the assumptions used for the re-measurement, and (ii) clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment to IAS 19 is effective for the years beginning on or after January 1, 2019. The adoption of this amendment did not have a material impact on the condensed consolidated financial statements.
- IFRIC 23 – Uncertainty over income tax treatments (“IFRIC 23”), has been amended to clarify how the recognition and measurement requirements of IAS 12 - Income taxes, are applied where there is uncertainty over income tax treatments. The amendment to IFRIC 23 is effective for years beginning on or after January 1, 2019. The adoption of this amendment did not have a material impact on its condensed consolidated financial statements.

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

- IFRS 3 – Business Combinations (“IFRS 3”), has been amended to update the definition of a business. The amendment to IFRS 3 is effective for years beginning on or after January 1, 2020. The Company is currently assessing the impact of this amendment.

DISCLOSURE CONTROLS & PROCEDURES

Based on the evaluation of the design and operating effectiveness of the Company’s disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), the Chief Executive Officer and the Chief Financial Officer concluded that Gibson’s DC&P and ICFR were effective as at June 30, 2019.

During the three months ended June 30, 2019, there have been no changes made to Gibson ICFR that materially affected or are reasonably likely to materially affect, its ICFR.

RISK FACTORS

For a detailed discussion of the risks and trends that could affect the financial performance of the Company and the steps Gibson takes to mitigate these risks, see the December 31, 2018 MD&A and Annual Information Form, which is available on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION

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

- *achieving the targets including but not limited to segment profits, payout ratio and leverage ratio;*
- *the addition or disposition of assets and changes in the services to be offered by the Company;*
- *the Company’s projections relating to target segment profit, distributable cash flow, distributable cash flow per share, and total cash flow;*

- the Company's projections relating to target leverage and payout ratios;
- the Company's investment in new equipment, technology, facilities and personnel;
- the Company's growth strategy to expand in existing and new markets including the anticipated benefits from the Company's basin strategy;
- the availability of sufficient liquidity for planned growth;
- new technology and drilling methodology being deployed towards conventional and unconventional production within the Company's operating areas;
- uncertainty and volatility relating to crude prices and price differentials between crude oil streams and blending agents;
- increased crude oil production and exploration activity on shore in North America, including from the Canadian oil sands;
- the expansion of midstream infrastructure in North America to handle increased production and expansion of capacity in the U.S. refining complex to handle heavier crude oil from the WCSB;
- the effect of competition in regions of North America and its impact on downward pricing pressure and regional crude oil price differentials among crude oil grades and locations;
- the effect of market volatility on the Company's marketing revenues and activities;
- the Company's ability to pay down and retire indebtedness;
- the Company's plans for additional strategic acquisitions, capital expenditures or other similar transactions, including the costs thereof;
- in-service dates for new storage capacity and new projects being constructed by the Company;
- the Company's planned hedging activities;
- the Company's projections of commodity purchase and sales activities;
- the Company's projections of currency and interest rate fluctuations;
- The Company's projections with respect to the adoption and implementation of new accounting standards and policies;
- the realization of anticipated benefits from the implementation of cost saving measures;
- the Company's projections of dividends; and
- the Company's dividend policy.

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

- future growth in world-wide demand for crude oil and petroleum products;
- crude oil prices;
- no material defaults by the counterparties to agreements with the Company;
- the Company's ability to obtain qualified personnel, owner-operators, lease operators and equipment in a timely and cost-efficient manner;
- the regulatory framework governing taxes and environmental matters in the jurisdictions in which the Company conducts and will conduct its business;
- changes in credit ratings applicable to the Company;
- operating costs;
- future capital expenditures to be made by the Company;
- the Company's ability to obtain financing for its capital programs on acceptable terms;
- the Company's future debt levels;
- the impact of increasing competition on the Company;
- the impact of future changes in accounting policies on the Company's consolidated financial statements; and
- the Company's ability to successfully implement the plans and programs disclosed in the Company's new strategy.

In addition, this MD&A may contain forward-looking information attributed to third party industry sources. The Company does not undertake any obligations to publicly update or revise any forward-looking information except as required by applicable Canadian securities laws. Actual results could differ materially from those anticipated in forward-looking information as a result of numerous risks and uncertainties including, but not limited to, the risks and uncertainties described in "Forward-Looking Information" and "Risk Factors" included in the Company's Annual Information Form dated March 4, 2019 as filed on SEDAR at www.sedar.com and available on the Gibson website at www.gibsonenergy.com.

NON-GAAP FINANCIAL MEASURES

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

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