



## Management's Discussion and Analysis

*The following Management's Discussion and Analysis ("MD&A") was prepared and approved by the Company's Board of Directors as of May 3, 2016 and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes of Gibson Energy Inc. ("Gibsons" or the "Company") for the three months ended March 31, 2016 and 2015, the audited consolidated financial statements and related notes for the years ended December 31, 2015 and 2014, 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), and the MD&A for the year ended December 31, 2015. 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 March 31, 2016, its results of operations for the three months ended March 31, 2016 and 2015, and its cash flows for the three months ended March 31, 2016 and 2015. 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. 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, 2015. Amounts are stated in Canadian dollars unless otherwise noted.*

*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. Non-GAAP measures contained in this MD&A include EBITDA, Adjusted EBITDA, Pro Forma Adjusted EBITDA, and distributable cash flow.*

### EXECUTIVE OVERVIEW

Gibsons is a large independent integrated service provider to the oil and gas industry with operations across major producing regions throughout North America. Gibsons is engaged in the movement, storage, blending, processing, marketing and distribution of crude oil, condensate, natural gas liquids ("NGLs"), water, oilfield waste, and refined products. The Company transports energy products by utilizing its integrated network of terminals, pipelines, storage tanks, and trucks located throughout western Canada and through its significant truck transportation and injection station network in the United States. The Company also provides emulsion treating, water disposal and oilfield waste management services through its transportation fleet and network of processing, recovery and disposal terminals in Canada and the United States, and is the second largest industrial propane distribution company in Canada. The Company's integrated operations allow it to participate across the full midstream energy value chain, from the hydrocarbon producing regions in Canada and the United States, through the Company's strategically located terminals in Hardisty and Edmonton, Alberta and injection stations and terminals in the United States, to the end user or refineries of North America.

Gibsons has provided market access to leading oil and gas industry participants in western Canada for over 60 years. The Company has grown by diversifying its service offerings to meet customers' needs and by expanding geographically to provide its service offerings to key hydrocarbon producing regions throughout the United States. The Company believes its competitive advantage is driven by its geographic presence in the majority of hydrocarbon-rich basins in North America, its footholds in strategic market hubs, its ability to capture value throughout the midstream energy value chain, its diversified, integrated, synergistic service offerings, its ability to source and successfully execute internal growth projects, its proven track record of sourcing, executing and successfully integrating business acquisitions, its leading health, safety, security and environment record, its experienced management team with a proven history of successful operations and strong industry reputation and its conservative risk management policies. The Company is continuously focused on improving its operations across all segments by utilizing the Company's integrated asset base to capture inter segment synergies, to expand the Company's network of assets, and to increase the Company's margins by providing additional value added services along the midstream energy value chain.



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## Summary

The following is a summary of the three months ended March 31, 2016:

- Following a review of the Company's operations and how best to manage them, the Company has redefined its reportable segments as follows: (1) Infrastructure, (2) Logistics, (3) Wholesale, (4) Industrial Propane and (5) Other;
- Adjusted EBITDA for the three months ended March 31, 2016 decreased by 35% to \$74.0 million compared to \$114.6 million in the three months ended March 31, 2015;
- Pro Forma Adjusted EBITDA for the twelve months ended March 31, 2016 was \$347.1 million, a decline of 20% from the twelve months ended March 31, 2015;
- Overall segment profit decreased by 35% to \$80.2 million in the three months ended March 31, 2016 compared to \$122.8 million in the three months ended March 31, 2015;
- Segment profit for the Infrastructure segment increased by 11% in the three months ended March 31, 2016, compared to the three months ended March 31, 2015;
- Revenue decreased by 31% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The decrease was primarily driven by lower product revenue as a result of lower commodity prices and also lower service revenues;
- In the three months ended March 31, 2016, the Company completed a headcount rationalization review and accordingly recorded severance costs of \$5.7 million. This review reflects management's commitment to continue to improve bottom line performance by proactively aligning costs in light of depressed industry conditions;
- The Company declared a dividend of \$0.33 per common share in the first quarter of 2016. Total dividends declared were \$41.7 million in the three months ended March 31, 2016, representing a 4% increase over the \$40.1 million declared in the three months ended March 31, 2015. For the twelve months ended March 31, 2016, distributable cash flow was \$180.9 million resulting in a gross dividend payout ratio of 90% and a net dividend payout ratio of 84% based on declared dividends paid in cash;
- Capital expenditures were \$61.4 million for the three months ended March 31, 2016, of which \$55.9 million related to growth capital. Growth capital expenditures of \$52.7 million for Infrastructure are primarily related to the construction of tankage and pipeline connections at the Company's facilities, in particular at the Hardisty and Edmonton terminals. At March 31, 2016, the Company had capital expenditures totaling \$270.2 million included in work in progress; and
- In March 2016, the Company successfully commissioned the Edmonton East Terminal Expansion, thereby increasing the storage, blending, and handling capabilities of the Edmonton Terminal.

On May 3, 2016, the Board of Directors ("Board") declared a quarterly dividend of \$0.33 per common share for the three months ended June 30, 2016 on its outstanding common shares. The dividend is payable on July 15, 2016, to shareholders of record at the close of business on June 30, 2016.



**Change in management structure**

In the three months ended March 31, 2016, following a review of the management of the Company’s operations, and in support of improved customer interface and enhanced internal efficiencies, the Company implemented several management and organizational changes. These changes caused the Company to realign its internal management reporting structure, and therefore the Company has also changed its external segment reporting structure to align with how information of the business is regularly reviewed internally for the purposes of decision making, allocating resources and assessing performance. The results of the Company are now being reported in the following reportable segments:

- (1) **Infrastructure** includes a network of midstream infrastructure assets that includes oil terminals, rail loading and unloading facilities, injection stations, gathering pipelines and processing facilities that collect, store, and process oil and other liquid hydrocarbon production and by-products before eventual distribution to end-use markets. The primary facilities within this segment include the terminals located at Edmonton and Hardisty, which are the principal hubs for aggregating and exporting oil and refined products out of the Western Canadian Sedimentary Basin; gathering pipelines, which are connected to the Hardisty Terminal; injection stations, which are located in the United States; a crude oil processing facility in Moose Jaw, Saskatchewan, and processing, recovery, and disposal (PRD) terminals located throughout Western Canada and the Northern United States.
- (2) **Logistics** includes a suite of logistical wellsite services that enable oil and liquids production to access fixed midstream infrastructure. This segment provides transportation and related services that allow the Company to service its customers’ needs several times between the wellhead and the end market, and includes hauling services for crude, condensate, propane, butane, asphalt, methanol, sulfur, petroleum coke, gypsum, emulsion, waste water and drilling fluids for many of North America’s leading oil and gas producers. Additionally, the Company also provides several ancillary services to production companies.
- (3) **Wholesale** includes the purchasing, selling, storing and blending of hydrocarbon products, including crude oil, NGL’s, road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil, and an oil based mud product. This segment earns margins by providing aggregation services to producers and by capturing quality, locational or time-based arbitrage opportunities.
- (4) **Industrial Propane** is one of the largest retail propane suppliers in Canada with a diversified customer base including a focus on oil and gas customers in the Western Canada. This segment operates under the Canwest and Stittco brands and sells propane and related equipment to oil and gas, commercial and other end-user customers.
- (5) **Other** includes the provision of other services to the oil and gas industry including exploration support services and accommodation services.

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

The following tables restate the historical segmented financial information for each new reportable segment:

**Infrastructure**

	Three months ended				Year ended
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2015
<b>(in thousands)</b>					
Revenue .....	\$ 69,965	\$ 68,114	\$ 67,785	\$ 65,477	\$ 271,341
Operating expense and other .....	19,939	25,070	23,306	21,959	90,274
Segment profit.....	\$ 50,026	\$ 43,044	\$ 44,479	\$ 43,518	\$ 181,067



	Three months ended				Year ended
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2014
<b>(in thousands)</b>					
Revenue .....	\$ 70,438	\$ 66,098	\$ 56,071	\$ 61,491	\$ 254,098
Operating expense and other.....	21,378	21,424	24,289	21,599	88,690
Segment profit.....	\$ 49,060	\$ 44,674	\$ 31,782	\$ 39,892	\$ 165,408

**Logistics**

	Three months ended				Year ended
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2015
<b>(in thousands)</b>					
Revenues					
Crude hauling.....	\$ 81,911	\$ 90,093	\$ 95,843	\$ 108,724	\$ 376,571
Water hauling and disposal.....	34,421	39,955	28,431	36,249	139,056
Other products and services.....	42,023	44,594	36,617	42,195	165,429
Total revenues.....	158,355	174,642	160,891	187,168	681,056
Cost of sales.....	111,379	120,729	107,792	125,375	465,275
Operating expense and other.....	28,957	31,644	32,056	33,008	125,665
Segment profit.....	\$ 18,019	\$ 22,269	\$ 21,043	\$ 28,785	\$ 90,116

	Three months ended				Year ended
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2014
<b>(in thousands)</b>					
Revenues					
Crude hauling.....	\$ 121,466	\$ 117,490	\$ 118,943	\$ 122,791	\$ 480,690
Waste water and disposal.....	39,522	36,472	34,440	32,283	142,717
Other products and services.....	51,477	52,270	49,569	46,508	199,824
Total revenues.....	212,465	206,232	202,952	201,582	823,231
Cost of sales.....	140,109	134,080	133,845	133,301	541,335
Operating expense and other.....	34,711	33,911	32,287	33,458	134,367
Segment profit.....	\$ 37,645	\$ 38,241	\$ 36,820	\$ 34,823	\$ 147,529



**Wholesale**

	Three months ended				Year ended
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2015
<b>(in thousands)</b>					
Revenues					
Crude and diluent.....	\$ 923,730	\$1,034,542	\$1,293,662	\$ 961,148	\$ 4,213,082
Propane and other NGL.....	127,250	77,842	87,873	166,996	459,961
Refined products.....	60,932	92,862	75,122	65,687	294,603
Total revenues.....	1,111,912	1,205,246	1,456,657	1,193,831	4,967,646
Cost of sales.....	1,074,805	1,169,203	1,441,152	1,160,793	4,845,953
Operating expense and other.....	9,171	2,949	7,147	2,109	21,376
Segment profit.....	\$ 27,936	\$ 33,094	\$ 8,358	\$ 30,929	\$ 100,317

	Three months ended				Year ended
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2014
<b>(in thousands)</b>					
Revenues					
Crude and diluent.....	\$1,412,576	\$1,897,399	\$1,786,706	\$1,560,304	\$ 6,656,985
Propane and other NGL.....	225,399	178,537	136,861	202,318	743,115
Refined products.....	125,714	135,180	101,851	112,200	474,945
Total revenues.....	1,763,689	2,211,116	2,025,418	1,874,822	7,875,045
Cost of sales.....	1,738,652	2,176,259	1,999,912	1,813,378	7,728,201
Operating expense and other.....	5,315	5,863	8,399	7,756	27,333
Segment profit.....	\$ 19,722	\$ 28,994	\$ 17,107	\$ 53,688	\$ 119,511



**Industrial Propane**

	Three months ended				Year ended
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2015
<b>(in thousands)</b>					
Revenues					
Propane .....	\$ 41,892	\$ 24,219	\$ 26,926	\$ 64,062	\$ 157,099
Other .....	8,425	5,784	6,769	8,842	29,820
Total revenues.....	50,317	30,003	33,695	72,904	186,919
Cost of sales .....	18,363	10,316	11,520	32,893	73,092
Operating expense and other.....	17,191	16,749	17,928	20,618	72,486
Segment profit.....	\$ 14,763	\$ 2,938	\$ 4,247	\$ 19,393	\$ 41,341

	Three months ended				Year ended
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2014
<b>(in thousands)</b>					
Revenues					
Propane .....	\$ 80,800	\$ 41,775	\$ 37,696	\$ 88,505	\$ 248,776
Other .....	9,773	5,907	5,820	8,221	29,721
Total revenues.....	90,573	47,682	43,516	96,726	278,497
Cost of sales .....	50,879	27,384	25,914	65,893	170,070
Operating expense and other.....	21,638	16,592	12,816	14,054	65,100
Segment profit.....	\$ 18,056	\$ 3,706	\$ 4,786	\$ 16,779	\$ 43,327

**Other**

	Three months ended				Year ended
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2015
<b>(in thousands)</b>					
Revenues.....	\$ 8,197	\$ 10,324	\$ 13,248	\$ 7,116	\$ 38,885
Cost of sales .....	6,207	8,796	9,068	6,864	30,935
Operating expense and other.....	636	671	636	91	2,034
Segment profit.....	\$ 1,354	\$ 857	\$ 3,544	\$ 161	\$ 5,916

	Three months ended				Year ended
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2014
<b>(in thousands)</b>					
Revenues.....	\$ 19,318	\$ 24,130	\$ 10,255	\$ 7,195	\$ 60,898
Cost of sales .....	13,522	19,118	8,159	5,073	45,872
Operating expense and other.....	756	763	737	1,444	3,700
Segment profit.....	\$ 5,040	\$ 4,249	\$ 1,359	\$ 678	\$ 11,326



## Trends affecting the Company's business

Gibsons periodically evaluates its long-range strategic plan in order to assess the implications of emerging industry trends, including organic growth and potential acquisition opportunities, in the energy midstream sector. Some of the key industry trends that will affect Gibson's business and prospects over the short-term (2 years or less) and the medium to long-term (two to five years) are:

- Increased oil production in North America over the last number of years has increased demand for many facets of the midstream energy value chain including storage, transportation, distribution, processing, refining and environmental and production services, all of which are activities the Company participates in. However, the recent decline in crude oil prices has caused many North American oil producers, who form a significant part of Gibsons' customer base, to lower their near term capital spending plans. This is expected to negatively impact North American production over the short-term. Over the medium to long-term, as crude oil supply and demand rebalances and crude oil prices realign with global cost structures, the Company anticipates a return to increased activity and production levels and a continued demand for midstream value chain assets;
- Over the medium to long-term, the growing supply of Canadian heavy crude oil from the oil sands will result in an increasing demand for diluent in the Western Canada Sedimentary Basin (the "WCSB"). This should result in increased movements of diluent through the Edmonton and Alberta Heartland area, pipeline and terminal infrastructure and may generate increased opportunities for Gibsons' services;
- Crude oil pricing, location and quality disconnects, combined with a shortage of pipeline takeaway capacity from the WCSB, have created demand for crude by rail as a solution for export market access. While the recent decline in crude oil prices has negatively impacted the economics of this transportation alternative, the Company expects that if oil prices rise or export pipeline access becomes a barrier to reach markets, opportunities for the Company to increase its service offering to include more crude oil rail movements will arise;
- The Keystone XL, Energy East, Trans Mountain Expansion, and Northern Gateway pipeline projects are crucial initiatives that should help provide the growing supply of Canadian crude oil access to the large refining markets in the United States, Eastern Canada and other foreign markets. The recent denial of presidential permit to Keystone XL by the U.S. Department of State in November, 2015, as well as continued delays to the approval of Energy East, the starting point for both pipelines which would be adjacent to the Company's Hardisty Terminal, defers the prospects of increased opportunities for the Company's terminalling services that are anticipated from these projects, but advances the likelihood of an increased usage of the Company's crude oil rail transportation infrastructure, in the near term;
- Enbridge Inc.'s expansion of its Line 67 that went into operation in July 2015 and the replacement of its Line 3 will help the growing supply of Canadian crude oil gain access to the largest refining markets in the United States and Eastern Canada. The replacement of Line 3, if approved, could provide incremental capacity by 2019. The Hardisty Terminal is connected to deliver to both of these pipelines and these expansions should provide increased opportunities for the Company's terminalling services at Hardisty;
- When completed, Enbridge's twinning of the southern section of its Athabasca pipeline should provide for incremental volumes into the Hardisty Terminal and increased opportunities for the Company's terminalling services at Hardisty;
- Price fluctuations between crude oil types can create incremental margin opportunities in multiple areas of the Company's operations. While current price differentials have compressed in response to the decline in benchmark crude oil prices, the Company remains attentive to opportunities as this trend continues to evolve;
- The growing supply of propane, butane and other natural gas liquids in North America related to higher liquids rich natural gas development has resulted in declining propane and butane prices in North America. This may result in increased volumes and potential margin improvement within the Wholesale segment;
- The changes in the value of the Canadian dollar relative to the U.S. dollar highlights added foreign currency volatility which could result in both positive and negative impacts for the Company. For example, a weakening Canadian dollar should result in increased profit contributions from the Company's U.S. business, increased revenues and cost of sales for the Company's Canadian operations that transact in U.S. dollars, an increase in foreign exchange losses with respect to the Company's U.S. dollar denominated debt and an increase in foreign exchange gains with respect to the Company's U.S. denominated assets;
- The lifting of the U.S. crude oil export ban in December, 2015, may further advance demand for the utilization of midstream assets to enable an increasing volume of crude oil to access tidewater export locations. Gibsons' U.S. presence and extensive footprint offer an important growth platform that should prove advantageous to the Company's North America-wide core midstream infrastructure development plan;



- The weak crude oil price and associated capital market conditions are expected to adversely impact many energy industry participants in North America, some of which are either customers or competitors of the Company. In the short-term, the Company anticipates increasing credit risk within certain segments of its customer base. Offsetting this, the Company expects a moderation in valuation expectations for midstream asset and corporate transactions;
- Over the medium to long-term the Company expects new technology for drilling and well completion methodology to be deployed towards conventional and unconventional production within the industry which should further enhance the viability and resilience of the specific basins Gibsons has strategically chosen to operate in; and
- Over the medium to long-term, the Company expects that increased oil and natural gas production in North America should also translate to a significant increase in produced water and other oilfield waste. This increase in oilfield waste, together with increased regulatory scrutiny, should increase demand for the Company's Logistics services.

The Company believes the collective impact of these trends and developments, many of which are beyond the Company's control, will result in an increasingly volatile business environment and a crude oil market that is subject to more frequent short-term swings in market prices and grade differentials and shifts in market structure. Over the short-term, the Company anticipates that lower crude oil prices may create a challenging environment for some of the Company's services, however, over the medium to long-term the Company believes that both the demand for its growing portfolio of high quality infrastructure assets, and the value proposition of its integrated midstream solutions, should remain strong.

### Capital expenditures

The following table summarizes growth capital and upgrade and replacement capital (in thousands):

	Three months ended March 31,	
	2016	2015
Growth capital .....	\$ 55,918	\$ 79,428
Upgrade and replacement capital .....	5,466	11,865
	<u>\$ 61,384</u>	<u>\$ 91,293</u>

Total expenditures for growth and upgrade and replacement capital were \$61.4 million and \$91.3 million in the three months ended March 31, 2016 and 2015, respectively. In the three months ended March 31, 2016 and 2015, \$57.8 million and \$85.8 million, respectively, were included as additions to property, plant and equipment and \$3.6 million and \$5.5 million, respectively, were included as additions to intangible assets.

### Growth capital

The following table summarizes the Company's growth capital by segment (in thousands):

	Three months ended March 31,	
	2016	2015
Infrastructure <sup>(1)</sup> .....	\$ 52,727	\$ 66,697
Logistics <sup>(2)</sup> .....	1,792	9,675
Wholesale .....	55	5
Industrial Propane <sup>(3)</sup> .....	383	793
Other and corporate <sup>(4)</sup> .....	961	2,258
Total .....	<u>\$ 55,918</u>	<u>\$ 79,428</u>

(1) Expenditures in the three months ended March 31, 2016 primarily relate to construction and expansion projects including the construction of additional tanks and related infrastructure at the Hardisty and Edmonton terminals and the Moose Jaw facility. Expenditures in the three months ended March 31, 2015 include the construction of additional tanks and related infrastructure at the Hardisty and Edmonton terminals and Moose Jaw facility, the purchase of small terminals in the United States and the expansion of existing and construction of new PRD facilities in both Canada and the United States.

(2) Expenditures in the three months ended March 31, 2016 and 2015 largely represent the costs for constructing a new office and maintenance facility in Edmonton, Alberta and also the addition of equipment and rolling stock.

(3) Expenditures in the three months ended March 31, 2016 mainly represent the addition of tanks and generators in key market areas. Expenditures in the three months ended March 31, 2015 mainly represent the addition of trucks, tanks and generators in key market areas.



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(4) *Expenditures in the three months ended March 31, 2016 and 2015 mainly relate to costs associated with the Company's information and operational systems.*

*Upgrade and replacement capital*

Upgrade and replacement capital includes improvement projects that extend the physical life of an asset, while replacement capital includes purchases that replace existing assets as necessary to maintain current service levels or replace assets that no longer have a useful economic life. Upgrade and replacement capital decreased 54% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily due to a reduction in spending relating to the replacement of the truck and trailer fleet within the Logistics segment, reflective of current market conditions, as well as a reduction of expenditures on information technology services included within other and corporate.

**Seasonality**

The Company believes that seasonality does not have a material impact on its combined operations and segments. However, certain of the Company's individual segments are impacted by seasonality. Generally, the Company's second quarter results are impacted by road bans and other restrictions which impact overall activity levels in the WCSB and the northern United States, and therefore negatively impact the Company's logistics and PRD terminal services in Canada and the United States. Also, certain services and geographical regions are impacted by seasonality including the impact of weather and daylight hours. Due to exposure to weather, activity is generally the lowest in the winter months and shorter daylight hours during the winter months also result in lower overall service activity.

Within the Company's Wholesale segment, certain products are impacted by seasonality. Canadian road asphalt activity is affected by the impact of weather conditions on road construction. Road asphalt demand peaks during the summer months when most of the road construction activity in Canada takes place. In the off peak demand months for road asphalt, the demand for roofing flux continues. Demand for wellsite fluids is dependent on overall well drilling and completion activities, with activity normally the busiest in the winter months. As a result, the Company's Wholesale segment's sales of road asphalt peak in the summer and sales of wellsite fluids peak in the winter.

The Company's Industrial Propane segment is characterized by a high degree of seasonality driven by the impact of weather on the need for heating and the amount of propane required to produce power for oil and gas related applications. Therefore, volumes are low during the summer months relative to the winter months. Operating profits are also considerably lower during the summer months. Most of the annual segment profit is earned from October to March each year.



## SEGMENTED RESULTS OF OPERATIONS

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

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

	Three months ended March 31,	
	2016	2015
	(in thousands)	
<b>Segment revenue</b>		
Infrastructure.....	\$ 71,623	\$ 65,477
Logistics.....	140,049	187,168
Wholesale .....	785,773	1,193,831
Industrial Propane .....	52,899	72,904
Other .....	6,026	7,116
Total segment revenue .....	<u>1,056,370</u>	<u>1,526,496</u>
Revenue—inter-segmental.....	<u>(97,326)</u>	<u>(134,154)</u>
Total revenue—external.....	<u>959,044</u>	<u>1,392,342</u>
<b>Segment profit</b>		
Infrastructure.....	48,361	43,518
Logistics.....	9,683	28,785
Wholesale .....	5,165	30,929
Industrial Propane .....	16,474	19,393
Other .....	538	161
Total segment profit.....	<u>80,221</u>	<u>122,786</u>
General and administrative <sup>(1)</sup> .....	12,022	8,560
Depreciation.....	43,753	44,157
Amortization .....	11,900	14,213
Stock based compensation .....	3,356	4,466
Foreign exchange (gain) loss .....	(46,993)	45,190
Net interest expense .....	<u>19,683</u>	<u>20,380</u>
Income (loss) before income tax .....	36,500	(14,180)
Income tax provision (recovery) .....	<u>(7,609)</u>	<u>6,320</u>
Net income (loss).....	<u>\$ 44,109</u>	<u>\$ (20,500)</u>

(1) Includes severance costs of \$5.7 million as a result of the Company's headcount rationalization review related to the changes in the management of the Company's operations.

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

Volumes (barrels in thousands)	Three months ended March 31,	
	2016	2015
Hardisty Terminals.....	55,587	48,990
Edmonton Terminals.....	4,124	3,606
Moose Jaw Facility.....	1,475	1,488
PRD Terminals.....	2,804	4,133
Injection stations.....	9,307	11,167
Total volumes.....	73,297	69,384

  

	Three months ended March 31,	
	2016	2015
	(in thousands)	
Revenues.....	\$ 71,623	\$ 65,477
Operating expenses and other.....	23,262	21,959
Segment profit.....	\$ 48,361	\$ 43,518

*Volumes, revenues and cost of sales.* Hardisty Terminal volumes increased by 14% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015, as a result of increased throughput volumes from customers with dedicated tank usage partially offset by lower volumes to the crude oil unit train loading facility located close to the Hardisty Terminal. Revenue at the Hardisty Terminal increased by \$7.8 million in the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase was largely driven by the impact of the tanks commissioned in 2015 and the resulting increase in revenue from customers with dedicated tank usage that are subject to fixed fee arrangements. In addition, the increase in revenue was driven by the commissioning of the connectivity enhancement projects related to the twinning of the Cold Lake and Athabasca pipeline connections to the Hardisty Terminal.

Edmonton Terminal volumes increased by 14% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 mainly due to an increase in diesel receipt volumes through the terminal from a customer that is subject to minimum volume charges and also due to the impact of tanks being put back into service as a result of the commissioning of the Edmonton East Terminal expansion. Revenue increased by \$4.1 million in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily due to the impact of the additional revenue on the commissioning of the Edmonton East Terminal expansion.

Moose Jaw volumes remained relatively consistent in the three months ended March 31, 2016 compared to the three months ended March 31, 2015. Revenue increased by \$0.2 million in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due to an increase in take or pay fees in the first quarter of 2016.

PRD volumes decreased by 32% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The decrease was largely due to lower volumes processed at the Company’s Canadian facilities that was largely driven by lower overall drilling activity. As a result, revenue decreased by \$5.3 million in the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Injection station volumes decreased by 17% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due to a decrease in activity with a major customer. However, despite the decline in volume, revenue was relatively consistent in the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

*Operating expenses and other.* Overall operating expenses and other increased by \$1.3 million or 6% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015, primarily due to higher overall operating costs from the expansion of the Company’s terminals and also due to environmental remediation costs incurred in the current year period.



*Segment profit.* Segment profit in the three months ended March 31, 2016 increased by \$4.8 million, or 11%, compared to the three months ended March 31, 2015. The increase was primarily due to the impact of additional revenues from the new tanks and pipeline connections completed in 2015 and the commissioning of the Edmonton East Terminal Expansion, partially offset by higher operating costs.

**Logistics**

The following tables set forth operating results from the Company's Logistics segment:

Volumes (barrels hauled in thousands)	Three months ended March 31,	
	2016	2015
Crude and other products .....	20,867	25,655

	Three months ended March 31,	
	2016	2015
	(in thousands)	
Revenues		
Crude and other product hauling.....	\$ 76,958	\$ 108,724
Water hauling and disposal.....	27,440	36,249
Other products and services .....	35,651	42,195
Total revenues.....	140,049	187,168
Cost of sales.....	101,626	125,375
Operating expenses and other .....	28,740	33,008
Segment profit.....	\$ 9,683	\$ 28,785

*Volumes, revenues and cost of sales.* Crude and other product hauling barrels hauled decreased by 19% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The decrease was mainly due to the continuing impact of low crude oil prices resulting in lower production and drilling activity in the Company's service areas. Crude and other product hauling revenue decreased by 29% in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015 mainly due to the impact of the lower overall volumes, but also the impact of lower hauling rates in certain of the Company areas.

Water hauling and disposal revenue decreased by 24% in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015 primarily driven by the impact of a reduction in oilfield drilling and completion activity, partially offset by additional revenue from the acquisition of T&R Transportation in Q3 2015.

Other products and services revenue decreased by 16% in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015 primarily driven by lower overall activity in the Bakken and Eagleford regions of the United States.

The overall decrease in revenue was partially offset by the favorable impact of the change in foreign exchange rates on translating revenue denominated in U.S. dollars from the Company's United States operations.

Cost of sales is primarily comprised of payments to owner-operators and lease operators and the cost of goods purchased. Cost of sales decreased by 19% in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015. The decrease was primarily due to the decline in total revenue, partially offset by the unfavorable impact of translating costs denominated in U.S. dollars.

*Operating expenses and other.* Operating costs decreased by \$4.3 million in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, mainly due to a decrease in payroll related costs as a result of overall headcount reductions. These declines were partially offset by additional operating expenses from the T&R Transport acquisition and the unfavorable impact of translating operating costs denominated in U.S. dollars.

*Segment profit.* Segment profit decreased by \$19.1 million in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, largely due to the decline in revenue, offset in part by a decrease in overall operating expenses.



**Wholesale**

The following tables set forth operating results from the Company's Wholesale segment:

Volumes (barrels in thousands)	Three months ended March 31,	
	2016	2015
Crude and diluent.....	23,519	26,316
Propane and other NGL.....	4,603	3,367
Refined products.....	676	694
Total volumes.....	28,798	30,377

  

	Three months ended March 31,	
	2016	2015
	(in thousands)	
<b>Revenues</b>		
Crude and diluent.....	\$ 616,715	\$ 961,148
Propane and other NGL.....	126,455	166,996
Refined products.....	42,603	65,687
Total revenues.....	785,773	1,193,831
Cost of sales.....	772,088	1,160,793
Operating expenses and other.....	8,520	2,109
Segment profit.....	\$ 5,165	\$ 30,929

*Volumes, revenue and cost of sales.* Sales volumes for crude and diluent decreased by 11% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due to a decrease in market opportunities in the current year period. Revenue decreased by 36% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due to lower crude oil prices and lower volumes.

Propane and other NGL volumes increased by 37% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase in volumes was largely driven by higher demand by certain customers and the positive contribution of the Company's expansion of its rail car fleet. Despite the increase in volumes, Propane and other NGL revenues decreased by 24% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due to lower commodity prices during the year.

Sales volumes for refined products decreased by 3% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due to lower demand for frac oils and distillates partially offset by higher demand for roofing flux. Refined products revenue decreased by 35% in the three months ended March 31, 2016 compared to three months ended March 31, 2015 mainly due to the impact of lower crude oil prices.

Cost of sales decreased by 33% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 mainly due to the impact of lower crude oil and other commodity revenue.

*Operating expenses and other.* Operating expenses and other increased by \$6.4 million, or 304%, in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015. Operating expenses and other were reduced by a large foreign exchange gain of \$5.5 million in the three months ended March 31, 2015. Thus, the increase compared to the prior year is due to the absence of the gain in the current period.

*Segment profit.* The Wholesale segment profit decreased in the three months ended March 31, 2016 by \$25.8 million, or 83%, as compared to the three months ended March 31, 2015, primarily due to decreased overall margins for crude oil and other commodities as well as higher operating expenses and other.



## Industrial Propane

The following tables set forth operating results from the Company's Industrial Propane segment:

Volumes (litres in thousands)	Three months ended March 31,	
	2016	2015
Oilfield .....	51,708	80,883
Commercial .....	63,405	76,705
Other .....	28,676	32,359
	<u>143,789</u>	<u>189,947</u>

  

Revenues	Three months ended March 31,	
	2016	2015
	(in thousands)	
Propane .....	\$ 45,063	\$ 64,062
Other .....	7,836	8,842
Total revenues .....	52,899	72,904
Cost of sales .....	18,805	32,893
Operating expenses and other .....	17,620	20,618
Segment profit .....	<u>\$ 16,474</u>	<u>\$ 19,393</u>

*Volumes, revenues and cost of sales.* Industrial propane volumes decreased by 24% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 as a result of lower overall oilpatch activity and also due to the overall impact of warmer weather patterns experienced in Western Canada.

As a result of the decrease in volumes and also a decline in overall rack prices, industrial propane revenues decreased by 30% in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015. Other revenue relates to equipment sales, service labour and rental and delivery charges. Other revenue decreased by 11% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Cost of sales decreased 43% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily driven by the impact of lower volumes and price levels.

*Operating expenses and other.* Overall operating expenses decreased by \$3.0 million, or 15%, in the three months ended March 31, 2016 compared to the three months ended March 31, 2015, primarily due to lower payroll related costs as a result of lower overall headcount and also lower repairs and maintenance costs incurred.

*Segment profit.* The Industrial Propane segment profit decreased in the three months ended March 31, 2016 by \$2.9 million, or 15%, compared to the three months ended March 31, 2015 largely as a result of lower revenues, partially offset by lower operating expenses.



**Other**

The following tables set forth the operating results from the Company’s Other segment:

	Three months ended March 31,	
	2016	2015
	(in thousands)	
Revenue .....	\$ 6,026	\$ 7,116
Cost of sales.....	5,101	6,864
Operating expenses and other.....	387	91
Segment profit .....	<u>\$ 538</u>	<u>\$ 161</u>

*Revenues and cost of sales.* Revenue decreased by 15% in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015. Despite an increase in seismic revenue in the current year period due to the timing of certain customer contracts, the overall decrease was due to a reduction in overall oil and gas activity in the basins that the Company services.

The overall decrease in revenue was partially offset by the favorable impact of the change in foreign exchange rates on translating revenue denominated in U.S. dollars from the Company’s United States operations.

Cost of sales decreased by 26% in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015. The decrease was primarily due to the decline in total revenue and also the impact of lower direct labour and materials costs. The decrease in cost of sales was partially offset by the unfavorable impact of translating costs denominated in U.S. dollars.

*Operating expenses and other.* Operating costs increased by \$0.3 million in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, mainly due to the impact of a bad debt recovery of \$0.6 million in the first quarter of 2015 and the unfavorable impact of translating operating costs denominated in U.S. dollars.

*Segment profit.* Segment profit increased by \$0.4 million in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, largely due to the impact of lower cost of sales.

**General and administrative and other, excluding depreciation and amortization**

General and administrative expense (“G&A”) is comprised of costs incurred for executive services, commercial development, accounting, finance, treasury, legal, human resources, investor relations and communications that are incurred at a corporate level and are not related to a specific segment. G&A expense was \$12.0 million in the three months ended March 31, 2016, compared to \$8.6 million in the three months ended March 31, 2015. The increase in the three months ended March 31, 2016 was largely driven by the incurrence of severance costs of \$5.7 million as a result of a headcount rationalization review. This was partially offset by an incremental gain on equity financial instruments of \$0.6 million and lower payroll related costs as a result of lower overall headcount.

**Depreciation**

Depreciation expense remained relatively consistent in the three months ended March 31, 2016 at \$43.8 million compared to \$44.2 million in the three months ended March 31, 2015 with the additional depreciation on asset additions being offset by the impact of asset disposals, assets reaching the end of depreciable lives and impairment charges recorded in 2015.

**Amortization**

Amortization expense was \$11.9 million in the three months ended March 31, 2016 compared to \$14.2 million in the three months ended March 31, 2015. The decrease was largely due to certain assets reaching the end of their useful lives in 2015, thereby resulting in lower amortization in 2016.



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### **Stock based compensation**

Stock based compensation expense was \$3.4 million in the three months ended March 31, 2016, compared to \$4.5 million in the three months ended March 31, 2015. The decrease was primarily driven by the impact of the forfeitures of performance share units, partially offset by additional expense from the granting of stock awards in the three months ended March 31, 2016.

### **Foreign exchange loss not affecting segment profit**

In the three months ended March 31, 2016, the Company recorded a foreign exchange gain of \$46.9 million compared to a loss of \$45.2 million in the three months ended March 31, 2015.

The gains and losses recorded are primarily driven by the movement in exchange rates on the translation of the Company's U.S. dollar denominated long-term debt and related financial instruments. In the three months ended March 31, 2016, a gain of \$47.8 million was recorded due to the movement in exchange rates on the translation of Company's U.S. dollar denominated long-term debt compared to a loss of \$59.5 million in the three months ended March 31, 2015. In the three months ended March 31, 2015, the loss was partially offset by a gain of \$10.0 million related to the change in mark-to-market value of U.S. dollar denominated forward contracts and options used to mitigate the currency risk associated with the Company's U.S. dollar denominated long-term debt.

In the three months ended March 31, 2015, the Company settled its forward contracts and options used to mitigate the currency risk associated with the Company's U.S. dollar denominated long-term debt and as a result, received net cash of \$36.6 million on the settlement of U.S. dollar forward contracts for a notional amount of U.S.\$250.0 million and U.S dollar options for a notional amount of U.S.\$250.0 million.

### **Net interest expense**

Net interest expense was \$19.7 million in the three months ended March 31, 2016, compared to \$20.4 million in the three months ended March 31, 2015. The decrease was primarily due to an increase in capitalized interest amounts related to our long-term capital projects.

### **Income tax provision (recovery)**

Income tax recovery was \$7.6 million in the three months ended March 31, 2016 compared to an income tax provision of \$6.3 million in the three months ended March 31, 2015. The effective tax rate was negative 21% during the three months ended March 31, 2016 compared to negative 44% in the three months ended March 31, 2015. The main driver for the income tax recovery and the change in the effective rate is the impact of non-deductible amounts relating to the net capital gains relating to foreign exchange movements on the Company's U.S. dollar denominated long-term debt compared to a non-deductible loss in the prior year period. In addition, income tax expense in the three months ended March 31, 2015 includes approximately \$4.6 million of additional current tax expense relating to the net realized gain on the settlement of the U.S. dollar forward contracts and U.S dollar options.



## SUMMARY OF QUARTERLY RESULTS

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

Three months ended (in thousands)	2016		2015		2014			
	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30
Revenue .....	\$959,044	\$1,276,223	\$1,348,990	\$1,574,427	\$1,392,342	\$1,976,465	\$2,360,007	\$2,126,365
Net income (loss) .....	44,109	(212,220)	(41,195)	(6,741)	(20,500)	13,406	8,542	23,838
EBITDA <sup>(1)</sup> .....	111,960	(103,464)	39,224	74,816	64,652	100,001	89,272	89,798
Adjusted EBITDA <sup>(2)</sup> .....	74,054	100,961	95,107	75,643	114,573	119,302	114,134	82,684
Earnings (loss) per share								
Basic .....	0.35	(1.69)	(0.33)	(0.05)	(0.16)	0.10	0.07	0.19
Diluted .....	0.34	(1.69)	(0.33)	(0.05)	(0.16)	0.10	0.07	0.19

(1) EBITDA is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. EBITDA consists of net income (loss) before interest expense, income taxes, depreciation, and amortization.

(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 goodwill and intangible assets, and asset writedowns. It also removes the impact of foreign exchange movements in the Company's U.S. dollar denominated long-term debt, debt extinguishment expenses and adjustments that are considered non-recurring in nature.

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

- EBITDA:
  - 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 Senior Unsecured Notes and the Revolving Credit Facility;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in the industry may calculate EBITDA differently than the Company does, limiting its usefulness as a comparative measure.



Because of these limitations, EBITDA should not be considered as 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 EBITDA only supplementally. The following table reconciles consolidated net income (loss) to EBITDA:

Three months ended (in thousands)	2016		2015		2014			
	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30
Net income (loss).....	\$ 44,109	\$ (212,220)	\$ (41,195)	\$ (6,741)	\$ (20,500)	\$ 13,406	\$ 8,542	\$ 23,838
Depreciation and amortization.....	55,653	101,605	61,010	62,007	58,370	58,338	53,510	49,264
Interest expense <sup>(1)</sup> .....	19,807	19,441	19,471	20,206	20,462	19,831	18,774	15,331
Income tax expense (recovery) .....	(7,609)	(12,290)	(62)	(656)	6,320	8,426	8,446	1,365
EBITDA .....	\$ 111,960	\$ (103,464)	\$ 39,224	\$ 74,816	\$ 64,652	\$ 100,001	\$ 89,272	\$ 89,798

(1) Interest expense includes the impact of the change in net unrealized gains or losses attributable to movement in the mark-to-market valuation of financial instruments relating to interest expense.

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

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



The following tables reconcile EBITDA to Adjusted EBITDA for each of the last eight quarters and Pro Forma Adjusted EBITDA for the twelve months ended March 31, 2016 and 2015:

	Three months ended				Twelve months ended
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2016
	(in thousands)				
EBITDA.....	\$ 111,960	\$ (103,464)	\$ 39,224	\$ 74,816	\$ 122,536
Unrealized foreign exchange loss (gain) on long-term debt <sup>(1)</sup> .....	(47,795)	24,530	50,600	(11,495)	15,840
Net unrealized loss (gain) from financial instruments <sup>(2)</sup> .....	826	(1,726)	82	7,206	6,388
Stock based compensation <sup>(3)</sup> .....	3,356	5,662	5,135	5,116	19,269
Impairment of goodwill <sup>(4)</sup> .....	-	175,959	-	-	175,959
Severance costs <sup>(5)</sup> .....	5,696	-	-	-	5,696
Acquisition related costs <sup>(6)</sup> .....	-	-	66	-	66
Adjusted EBITDA.....	\$ 74,043	\$ 100,961	\$ 95,107	\$ 75,643	\$ 345,754
Pro forma impact of acquisitions <sup>(7)</sup> .....					1,316
Pro Forma Adjusted EBITDA.....					\$ 347,070

	Three months ended				Twelve months ended
	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2015
	(in thousands)				
EBITDA.....	\$ 64,652	\$ 100,001	\$ 89,272	\$ 89,798	\$ 343,723
Unrealized foreign exchange loss (gain) on long-term debt <sup>(1)</sup> .....	59,510	21,615	29,260	(19,725)	90,660
Net unrealized loss (gain) from financial instruments <sup>(2)</sup> .....	(14,066)	(6,141)	(8,361)	9,064	(19,504)
Stock based compensation <sup>(3)</sup> .....	4,466	3,827	3,642	3,380	15,315
Acquisition related costs <sup>(5)</sup> .....	11	-	321	167	499
Adjusted EBITDA.....	\$ 114,573	\$ 119,302	\$ 114,134	\$ 82,684	\$ 430,693
Pro forma impact of acquisitions <sup>(7)</sup> .....					2,788
Pro Forma Adjusted EBITDA.....					\$ 433,481

- (1) Non-cash adjustment representing the unrealized foreign exchange loss (gain) on long-term debt, as a result of the movement in exchange rates in the periods.
- (2) Reflects the exclusion of the movement in the mark-to-market valuation of financial instruments used in risk management activities. The Company uses financial instruments such as futures, options, swaps and forward contracts to manage the exposure to commodities price movements and foreign exchange risks, although the Company does not formally designate these financial instruments as hedges for accounting purposes. Accordingly, the unrealized gains or losses on these financial instruments are recorded directly to the income statement. Management believes that this adjustment better correlates the effect of risk management activities to the underlying operating activities to which they relate.
- (3) Represents the non-cash stock based compensation relating to the Company's equity incentive plan.
- (4) Represents the non-cash impairment of goodwill charge.
- (5) Represents the severance costs incurred related to a headcount rationalization review.
- (6) Represents transaction fees that were expensed in connection with acquisitions made by the Company.
- (7) Reflects the pro forma impact of acquisitions on the Company's Adjusted EBITDA as if the acquisitions that took place in the twelve months period occurred on January 1 of each twelve month period. The pro forma impact of acquisitions is calculated on the same basis as Adjusted EBITDA.



**LIQUIDITY AND CAPITAL RESOURCES**

The Company’s primary liquidity and capital resource needs are to fund ongoing capital expenditures, growth opportunities and acquisitions and to fund its targeted dividend level. In addition, the Company must service its debt, including interest payments and finance working capital needs. The Company relies on its cash flow from operations, debt and equity financings and borrowings under the Company’s Revolving Credit Facility for liquidity.

The Company’s operating cash flow has historically been affected by the overall profitability of sales 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 Company’s cash, cash equivalents and cash flow from operations have historically been sufficient to meet the Company’s working capital, upgrade and replacement capital expenditure and debt servicing requirements.

The following table summarizes the Company’s sources and uses of funds for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,	
	2016	2015
	(in thousands)	
<b>Statement of Cash Flows</b>		
<b>Cash flows provided by (used in):</b>		
Operating activities .....	\$ 85,544	\$ 185,066
Investing activities .....	(97,669)	(114,783)
Financing activities .....	(29,729)	(33,979)

**Cash provided by operating activities**

The primary drivers of cash flow from operating activities are the collection of amounts related to sales of products such as crude oil, propane, NGLs, asphalt and other products and fees for services provided associated with the Company’s Infrastructure and Logistics segments. Offsetting these collections are payments for purchases of crude oil and other products and other expenses. Other expenses primarily consist of owner-operator and lease-operator payments for the provision of contract trucking services, field operating expenses and G&A expenses. Historically, the Wholesale segment has been the most variable with respect to generating cash flows 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 provided by operations in the three months ended March 31, 2016 was \$85.5 million compared to \$185.1 million in the three months ended March 31, 2015. The decrease was due the impact of lower segment profit as well as the impact of a lower decline in working capital needs of \$19.1 million in the three months ended March 31, 2016 when compared to a decline in working capital needs of \$71.6 million in the three months ended March 31, 2015.

**Cash used in investing activities**

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

Cash used in investing activities was \$97.6 million in the three months ended March 31, 2016, compared to \$114.8 million in the three months ended March 31, 2015. Cash used in investing activities largely relates to capital expenditures and acquisitions. For a summary of capital expenditures, see “Capital expenditures” included in this MD&A.

**Cash provided used in financing activities**

Cash used in financing activities was \$29.7 million in the three months ended March 31, 2016 compared to \$34.0 million in the three months ended March 31, 2015. The change was due to the payment of net interest and cash dividends of \$44.7 million and \$40.4 million in the three months ended March 31, 2016 compared to net interest and cash dividends of \$41.3 million and \$29.1 million in the three months ended March 31, 2015. In addition, in the three months ended March 31, 2016, the Company received net proceeds from credit facilities of \$55.3 million, and in the three months ended March 31, 2015, the Company received net proceeds on the settlement of financial instruments of \$36.6 million. The increase in dividends paid was driven by both the \$0.01 per share increase effective in the first quarter of 2016 and also the impact of the suspension of the DRIP during 2015 resulting in an \$11.2 million increase in cash dividends paid.



### **Liquidity sources, requirements and contractual cash requirements and commitments**

The Company believes that cash on hand, together with cash from operations and borrowings under the Revolving Credit Facility, will be adequate to meet its working capital needs, upgrade and replacement capital expenditures, currently sanctioned growth capital projects, debt service, targeted dividend level and other cash requirements for at least the next twelve months. The Company had unrestricted cash of \$39.2 million and \$409.7 million available under the Revolving Credit Facility as at March 31, 2016.

The Company's ability to make interest payments on the Company's indebtedness, to pay targeted dividends and to fund the Company's other liquidity requirements will depend on the Company's ability to generate cash in the future. In the three months ended March 31, 2016, the Company declared a dividend of \$0.33 per share for a total dividend of \$41.7 million, of which the entire amount was paid in cash on April 15, 2016. The declaration of dividends is considered on a quarterly basis and is at the sole discretion of the Board and will be determined on the basis of earnings, financial requirements for operations and a solvency calculation.

Capital expenditures amounted to \$61.4 million in the three months ended March 31, 2016. As previously announced, the Company has approved a 2016 growth capital expenditure budget ranging between \$200.0 million and \$300.0 million and an additional \$50.0 million allocated to upgrade and replacement capital expenditures. While the Company anticipates that these planned capital expenditures will occur, certain projects are subject to general economic, financial, competitive, legislative, regulatory and other factors, some of which are beyond the Company's control.

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

As of March 31, 2016, the Company had total outstanding Senior Unsecured Notes, excluding debt discount and the issuance costs, of U.S.\$550.0 million bearing fixed interest of 6.75% per annum due July 15, 2021, \$250.0 million bearing fixed interest of 7.00% per annum due July 15, 2020 and \$300.0 million bearing fixed interest of 5.375% per annum due July 15, 2022 (collectively the "Notes"). Interest is payable semi-annually on January 15 and July 15 of each year the Notes are outstanding.

The Notes agreements contain certain redemption options whereby the Company can redeem all or part of the Notes subject to certain premiums if such prepayment occurs prior to the dates specified in the agreements. In addition, the Note holders have the right to require the Company to redeem the Notes or a portion thereof, at the redemption prices set forth in the agreements in the event of change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the agreements.

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

At March 31, 2016, the Company had \$90.3 million drawn under the Revolving Credit Facility, and had issued letters of credit totaling \$31.8 million under its bilateral demand letter of credit facilities.

The terms of the Company's Revolving Credit Facility require the Company to maintain certain covenants including a consolidated senior and total debt leverage ratio of no greater than 4.85 to 1.0 until December 31, 2017, with such threshold decreasing to 4.25 to 1.0 until March 31, 2018 and decreasing thereafter to 4.0 to 1.0 for total debt and 3.5 to 1.0 for senior debt and an interest coverage ratio of no less than 2.5 to 1.0. The consolidated senior debt ratio represents the ratio of all senior debt obligations to Pro Forma Adjusted EBITDA. The consolidated total debt ratio represents the ratio of total debt to Pro Forma Adjusted EBITDA. The consolidated interest coverage ratio represents the ratio of Pro Forma Adjusted EBITDA to consolidated cash interest expense. As at March 31, 2016, the Company was in compliance with the financial ratios with the senior debt leverage ratio at 3.8 to 1.0, total



debt leverage ratio at 3.8 to 1.0, and the interest coverage ratio at 4.0 to 1.0. If the Company fails to comply with the financial covenants, the lenders may declare an event of default. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of repayment of the principal and interest outstanding and a termination of the Revolving Credit Facility.

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

### **Contingencies**

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

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

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

### **Contractual obligations**

In the normal course of business, the Company is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable. Refer to the Company's 2015 Annual MD&A, which summarizes contractual obligations as at December 31, 2015. At March 31, 2016, the Company did not have any additional material contractual obligations.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditure or capital expenses that are material to investors.



**OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at March 31, 2016, there were 126.5 million common shares outstanding and no preferred shares outstanding. In addition, under the Company’s equity incentive plan, there were an aggregate of 2.5 million restricted share units, performance share units and deferred share units outstanding and 3.3 million stock options outstanding as at March 31, 2016.

At March 31, 2016, awards available to grant under the equity incentive plan were approximately 6.9 million.

As at May 2, 2016, 126.5 million common shares, 2.5 million restricted share units, performance share units and deferred share units and 3.3 million stock options were outstanding.

**TRADING PRICE AND VOLUME**

The Company’s common shares trade on the TSX under the ticker symbol GEI. The following table sets forth the high and low sales prices per common share at the close of market, as well as total monthly trading volumes for the common shares on the TSX for the periods indicated.

Calendar Period	Price Range		Volume
	High	Low	
<b>2015</b>			
January .....	\$ 27.38	\$ 21.98	8,965,300
February .....	\$ 27.12	\$ 23.21	7,401,500
March .....	\$ 27.72	\$ 24.93	7,696,000
April .....	\$ 29.29	\$ 26.62	7,359,600
May .....	\$ 27.69	\$ 23.42	8,338,100
June .....	\$ 24.52	\$ 21.98	7,795,000
July .....	\$ 23.02	\$ 18.62	11,008,116
August .....	\$ 19.40	\$ 17.00	10,777,508
September .....	\$ 19.80	\$ 16.54	8,360,200
October .....	\$ 20.20	\$ 16.95	8,833,648
November .....	\$ 17.59	\$ 15.96	9,008,100
December .....	\$ 16.35	\$ 13.05	9,777,400
<b>2016</b>			
January .....	\$ 15.53	\$ 12.52	11,683,317
February .....	\$ 17.21	\$ 14.65	7,036,361
March .....	\$ 18.65	\$ 16.99	6,924,550

**DIVIDENDS**

The Company is currently paying quarterly dividends to holders of common shares. The payment of dividends is not guaranteed, and the amount and timing of any dividends payable by Gibsons will be at the discretion of the Board and will be established on the basis of Gibsons earnings, financial requirements for operations, the satisfaction of a solvency calculation and the terms of the Company’s debt agreements. In addition, after each fiscal year end the Board will typically review the annual dividend amount.



## 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 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. Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of fluctuations in product inventories or other temporary changes. Upgrade and replacement capital expenditures are deducted from distributable cash flow as they are ongoing recurring expenditures.

The following is a reconciliation of distributable cash flow to its most closely related IFRS measure, cash flow from operating activities.

	Twelve months ended March 31, 2016
	(in thousands)
Cash flow from operating activities .....	\$ 358,545
Adjustments:	
Changes in non-cash working capital .....	(21,722)
Upgrade and replacement capital .....	(40,376)
Cash interest expense .....	(85,819)
Current income tax <sup>(1)</sup> .....	(29,654)
Distributable cash flow .....	<u>\$ 180,974</u>
 Dividends declared to shareholders.....	 <u>\$ 162,665</u>

(1) Excludes \$11.0 million related to the settlement of the provincial portion of the partnership deferral for 2015 and 2016 in the second quarter of 2015.

Dividends declared in the twelve months ended March 31, 2016 were \$162.7 million, of which \$151.9 million was paid in cash and the balance was settled with the issuance of common shares under the Company's DRIP and SDP. In the twelve months ended March 31, 2016, dividends declared represented 90% of the distributable cash flow generated or, distributable cash flow was 1.1 times dividends declared. On a net basis after consideration of the DRIP and SDP, declared dividends paid in cash represented 84% of the distributable cash flow generated, or distributable cash flow was 1.2 times dividends paid in cash. On August 6, 2015, the Company suspended, until further notice, its DRIP and SDP.

## 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 Risk Management Committee that has direct responsibility and authority for the Company's risk policies and the Company's trading controls and procedures and certain aspects of corporate risk management. The Company's approved strategies are intended to mitigate risks that are inherent in the Company's core businesses of aggregating and marketing and distribution. To hedge the risks discussed above the Company engages in risk management activities that the Company categorizes by the risks the Company is hedging and by the physical product that is creating the risk. The following discussion addresses each category of risk.



## Commodity Price Risk

The Company hedges its exposure to price fluctuations with respect to crude oil, refined products, natural gas and NGLs, and expected purchases and sales of these commodities (relating primarily to crude oil, roofing flux, propane sales and purchases of natural gasoline). The derivative instruments utilized consist primarily of futures and option contracts traded on the NYMEX, ICE 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 March 31, 2016 and December 31, 2015. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by \$4.9 million and \$5.2 million as of March 31, 2016 and 2015, respectively. A 15% unfavorable change would decrease the Company's net income by \$3.8 million and \$4.0 million as of March 31, 2016 and 2015, respectively. However, these changes may be offset by the use of one or more risk management strategies.

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

Under the Revolving Credit Facility, the Company is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either U.S. LIBOR, U.S. Base Rate, Canadian Prime Rate or Canadian Bankers' Acceptance rate, plus an applicable margin based on the Company's total leverage ratio. As at March 31, 2016, the Company had \$90.3 million drawn under the Revolving Credit Facility and accordingly is subject to the interest rate cash flow risk associated with these amounts. A 1% favorable and unfavorable change in interest rates in relation to the amounts drawn at March 31, 2016 would impact net income by \$0.7 million.

*Currency exchange risks.* The Company's monetary assets and liabilities in foreign currencies are translated at the period-end rate. Exchange differences arising from this translation are recorded in the Company's statement of operations. In addition, currency exposures can arise from revenues and purchase transactions denominated in foreign currencies. Generally, transactional currency exposures are naturally hedged (i.e., revenues and expenses are approximately matched), but where appropriate, are covered using forward exchange contracts. All of the foreign currency forward exchange contracts entered into by the Company, although effective hedges from an economic perspective, have not been designated as hedges for accounting purposes, and therefore any gains and losses on such forward exchange contracts impact the Company's earnings. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would affect the fair value of the Company's outstanding forward currency contracts and options and would decrease the Company's net income by \$1.3 million and \$2.4 million as at March 31, 2016 and 2015, respectively. A 5% favorable change would increase the Company's net income by \$1.3 million and \$2.3 million as at March 31, 2016 and 2015, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

Additionally, currency exposure occurs on a portion of the principal of the Company's long-term debt and the related interest payments, as they are denominated in U.S. dollars. As at March 31, 2016, the Company had outstanding U.S. dollar denominated debt of U.S.\$550.0 million.



As a result of the settlement of U.S. forward and options contracts in the first quarter of 2016 the Company had no foreign currency contracts outstanding relating to its long-term debt at March 31, 2016. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would impact both the carrying value of the Company's long-term debt and any related foreign currency contracts and would decrease the Company's net income by \$31.0 and \$30.5 million as at March 31, 2016 and 2015 respectively. A corresponding favorable change would increase the Company's net income by \$31.0 and \$30.5 million as at March 31, 2016 and 2015, respectively.

With respect to the related interest payments on the U.S. dollar denominated long-term debt, to date the Company has not entered into any foreign currency hedges as the Company believes that it will generate enough U.S. dollar cash inflows to pay these interest payments when due and/or hedge the incremental exposure using derivative instruments. Based on the interest rate in effect at March 31, 2016, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar as of March 31, 2016 would increase the Company's annual interest expense by \$2.4 million. A 5% favorable change in the value of the Canadian dollar relative to the U.S. dollar as of March 31, 2016 would decrease the Company's annual interest expense by \$2.4 million.

*Equity price risk:* The Company has equity price and dilution exposure to shares that it issues under its stock based compensation programs. Gibsons uses equity derivatives to manage volatility derived from its stock based compensation programs. The Company has entered into derivative share swap contracts to manage the risks relating to its stock based compensation programs. These contracts will mature at the prevailing share prices in accordance with the specific maturities of each contract over a three year period. As at March 31, 2016, the Company estimates that a 10% increase in the Company's share price would have resulted in a \$0.7 million and \$1.1 million increase in the Company's net income as of March 31, 2016, and 2015, respectively. A corresponding decrease in the Company's share price would decrease the Company's net income by \$0.7 million and \$1.1 million as of March 31, 2016, and 2015, respectively.

## ACCOUNTING POLICIES

### Critical accounting policies and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material 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 consolidated financial statements. The Company's critical accounting policies and estimates are discussed in the Company's Annual 2015 MD&A dated March 1, 2016 as filed on SEDAR.

### 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 2012-2015 reporting cycles including changes to IFRS 5, Non-current assets held for sale and discontinued operations, IFRS 7, Financial instruments: Disclosures, IAS 19, Employee benefits, and IAS 34, Interim financial reporting. These improvements are effective for periods beginning on or after January 1, 2016. The adoption of these improvements did not have a material impact on the consolidated financial statements.
- IFRS 10, Consolidated financial statements ("IFRS 10"), and IAS 28, Investments in associates and joint ventures ("IAS 28"), has been amended to address an inconsistency between IFRS 10 and IAS 28 in regards to a sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves the assets that do not constitute a business. Additionally, the amendments clarify the exception from preparing consolidated financial statements, the consolidation requirements for subsidiaries which act as an extension of an investment entity, and the requirements for equity accounting for investments in associates and joint ventures. The amendments to IFRS 10 and IAS 28 are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have a material impact on the consolidated financial statements.
- IAS 1, Presentation of financial statements ("IAS 1"), has been amended to clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements. The adoption of this amendment did not have a material impact on the consolidated financial statements.



### New standards and interpretations issued during the quarter

- IFRS 16, Leases ("IFRS 16"), has been issued as a new standard on leases and will supersede IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

### 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 March 31, 2016.

There have been no changes in ICFR that occurred during the period beginning January 1, 2016 and ended on March 31, 2016 that has materially affected or is reasonably likely to materially affect ICFR.

### FORWARD-LOOKING STATEMENTS

*Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential" and "capable" and similar expressions are intended to identify forward-looking statements. 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 statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements 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 statements pertaining to the following:*

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

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

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



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

*In addition, this MD&A may contain forward-looking statements and forward-looking information attributed to third party industry sources. The Company does not undertake any obligations to publicly update or revise any forward-looking statements except as required by securities law. Actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous risks and uncertainties including, but not limited to, the risks and uncertainties described in "Forward-Looking Statements" and "Risk Factors" included in the Company's Annual Information Form dated March 1, 2016 as filed on SEDAR at [www.sedar.com](http://www.sedar.com) and available on Gibsons website at [www.gibsons.com](http://www.gibsons.com).*

### **NON-GAAP FINANCIAL MEASURES**

*This MD&A refers to certain financial measures that are not determined in accordance with IFRS. EBITDA, Adjusted EBITDA, Pro Forma Adjusted EBITDA and distributable cash flow are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. Management considers these to be important supplemental measures of the Company's performance and believes these measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in industries with similar capital structures. See "Summary of Quarterly Results" for a reconciliation of EBITDA to net income (loss), the IFRS measure most directly comparable to EBITDA, and for a reconciliation of Adjusted EBITDA and Pro Forma Adjusted EBITDA to EBITDA. Distributable cash flow 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.*