

Gibson Energy Inc.

Condensed Consolidated Financial Statements
June 30, 2016 and 2015
(in thousands of Canadian dollars)

Gibson Energy Inc.

Condensed Consolidated Balance Sheet

(tabular amounts in thousands of Canadian dollars)

	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents.....	\$ 242,431	\$ 82,775
Trade and other receivables (note 4).....	340,901	370,313
Inventories (note 5).....	115,890	107,593
Income taxes receivable.....	11,882	16,130
Prepaid expenses and other assets.....	14,963	18,124
Net investment in finance leases.....	1,145	1,045
Total current assets.....	<u>727,212</u>	<u>595,980</u>
Non-current assets		
Property, plant and equipment (note 6).....	1,809,225	1,771,117
Long-term prepaid expenses and other assets.....	4,442	4,564
Net investment in finance leases.....	92,783	93,389
Deferred income tax assets.....	18,019	1,596
Intangible assets.....	113,236	145,433
Goodwill (note 7).....	558,378	670,907
Total non-current assets.....	<u>2,596,083</u>	<u>2,687,006</u>
Total assets	<u>\$ 3,323,295</u>	<u>\$ 3,282,986</u>
Liabilities		
Current liabilities		
Credit facilities (note 8).....	\$ -	\$ 35,000
Trade payables and accrued charges (note 9).....	420,491	418,732
Dividends payable.....	46,710	40,363
Deferred revenue.....	13,985	7,690
Income taxes payable.....	1,683	7,775
Total current liabilities.....	<u>482,869</u>	<u>509,560</u>
Non-current liabilities		
Long-term debt (note 8).....	1,247,255	1,291,423
Convertible debentures (note 10).....	86,073	-
Provisions (note 11).....	180,278	155,343
Other long-term liabilities.....	11,407	13,975
Deferred income tax liabilities.....	121,926	145,684
Total non-current liabilities.....	<u>1,646,939</u>	<u>1,606,425</u>
Total liabilities.....	<u>2,129,808</u>	<u>2,115,985</u>
Equity		
Share capital (note 12).....	1,906,796	1,672,323
Contributed surplus.....	34,104	34,959
Accumulated other comprehensive income.....	189,073	224,866
Convertible debentures (note 10).....	7,151	-
Deficit.....	(943,637)	(765,147)
Total equity.....	<u>1,193,487</u>	<u>1,167,001</u>
Total liabilities and equity	<u>\$ 3,323,295</u>	<u>\$ 3,282,986</u>

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Operations

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue (note 13)	\$ 1,122,498	\$ 1,574,427	\$ 2,081,542	\$ 2,966,769
Cost of sales (note 15 and 16)	1,135,812	1,553,670	2,068,131	2,886,977
Gross profit (loss).....	(13,314)	20,757	13,411	79,792
General and administrative expenses (note 15 and 16)	18,025	18,655	35,534	33,278
Impairment of goodwill (note 7)	101,405	-	101,405	-
Other operating loss (income)	(391)	1,209	437	(10,094)
Income (loss) from operating activities	(132,353)	893	(123,965)	56,608
Interest expense	21,935	20,206	41,742	40,668
Interest income	(441)	(421)	(565)	(503)
Foreign exchange loss (gain) on long-term debt (note 8).	2,090	(11,495)	(45,705)	38,020
Loss before income taxes	(155,937)	(7,397)	(119,437)	(21,577)
Income tax (recovery) provision (note 14).....	(21,791)	(656)	(29,400)	5,664
Net loss	\$ (134,146)	\$ (6,741)	\$ (90,037)	\$ (27,241)
Loss per share (note 12)				
Basic.....	\$ (1.02)	\$ (0.05)	\$ (0.70)	\$ (0.22)
Diluted.....	\$ (1.02)	\$ (0.05)	\$ (0.70)	\$ (0.22)

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Comprehensive Income (Loss)

(tabular amounts in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net loss	<u>\$ (134,146)</u>	<u>\$ (6,741)</u>	<u>\$ (90,037)</u>	<u>\$ (27,241)</u>
Other comprehensive income (loss)				
<i>Items that may be reclassified subsequently to consolidated statement of operations:</i>				
Exchange differences of translating foreign operations	<u>1,454</u>	<u>(12,519)</u>	<u>(35,793)</u>	<u>52,933</u>
Other comprehensive income (loss) , net of tax	<u>1,454</u>	<u>(12,519)</u>	<u>(35,793)</u>	<u>52,933</u>
Comprehensive income (loss)	<u>\$ (132,692)</u>	<u>\$ (19,260)</u>	<u>\$ (125,830)</u>	<u>\$ 25,692</u>

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Changes in Equity

(tabular amounts in thousands of Canadian dollars)

	Share capital (note 10)	Contributed surplus	Accumulated other comprehensive income	Convertible Debentures	Deficit	Total Equity
Balance – January 1, 2015	\$1,634,001	\$ 23,841	\$ 93,011	\$ -	\$ (323,673)	\$1,427,180
Net loss	-	-	-	-	(27,241)	(27,241)
Other comprehensive income, net of tax ...	-	-	52,933	-	-	52,933
Comprehensive income	-	-	52,933	-	(27,241)	25,692
Stock based compensation	-	9,582	-	-	-	9,582
Reclassification of contributed surplus on issuance of awards under equity incentive plan.....	8,924	(8,924)	-	-	-	-
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs.....	18,329	-	-	-	-	18,329
Dividends on common shares (\$0.32 per common share)	-	-	-	-	(80,278)	(80,278)
Balance – June 30, 2015	<u>\$1,661,254</u>	<u>\$ 24,499</u>	<u>\$ 145,944</u>	<u>\$ -</u>	<u>\$ (431,192)</u>	<u>\$1,400,505</u>
Balance – January 1, 2016	\$1,672,323	\$ 34,959	\$224,866	\$ -	\$ (765,147)	\$1,167,001
Net loss.....	-	-	-	-	(90,037)	(90,037)
Other comprehensive loss, net of tax	-	-	(35,793)	-	-	(35,793)
Comprehensive loss.....	-	-	(35,793)	-	(90,037)	(125,830)
Stock based compensation	-	10,846	-	-	-	10,846
Reclassification of contributed surplus on issuance of awards under equity incentive plan.....	11,701	(11,701)	-	-	-	-
Issuance of common shares for cash, net of issue costs and deferred tax (note 12).	222,772	-	-	-	-	222,772
Issuance of convertible debentures, net of issuance costs and deferred taxes (note 10)	-	-	-	7,151	-	7,151
Dividends on common shares (\$0.33 per common share)	-	-	-	-	(88,453)	(88,453)
Balance – June 30, 2016	<u>\$1,906,796</u>	<u>\$ 34,104</u>	<u>\$ 189,073</u>	<u>\$ 7,151</u>	<u>\$ (943,637)</u>	<u>\$1,193,487</u>

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Cash Flows

(tabular amounts in thousands of Canadian dollars)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Cash provided by (used in)				
Operating activities				
Income (loss) from operating activities	\$ (132,353)	\$ 893	\$(123,965)	\$ 56,608
Items not affecting cash				
Depreciation of property, plant and equipment (note 6) ...	43,701	47,902	87,454	92,059
Amortization of intangible assets	21,061	14,105	32,961	28,318
Impairment of goodwill (note 7)	101,405	-	101,405	-
Stock based compensation	7,490	5,116	10,846	9,582
Gain on sale of assets	(1,280)	(243)	(2,488)	(1,171)
Other	(804)	322	(1,337)	203
Net loss on fair value movement of financial instruments (note 15)	2,536	7,206	3,362	3,135
Changes in items of working capital:				
Trade and other receivables.....	(12,206)	(50,999)	16,903	154,716
Inventories.....	(29,696)	(1,842)	(9,170)	33,024
Other current assets	871	11,958	2,410	10,939
Trade payables and accrued charges	55,616	99,922	35,276	(49,477)
Deferred revenue	5,080	(2,730)	6,293	(10,231)
Income taxes	1,377	(22,614)	(11,608)	(33,643)
Cash provided by operating activities	62,798	108,996	148,342	294,062
Investing activities				
Purchase of property, plant and equipment.....	(42,989)	(71,045)	(133,176)	(172,832)
Purchase of intangible assets	(1,454)	(3,782)	(11,036)	(9,755)
Acquisitions	-	(2,538)	-	(11,531)
Proceeds from sale of assets	2,300	881	4,400	2,851
Cash used in investing activities	(42,143)	(76,484)	(139,812)	(191,267)
Financing activities				
Shareholder dividends	(41,743)	(40,081)	(82,106)	(77,427)
Dividend reinvestment plan and stock dividend programs ...	-	10,117	-	18,329
Interest paid	(2,219)	(1,070)	(47,017)	(42,430)
Interest received.....	214	421	338	493
Issuance of common shares (note 12).....	230,090	-	230,090	-
Share issue costs	(9,747)	-	(9,747)	-
Issuance of convertible debentures, net of costs (note 10)....	96,386	-	96,386	-
Settlement of financial instruments not affecting operating activities (note 15).....	-	-	-	36,582
Proceeds from credit facilities	207,903	-	391,640	-
Repayment of credit facilities	(298,197)	-	(426,626)	-
Repayment of finance lease liabilities	-	(170)	-	(309)
Cash provided by (used in) financing activities	182,687	(30,783)	152,958	(64,762)
Effect of exchange rate on cash and cash equivalents	(70)	(2,936)	(1,832)	1,394
Net increase (decrease) in cash and cash equivalents	203,272	(1,207)	159,656	39,427
Cash and cash equivalents – beginning of period	39,159	172,545	82,775	131,911
Cash and cash equivalents – end of period	\$ 242,431	\$ 171,338	\$ 242,431	\$ 171,338

See accompanying notes

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

1 General Information

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

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

2 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, as set out in IAS 34, “Interim Financial Reporting”. The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB. These condensed consolidated financial statements were approved for issuance by the Company’s board of directors (“Board”) on August 2, 2016.

These consolidated financial statements are presented in Canadian dollars, the Company’s functional currency, and all values are rounded to the nearest thousands of dollars, except where indicated otherwise. All references to \$ are to Canadian dollars and references to U.S.\$ are to United States dollars.

3 Changes in accounting policies and disclosures

On June 2, 2016, the Company issued \$100.0 million aggregate principal amount of unsecured subordinated convertible debentures (“the Debentures”) (note 10). Accordingly the following accounting policy was adopted by the Company:

Non-derivative financial instruments – recognition and measurement

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

New and amended standards adopted by the Company

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

- The annual improvements process addresses issues in the 2012-2016 reporting cycles including changes to IFRS 5, Non-current assets held for sale and discontinued operations, IFRS 7, Financial instruments: Disclosures, IAS 19, Employee benefits, and IAS 34, Interim financial reporting. These improvements are effective for periods beginning on or after January 1, 2016. The adoption of these improvements did not have a material impact on the condensed consolidated financial statements.
- IAS 1, Presentation of financial statements (“IAS 1”), has been amended to clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2016. The adoption of this amendment did not have a material impact on the condensed consolidated financial statements.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

- 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.

New and amended standards and interpretations issued during the year

- IFRS 2, Share-based payments (“IFRS 2”), has been amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. IFRS 2 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

4 Trade and other receivables

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Trade receivables	\$ 329,130	\$ 353,485
Allowance for doubtful accounts	(2,131)	(1,950)
Trade receivables - net	326,999	351,535
Risk management assets (note 15)	2,288	8,415
Deposits held as collateral	461	43
Broker accounts receivable	-	1,561
Indirect taxes receivable	5,678	5,579
Other	5,475	3,180
	<u>\$ 340,901</u>	<u>\$ 370,313</u>

5 Inventories

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Crude oil	\$ 64,317	\$ 46,876
Diluent	1,491	1,244
Asphalt	1,162	10,928
Natural gas liquids	29,186	22,238
Wellsite fluids and distillate	3,736	8,856
Spare parts and other	15,998	17,451
	<u>\$ 115,890</u>	<u>\$ 107,593</u>

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

6 Property, plant and equipment

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant, Equipment & Disposal Wells	Work in Progress	Total
Cost:							
At January 1, 2016.....	\$207,519	\$ 168,179	\$ 542,750	\$ 491,946	\$ 843,111	\$ 290,582	\$ 2,544,087
Additions	2,087	64	591	4,787	10,048	101,613	119,190
Disposals.....	(519)	-	(741)	(16,113)	(8,928)	-	(26,301)
Reclassifications	602	35,936	11,775	-	28,201	(76,514)	-
Change in decommissioning provision (note 11)...	-	3,503	9,644	-	12,974	-	26,121
Effect on movements in exchange rates.....	(1,726)	-	(978)	(14,637)	(16,400)	(296)	(34,037)
At June 30, 2016.....	<u>\$207,963</u>	<u>\$ 207,682</u>	<u>\$ 563,041</u>	<u>\$ 465,983</u>	<u>\$ 869,006</u>	<u>\$ 315,385</u>	<u>\$ 2,629,060</u>
Accumulated depreciation and impairment:							
At January 1, 2016.....	\$ 31,941	\$ 62,648	\$ 101,156	\$ 251,585	\$ 325,640	\$ -	\$ 772,970
Depreciation.....	4,429	5,792	12,524	31,300	33,409	-	87,454
Disposals.....	(417)	-	(606)	(15,228)	(8,119)	-	(24,370)
Effect of movements in exchange rates.....	(186)	-	(411)	(8,300)	(7,322)	-	(16,219)
At June 30, 2016.....	<u>\$ 35,767</u>	<u>\$ 68,440</u>	<u>\$ 112,663</u>	<u>\$ 259,357</u>	<u>\$ 343,608</u>	<u>\$ -</u>	<u>\$ (819,835)</u>
Carrying amounts:							
At January 1, 2016.....	\$175,578	\$ 105,531	\$ 441,594	\$ 240,361	\$ 517,471	\$ 290,582	\$ 1,771,117
At June 30, 2016.....	172,196	139,242	450,378	206,626	525,398	315,385	1,809,225

Additions to property, plant and equipment includes capitalization of interest of \$3.3 million and \$2.5 million for the three months ended June 30, 2016 and 2015, respectively, and includes capitalization of interest of \$6.8 million and \$4.7 million for the six months ended June 30, 2016 and 2015, respectively.

7 Goodwill

The changes in the carrying amount of goodwill are as follows:

	Six months ended June 30, 2016	Year ended December 31, 2015
Opening balance	\$ 670,907	\$ 783,721
Additions through business combinations.....	-	7,759
Impairment	(101,405)	(175,959)
Effect of changes in foreign exchange rates.....	(11,124)	55,386
Closing balance	<u>\$ 558,378</u>	<u>\$ 670,907</u>

On June 30, 2016, the Company reviewed impairment indicators with respect to goodwill and determined that based on a review of actual performance being less than expected in the current period, impairment indicators existed in the U.S. Environmental Services business within the Logistics segment. Accordingly, the Company performed an impairment test with respect to the U.S. Environmental Services business by comparing the fair value less costs of disposal to the carrying value of the operating segment, including goodwill. As a result, it was determined that goodwill in the operating segment was impaired by \$101.4 million. The recoverable amount of goodwill was determined based on a fair value less costs of disposal calculation

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

utilizing earnings before interest, taxes, depreciation and amortization (“EBITDA”). A multiple of 9.6 was applied to the U.S. Environmental Services business EBITDA less corporate expenses using comparable public company multiples and is considered a key assumption in determining the fair value less costs of disposal. The fair value of the U.S Environmental Services business was categorized as Level 2 fair value based on the observables inputs.

8 Loans and Borrowings

Revolving Credit Facility

The Company has established an unsecured revolving credit facility of up to \$500.0 million (the “Revolving Credit Facility”), with a maturity date of August 15, 2020, the proceeds of which are available to provide financing for working capital and other general corporate purposes. In addition, the Company has three demand letter of credit facilities totaling \$150.0 million.

The Revolving Credit Facility 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 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 based on the Company’s total debt leverage ratio.

The Revolving Credit Facility contains certain covenants including financial covenants requiring the Company to maintain ratios of maximum consolidated senior and total debt leverage ratio covenants of no greater than 4.85:1.0 with such threshold decreasing to 4.25:1.0 for the period beginning January 1, 2018 and ending on March 31, 2018, and decreasing thereafter to 4.0:1.0 for total debt leverage ratio and 3.5:1.0 for senior debt leverage ratio. In addition, the Company is also required to maintain a minimum interest coverage ratio of no less than 2.5 to 1.0.

As at June 30, 2016, the Company was in compliance with all covenants under the Revolving Credit Facility. The Company had nil and \$35.0 million drawn against the Revolving Credit Facility as at June 30, 2016 and December 31, 2015, respectively. The Company had issued letters of credit totalling \$31.9 million and \$32.6 million as at June 30, 2016 and December 31, 2015, respectively.

Long-term debt

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
U.S.\$550.0 million 6.75% Notes due July 15, 2021	\$ 715,495	\$ 761,200
\$250.0 million 7.00% Notes due July 15, 2020	250,000	250,000
\$300.0 million 5.375% Notes due July 15, 2022	300,000	300,000
Unamortized issue discount and debt issue costs	(18,240)	(19,777)
Long-term debt: non-current portion	<u>\$ 1,247,255</u>	<u>\$ 1,291,423</u>

The Company’s long-term debt contains non-financial covenants and customary events of default clauses. As of June 30, 2016 the Company was in compliance with all of its covenants.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

Foreign exchange (gain) loss on long-term debt

As a result of the movement in foreign exchange rates, the Company recorded foreign exchange loss (gain), net, on long-term debt as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Foreign exchange loss (gain) on movement in exchange rates on U.S. dollar long-term debt	\$ 2,090	\$ (11,495)	\$ (45,705)	\$ 48,015
Gain on financial instruments relating to long-term debt (note 15)	-	-	-	(9,995)
Foreign exchange loss (gain) on long-term debt.....	<u>\$ 2,090</u>	<u>\$ (11,495)</u>	<u>\$ (45,705)</u>	<u>\$ 38,020</u>

9 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	June 30, 2016	December 31, 2015
Trade payables	\$ 336,508	\$ 322,347
Accrued compensation charges.....	13,475	18,409
Indirect taxes payable	5,349	3,164
Risk management liabilities (note 15)	4,846	5,479
Broker accounts payable	705	-
Defined benefit plan obligations	465	465
Interest payable	38,253	39,251
Due to Hunting plc.....	-	8,585
Other	20,890	21,032
	<u>\$ 420,491</u>	<u>\$ 418,732</u>

10 Convertible debentures

	Liability Component	Equity Component
Balance as at January 1, 2016.....	\$ -	\$ -
\$100.0 million 5.25% Convertible Debentures due July 15, 2021	89,765	10,235
Unamortized issue costs	(3,692)	(324)
Deferred taxes	-	(2,760)
Balance as at June 30, 2016	<u>\$ 86,073</u>	<u>\$ 7,151</u>

The Debentures issued at par, bear interest at a rate of 5.25% per annum, payable semi-annually on July 15 and January 15 in each year commencing January 15, 2017, will mature on July 15, 2021, and may be redeemed, in certain circumstances, on or after July 15, 2019. The Debentures will be convertible at the holder's option into Common Shares at any time prior to the earlier of the Maturity Date and the business day immediately preceding the date fixed for redemption by the Company at a conversion price of \$21.65 per Share (the "Conversion Price"), being a ratio of approximately 46.1894 Shares per \$1,000 principal amount of Debentures. The Debentures are subordinated to the Company's senior indebtedness.

The Debentures have been classified as a liability, net of issue costs and net of the fair value of the conversion feature at the date of issue which has been classified as shareholders' equity. The liability component will accrete up to the principal balance at maturity. The accretion of the liability component and interest payable are expensed in the statement of operations. The fair value of the conversion feature was determined at the time of issuance as the difference between the principal value of the Debentures and the discounted cash flows assuming a 7.8% rate which was the estimated rate for debt with similar terms with no conversion feature. If the Debentures are converted into common shares, a portion of the value of the conversion feature under shareholders' equity and the liability component will be reclassified to shareholders' equity along with the conversion price.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

11 Provisions

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

	Six months ended June 30, 2016	Year ended December 31, 2015
Opening balance	\$ 155,343	\$ 136,347
Settlements.....	(1,724)	(4,247)
Additions	6,372	6,774
Change in estimated future cash flows	-	2,240
Change in discount rate	19,749	8,611
Unwinding of discount	1,674	3,251
Effect of changes in foreign exchange rates	(1,136)	2,367
Closing balance.....	<u>\$ 180,278</u>	<u>\$ 155,343</u>

In order to determine the current provision, the estimated future values were discounted using an average risk-free rate of 1.7% and 2.1% at June 30, 2016 and December 31, 2015, respectively. The provision is expected to be settled up to 40 years into the future.

12 Share capital

	Number of common shares	Share Capital
At January 1, 2016	126,135,566	\$ 1,672,323
Issuance of common shares for cash, net of issue costs and deferred tax	14,892,500	222,772
Issuance of common shares in connection with the equity incentive plan	516,731	-
Reclassification of contributed surplus on issuance of awards under equity incentive plans.....	-	11,701
At June 30, 2016	<u>141,544,797</u>	<u>\$ 1,906,796</u>

On June 2, 2016, the Company completed an offering of 14,892,500 common shares at a price of \$15.45 per common share for net proceeds of \$222.8 million including share issuance costs of \$7.3 million, net of tax of \$2.7 million.

Share based payments

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

	Stock Options		Restricted Share Units	Performance Share Units	Deferred Share Units
	Number of shares	Weighted average exercise price (in dollars)	Number of Shares		
Balance at January 1, 2016	3,317,168	\$ 23.81	610,151	1,027,842	190,950
Granted	-	-	845,877	784,631	126,830
Exercised and released for common shares	-	-	(259,792)	(100,519)	(156,420)
Forfeited.....	(62,780)	\$ 27.14	(32,319)	(179,324)	-
Balance at June 30, 2016	<u>3,254,388</u>	<u>\$ 23.79</u>	<u>1,163,917</u>	<u>1,532,630</u>	<u>161,360</u>
Vested	<u>2,476,492</u>	<u>\$ 22.87</u>	<u>101,524</u>	<u>-</u>	<u>161,360</u>

At June 30, 2016, awards available to grant under the equity incentive plan were approximately 8.0 million.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

Per share amounts

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Weighted average common shares outstanding - basic.	131,121	125,549	128,675	125,222
Dilutive effect of:				
Stock options and other awards	-	-	-	-
Weighted average common shares outstanding - Diluted.....	131,121	125,549	128,675	125,222

The dilutive effect of 4.2 million and 3.0 million stock options and other awards, and potential common stock for the three and six months ended June 30, 2016, and the dilutive effect of 2.2 million and 2.0 million stock options and other awards for the three and six months ended June 30, 2015 has not been included in the determination of the weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net loss per share.

13 Revenue

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Products	\$ 936,843	\$ 1,356,629	\$ 1,678,450	\$ 2,519,560
Services.....	185,655	217,798	403,092	447,209
	<u>\$ 1,122,498</u>	<u>\$ 1,574,427</u>	<u>\$ 2,081,542</u>	<u>\$ 2,966,769</u>

14 Income tax provision (recovery)

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Current	\$ 2,986	\$ 7,000	\$ 9,706	\$ 21,142
Deferred	(24,777)	(7,656)	(39,106)	(15,478)
Income tax (recovery) provision.....	<u>\$ (21,791)</u>	<u>\$ (656)</u>	<u>\$ (29,400)</u>	<u>\$ 5,664</u>
Effective income tax rate	<u>14.0%</u>	<u>8.9%</u>	<u>24.6%</u>	<u>(26.3%)</u>

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

15 Financial instruments

Derivative financial instruments (recurring fair value measurements)

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

	June 30, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Commodity futures	\$ 968	\$ 789	\$ 1,105	\$ 337
Commodity swaps	1,249	755	6,545	3,165
Commodity options	388	132	765	13
Equity swaps.....	-	4,755	-	5,390
Foreign currency forwards.....	-	415	-	398
Foreign currency options	8	-	-	-
Total.....	<u>\$ 2,613</u>	<u>\$ 6,846</u>	<u>\$ 8,415</u>	<u>\$ 9,303</u>
Less non-current portion:				
Commodity futures.....	325	-	-	3,824
Equity swaps.....	-	2,000	-	3,824
	<u>325</u>	<u>2,000</u>	<u>-</u>	<u>3,824</u>
Current portion	<u>\$ 2,288</u>	<u>\$ 4,846</u>	<u>\$ 8,415</u>	<u>\$ 5,479</u>

During the six months ended June 30, 2015, the Company received net cash of \$36.6 million on the settlement of U.S. dollar forward contracts and U.S. dollar options on notional amounts of U.S. \$250.0 million, respectively.

The fair value of financial instrument contracts by fair value hierarchy at June 30, 2016 was:

	Total	Level 1	Level 2	Level 3
Assets from financial instrument contracts				
Commodity futures.....	\$ 968	\$ 968	\$ -	\$ -
Commodity swaps	1,249	-	1,249	-
Commodity options	388	-	388	-
Foreign currency options	8	-	8	-
Total assets	<u>\$ 2,613</u>	<u>\$ 968</u>	<u>\$ 1,645</u>	<u>\$ -</u>
Liabilities from financial instrument contracts				
Commodity futures.....	\$ 789	\$ 789	\$ -	\$ -
Commodity swaps	755	-	755	-
Commodity options	132	-	132	-
Equity swaps.....	4,755	4,755	-	-
Foreign currency forwards	415	-	415	-
Total liabilities.....	<u>\$ 6,846</u>	<u>\$ 5,544</u>	<u>\$ 1,302</u>	<u>\$ -</u>

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2015 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets from financial instrument contracts				
Commodity futures	\$ 1,105	\$ 1,105	\$ -	\$ -
Commodity swaps	6,545	-	6,545	-
Commodity options	765	-	765	-
Total assets	\$ 8,415	\$ 1,105	\$ 7,310	\$ -
Liabilities from financial instrument contracts				
Commodity futures	\$ 337	\$ 337	\$ -	\$ -
Commodity swaps	3,165	-	3,165	-
Commodity options	13	-	13	-
Equity swaps	5,390	5,390	-	-
Foreign currency forwards	398	-	398	-
Total liabilities	\$ 9,303	\$ 5,727	\$ 3,576	\$ -

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

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Cost of sales	\$ 1,395	\$ 5,338	\$ 4,071	\$ 2,516
General and administrative	1,141	1,868	(709)	619
Foreign exchange gain on long-term debt (note 8)	-	-	-	(9,995)
Total	\$ 2,536	\$ 7,206	\$ 3,362	\$ (6,860)

As at June 30, 2016 and December 31, 2015, the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,253.5 million and \$1,235.6 million, respectively.

As at June 30, 2016, the fair value of the Debentures based on period end trading prices on the secondary market (Level 2) was \$101.8 million.

Sensitivity

If the Canadian dollar strengthened or weakened by 5% relative to the U.S. dollar and all other variables, in particular interest rates, remain constant, the impact on net income and equity would be as follows:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
U.S. Dollar Forwards and Options		
Favorable 5% change	\$ 1,141	\$ 3,116
Unfavorable 5% change	(1,164)	(3,069)

The following table summarizes the impact to net income and equity due to a change in fair value of the Company's derivative positions because of fluctuations in commodity prices leaving all other variables constant, in particular foreign currency rates. The Company believes that a 15% volatility in crude oil and NGL related prices is a reasonable assumption.

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Crude oil and NGL related prices		
Favorable 15% change	\$ 7,306	\$ 4,679
Unfavorable 15% change	(5,924)	(3,682)

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

If the Company's share price increased or decreased by 10%, the impact on net income and equity would be as follows:

	June 30,	
	2016	2015
Equity Swaps		
Favorable 10% change	\$ 603	\$ 908
Unfavorable 10% change	(603)	(908)

Set out below is maturity analyses of certain of the Company's financial contractual obligations as at June 30, 2016. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

	On demand or within one year	Between one and five years	After five years	Total
Trade payables and accrued charges, excluding risk management liabilities and interest payable	\$ 377,392	\$ -	\$ -	\$ 377,392
Dividend payable	46,710	-	-	46,710
Long-term debt	-	250,000	1,015,495	1,265,495
Convertible debentures	-	-	100,000	100,000
Interest on long-term debt and convertible notes	86,634	346,534	231,952	665,120
Commodity futures	789	-	-	789
Commodity swaps	755	-	-	755
Commodity options	132	-	-	132
Equity swaps	2,755	2,000	-	4,755
Foreign currency forwards	415	-	-	415
	<u>\$ 515,582</u>	<u>\$ 598,534</u>	<u>\$ 1,347,447</u>	<u>\$ 2,461,563</u>

Capital management

	June 30, 2016	December 31, 2015
Total financial liability borrowings	\$ 1,343,203	\$ 1,291,423
Less: cash and cash equivalents	(242,431)	(82,775)
Net debt	1,100,772	1,208,648
Total share capital	1,906,796	1,672,323
Total capital	<u>\$ 3,007,568</u>	<u>\$ 2,880,971</u>

16 Employee salaries and benefits

Employee salaries and benefits have been expensed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Salaries and wages	\$ 59,958	\$ 72,907	\$ 127,378	\$ 150,123
Post-employment benefits	1,929	2,247	4,050	4,223
Share based compensation	7,490	5,116	10,846	9,582
Termination benefits	125	823	5,820	897
	<u>\$ 69,502</u>	<u>\$ 81,093</u>	<u>\$ 148,094</u>	<u>\$ 164,825</u>

Employee salaries and benefits have been expensed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cost of sales	\$ 57,770	\$ 70,735	\$ 128,324	\$ 144,428
General and administrative	11,732	10,358	19,770	20,397
	<u>\$ 69,502</u>	<u>\$ 81,093</u>	<u>\$ 148,094</u>	<u>\$ 164,825</u>

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

17 Segmental information

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

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

Accounting policies used for segment reporting are consistent with the accounting policies used for the preparation of the Company's consolidated financial statements. Inter-segmental transactions are eliminated upon consolidation and the Company does not recognize margins on inter-segmental transactions. Comparative information has been recast to conform to our current segmented reporting information. No changes were implemented with respect to the consolidated data as a result of the recast.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

Three months ended June 30, 2016

	<u>Infrastructure</u>	<u>Logistics</u>	<u>Wholesale</u>	<u>Industrial Propane</u>	<u>Other</u>	<u>Total</u>
Statement of operations						
Revenue						
External	\$ 45,358	\$ 99,564	\$ 948,427	\$ 27,472	\$ 1,677	\$ 1,122,498
Inter-segmental	23,895	12,012	60,707	27	49	96,690
External and inter-segmental ...	<u>69,253</u>	<u>111,576</u>	<u>1,009,134</u>	<u>27,499</u>	<u>1,726</u>	<u>1,219,188</u>
Segment profit (loss)	\$ 43,864	\$ 3,163	\$ 780	\$ 2,728	\$ (178)	\$ 50,357

Corporate & other reconciling balances

Depreciation of property, plant and equipment	43,701
Amortization of intangible assets	21,061
Impairment of goodwill	101,405
General and administrative	8,142
Stock based compensation	7,490
Corporate foreign exchange loss	911
Interest expense	21,935
Interest income	(441)
Foreign exchange loss on long-term debt	2,090
Net loss before income tax	(155,937)
Income tax recovery	(21,791)
Net loss	<u>\$ (134,146)</u>

Three months ended June 30, 2015

(Restated)

	<u>Infrastructure</u>	<u>Logistics</u>	<u>Wholesale</u>	<u>Industrial Propane</u>	<u>Other</u>	<u>Total</u>
Statement of operations						
Revenue						
External	\$ 40,912	\$ 148,053	\$1,338,546	\$ 33,668	\$ 13,248	\$ 1,574,427
Inter-segmental	26,873	12,838	118,111	27	-	157,849
External and inter-segmental	<u>67,785</u>	<u>160,891</u>	<u>1,456,657</u>	<u>33,695</u>	<u>13,248</u>	<u>1,732,276</u>
Segment profit	\$ 44,479	\$ 21,043	\$ 8,358	\$ 4,247	\$ 3,544	\$ 81,671

Corporate & other reconciling balances

Depreciation of property, plant and equipment	47,902
Amortization of intangible assets	14,105
General and administrative	11,822
Stock based compensation	5,116
Corporate foreign exchange loss	1,833
Interest expense	20,206
Interest income	(421)
Foreign exchange gain on long-term debt	(11,495)
Net loss before income tax	(7,397)
Income tax recovery	(656)
Net loss	<u>\$ (6,741)</u>

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

Six months ended June 30, 2016

	<u>Infrastructure</u>	<u>Logistics</u>	<u>Wholesale</u>	<u>Industrial Propane</u>	<u>Other</u>	<u>Total</u>
Statement of operations						
Revenue						
External	\$ 90,728	\$ 226,506	\$1,676,374	\$ 80,289	\$ 7,645	\$ 2,081,542
Inter-segmental	50,148	25,119	118,533	109	107	194,016
External and inter-segmental ...	<u>140,876</u>	<u>251,625</u>	<u>1,794,907</u>	<u>80,398</u>	<u>7,752</u>	<u>2,275,558</u>
Segment profit.....	<u>\$ 92,225</u>	<u>\$ 12,846</u>	<u>\$ 5,945</u>	<u>\$ 19,202</u>	<u>\$ 360</u>	<u>\$ 130,578</u>

Corporate & other reconciling balances

Depreciation of property, plant and equipment	87,454
Amortization of intangible assets	32,961
Impairment of goodwill	101,405
General and administrative	20,164
Stock based compensation.....	10,846
Corporate foreign exchange loss	1,713
Interest expense	41,742
Interest income	(565)
Foreign exchange gain on long-term debt	(45,705)
Net loss before income tax	(119,437)
Income tax recovery	(29,400)
Net loss	<u>\$ (90,037)</u>

Six months ended June 30, 2015

(Restated)

	<u>Infrastructure</u>	<u>Logistics</u>	<u>Wholesale</u>	<u>Industrial Propane</u>	<u>Other</u>	<u>Total</u>
Statement of operations						
Revenue						
External	\$ 81,999	\$ 319,494	\$2,438,399	\$ 106,513	\$ 20,364	\$ 2,966,769
Inter-segmental	51,253	28,565	212,089	86	-	292,003
External and inter-segmental ...	<u>133,262</u>	<u>348,059</u>	<u>2,650,488</u>	<u>106,599</u>	<u>20,364</u>	<u>3,258,772</u>
Segment profit.....	<u>\$ 87,997</u>	<u>\$ 49,828</u>	<u>\$ 39,287</u>	<u>\$ 23,640</u>	<u>\$ 3,705</u>	<u>\$ 204,457</u>

Corporate & other reconciling balances

Depreciation of property, plant and equipment	92,059
Amortization of intangible assets	28,318
General and administrative	20,382
Stock based compensation.....	9,582
Corporate foreign exchange gain.....	(2,492)
Interest expense	40,668
Interest income	(503)
Foreign exchange loss on long-term debt	38,020
Net loss before income tax	(21,577)
Income tax expense	5,664
Net loss	<u>\$ (27,241)</u>

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

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

	Six months ended June 30			
	2016		2015 (Restated)	
	Property, plant and equipment	Intangible Assets	Property, plant and equipment	Intangible Assets
Infrastructure.....	\$ 110,537	\$ 1,590	\$ 135,145	\$ 1,225
Logistics.....	5,591	1,236	30,715	3,570
Wholesale.....	-	70	68	37
Industrial Propane	2,464	389	3,586	-
Corporate & other	598	2,103	2,379	6,256
	<u>\$ 119,190</u>	<u>\$ 5,388</u>	<u>\$ 171,893</u>	<u>\$ 11,088</u>

Geographic data

Based on the location of the end user, approximately 21% and 24% of revenue was from customers in the United States for the three and six months ended June 30, 2016, respectively, and approximately 17% and 18% for the three and six months ended June 30, 2015, respectively.

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with 16% and 22% in the United States at June 30, 2016 and December 31, 2015, respectively.

18 Subsequent Events

On August 2, 2016, the Company announced that the Board declared a quarterly dividend of \$0.33 per common share for the three months ended September 30, 2016 on its outstanding common shares. The common share dividend is payable on October 17, 2016 to shareholders of record at the close of business on September 30, 2016.