



## 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 November 1, 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 and nine months ended September 30, 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 September 30, 2016, its results of operations for the three and nine months ended September 30, 2016 and 2015, and its cash flows for the three and nine months ended September 30, 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, 2016. 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 and nine months ended September 30, 2016:

- Adjusted EBITDA for the three months ended September 30, 2016 decreased by 34% to \$62.6 million compared to \$95.1 million in the three months ended September 30, 2015. Adjusted EBITDA for the nine months ended September 30, 2016 decreased by 37% to \$180.9 million compared to \$285.3 million in the nine months ended September 30, 2015;
- Pro Forma Adjusted EBITDA for the twelve months ended September 30, 2016 was \$281.9 million, a decline of 32% from the twelve months ended September 30, 2015;
- Segment profit decreased by 35% to \$66.5 million in the three months ended September 30, 2016 compared to \$102.2 million in the three months ended September 30, 2015. Segment profit decreased by 36% to \$197.1 million in the nine months ended September 30, 2016 compared to \$306.7 million in the nine months ended September 30, 2015;
- Revenue decreased by 11% and 24% in the three and nine months ended September 30, 2016, respectively, compared to the three and nine months ended September 30, 2015. The decrease was primarily driven by lower product revenue as a result of lower commodity prices and lower service revenues;
- In the nine months ended September 30, 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 third quarter of 2016. Total dividends declared were \$46.7 million and \$135.2 million in the three and nine months ended September 30, 2016, representing a 16% and 12% increase over the \$40.4 million and \$120.6 million declared in the three and nine months ended September 30, 2015. For the twelve months ended September 30, 2016, distributable cash flow was \$127.9 million resulting in a dividend payout ratio of 137%;
- Capital expenditures were \$189.6 million for the nine months ended September 30, 2016, of which \$168.9 million related to growth capital. Growth capital expenditures of \$151.8 million within the Infrastructure segment were primarily related to the construction of tankage and pipeline connections at the Hardisty and Edmonton terminals. At September 30, 2016, the Company had capital expenditures totaling \$287.2 million included in work in progress;
- 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 June 2, 2016, the Company completed an offering of 14,892,500 common shares at a price of \$15.45 per common share for net proceeds of \$220.1 million and \$100.0 million aggregate principal amount of unsecured subordinated convertible debentures ("the Debentures") at a price of \$1,000 per debenture for net proceeds of \$96.3 million. The Debentures were issued at par, may be redeemed, in certain circumstances, on or after July 15, 2019, and are subordinated to the Company's senior indebtedness. A portion of the net proceeds was used to initially repay bank indebtedness. The Company plans to use the remaining proceeds to fund its previously announced 2016 and 2017 growth capital program and for general corporate purposes;
- On July 20, 2016, the Company announced that it has engaged a financial advisor to assist with the potential sale of its Industrial Propane business. While there is no assurance that a transaction will be completed, the Company anticipates it would use the net sales proceeds from this potential divestiture for growth opportunities within the Infrastructure business, debt reduction and general corporate purposes;
- On September 1, 2016 the Company successfully commissioned 500,000 barrels of storage capacity associated with the Hardisty East Terminal expansion project; and
- On September 6, 2016, the Company announced it has received committed customer support for the construction of two new 400,000 barrel crude oil storage tanks and related pipeline connection infrastructure at the Company's Edmonton Terminal. The new tanks, which are expected to be in-service by the second quarter of 2018, are underpinned by a long-term, take-or-pay contract with a large, integrated, investment grade customer.

In October 2016, the Company successfully commissioned all the assets associated with the Hardisty East Terminal and the Edmonton West Terminal expansion projects, thereby increasing the storage, blending, and handling capabilities of the Hardisty East Terminal by 1,500,000 barrels and the Edmonton Terminal by 300,000 barrels.

On November 1, 2016, the Company successfully commissioned all the assets associated with the Hardisty West Terminal expansion projects, thereby increasing the storage, blending, and handling capabilities of the Hardisty Terminal by 900,000 barrels.



On November 1, 2016, the Board of Directors (“Board”) declared a quarterly dividend of \$0.33 per common share for the three months ended December 31, 2016 on its outstanding common shares. The dividend is payable on January 17, 2017, to shareholders of record at the close of business on December 30, 2016.

### **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 Gibsons’ 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 had 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 and volatility in crude oil prices has caused many North American oil producers, who form a significant part of Gibsons’ customer base, to lower their capital spending plans. The very recent firming of crude prices, combined with suggestions that OPEC will take some near-term actions to limit supply, have resulted in a modest reversal of this trend, with some increases in capital programs being announced over the last quarter. Direct impacts on activity levels will lag the increased spending programs; therefore, this is expected to continue to negatively impact North American production over the near-term. Over the medium-term, as crude oil supply and demand rebalances and crude oil prices realign with global cost structures, the Company anticipates a slow 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 terminalling services and diluent in the Western Canada Sedimentary Basin (the “WCSB”). This should result in increased demand for terminalling services and movements of diluent through the Hardisty, 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, necessitate demand for terminalling services and crude by rail as a solution for export market access. While recent crude oil prices have negatively impacted the economics of this transportation alternative, the Company expects that if oil prices rise or when 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 and Trans Mountain Expansion pipeline projects are crucial initiatives that should help provide the growing supply of Canadian crude oil with access to the large refining markets in the United States, Eastern Canada and other foreign markets. The denial of the 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, both of which would originate 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 proposed 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 remained 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 NGLs in North America related to higher liquids rich natural gas development has resulted in declining propane and butane prices in North America;
- Fluctuations 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 increased volumes of crude oil to access tidewater export locations. Gibsons' U.S. presence and extensive footprint offer an important growth platform that should prove advantageous to the Company's North America-wide core midstream infrastructure development plan;
- The 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 increased 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 within the industry which should further enhance the viability and resilience of the specific basins Gibsons has strategically chosen to operate in;
- 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; and
- Over the medium to long-term, the Company anticipates the continued raising of equity within our customer base to both repair balance sheets and to fund potential growth opportunities which appears to signal more optimism about the future.

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 expenditures (in thousands):

	Nine months ended September 30	
	2016	2015
Growth capital .....	\$ 168,951	\$ 259,268
Upgrade and replacement capital .....	20,676	37,470
	\$ 189,627	\$ 296,738

Total expenditures for growth and upgrade and replacement capital were \$189.6 million and \$296.7 million in the nine months ended September 30, 2016 and 2015, respectively. In the nine months ended September 30, 2016 and 2015, \$183.0 million and \$284.0 million, respectively, were included as additions to property, plant and equipment and \$6.6 million and \$12.7 million, respectively, were included as additions to intangible assets.

*Growth capital*

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

	Nine months ended September 30	
	2016	2015
Infrastructure <sup>(1)</sup> .....	\$ 151,871	\$ 221,855
Logistics <sup>(2)</sup> .....	2,964	28,298
Wholesale <sup>(3)</sup> .....	11,423	7
Industrial Propane .....	736	1,729
Other and corporate .....	1,957	7,379
Total .....	\$ 168,951	\$ 259,268

(1) Expenditures in the nine months ended September 30, 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 nine months ended September 30, 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 Processing Recovery and Disposal ("PRD") facilities in both Canada and the United States.

- (2) Expenditures in the nine months ended September 30, 2016 largely represent Edmonton land site preparation costs and the addition of rolling stock. Expenditures in the nine months ended September 30, 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 nine months ended September 30, 2016 largely represent the costs for additional line-fill and tank bottoms.

#### *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 45% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 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 within the Logistics segment 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. Demand for propane and other NGL's is also highest in the colder months of the year. As a result, the Company's Wholesale segment's sales of road asphalt peak in the summer and sales of wellsite fluids and propane and other NGL's 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 and nine months ended September 30, 2016 and 2015 and the following table sets forth revenue and profit/(loss) by segment for those periods:

	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(in thousands)			
<b>Segment revenue</b>				
Infrastructure.....	\$ 73,816	\$ 68,114	\$ 214,692	\$ 201,376
Logistics.....	128,520	174,642	380,145	522,701
Wholesale .....	1,070,247	1,205,246	2,865,154	3,855,734
Industrial Propane .....	27,207	30,003	107,605	136,602
Other .....	1,881	10,324	9,633	30,688
Total segment revenue .....	<u>1,301,671</u>	<u>1,488,329</u>	<u>3,577,229</u>	<u>4,747,101</u>
Revenue—inter-segmental.....	(95,742)	(139,339)	(289,758)	(431,342)
Total revenue—external.....	<u>1,205,929</u>	<u>1,348,990</u>	<u>3,287,471</u>	<u>4,315,759</u>
<b>Segment profit (loss)</b>				
Infrastructure.....	51,811	43,044	144,036	131,041
Logistics.....	12,045	22,269	24,891	72,097
Wholesale .....	1,259	33,094	7,204	72,381
Industrial Propane .....	1,872	2,938	21,074	26,578
Other .....	(479)	857	(119)	4,562
Total segment profit.....	<u>66,508</u>	<u>102,202</u>	<u>197,086</u>	<u>306,659</u>
General and administrative .....	6,372	8,397	26,536	28,779
Depreciation.....	45,084	45,942	132,538	138,001
Amortization .....	31,692	15,068	64,653	43,386
Impairment of goodwill .....	-	-	101,405	-
Stock based compensation .....	6,858	5,135	17,704	14,717
Foreign exchange loss (gain) .....	6,210	49,466	(37,782)	84,994
Net interest expense .....	21,032	19,451	62,209	59,616
Loss before income tax .....	<u>(50,740)</u>	<u>(41,257)</u>	<u>(170,177)</u>	<u>(62,834)</u>
Income tax (recovery) provision .....	<u>(17,870)</u>	<u>(62)</u>	<u>(47,270)</u>	<u>5,602</u>
Net loss .....	<u>\$ (32,870)</u>	<u>\$ (41,195)</u>	<u>\$ (122,907)</u>	<u>\$ (68,436)</u>

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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
<b>Terminals</b>				
Hardisty Terminal .....	53,850	53,917	154,897	153,390
Edmonton Terminal.....	4,195	4,038	11,501	10,966
Moose Jaw Facility.....	1,539	1,398	3,552	4,028
PRD Terminals.....	2,691	3,719	7,702	11,563
Injection stations .....	7,831	10,472	25,891	30,418
Total terminals.....	70,106	73,544	203,543	210,365
	(in thousands)			
	2016	2015	2016	2015
Revenue .....	\$ 73,816	\$ 68,114	\$ 214,692	\$ 201,376
Operating expenses and other .....	22,005	25,070	70,656	70,335
Segment profit.....	\$ 51,811	\$ 43,044	\$ 144,036	\$ 131,041

**Three months ended September 30, 2016 and 2015.**

*Volumes, revenue and cost of sales.* Hardisty Terminal volumes were relatively consistent in the three months ended September 30, 2016 compared to the three months ended September 30, 2015. Revenue at the Hardisty Terminal increased by \$4.6 million in the three months ended September 30, 2016 compared to the three months ended September 30, 2015, largely driven by the impact of the tanks commissioned in the fourth quarter of 2015 and the first three quarters of 2016 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 and associated service enhancement activities related to the twinning of the Cold Lake and Athabasca pipeline connections to the Hardisty Terminal, as well as additional storage capacity added in the current year period.

Edmonton Terminal volumes increased by 4% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 mainly due to an increase in diesel receipt volumes, from a customer that is subject to minimum volume charges, and by 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 September 30, 2016 compared to the three months ended September 30, 2015 primarily due to the impact of the additional revenue on the commissioning of the Edmonton East Terminal expansion.

Moose Jaw volumes increased by 10% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to the higher inventory processing requirements in the current year period after the extended turnaround in the prior quarter. As a result, revenue increased by \$0.3 million in the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

PRD volumes decreased by 28% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015, largely due to lower volumes processed at the Company's facilities that were driven by lower overall drilling activity. As a result, revenue decreased by \$2.6 million in the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Injection station volumes decreased 25% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to a decrease in activity with a major customer. Revenue decreased by \$0.7 million in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to the decrease in volumes.

*Operating expenses and other.* Operating expenses and other decreased by \$3.1 million in the three months ended September 30, 2016 compared to the three months ended September 30, 2015, primarily due to lower overall operating costs related to environmental remediation, payroll and repairs and maintenance.

*Segment profit.* Segment profit increased by \$8.8 million, or 20%, in the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase was primarily due to the continued expansion of the Company's Hardisty and Edmonton terminals and lower operating expenses and other.



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*Nine months ended September 30, 2016 and 2015.*

*Volumes, revenue and cost of sales.* Hardisty Terminal volumes increased by 1% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, primarily due to increased throughput volumes from customers with dedicated tank usage, partially offset by the operational impact of the Fort McMurray forest fire on customers in the second quarter of 2016. Revenue at the Hardisty Terminal increased by \$14.9 million in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increase was largely driven by the impact of the tanks commissioned in the fourth quarter of 2015, and the first three quarters of 2016 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 and associated service enhancement activities related to the twinning of the Cold Lake and Athabasca pipeline connections to the Hardisty Terminal.

Edmonton Terminal volumes increased by 5% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 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 \$12.9 million in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to the impact of the additional revenue from the commissioning of the Edmonton East Terminal expansion.

Moose Jaw volumes decreased by 12% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to the impact of a longer plant turnaround time compared to the prior year period. As a result, revenue decreased by \$0.9 million in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

PRD volumes decreased by 33% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, largely due to lower volumes processed at the Company's facilities as a result of lower overall drilling activity. As a result, revenue decreased by \$12.5 million in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

Injection station volumes decreased by 15% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 due to a decrease in activity with a major customer. As a result, revenue decreased \$1.1 million in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

*Operating expenses and other.* Operating expenses and other increased by \$0.3 million in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, primarily due to higher overall operating costs from the expansion of the Company's terminals, increased costs related to the extended plant turnaround at Moose Jaw and also due to environmental remediation costs incurred in the current year period. These costs were primarily offset by lower payroll related costs and repairs and maintenance costs.

*Segment profit.* Segment profit increased by \$13.0 million, or 10%, in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increase was primarily due to the continued expansion of the Company's Hardisty and Edmonton terminals, partially offset by slightly higher operating costs and the impact of the extended plant turnaround at the Moose Jaw facility.





**Logistics**

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

Volumes (barrels in thousands)	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Crude and other products .....	20,338	24,336	61,321	75,278

  

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
(in thousands)				
<b>Revenues</b>				
Crude and other product hauling.....	\$ 70,767	\$ 90,093	\$ 209,287	\$ 294,660
Water hauling and disposal.....	26,153	39,955	79,416	104,635
Other products and services.....	31,600	44,594	91,442	123,406
Total revenues.....	128,520	174,642	380,145	522,701
Cost of sales.....	91,070	120,729	275,926	353,896
Operating expenses and other .....	25,405	31,644	79,328	96,708
Segment profit.....	\$ 12,045	\$ 22,269	\$ 24,891	\$ 72,097

**Three months ended September 30, 2016 and 2015.**

*Volumes, revenue and cost of sales.* Crude and other product hauling barrels hauled decreased by 16% in the three months ended September 30, 2016 compared to the three months ended September 30, 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 21% in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 mainly due to the impact of the lower overall volumes, but also the impact of lower hauling rates in certain of the Company's areas.

Water hauling and disposal revenue decreased by 35% in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily driven by the impact of a reduction in oilfield drilling and completion activity and increased competition for production related volumes.

Other products and services revenue decreased by 29% in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily driven by lower overall activity in the Bakken and Eagleford regions of the United States.

The overall decrease in revenue was also impacted by the unfavorable 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 25% in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The decrease was primarily due to the decline in total revenue, and to the favorable impact of translating costs denominated in U.S. dollars.

*Operating expenses and other.* Operating expenses and other decreased by \$6.2 million in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, mainly due to a decrease in payroll related costs as a result of overall headcount reductions and the favorable impact of translating operating costs denominated in U.S. dollars.

*Segment profit.* Segment profit decreased by \$10.2 million in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, largely due to the decline in revenue, offset in part by a decrease in overall operating expenses.



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***Nine months ended September 30, 2016 and 2015.***

*Volumes, revenue and cost of sales.* Crude and other product hauling barrels hauled decreased by 19% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 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, as well as the operational impact of the Fort McMurray fires on customers. Crude and other product hauling revenue decreased by 29% in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 mainly due to the impact of the lower overall volumes, but also the impact of lower hauling rates in certain of the Company's areas.

Water hauling and disposal revenue decreased by 24% in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 primarily driven by the impact of a reduction in oilfield drilling and completion activity and increased competition for production related volumes, partially offset by additional revenue from the acquisition of T&R Transportation in Q3 2015.

Other products and services revenue decreased by 26% in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 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 22% in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 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 expenses and other decreased by \$17.4 million in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 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 \$47.2 million in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Crude and diluent.....	27,049	28,377	74,215	82,483
Propane and other NGL .....	1,994	2,193	8,081	7,825
Refined products.....	924	1,037	2,742	2,617
	<u>29,967</u>	<u>31,607</u>	<u>85,038</u>	<u>92,925</u>

  

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
	(in thousands)			
<b>Revenues</b>				
Crude and diluent.....	\$ 926,066	\$ 1,034,542	\$ 2,391,795	\$ 3,289,352
Propane and other NGL .....	72,293	77,842	274,887	332,711
Refined products.....	71,888	92,862	198,472	233,671
Total revenues.....	<u>1,070,247</u>	<u>1,205,246</u>	<u>2,865,154</u>	<u>3,855,734</u>
Cost of sales.....	1,063,619	1,169,203	2,838,436	3,771,148
Operating expenses and other .....	5,369	2,949	19,514	12,205
Segment profit.....	<u>\$ 1,259</u>	<u>\$ 33,094</u>	<u>\$ 7,204</u>	<u>\$ 72,381</u>

**Three months ended September 30, 2016 and 2015.**

*Volumes, revenue and cost of sales.* Sales volumes for crude and diluent decreased by 5% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to a decrease in market opportunities in the current year period. Revenue decreased by 10% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to lower crude oil prices and lower volumes.

Propane and other NGL volumes decreased by 9% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 driven by lower demand by certain customers. Propane and other NGL revenues decreased by 7% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to lower volumes, partially offset by higher pricing related to certain other NGL's during the quarter.

Sales volumes for refined products decreased by 11% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to lower demand for road asphalt. The decline in asphalt volumes was due to the continued impact of an extended plant turnaround at Moose Jaw that resulted in lower product available for sale and adverse wet weather conditions which delayed or prevented certain paving jobs from being completed. Refined products revenue decreased by 23% in the three months ended September 30, 2016 compared to three months ended September 30, 2015 mainly due to the reduction in road asphalt volumes. Overall revenue was also impacted by lower crude oil prices in the current period.

Cost of sales decreased by 9% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 mainly due to the impact of lower crude oil, asphalt and other commodity revenues.

*Operating expenses and other.* Operating expenses and other increased by \$2.4 million in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to the impact of a foreign exchange gain of \$3.8 million recorded during the three months ended September 30, 2015. Thus, the increase compared to the prior year is due to the absence of the gain in the current period partially offset by a reduction in payroll related and administration costs in the current year period.

*Segment profit.* Segment profit decreased by \$31.8 million in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, primarily due to decreased overall margins for crude oil, asphalt and other commodities and due to higher operating expenses and other.



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***Nine months ended September 30, 2016 and 2015.***

*Volumes, revenue and cost of sales.* Sales volumes for crude and diluent decreased by 10% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 due to a decrease in market opportunities in the current year period and the impact of lower available volumes as a result of the Fort McMurray fires in the current period. Revenue decreased by 27% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 due to lower crude oil prices and lower volumes.

Propane and other NGL volumes increased by 3% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 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 in the first quarter of the year. Despite the increase in volumes, Propane and other NGL revenues decreased by 17% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 due to lower commodity prices during the current year period.

Sales volumes for refined products increased by 5% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 due to higher demand for CVGO partially offset by lower demand for frac oils, distillates and road asphalt. The decline in asphalt volumes was due to the impact of an extended plant turnaround at Moose Jaw that resulted in lower product available for sale, government elections which delayed seasonal asphalt nominations, and adverse wet weather conditions which delayed or prevented certain paving jobs from being completed. Refined products revenue decreased by 15% in the nine months ended September 30, 2016 compared to nine months ended September 30, 2015 mainly due to lower revenue from frac oils, distillates, road asphalt and roofing flux. Overall revenue was also impacted by lower crude oil prices in the current period, partially offset by the impact of additional sales of CVGO.

Cost of sales decreased by 25% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 mainly due to the impact of lower crude oil, asphalt and other commodity revenues.

*Operating expenses and other.* Operating expenses and other increased by \$7.3 million in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. Operating expenses and other were reduced by a large foreign exchange gain of \$9.9 million recorded during the nine months ended September 30, 2015. Thus, the increase compared to the prior year is due to the absence of the gain in the current period, partially offset by the reduction in payroll related and administration costs.

*Segment profit.* Segment profit decreased by \$65.2 million in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015, primarily due to decreased overall margins for crude oil, asphalt and other commodities, the impact of the extended plant turnaround at Moose Jaw and due to higher operating expenses and other.



## Industrial Propane

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

Volumes (liters in thousands)	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Oilfield .....	35,990	53,458	121,378	187,503
Commercial.....	13,101	16,183	91,839	107,990
Other .....	23,296	21,899	73,570	75,757
	<u>72,387</u>	<u>91,540</u>	<u>286,787</u>	<u>371,250</u>

  

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
	(in thousands)			
<b>Revenues</b>				
Propane .....	\$ 22,219	\$ 24,219	\$ 88,750	\$ 115,207
Other .....	4,988	5,784	18,855	21,395
Total revenues.....	<u>27,207</u>	<u>30,003</u>	<u>107,605</u>	<u>136,602</u>
Cost of sales.....	10,811	10,316	39,234	54,729
Operating expenses and other .....	14,524	16,749	47,297	55,295
Segment profit.....	<u>\$ 1,872</u>	<u>\$ 2,938</u>	<u>\$ 21,074</u>	<u>\$ 26,578</u>

### Three months ended September 30, 2016 and 2015.

*Volumes, revenue and cost of sales.* Industrial propane volumes decreased by 21% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 as a result of lower overall oilfield activity.

As a result of the decrease in volumes, industrial propane revenues decreased by 8% in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, partially offset by an increase in propane prices. Other revenue relates to equipment sales, service labour and rental and delivery charges. Other revenue decreased by 14% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Cost of sales decreased 5% in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily driven by the impact of lower volumes.

*Operating expenses and other.* Operating expenses and other decreased by \$2.2 million in the three months ended September 30, 2016 compared to the three months ended September 30, 2015, primarily due to lower payroll related costs as a result of lower overall headcount.

*Segment profit.* Segment profit decreased by \$1.1 million in the three months ended September 30, 2016, compared to the three months ended September 30, 2015 largely as a result of lower revenues, partially offset by lower operating expenses.

### Nine months ended September 30, 2016 and 2015.

*Volumes, revenue and cost of sales.* Industrial propane volumes decreased by 23% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 as a result of lower overall oilfield activity and also due to the overall impact of warmer weather patterns experienced in Western Canada.

As a result of the decrease in volumes, industrial propane revenues decreased by 23% in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. Other revenue relates to equipment sales, service labour and rental and delivery charges. Other revenue decreased by 12% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

Cost of sales decreased 28% in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily driven by the impact of lower volumes and price levels.

*Operating expenses and other.* Operating expenses and other decreased by \$8.0 million in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, primarily due to lower payroll related costs as a result of lower overall headcount, and lower repairs and maintenance costs incurred.

*Segment profit.* Segment profit decreased by \$5.5 million in the nine months ended September 30, 2016 compared to the nine months ended September 30, 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:

	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(in thousands)			
Revenue .....	\$ 1,881	\$ 10,324	\$ 9,633	\$ 30,688
Cost of sales .....	2,215	8,796	9,426	24,728
Operating expenses and other .....	145	671	326	1,398
Segment profit (loss) .....	<u>\$ (479)</u>	<u>\$ 857</u>	<u>\$ (119)</u>	<u>\$ 4,562</u>

**Three months ended September 30, 2016 and 2015.**

*Revenue and cost of sales.* Revenue decreased by 82% in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The overall decrease was due to a reduction in overall oil and gas activity in the basins that the Company services and due to the unfavorable 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 75% in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The decrease was primarily driven by the decline in revenue and the impact of lower direct labour and materials costs, as well as the favorable impact of translating costs denominated in U.S. dollars.

*Operating expenses and other.* Operating expenses and other decreased by \$0.5 million in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, mainly due to gains on the sale of certain assets and a reduction in payroll related costs in the current period, and by the favorable impact of translating operating costs denominated in U.S. dollars.

*Segment profit (loss).* Segment profit decreased by \$1.3 million in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, largely due to the impact of lower revenues, partially offset by lower operating expenses.

**Nine months ended September 30, 2016 and 2015.**

*Revenue and cost of sales.* Revenue decreased by 69% in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. The decrease was due to a reduction in overall oil and gas activity in the basins that the Company services. The 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 62% in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. The decrease was primarily driven by the decline in revenue and 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 expenses and other decreased by \$1.1 million in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015, mainly due to gains on the sale of certain assets and a reduction in payroll related costs partially offset by 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 (loss).* Segment profit decreased by \$4.7 million in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015, largely due to the impact of lower revenue, partially offset by lower operating expenses.



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### **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 \$6.4 million and \$26.5 million in the three and nine months ended September 30, 2016, compared to \$8.4 million and \$28.8 million in the three and nine months ended September 30, 2015. G&A expense was lower in the three months ended September 30, 2016 primarily due to lower payroll related costs as a result of lower overall headcount as well as a reduction in losses on equity financial instruments of \$1.4 million. During the nine months ended September 30, 2016 the incurrence of severance costs of \$5.7 million as a result of a headcount rationalization review, was largely offset by a reduction in losses on equity financial instruments of \$2.1 million and lower payroll related costs as a result of lower overall headcount.

### **Depreciation**

Depreciation expense in the three and nine months ended September 30, 2016 was \$45.1 million and \$132.5 million, respectively, compared to \$45.9 million and \$138.0 million, respectively, in the three and nine months ended September 30, 2015. The decrease was primarily due to the impact of asset disposals, assets reaching the end of depreciable lives and impairment charges recorded in 2015, partially offset by additional depreciation on asset additions.

### **Amortization**

Amortization expense was \$31.7 million and \$64.7 million, respectively, in the three and nine months ended September 30, 2016 compared to \$15.1 million and \$43.4 million, respectively, in the three and nine months ended September 30, 2015. The increase was largely due to the revision completed in the prior year of useful lives of certain intangible assets within the Company’s Logistics segment.

### **Impairment of goodwill**

During the second quarter of 2016, the Company completed a review of impairment indicators with respect to goodwill and it was determined that impairment indicators were present within the Company’s U.S. Environmental Services business. As a result of the review, it was determined that the recoverable value of the business was less than the carrying value and therefore an impairment loss was recorded. Accordingly, in the nine months ended September 30, 2016 a goodwill impairment loss of \$101.4 million was recorded within the Logistics segment.

### **Stock based compensation**

Stock based compensation expense was \$6.8 million and \$17.7 million, respectively, in the three and nine months ended September 30, 2016, compared to \$5.1 million and \$14.7 million, respectively, in the three and nine months ended September 30, 2015. The increase was primarily driven by additional expense from the granting of stock awards in the three and nine months ended September 30, 2016, partially offset by the impact of the forfeitures of performance share units.

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

In the three and nine months ended September 30, 2016, the Company recorded a foreign exchange loss of \$6.2 million and foreign exchange gain of \$37.8 million, respectively, compared to a loss of \$49.5 million in the three months ended September 30, 2015 and a loss of \$84.9 million in the nine months ended September 30, 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 September 30, 2016, a loss of \$5.9 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 \$50.6 million in the three months ended September 30, 2015.

In the nine months ended September 30, 2016, a gain of \$39.8 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 \$98.6 million in the nine months ended September 30, 2015. In the nine months ended September 30, 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 nine months ended September 30, 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 \$21.0 million and \$62.2 million, respectively, in the three and nine months ended September 30, 2016, compared to \$19.5 million and \$59.6 million, respectively, in the three and nine months ended September 30, 2015. The increase for the three months ended September 30, 2016 was primarily due to the additional interest costs incurred as a result of the Debenture issuance in Q2 2016, partially offset by higher capitalized interest amounts related to our long-term capital projects. The increase for the nine months ended September 30, 2016 was primarily due to higher interest costs related to drawing on the revolving line of credit in the current period and the issuance of Debentures, partially offset by higher capitalized interest amounts related to our long-term capital projects.

**Income tax provision (recovery)**

Income tax recovery was \$17.9 million and \$47.3 million, respectively, in the three and nine months ended September 30, 2016 compared to an income tax recovery of \$0.1 million in the three months ended September 30, 2015 and an income tax provision of \$5.6 million in the nine months ended September 30, 2015. The effective tax rate was 35.2% and 27.8% during the three and nine months ended September 30, 2016 compared to 0.2% and negative 8.9%, respectively, in the three and nine months ended September 30, 2015. The main driver for the income tax recovery and the change in the effective rate was the higher loss before income tax in the current year period compared to the same period in the prior year, and the impact of unrealized amounts relating to the net capital gains arising from foreign exchange movements on the Company’s U.S. dollar denominated long-term debt, partially offset by the impact of non-deductible amounts relating to the impairment of goodwill recorded during three months ended September 30, 2016. For the three and nine month period ended September 30 2015, as a result of the increase in the Alberta corporate tax rate, the income tax amount includes a \$6.7 million charge relating to the impact of the higher tax rate on the valuation of the Company’s net deferred tax liabilities. Also, income tax expense in the nine months ended September 30, 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 in the first quarter of 2015.

**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	
	September 30	June 30	March 31	December 31	September 30	June 30	March 31	December 31	
Revenue .....	\$1,205,929	\$1,122,498	\$959,044	\$1,276,223	\$1,348,990	\$1,574,427	\$1,392,342	\$1,976,465	
Net income (loss) .....	(32,870)	(134,146)	44,109	(212,220)	(41,195)	(6,741)	(20,500)	13,406	
EBITDA <sup>(1)</sup> .....	47,452	(69,240)	111,960	(103,464)	39,224	74,816	64,652	100,001	
Adjusted EBITDA <sup>(2)</sup> .....	62,563	44,281	74,054	100,961	95,107	75,643	114,573	119,302	
Earnings (loss) per share									
Basic .....	(0.23)	(1.02)	0.35	(1.69)	(0.33)	(0.05)	(0.16)	0.10	
Diluted .....	(0.23)	(1.02)	0.34	(1.69)	(0.33)	(0.05)	(0.16)	0.10	

(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, Debentures 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
	September 30	June 30	March 31	December 31	September 30	June 30	March 31	December 31
Net income (loss).....	\$ (32,870)	\$ (134,146)	\$ 44,109	\$ (212,220)	\$ (41,195)	\$ (6,741)	\$ (20,500)	\$ 13,406
Depreciation and amortization.....	76,776	64,762	55,653	101,605	61,010	62,007	58,370	58,338
Interest expense .....	21,416	21,935	19,807	19,441	19,471	20,206	20,462	19,831
Income tax expense (recovery) .....	(17,870)	(21,791)	(7,609)	(12,290)	(62)	(656)	6,320	8,426
EBITDA .....	\$ 47,452	\$ (69,240)	\$ 111,960	\$ (103,464)	\$ 39,224	\$ 74,816	\$ 64,652	\$ 100,001

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 September 30, 2016 and 2015:

	Three months ended				Twelve months ended
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2016
	(in thousands)				
EBITDA.....	\$ 47,452	\$ (69,240)	\$ 111,960	\$ (103,464)	\$ (13,292)
Unrealized foreign exchange loss (gain) on long-term debt <sup>(1)</sup> ....	5,940	2,090	(47,795)	24,530	(15,235)
Net unrealized loss (gain) from financial instruments <sup>(2)</sup> .....	2,313	2,536	826	(1,726)	3,949
Stock based compensation <sup>(3)</sup> .....	6,858	7,490	3,356	5,662	23,366
Impairment of goodwill <sup>(4)</sup> .....	-	101,405	-	175,959	277,364
Severance costs <sup>(5)</sup> .....	-	-	5,696	-	5,696
Adjusted EBITDA .....	<u>\$ 62,563</u>	<u>\$ 44,281</u>	<u>\$ 74,043</u>	<u>\$ 100,961</u>	<u>\$ 281,848</u>
Pro forma impact of acquisitions <sup>(6)</sup> .....					-
Pro Forma Adjusted EBITDA.....					<u>\$ 281,848</u>

	Three months ended				Twelve months ended
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2015
	(in thousands)				
EBITDA.....	\$ 39,224	\$ 74,816	\$ 64,652	\$ 100,001	\$ 278,693
Unrealized foreign exchange loss (gain) on long-term debt <sup>(1)</sup> ....	50,600	(11,495)	59,510	21,615	120,230
Net unrealized loss (gain) from financial instruments <sup>(2)</sup> .....	82	7,206	(14,066)	(6,141)	(12,919)
Stock based compensation <sup>(3)</sup> .....	5,135	5,116	4,466	3,827	18,544
Acquisition related costs <sup>(7)</sup> .....	66	-	11	-	77
Adjusted EBITDA .....	<u>\$ 95,107</u>	<u>\$ 75,643</u>	<u>\$ 114,573</u>	<u>\$ 119,302</u>	<u>\$ 404,625</u>
Pro forma impact of acquisitions <sup>(6)</sup> .....					8,398
Pro Forma Adjusted EBITDA.....					<u>\$ 413,023</u>

- (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 in the first quarter of 2016.
- (6) 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 October 1 of each twelve month period. The pro forma impact of acquisitions is calculated on the same basis as Adjusted EBITDA.
- (7) Represents transaction fees that were expensed in connection with acquisitions made by the Company.



## 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 and nine months ended September 30, 2016 and 2015:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
	(in thousands)			
<b>Statement of Cash Flows</b>				
<b>Cash flows provided by (used in):</b>				
Operating activities .....	\$ 4,336	\$ 51,835	\$ 152,678	\$ 345,897
Investing activities .....	(64,752)	(120,444)	(204,564)	(311,711)
Financing activities .....	(87,398)	(70,952)	65,560	(135,714)

### 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 commodity price levels and the volatility that commodity 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 September 30, 2016 was \$4.3 million compared to cash provided by operations of \$51.9 million in the three months ended September 30, 2015. The decrease was primarily due the impact of lower segment profit and changes in working capital needs in the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Cash provided by operations in the nine months ended September 30, 2016 was \$152.7 million compared to \$345.9 million in the nine months ended September 30, 2015. The decrease was primarily due the impact of lower segment profit and changes in working capital needs in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

### Cash used in investing activities

Cash used in investing activities consists primarily of capital expenditures.

Cash used in investing activities was \$64.8 million and \$204.6 million in the three and nine months ended September 30, 2016, compared to \$120.4 million and \$311.7 million in the three and nine months ended September 30, 2015. Cash used in investing activities largely relates to capital expenditures. For a summary of capital expenditures, see "Capital expenditures" included in this MD&A.

### Cash provided by (used in) financing activities

Cash used in financing activities was \$87.4 million in the three months ended September 30, 2016 compared to cash used in financing activities of \$70.9 million in the three months ended September 30, 2015. The change was due to the payment of cash dividends of \$46.7 million in the three months ended September 30, 2016 compared to the payment of cash dividends of \$29.6 million in the three months ended September 30, 2015. 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 Dividend Reinvestment Plan (DRIP) during 2015 resulting in a \$10.6 million increase in cash dividends paid during 2016.



Cash provided by financing activities was \$65.6 million in the nine months ended September 30, 2016 compared to cash used in financing activities of \$135.7 million in the nine months ended September 30, 2015. The change was due to the net proceeds from the issuance of common shares of \$220.0 million and the net proceeds from the issuance of the Debentures of \$96.3 million, partially offset by the payment of net interest and cash dividends of \$88.0 million and \$128.8 million, respectively, in the nine months ended September 30, 2016 compared to net interest and cash dividends of \$83.3 million and \$88.7 million, respectively, in the nine months ended September 30, 2015. In addition, in the nine months ended September 30, 2016, the Company made net payments to credit facilities of \$35.0 million, and in the nine months ended September 30, 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 a \$28.9 million increase in cash dividends paid during 2016.

#### **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 \$94.8 million and an undrawn \$500.0 million Revolving Credit Facility as at September 30, 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 September 30, 2016, the Company declared a dividend of \$0.33 per share for a total dividend of \$46.7 million, of which the entire amount was paid in cash on October 17, 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 \$189.6 million in the nine months ended September 30, 2016. The Company is progressing towards its planned capital investment program for 2016 as previously disclosed, however certain capital projects are subject to general economic, financial, competitive, legislative, regulatory and other factors, some of which are beyond the Company's control and could impact the Company's ability to complete such activities as planned.

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

As of September 30, 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 ("Revolving Credit Facility"), the proceeds of which are available to provide financing for working capital and other general corporate purposes, has an accordion feature whereby the Company can increase the Revolving Credit Facility to \$750.0 million subject to obtaining incremental lender commitments. The Revolving Credit Facility has an extendible term of five years, expiring on August 15, 2020. The Revolving Credit Facility provides sub-facilities for letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate, as the case may be, plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company's total debt leverage ratio. In addition, the Company must pay a standby fee on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins determined in a manner similar to the interest. In addition, the Company has three bilateral demand letter of credit facilities totaling \$150.0 million.



On June 2, 2016, the Company completed an offering of 14,892,500 common shares at a price of \$15.45 per common share for net proceeds of \$220.1 million, including share issuance costs of \$10.0 million, and \$100.0 million aggregate principal amount of debentures at a price of \$1,000 per debenture for net proceeds of approximately \$96.3 million, including debt issuance costs of \$3.7 million. The Debentures, issued at par, will 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 will be subordinated to the Company's senior indebtedness. The net proceeds from the offering of common shares and Debentures were used to initially repay bank indebtedness, fund the Company's previously announced 2016 and 2017 growth capital program and for general corporate purposes.

At September 30, 2016, the Company had no amounts drawn under the Revolving Credit Facility and had issued letters of credit totaling \$47.6 million under its bilateral demand letter of credit facilities.

The Revolving Credit Facility contains certain covenants, including financial covenants requiring the Company to maintain ratios of maximum consolidated senior and total debt leverage 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. 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 September 30, 2016, the Company was in compliance with the financial ratios with the senior debt leverage ratio at 4.2 to 1.0, total debt leverage ratio at 4.2 to 1.0, and the interest coverage ratio at 3.1 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 September 30, 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 September 30, 2016, the only material change to contractual obligations compared to December 31, 2015 related to both the timing and amounts of the long-term debt and related interest payments as a result of the issuance of the Debentures. The following table provides the revised timing and amounts of the long-term debt and related interest payments:

(in thousands)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt <sup>(1)</sup> .....	\$ 1,271,435	\$ -	\$ -	\$ 971,435	\$ 300,000
Convertible debentures <sup>(1)</sup> .....	100,000	-	-	100,000	-
Interest payments on long-term debt and convertibles notes <sup>(1)</sup> .....	668,312	87,035	174,069	174,069	233,139
	<u>\$ 2,039,747</u>	<u>\$ 87,035</u>	<u>\$ 174,069</u>	<u>\$1,245,504</u>	<u>\$ 533,139</u>

(1) The exchange rate used to translate the U.S. dollar obligations on the Company's long-term debt and interest payments is the rate as of September 30, 2016 of U.S.\$0.76 to \$1.00.

### 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 September 30, 2016, there were 141.7 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 2.8 million restricted share units, performance share units and deferred share units outstanding and 3.1 million stock options outstanding as at September 30, 2016.

At September 30, 2016, awards available to grant under the equity incentive plan were approximately 8.3 million.

As at October 31, 2016, 141.7 million common shares, 2.9 million restricted share units, performance share units and deferred share units and 3.1 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
April .....	\$ 18.65	\$ 16.39	7,163,524
May .....	\$ 18.81	\$ 15.13	12,937,521
June .....	\$ 16.00	\$ 14.71	9,593,369
July .....	\$ 15.11	\$ 14.37	6,569,575
August .....	\$ 17.88	\$ 14.70	9,466,413
September .....	\$ 18.05	\$ 16.59	8,329,381

**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.

	<b>Twelve months ended September 30, 2016</b>
	<b>(in thousands)</b>
Cash flow from operating activities .....	\$ 264,848
Adjustments:	
Changes in non-cash working capital .....	264
Upgrade and replacement capital .....	(29,980)
Cash interest expense .....	(89,578)
Current income tax .....	(17,698)
Distributable cash flow .....	<u>\$ 127,856</u>
Dividends declared to shareholders .....	<u>\$ 175,585</u>

Dividends declared in the twelve months ended September 30, 2016 were \$175.6 million, of which the entire amount was paid in cash. In the twelve months ended September 30, 2016, dividends declared represented 137% of the distributable cash flow generated or, distributable cash flow was 0.7 times dividends declared.



## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

### Commodity Price Risk

The Company hedges its exposure to price fluctuations with respect to crude oil, refined products, natural gas and NGLs, and expected purchases and sales of these commodities (relating primarily to crude oil, roofing flux, propane sales and purchases of natural gasoline). The derivative instruments utilized consist primarily of futures and option contracts traded on the 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 related to the products 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 a variety of factors including 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 September 30, 2016 and December 31, 2015. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by \$9.3 million and \$7.3 million as of September 30, 2016 and 2015, respectively. A 15% unfavorable change would decrease the Company's net income by \$9.6 million and \$6.0 million as of September 30, 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 September 30, 2016, the Company had no amounts drawn under the Revolving Credit Facility and accordingly is not subject to the interest rate cash flow risk associated with these amounts.

*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 \$2.3 million as at September 30, 2016 and 2015, respectively. A 5% favorable change would increase the Company's net income by \$1.3 million and \$2.1 million as at September 30, 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 September 30, 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 September 30, 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 \$31.2 and \$32.0 million as at September 30, 2016 and 2015 respectively. A corresponding favorable change would increase the Company's net income by \$31.2 and \$32.0 million as at September 30, 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 September 30, 2016, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar as of September 30, 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 September 30, 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 September 30, 2016, the Company estimates that a 10% increase in the Company's share price would have resulted in a \$0.7 million and \$0.7 million increase in the Company's net income as of September 30, 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 \$0.7 million as of September 30, 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.

On June 2, 2016, the Company issued the Debentures, 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 re-measured 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.

#### **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 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.

#### **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 September 30, 2016.

During the three months ended September 30, 2016, there have been no changes made to Gibsons ICFR that materially affected or are reasonably likely to materially affect, it’s 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.



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*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.*