



Management's  
Discussion and Analysis  
2017 Third Quarter Report



The following Management's Discussion and Analysis ("MD&A") was prepared and approved by the Board of Directors (the "Board") of Gibson Energy Inc. ("we", "our", "us", "its", "Gibsons" or the "Company") as of November 8, 2017 and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes of Gibson Energy Inc. for the three and nine months ended September 30, 2017 and 2016, the audited consolidated financial statements and related notes for the years ended December 31, 2016 and 2015, which were prepared under International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Professional Accountants and as issued by the International Accounting Standards Board ("IASB"), also referred to as GAAP, and the MD&A for the year ended December 31, 2016. 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, 2017, its results of operations for the three and nine months ended September 30, 2017 and 2016, and its cash flows for the three and nine months ended September 30, 2017 and 2016. The unaudited condensed consolidated financial statements do not include all the annual disclosures required by IFRS and should be read in conjunction with the annual audited consolidated financial statements and related notes for the fiscal year ending December 31, 2016. 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, 2017. Amounts are stated in Canadian dollars unless otherwise noted. Additional information about Gibsons, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.gibsons.com](http://www.gibsons.com).

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

## **BUSINESS OVERVIEW**

We are a Canadian-based midstream energy company headquartered in Calgary, Alberta, with operations in key hydrocarbon basins across North America. Our North American operations include the movement, storage, optimization, processing, marketing and distribution of crude oil, natural gas liquids ("NGLs") and refined products.

### **Our strategy and strengths**

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

To achieve this, our strategy is to:

- Invest in midstream infrastructure with a focus on fixed fee-based commercial structures not dependent on volumes that are responsive to customers and generate predictable, sustainable, long-term cash flow and earnings;
- Expand our business by improving and enhancing services at existing facilities;
- Pursue focused, complementary 'bolt-on' growth, within our existing footprint, that directly supports our infrastructure assets;
- Deliver safe and reliable operations, while aggressively managing costs to maintain and improve operating margins; and
- Maintain a strong balance sheet and ample liquidity to be prepared for different market conditions and be responsive to opportunities.

We believe that our business model provides significant competitive advantages:

- *Strategic Asset Base:* We have competitively advantaged land positions and infrastructure in Canada's major crude oil hubs at Hardisty, Alberta and Edmonton, Alberta, largely underpinned by dedicated tanks with fixed fee arrangements which are not dependent on volumes. Our broad North American presence allows us to build local relationships in key basins, provide competitive services and capitalize on opportunities.
- *Integrated Solutions:* Through our integrated solutions offering, we can deliver customers a broad range of synergistic midstream services. This approach allows us to use the full value of our assets and network to better solve customer challenges, create opportunities and, ultimately, deliver more profitable results. We believe we are one of the few industry players who have the capability to deliver these integrated solutions to our customers.

- *Customer relationships:* Our culture is based on putting the customer at the center of everything we do. We focus on building long-term relationships with our customers and we believe this approach allows us to better understand and be more responsive to our customers' midstream challenges and requirements.
- *Operational Excellence:* In addition to being highly skilled in building and operating our infrastructure, we have a track record of sourcing and successfully executing internal growth projects. We do all of this with a firm commitment to be a leader in health, safety, security and the environment. Our experienced leadership team has a proven history of successful operations and a strong industry reputation.

## SELECTED FINANCIAL INFORMATION

|   | Three months ended September 30 |                   | Nine months ended September 30 |                   |
|---|---------------------------------|-------------------|--------------------------------|-------------------|
|   | 2017                            | 2016 <sup>4</sup> | 2017                           | 2016 <sup>4</sup> |
| <b>Continuing operations</b>                    |                                 |                   |                                |                   |
| Revenue .....                                   | \$ 1,404,194                    | \$ 1,178,741      | \$ 4,333,952                   | \$ 3,179,994      |
| Segment profit .....                            | 64,211                          | 64,636            | 225,009                        | 176,012           |
| Net loss .....                                  | (8,497)                         | (30,777)          | (23,928)                       | (127,570)         |
| Basic and diluted loss per share .....          | (0.06)                          | (0.22)            | (0.17)                         | (0.95)            |
| Adjusted EBITDA <sup>2,3</sup> .....            | 55,708                          | 60,691            | 195,364                        | 160,165           |
| EBITDA <sup>2,3</sup> .....                     | 48,043                          | 45,580            | 142,048                        | 69,098            |
| Distributable cash flow <sup>2,3</sup> .....    | 31,263                          | 26,692            | 116,567                        | 51,397            |
| Dividends declared.....                         | 47,080                          | 46,769            | 141,212                        | 135,222           |
| Cash flow from operating activities .....       | 5,245                           | 14,690            | 159,656                        | 144,019           |
| Growth capital expenditures.....                | \$ 48,579                       | \$ 60,503         | \$ 98,078                      | \$ 168,951        |
| <b>Combined operations<sup>1</sup></b>          |                                 |                   |                                |                   |
| Segment profit <sup>1</sup> .....               | \$ 64,211                       | \$ 66,508         | \$ 238,646                     | \$ 197,086        |
| Combined Adjusted EBITDA <sup>1,2,3</sup> ..... | 55,708                          | 62,563            | 209,001                        | 180,887           |
| Combined EBITDA <sup>1,2,3</sup> .....          | 44,265                          | 47,452            | 327,271                        | 90,172            |
| Distributable cash flow <sup>2,3</sup> .....    | \$ 31,263                       | \$ 27,639         | \$ 118,425                     | \$ 68,943         |

|  | Last Twelve Months       |                         |
|--|--------------------------|-------------------------|
|  | As at September 30, 2017 | As at December 31, 2016 |
| <b>Ratios<sup>5</sup></b>                  |                          |                         |
| Total and senior debt leverage ratio ..... | 3.6                      | 4.4                     |
| Interest coverage ratio .....              | 3.4                      | 3.0                     |

<sup>1</sup> See discussion on non-GAAP measures on page 38. Combined segment profit, Adjusted EBITDA and EBITDA represent the aggregated results of both continuing and discontinued operations which are provided separately in this document.

<sup>2</sup> See discussion on non-GAAP measures on pages 21 to 23 and 38.

<sup>3</sup> See pages 31 and 22 to 25 for a reconciliation of distributable cash flow to cash flow from operations and EBITDA to net income (loss), respectively. Distributable cash flow from combined operations include results from continuing and discontinued operations.

<sup>4</sup> Comparative period information has been restated to reflect the impact of discontinued operations in accordance with the requirements of IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. Unless otherwise stated, the Industrial Propane segment is referred to as "Discontinued Operations", and the remaining operations as "Continuing Operations", and the total discontinued and continuing operations as "Combined Operations" throughout this MD&A.

<sup>5</sup> See ratio discussion on page 24 for more information on the ratio calculation which includes calculation of Proforma Adjusted EBITDA for covenant calculations.

## 2017 REVIEW

### Financial highlights

- Segment profit for the Infrastructure segment increased by 21% and 26% to \$62.6 million and \$180.9 million for the three and nine months ended September 30, 2017 compared to \$51.8 million and \$144.0 million for the three and nine months ended September 30, 2016 primarily as a result of the additional tank capacity and associated fixed fee contracts added during the fourth quarter of 2016.
- Segment profit from continuing operations decreased by 1% and increased by 28% to \$64.2 million and \$225.0 million for the three and nine months ended September 30, 2017 compared to \$64.6 million and \$176.0 million for the three and nine months ended September 30, 2016.
- Combined Adjusted EBITDA decreased by 11% and increased by 16% to \$55.7 million and \$209.0 million for the three and nine months ended September 30, 2017 compared to \$62.6 million and \$180.9 million for the three and nine months ended September 30, 2016. Combined Adjusted EBITDA decreased in the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to lower segment profit within the Company's Wholesale segment as explained under the results from continuing operations Wholesale section. Combined Adjusted EBITDA increased in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to higher segment profit within the Company's Infrastructure segment.
- For the three and nine months ended September 30, 2017 the Company incurred a net loss from continuing operations of \$8.5 million and \$23.9 million compared to a net loss of \$30.8 million and \$127.6 million for the three and nine months ended September 30, 2016.
- In the third quarter of 2017, the Company declared a dividend of \$0.33 per common share. Total dividends declared for the three and nine months ended September 30, 2017, were \$47.1 million and \$141.2 million representing a 1% and 4% increase over the \$46.8 million and \$135.2 million declared for the three and nine months ended September 30, 2016.
- Distributable cash flow from continuing operations increased by 17% and 127% to \$31.3 million and \$116.6 million for the three and nine months ended September 30, 2017, compared to \$26.7 million and \$51.4 million for the three and nine months ended September 30, 2016.
- On March 1, 2017, Gibsons granted an Option Right to Superior Plus LP ("Superior") to purchase Gibsons' Industrial Propane segment pursuant to the Option Agreement in exchange for an adjusted cash consideration of \$434.8 million, at which time Superior exercised such Option Right. As a result, the Company derecognized the Industrial Propane segment effective March 1, 2017 and recorded a post-tax gain of \$148.6 million within discontinued operations results. Gibsons continued to operate the business based on the terms and covenants of the Option Agreement under the direction of the current management team, until 100% of the partnership units and shares (the "Securities") of the Canwest and Stittco businesses were transferred to Superior. On September 26, 2017, the Company completed the final closing of the sale of its Industrial Propane Business to Superior, pursuant to the option granted by Gibsons to Superior on March 1, 2017. The final purchase price after adjusting for working capital adjustments is \$433.1 million and the Company recognized a gain on sale of \$145.4 million, net of tax.
- On March 22, 2017, the Company closed the issuance of \$350.0 million aggregate principal amount of 5.25% senior unsecured notes due July 15, 2024 (the "New Notes"). The net proceeds of the issuance, along with a portion of the net proceeds from the sale of the Company's Industrial Propane business, were utilized to repay \$211.1 million of its 7.00% senior notes due 2020 (the "C\$ Notes") and U.S.\$338.8 million of its 6.75% senior notes due 2021 (the "U.S.\$ Notes"). Accordingly, the Company recorded debt extinguishment costs of \$49.3 million.
- On July 17, 2017, the Company repaid the remaining \$38.9 million of its C\$ Notes and the Company recognized the remaining unamortized debt issue discount of \$0.6 million and the tender offer premium consideration of \$1.4 million within debt extinguishment costs.
- On September 28, 2017, the Company announced its intention to issue \$250.0 million aggregate principal amount of 5.25% Senior Unsecured New Notes due July 15, 2024 (the "Additional New Notes") and concurrently repay the remaining U.S.\$211.2 (\$264.2 million) of its U.S.\$ Notes. Accordingly, the principal balance has been classified within current liabilities as at September 30, 2017, and the Company recognized the remaining unamortized debt issue discount of \$2.9 million and the tender offer premium consideration of \$8.9 million as debt extinguishment costs.

#### Organizational change highlights

- On June 5, 2017, the Company announced the appointment of Steve Spaulding as the Company's President and Chief Executive Officer, effective June 19, 2017, at which time he also became a member of Gibsons' Board of Directors.

#### Capital expenditure highlights

- During the three and nine months ended September 30, 2017, the Company incurred total growth capital expenditures of \$48.6 million and \$98.1 million of which \$46.2 million and \$92.3 million, respectively was primarily attributable to the Infrastructure segment for new tanks and related infrastructure at the Hardisty and Edmonton terminals.
- On September 11, 2017, the Company announced the construction of 1.1 million barrels of new tankage at its Hardisty Terminal of which 600,000 barrels is underpinned by a long-term, fixed fee contract with a senior investment grade, oil sands customer and 500,000 barrels for operational purposes. The two 300,000 barrel tanks and one 500,000 barrel tank are expected to be placed into service in the third quarter of 2019 and will increase the total capacity of the terminal to 10 million barrels.

#### Credit facility

- Effective March 7, 2017, the Company amended its Revolving Credit Facility whereby, amongst other revisions, the maximum consolidated senior debt leverage ratio and the maximum consolidated total debt leverage ratio are now 4.85 to 1.0 for the 2017 fiscal year, 4.25 to 1.0 for the 2018 fiscal year and 4.0 to 1.0 thereafter. Furthermore, the maturity date of our Revolving Credit Facility was extended from August 2020 to March 2022.

### **SUBSEQUENT EVENTS**

#### Debt repayment

- On October 5, 2017, the Company closed its offering of its Additional New Notes. Concurrently, the Company entered into U.S. dollar forward contracts to buy U.S. dollars on a notional amount of U.S.\$120.0 million at a weighted average rate of \$1.26 for U.S.\$1.00 which settled on October 26, 2017. On October 30, 2017, Gibsons used the net proceeds from the offering to redeem the remaining balance of its \$211.2 million U.S.\$ Notes. The closing of the New Notes issuance, in combination with the issuance of the Additional New Notes, and the early retirement of the portions of the existing notes, strengthened the Company's balance sheet by reducing its long-term indebtedness, decreased its annual interest costs and extended its debt maturity profile.

#### Organizational changes

- Starting in October 2017, the Company has initiated a corporate reorganization that has resulted in the elimination of certain positions including certain executive and management positions. It is expected that as part of the corporate reorganization the Company will realize significant cost savings on a run-rate basis, but will also record a one-time charge, expected in the fourth quarter of 2017. Rick Wise, Chief Operating Officer, has announced his intention to retire and decided to work as a special advisor until his retirement in early 2018.

#### Dividend

- On November 8, 2017, the Board declared a quarterly dividend of \$0.33 per common share for the three months ending December 31, 2017 on its outstanding common shares. The dividend is payable on January 17, 2018 to shareholders of record at the close of business on December 29, 2017.

## PROJECT DEVELOPMENTS AND MARKET OUTLOOK

### Major growth projects

The Company continues to progress towards the completion of major growth projects within its Infrastructure segment, primarily related to the construction of tankage and pipeline connections.

These projects include the construction of two new 400,000 barrel crude oil storage tanks and related pipeline connection infrastructure at the Company's Edmonton Terminal. These new tanks, which are expected to be in-service in the first half of 2018, are underpinned by a long-term, fixed fee contract not dependent on volumes with a large, integrated, investment grade customer.

We are continuing with work to develop additional capacity at our Hardisty Terminal. To this end, on September 11, 2017, the Company announced the construction of new 1.1 million barrels of crude oil storage capacity and related pipeline connection infrastructure at the Company's Hardisty Terminal. The two 300,000 barrel tanks and one 500,000 barrel tank are expected to be placed into service in the third quarter of 2019. The two 300,000 barrel tanks are underpinned by a long-term, fixed fee contract with a senior, investment grade, oil sands customer and the 500,000 barrel tank is being constructed for operational purposes.

In addition to the projects discussed, we continue to make progress with commercial development opportunities at both Edmonton and Hardisty that, with success, will enable us to add additional storage and connection infrastructure for our customers.

### Market outlook

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

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

- The receipt of Canadian federal approval for the Trans Mountain Expansion pipeline and U.S. Presidential Permit for the Keystone XL pipeline has advanced two initiatives that should help the growing supply of Canadian crude oil garner improved market access. The starting point for the pipelines would be adjacent to the Company's Hardisty (Keystone XL) and Edmonton (Trans Mountain Expansion) terminals which could provide increased opportunities for the Company's terminalling services. The current timelines for these pipelines would be within our medium to long-term horizon;
- More immediately, Enbridge Inc.'s ("Enbridge") expansion of its Line 67, which went into operation in July 2015, and the proposed replacement of its Line 3, will help the growing supply of Canadian crude oil gain access to the largest refining markets in the U.S. and Eastern Canada. The replacement of Line 3, which received Canadian approval in December, 2016, and is awaiting U.S. approval, could provide incremental capacity by 2019. The Hardisty Terminal is connected to deliver to both of these pipelines and these expansions should provide increased opportunities for the Company's terminal services at Hardisty;
- Enbridge's twinning of the southern section of its Athabasca pipeline, commissioned in January, 2017, should also provide for incremental volumes into the Hardisty Terminal and increased opportunities for the Company's terminal services at Hardisty;
- In the short-term, crude oil pricing, location and quality disconnects, combined with the existing shortage of pipeline takeaway capacity from the WCSB, necessitate demand for terminal services and crude by rail ("CBR") as a solution for export market access. While low crude oil prices have negatively impacted the economics of CBR in recent quarters, the Company expects that as oil prices stabilize, and when export pipeline access becomes a barrier to reach markets, opportunities for the Company to increase its service offering to include more CBR movements will arise;
- Over the medium to long-term, as market access solutions become more certain, the supply of Canadian heavy crude oil from the oil sands should start to grow more rapidly again, resulting in increased demand for terminal services and diluent in the WCSB. Additionally, the sanctioning of oil sands related projects in Alberta, such as Meadow Creek East project (Suncor), Kirby North (Canadian Natural Resources Limited) and Christina Lake Phase G (Cenovus Energy Inc.) should result in increased

demand for terminal services and movements of diluent through the Hardisty, Edmonton and Alberta Heartland areas' pipeline and terminal infrastructure and may generate increased opportunities for Gibsons' services; and

- The lifting of the U.S. crude oil export ban in December 2015 resulted in increasing volumes of crude oil accessing tidewater export locations, improving pricing received by producers and leading to higher utilization of midstream assets. 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.

In light of the low crude oil prices and Canada's ensuing greenhouse policy divergence with its largest export market, the recent consolidation of Canadian crude oil assets should promote operational synergies and facilitate improved production netbacks for Gibsons' producer customers, as well as transform the nature of competition within the midstream sector. Additionally, the exit of foreign ownership in favor of Canadian oil sand companies that are experts in the development and production of this specialized resource could accelerate the development and production of additional reserves from these resources. Gibsons remains comparatively advantaged, by its uniquely sited and scalable infrastructure to: capture barrels; offer economies of scale; optimize service levels and mitigate execution risks for its producer customers – all of which attributes are crucial, in the short to medium term, in making Canadian crude more competitive and defending its share of export markets.

The commitments of the Organization of the Petroleum Exporting Countries ("OPEC") to limit supply, improving cost efficiencies and increasing optimism regarding market access solutions, have resulted in modest increases in capital programs being announced by a number of our North American producer customers. However, the ongoing tension between OPEC production containment and U.S. production increases is creating uncertainty around the sustainability of a supply management strategy by OPEC and is also translating into a bearish and tightened range bound outlook for crude prices for the remainder of 2017 and for 2018. Over the medium-term, as crude oil supply and demand fundamentals rebalance, the Company anticipates a slow return to increased activity and production levels, a continued demand for midstream assets and a slowly increasing demand for the services provided by our more activity sensitive businesses.

Price fluctuations between crude oil types can create incremental margin opportunities in multiple areas of the Company's operations. While current price differentials have continued to remain compressed in spite of the recent firming of benchmark crude oil prices and, in fact, collapsed even further at the end of Q2 which extended into Q3, the Company remains attentive to opportunities as this trend continues to evolve.

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

## RESULTS OF CONTINUING OPERATIONS

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

The following is a discussion of the Company's segmented results of operations for the three and nine months ended September 30, 2017 and 2016 and the following table sets forth revenue and profit by segment for those periods:

|   | Three months ended<br>September 30 |             | Nine months ended<br>September 30 |              |
|---|------------------------------------|-------------|-----------------------------------|--------------|
|   | 2017                               | 2016        | 2017                              | 2016         |
| <b>Segment revenue</b>                    |                                    |             |                                   |              |
| Infrastructure .....                      | \$ 87,150                          | \$ 73,816   | \$ 258,979                        | \$ 214,692   |
| Logistics .....                           | 128,426                            | 128,520     | 390,593                           | 380,145      |
| Wholesale .....                           | 1,318,211                          | 1,070,247   | 4,103,002                         | 2,865,154    |
| Other .....                               | 4,851                              | 1,881       | 12,662                            | 9,633        |
| Total segment revenue .....               | 1,538,638                          | 1,274,464   | 4,765,236                         | 3,469,624    |
| Revenue – inter-segmental .....           | (134,444)                          | (95,723)    | (431,284)                         | (289,630)    |
| Total revenue – external .....            | 1,404,194                          | 1,178,741   | 4,333,952                         | 3,179,994    |
| <b>Segment profit (loss)</b>              |                                    |             |                                   |              |
| Infrastructure .....                      | 62,586                             | 51,811      | 180,898                           | 144,036      |
| Logistics .....                           | 11,753                             | 12,045      | 32,018                            | 24,891       |
| Wholesale .....                           | (10,247)                           | 1,259       | 11,927                            | 7,204        |
| Other .....                               | 119                                | (479)       | 166                               | (119)        |
| Total segment profit .....                | 64,211                             | 64,636      | 225,009                           | 176,012      |
| General and administrative .....          | 6,428                              | 6,372       | 28,888                            | 26,536       |
| Depreciation .....                        | 41,010                             | 41,401      | 125,986                           | 121,161      |
| Amortization .....                        | 13,559                             | 30,650      | 26,777                            | 61,242       |
| Impairment of goodwill .....              | -                                  | -           | -                                 | 101,405      |
| Stock based compensation .....            | 7,223                              | 6,858       | 12,905                            | 17,704       |
| Debt extinguishment costs .....           | 11,785                             | -           | 63,122                            | -            |
| Foreign exchange (gain) loss .....        | (8,948)                            | 6,210       | (20,670)                          | (37,782)     |
| Net interest expense .....                | 17,382                             | 21,032      | 59,948                            | 62,209       |
| Loss before income tax .....              | (24,228)                           | (47,887)    | (71,947)                          | (176,463)    |
| Income tax recovery .....                 | (15,731)                           | (17,110)    | (48,019)                          | (48,893)     |
| Net loss from continuing operations ..... | \$ (8,497)                         | \$ (30,777) | \$ (23,928)                       | \$ (127,570) |

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

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

## INFRASTRUCTURE

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

The following tables set forth the operating results from the Company’s Infrastructure segment for the three and nine months ended September 30, 2017 and 2016:

| Volumes (barrels in thousands)       | Three months ended<br>September 30 |           | Nine months ended<br>September 30 |            |
|--------------------------------------|------------------------------------|-----------|-----------------------------------|------------|
|                                      | 2017                               | 2016      | 2017                              | 2016       |
| <b>Terminals and facilities</b>      |                                    |           |                                   |            |
| Hardisty Terminal.....               | 66,635                             | 53,850    | 189,528                           | 154,897    |
| Edmonton Terminal .....              | 5,025                              | 4,195     | 15,477                            | 11,501     |
| Moose Jaw Facility .....             | 1,579                              | 1,539     | 4,041                             | 3,552      |
| PRD Terminals .....                  | 3,736                              | 2,691     | 10,679                            | 7,702      |
| Injection Stations .....             | 4,245                              | 7,831     | 14,979                            | 25,891     |
| Total terminals and facilities ..... | 81,220                             | 70,106    | 234,704                           | 203,543    |
| <br>                                 |                                    |           |                                   |            |
|                                      | Three months ended<br>September 30 |           | Nine months ended<br>September 30 |            |
|                                      | 2017                               | 2016      | 2017                              | 2016       |
| <b>Revenue</b>                       |                                    |           |                                   |            |
| Hardisty Terminals.....              | \$ 50,638                          | \$ 43,593 | \$ 151,232                        | \$ 127,067 |
| Edmonton Terminals .....             | 12,863                             | 9,498     | 39,175                            | 29,073     |
| Moose Jaw Facility.....              | 9,850                              | 9,901     | 29,547                            | 28,086     |
| PRD Terminals .....                  | 12,951                             | 9,245     | 36,204                            | 25,100     |
| Injection stations .....             | 848                                | 1,579     | 2,821                             | 5,366      |
| Revenue .....                        | 87,150                             | 73,816    | 258,979                           | 214,692    |
| Operating expenses and other.....    | 24,564                             | 22,005    | 78,081                            | 70,656     |
| Segment profit .....                 | \$ 62,586                          | \$ 51,811 | \$ 180,898                        | \$ 144,036 |

In the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016:

### Operational performance

Hardisty Terminal volumes increased by 24% and 22%, respectively. The increase in both comparative periods was largely driven by the impact of the new tanks commissioned in the fourth quarter of 2016, the addition of a new fixed-fee tankage customer, an increase in a customer’s contract tankage volumes, and the addition of infrastructure connections during 2017. The increase in the nine month year to date comparative period was also driven by the operational impact of the Fort McMurray forest fire which reduced volumes delivered to our customers in the second quarter of 2016.

Edmonton Terminal volumes increased by 20% and 35%, respectively. The increase in both comparative periods was mainly due to the commissioning of new tanks and common infrastructure at the Edmonton Terminal, completed in the fourth quarter of 2016 and additional volumes received from the Company’s Wholesale segment. The increase in the nine month year to date comparative periods was also due to the operational impact of the Fort McMurray forest fire which reduced available volumes in the second quarter of 2016.

Moose Jaw Facility volumes increased by 3% and 14%, respectively. The quarter over quarter increase was primarily due to the impact of the inventory management requirements on a period over period basis. The nine month year to date period over period increase was primarily due to the impact of a substantially longer plant turnaround time during the second quarter of 2016 compared to the current period, as well as the overall increase in demand for certain refined products. This was partially offset by the impact of lower processing activity in the first quarter of 2017 as a result of an accumulation of inventory levels in the fourth quarter of 2016.

PRD Terminal volumes increased by 39% and 39%, respectively. The increase in both comparative periods was mainly due to higher drilling activity levels in the Company's WCSB service areas, particularly in the Saskatchewan Viking and the Alberta Montney, primarily driven by the recovery of crude prices.

Injection Station volumes decreased by 46% and 42%, respectively. The decrease in both comparative periods was mainly due to a decrease in activity with a major customer in North Dakota Bakken and South Texas and the strategic decision to realign the injection stations service towards a more diversified customer base as discussed below within Logistics - U.S Crude and Other Products.

### Financial performance

Revenue at the Hardisty Terminal increased by \$7.0 million and \$24.2 million, respectively. The increase in both comparative periods was largely driven by additional revenue from the new tanks commissioned in the fourth quarter of 2016 providing more customers with dedicated tank usage pursuant to fixed fee arrangements not dependent on volumes. The increase in revenues was also driven by the addition of a new fixed-fee tankage customer, an increase in a contract customer's tankage usage, servicing volumes related to water handling and the addition of the new common infrastructure connections.

Revenue at the Edmonton Terminal increased by \$3.4 million and \$10.1 million, respectively. The increase in both comparative periods was primarily due to the impact of the revenue related to the commissioning of the new tanks and related common Infrastructure at the Edmonton Terminal and the impact of additional fixed fee arrangements and associated volumes related to the new tank at the Edmonton West Terminal that was commissioned in the fourth quarter of 2016.

PRD Terminal revenue increased by \$3.7 million and \$11.1 million, respectively mainly as a result of improved operational performance as discussed previously.

Moose Jaw Facility revenue was consistent with the prior period and increased by \$1.5 million, respectively. The increase in the nine month year to date comparative periods was primarily due to higher processing volumes as a result of the shorter turnaround time in 2017.

Injection station revenue decreased by \$0.7 million and \$2.5 million, respectively primarily related to lower volumes as previously discussed.

Segment profit increased by \$10.8 million and \$36.9 million, respectively. The increase in both comparative periods was primarily due to the increased revenues from the Hardisty, Edmonton, and PRD Terminals. The revenue increase was partially offset by reductions in revenues from injection stations, and higher operating costs, associated with the expansion of the terminals, and the incurrence of environmental remediation costs.

### Capital expenditures

Below is the summary of the Infrastructure capital expenditures for the three and nine months ended September 30, 2017 and 2016:

|                                      | Three months ended<br>September 30 |           | Nine months ended<br>September 30 |            |
|--------------------------------------|------------------------------------|-----------|-----------------------------------|------------|
|                                      | 2017                               | 2016      | 2017                              | 2016       |
| Growth capital .....                 | \$ 46,229                          | \$ 47,661 | \$ 92,285                         | \$ 151,871 |
| Upgrade and replacement capital..... | \$ 4,295                           | \$ 1,691  | \$ 9,788                          | \$ 9,608   |

Growth capital expenditures for the three and nine months ended September 30, 2017 primarily relate to the construction of additional tanks and related infrastructure at the Edmonton and Hardisty Terminals. Expenditures for the three and nine months ended September 30, 2016 include the construction of additional tanks and related infrastructure at the Hardisty Terminal, the Edmonton Terminal and the Moose Jaw Facility.

Upgrade 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 increased by \$2.6 million and \$0.2 million for the three and nine months ended September 30, 2017 compared to the same periods in the prior year, primarily due to non-recurring mechanical and repair projects completed at the Moose Jaw Facility, as well as maintenance activities completed at the Company's PRD and Hardisty terminals.

## LOGISTICS

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

The following tables set forth operating results from the Company's Logistics segment for the three and nine months ended September 30, 2017 and 2016:

| Volumes (barrels in thousands)         | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |        |
|--|------------------------------------|--------|-----------------------------------|--------|
|  | 2017                               | 2016   | 2017                              | 2016   |
| Canadian crude and other products..... | 11,046                             | 11,107 | 34,844                            | 32,921 |
| U.S. crude and other products .....    | 6,472                              | 9,231  | 20,417                            | 28,400 |
| Total .....                            | 17,518                             | 20,338 | 55,261                            | 61,321 |

|  | Three months ended<br>September 30 |           | Nine months ended<br>September 30 |            |
|--|------------------------------------|-----------|-----------------------------------|------------|
|  | 2017                               | 2016      | 2017                              | 2016       |
| <b>Revenue</b>                                 |                                    |           |                                   |            |
| Canadian crude and other product hauling ..... | \$ 46,592                          | \$ 45,954 | \$ 148,118                        | \$ 130,054 |
| U.S. crude and other product hauling .....     | 15,258                             | 24,813    | 52,245                            | 79,233     |
| Water hauling and disposal.....                | 33,429                             | 26,153    | 95,668                            | 79,416     |
| Other products and services .....              | 33,147                             | 31,600    | 94,562                            | 91,442     |
| Total revenue .....                            | 128,426                            | 128,520   | 390,593                           | 380,145    |
| Cost of sales .....                            | 93,358                             | 91,070    | 286,347                           | 275,926    |
| Operating expenses and other.....              | 23,315                             | 25,405    | 72,228                            | 79,328     |
| Segment profit .....                           | \$ 11,753                          | \$ 12,045 | \$ 32,018                         | \$ 24,891  |

In the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016:

### Operational performance

Canadian crude and other product hauling barrels decreased by 1% and increased by 6%, respectively. The consistent quarter over quarter results were primarily due to consistent levels of hauling activity in the Fort McMurray and Northern Alberta regions attributable to comparable activity in drilling and oil sands production. Moreover, the increase in petroleum coke, liquefied petroleum gas and propane volumes hauled was primarily offset by lower crude, sulphur and gypsum volumes in the current quarter. The nine month year to date period increase was primarily due to higher levels of hauling activity in the Fort McMurray and the Northern Alberta regions attributable to the increase in year to date drilling activity and oil sands production activity. The increase in petroleum coke, liquefied petroleum gas and asphalt volumes hauled was partially offset by lower gypsum, sulphur, and crude volumes in the period.

U.S. crude and other products volume decreased by 30% and 28%, respectively. The decrease in both comparative periods was primarily attributable to the decline in business with Logistics' largest U.S. trucking customer. Volume declines with this customer have occurred ahead of the November 2017 expiration of an injection station access agreement with them. Trucking volume with other customers is increasing, however not sufficiently yet to overcome the overall effect of the decline with the large customer. To a lesser degree, 2017 volumes were also affected by a strategic decision to exit the Utica Basin in the fourth quarter of 2016 due to uneconomic hauling margins in the region.

### Financial performance

Canadian crude and other product revenue increased by 1% and 14%, respectively. The consistent quarter over quarter results were primarily due to consistent volumes hauled. The nine month year to date period increase was primarily due to higher hauling rates for petroleum coke, sulphur, crude and gypsum and higher petroleum coke, liquefied petroleum gas and asphalt volumes hauled, partially offset by lower crude volumes hauled.

U.S. crude and other revenue decreased by 39% and 34%, respectively. The decrease in both comparative periods was primarily driven by lower volumes as noted above, by the Company's exit from the Utica basin, and by some decline in overall rates as the business focus has shifted towards a more aggressive bid strategy with new customers.

Water hauling and disposal revenue increased by 28% and 20%, respectively. The increase in both comparative periods was primarily driven by the impact of the continued increase in production related volumes in the Mid Continent (Arkoma, SCOOP and STACK regions), Bakken and Northern Alberta.

Other products and services revenue increased by 5% and 3%, respectively. The quarter over quarter increase was primarily driven by higher activity in the Bakken, Gulf of Mexico, Rockies, Haynesville and Eagle Ford regions, and the realization of higher service rates in certain areas, partially offset by lost service days related to Hurricane Harvey and Irma. The nine month year to date period increase was primarily driven by higher activity in the Bakken, Rockies, Haynesville and Eagle Ford regions, and the realization of higher rates within the last two quarters, offset by lost service days related to Tropical Storm Cindy and Hurricane Harvey and Irma.

Segment profit decreased by 2% and increased by 29%, respectively. The quarter over quarter change was insignificant, primarily due to lower margins earned on Canadian and U.S. crude hauling, driven by lower overall volumes hauled due to increased competition within the Company's service areas. Canadian operations were also negatively impacted by lower margins on LPG mix, gypsum, and asphalt partially offset by higher margins related to petroleum coke, and sulphur, and lower operating expenses in Canada and the U.S. primarily related to lower payroll related costs in the quarter. The nine month year to date period increase was primarily due to higher margins earned on U.S. other products and services, driven by higher drilling activity and higher service rates. Canadian operations were positively impacted by higher margins primarily related to petroleum coke, and sulphur however this was offset by lower margins earned on crude, gypsum, propane, and asphalt in the period. Additionally, U.S. crude hauling margins declined due to increased competition within the Company's service areas. The nine month year to date period increase was also supported by lower operating costs in the current period largely due to the continuation of the reduction in payroll related costs associated with overall headcount reductions.

### Capital expenditures

Below is the summary of the Logistics capital expenditures for the three and nine month ended September 30, 2017 and 2016:

|                                      | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |          |
|--------------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                      | 2017                               | 2016     | 2017                              | 2016     |
| Growth capital .....                 | \$ 1,986                           | \$ 686   | \$ 3,221                          | \$ 2,964 |
| Upgrade and replacement capital..... | \$ 2,106                           | \$ 1,293 | \$ 5,895                          | \$ 5,842 |

Growth capital expenditures for the three and nine months ended September 30, 2017, remain consistent with the prior comparative periods with the majority of the expenditures relating to U.S. Environmental Services asset purchases.

Growth capital expenditures for the three and nine months ended September 30, 2016 largely represent completion expenditures related to the building of the new Edmonton truck terminal.

Upgrade and replacement capital increased \$0.8 million and \$0.2 million for the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016, primarily due to an increase in spending related to the replacement of on-board computer software for the Canadian truck fleet as well as various truck and trailer replacements related to the U.S. Logistics business.

## WHOLESALE

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

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

The following tables set forth operating results from the Company’s Wholesale segments for the three and nine months ended September 30, 2017 and 2016:

|  | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |         |
|--|------------------------------------|---------|-----------------------------------|---------|
|  | 2017                               | 2016    | 2017                              | 2016    |
| WTI average price (\$USD/bbl).....                             | \$48.21                            | \$44.94 | \$49.47                           | \$41.33 |
| WCS differential (\$USD/bbl) .....                             | 9.94                               | 13.50   | 11.88                             | 13.68   |
| Average foreign exchange rates CAD dollar to U.S. dollar ..... | 1.25                               | 1.31    | 1.31                              | 1.32    |
| Propane average price (\$USD/U.S. gallon) .....                | 0.75                               | 0.43    | 0.65                              | 0.42    |
| Butane average price (\$USD/U.S. gallon).....                  | 0.95                               | 0.63    | 0.86                              | 0.60    |

| Volumes (barrels in thousands) | Three months ended<br>September 30 |               | Nine months ended<br>September 30 |               |
|--------------------------------|------------------------------------|---------------|-----------------------------------|---------------|
|                                | 2017                               | 2016          | 2017                              | 2016          |
| Crude and diluent .....        | 29,401                             | 27,049        | 84,530                            | 74,215        |
| Propane and other NGL .....    | 2,179                              | 2,127         | 7,630                             | 8,081         |
| Refined products.....          | 1,220                              | 924           | 2,968                             | 2,742         |
|                                | <u>32,800</u>                      | <u>30,100</u> | <u>95,128</u>                     | <u>85,038</u> |

|                                   | Three months ended<br>September 30 |                  | Nine months ended<br>September 30 |                  |
|-----------------------------------|------------------------------------|------------------|-----------------------------------|------------------|
|                                   | 2017                               | 2016             | 2017                              | 2016             |
| <b>Revenue</b>                    |                                    |                  |                                   |                  |
| Crude and diluent.....            | \$ 1,121,510                       | \$ 926,066       | \$ 3,484,415                      | \$ 2,391,795     |
| Propane and other NGL.....        | 93,660                             | 72,293           | 355,941                           | 274,887          |
| Refined products.....             | 103,041                            | 71,888           | 262,646                           | 198,472          |
| Total revenue .....               | <u>1,318,211</u>                   | <u>1,070,247</u> | <u>4,103,002</u>                  | <u>2,865,154</u> |
| Cost of sales .....               | 1,322,521                          | 1,063,619        | 4,071,743                         | 2,838,436        |
| Operating expenses and other..... | 5,937                              | 5,369            | 19,332                            | 19,514           |
| Segment (loss) profit.....        | <u>\$ (10,247)</u>                 | <u>\$ 1,259</u>  | <u>\$ 11,927</u>                  | <u>\$ 7,204</u>  |

In the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016:

### **Operational performance**

Sales volumes for crude and diluent increased by 9% and 14%, respectively. The increase in both comparative periods was mainly due to additional opportunities to bring volumes into the Company's integrated assets, primarily attributable to the addition of new storage tanks and common infrastructure added in Q4 2016 and Q1 2017. Additionally, the impact of the 2016 Fort McMurray fires reduced available volumes in the comparative periods.

Sales volumes for propane and other NGLs increased 2% and decreased 6%, respectively. The quarter over quarter increase was primarily due to stronger demand for propane and butane in the current period while condensate demand decreased. The nine month year to date period decrease was primarily due to tighter supply conditions for butane and condensate.

- Volumes for refined products increased by 32% and 8%, respectively. The increase in both comparative periods was primarily due to higher current period demand for drilling fluids and asphalt, principally as a result of increased WCSB and U.S. drilling activity, and by higher third party CVGO volumes in the current period.

### **Financial performance**

Revenue for crude and diluent increased by 21% and 46%, respectively. The increase in both comparative periods was largely due to higher average crude oil prices, and the increase in volumes in the current quarter and year to date periods, partially offset by less favorable foreign exchange rates.

Revenue for propane and other NGLs increased by 30% and 29%, respectively. The increase in both comparative periods was mainly due to higher propane and butane prices.

Revenue for Refined Products increased by 43% and 32%, respectively. The increase in both comparative periods was primarily due to higher volumes sold for drilling fluids, asphalt, and CVGO as well as higher average crude oil prices which supported the increase in prices for these products.

Segment profit decreased significantly and increased by 66%, respectively. The quarter over quarter decrease was mainly due to compressed light to heavy pricing spreads and losses from financial instruments during the quarter as discussed below:

- Spreads - lower crude and diluent margins in the current period were incurred as a result of compressed light to heavy pricing spreads which, among other factors, were impacted from the extended Syncrude outage into the current quarter;
- Financial instruments - net loss during the quarter of \$8.2 million compared to net loss in the prior comparative quarter of \$0.5 million;
- Rail car costs - lower period over period rail car costs of \$4.1 million partially offset the aforementioned losses; and
- Foreign exchange - unfavorable U.S. to Canadian dollar exchange rates movements.

The increase in the nine month year to date comparative periods was mainly due to higher refined product margins, lower rail car costs, and gains on financial instruments as discussed below:

- Refined product margins - the increase in refined product margins was driven by the increase in sales of higher margin drilling fluids which was also supported by higher prices;
- Rail car costs - lower period over period rail car costs of \$6.4 million were incurred due to the reduction of the Company's fleet size in response to current market conditions;
- Financial instruments - net gains during the current period of \$7.0 million compared to net gains in the prior period of \$3.3 million; and
- Spreads - the increase as discussed above was partially offset by lower crude and diluent margins in the current period resulting from compressed light to heavy pricing spreads which were impacted from the extended Syncrude outage during the period.

## OTHER

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

The following tables set forth the operating results from the Company's Other segment for the three and nine months ended September 30, 2017 and 2016:

|                                    | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |          |
|------------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                    | 2017                               | 2016     | 2017                              | 2016     |
| Revenue .....                      | \$ 4,851                           | \$ 1,881 | \$ 12,662                         | \$ 9,633 |
| Cost of sales .....                | 4,787                              | 2,215    | 12,205                            | 9,426    |
| Operating expenses and other ..... | (55)                               | 145      | 291                               | 326      |
| Segment profit (loss) .....        | \$ 119                             | \$ (479) | \$ 166                            | \$ (119) |

### Operational and financial performance

In the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016:

Revenue increased by 158% and 31%, respectively. The increase in both comparative periods was mainly due to an overall increase in ESS business activity compared to prior periods.

Segment profit increased by 125% and 239%, respectively. The increase in both comparative periods was primarily driven by the increase in revenue and lower operating and other costs, partially offset by higher costs of sales, reflecting the impact of higher direct labour and materials costs.

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

General and administrative expense (“G&A”) was \$6.4 million and \$28.9 million for the three and nine months ended September 30, 2017, compared to \$6.4 million and \$26.5 million for the three and nine months ended September 30, 2016. The nine month year to date period increase was primarily due to the mark to market unrealized loss of \$1.9 million related to equity financial instruments and higher general corporate overhead allocations, partially offset by lower payroll related costs.

### **Depreciation**

Depreciation expense for the three and nine months ended September 30, 2017 was \$41.0 million and \$126.0 million, respectively compared to \$41.4 million and \$121.2 million, respectively for the three and nine months ended September 30, 2016. The nine month year to date period increase was primarily due to the impact of additional depreciation on asset additions in the latter half of 2016, partially offset by asset disposals and assets reaching the end of depreciable lives.

### **Amortization**

Amortization expense was \$13.6 million and \$26.8 million for the three and nine months ended September 30, 2017 compared to \$30.7 million and \$61.2 million for the three and nine months ended September 30, 2016. The quarter over quarter and nine month year to date period decreases were largely due to the revision of useful lives of certain intangible assets within the Company’s Logistics segment which resulted in additional amortization expense in the prior year periods.

### **Stock based compensation**

Stock based compensation expense was \$7.2 million and \$12.9 million for the three and nine months ended September 30, 2017, compared to stock based compensation expense of \$6.9 million and \$17.7 million, for the three and nine months ended September 30, 2016. The quarter over quarter increase was primarily driven by the impact of higher deferred share unit and option grants, and higher RSU expense in the current period, partially offset by higher PSU expense in the prior quarter. The nine month year to date period decrease was primarily driven by the impact of forfeitures of performance share units in the current period, as well as a higher amount of DSU grants in the prior year primarily related to executive retirements.

### **Debt extinguishment costs**

On March 22, 2017, the Company completed a tender on a portion of its existing U.S.\$550.0 million 6.75% Notes and a portion of its existing \$250.0 million 7.00% Notes under which it repaid the U.S.\$ Notes at a tender price of 105.13% and C\$ Notes at a tender price of 105.31% (the C\$ Notes, U.S.\$ Notes and \$300.0 million 5.375% Notes altogether referred to as the “Notes”).

On July 17, 2017 the Company repaid the remaining \$38.9 million C\$ Notes, accordingly the principal balance has been entirely repaid as at September 30, 2017, and the Company recognized the remaining unamortized debt issue discount of \$0.6 million and the tender offer premium consideration of \$1.4 million.

On September 28, 2017, the Company announced its intention to repay the remaining \$264.2 million of its U.S.\$ Notes, accordingly the principal balance has been classified within current liabilities as at September 30, 2017. As a result of using the effective interest rate method to assess the amortized cost, the Company recognized the remaining unamortized debt issue discount of \$2.9 million and the tender offer premium consideration of \$8.9 million as debt extinguishment costs.

In the nine months ended September 30, 2017, total debt extinguishment costs of \$63.1 million were recorded relating to C\$ Notes and U.S.\$ Notes.

### **Foreign exchange gains and losses not affecting segment profit**

In the three and nine months ended September 30, 2017, the Company recorded a foreign exchange gain of \$9.0 million and \$20.7 million, respectively, compared to a foreign exchange loss of \$6.2 million and a foreign exchange gain of \$37.8 million in the three and nine months ended September 30, 2016, respectively.

The gains and losses recorded are primarily driven by the movement in exchange rates on the translation of the Company’s U.S. dollar denominated long-term debt and related financial instruments. In the three and nine months ended September 30, 2017, a gain of \$10.0 million and a gain of \$19.4 million, respectively, were recorded due to the favorable movements in exchange rates on the translation of Company’s U.S. dollar denominated long-term debt, compared to a loss of \$5.9 million and a gain of \$39.8 million, respectively, in the three and nine months ended September 30, 2016.

### **Net interest expense**

Net interest expense was \$17.4 million and \$59.9 million for the three and nine months ended September 30, 2017, compared to \$21.0 million and \$62.2 million for the three and nine months ended September 30, 2016. The quarter over quarter decrease was primarily due to lower interest costs related to the Notes refinancing in Q1 2017, partially offset by higher drawing on the revolving line of credit in the current period compared to the prior period, and by lower capitalized interest amounts related to our long-term capital projects in the current period. The nine month year to date period decrease was primarily due to lower interest costs related to the Notes refinancing in Q1 2017 partially offset by lower capitalized interest amounts in the current period, higher accretion expense related to the convertible notes and higher drawing on the revolving line of credit in the current period compared to the prior.

### **Income taxes**

Income tax recovery from continuing operations was \$15.7 million and \$48.0 million for the three and nine months ended September 30, 2017 compared to an income tax recovery of \$17.1 million and \$48.9 million for the three and nine months ended September 30, 2016, as disclosed in note 14 of the condensed consolidated financial statements. The effective tax rate was 64.9% and 66.7% during the three and nine months ended September 30, 2017 compared to 35.7% and 27.7% for the three and nine months ended September 30, 2016. The main driver for the quarter over quarter income tax recovery and the change in the effective rate was the impact of unrealized amounts relating to net capital losses arising from foreign exchange movements on the Company's U.S. dollar denominated long-term debt. The main driver for the nine month year to date period income tax recovery and the change in the effective rate was the impact of realized and unrealized amounts relating to the net capital gains arising from foreign exchange movements, including repayments, on the Company's U.S. dollar denominated long-term debt.

### **RESULTS OF DISCONTINUED OPERATIONS**

On March 1, 2017, Gibsons granted an Option Right to Superior Plus LP ("Superior") to purchase Gibsons' Industrial Propane segment pursuant to the Option Agreement in exchange for an adjusted cash consideration of \$434.8 million, at which time Superior exercised such Option Right. As a result, the Company derecognized the Industrial Propane segment effective March 1, 2017 and recorded a post-tax gain of \$148.6 million within discontinued operations results. Gibsons continued to operate the business based on the terms and covenants of the Option Agreement under the direction of the current management team, until 100% of the partnership units and shares (the "Securities") of the Canwest and Stittco businesses were transferred to Superior. On September 26, 2017, the Company completed the final closing of the sale of its Industrial Propane Business to Superior, pursuant to the option granted by Gibsons to Superior on March 1, 2017. The final purchase price after adjusting for customary working capital adjustments is \$433.1 million and the Company recognized a gain on sale of \$145.4 million, net of tax.

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

The following tables set forth operating results from discontinued operations of the Industrial Propane segment for the three and nine months ended September 30, 2017 and 2016:

| Volumes (litres in thousands)                           | Three months ended |            | Nine months ended |           |
|---|--------------------|------------|-------------------|-----------|
|   | September 30       |            | September 30      |           |
|   | 2017 <sup>1</sup>  | 2016       | 2017 <sup>1</sup> | 2016      |
| Oilfield.....   | -                  | 35,990     | 41,578            | 121,378   |
| Commercial.....   | -                  | 13,101     | 46,850            | 91,839    |
| Other.....  | -                  | 23,296     | 22,723            | 73,570    |
|   | -                  | 72,387     | 111,151           | 286,787   |
|   |                    |            |                   |           |
|   | Three months ended |            | Nine months ended |           |
|   | September 30       |            | September 30      |           |
|   | 2017 <sup>1</sup>  | 2016       | 2017 <sup>1</sup> | 2016      |
| <b>Revenue</b>  |                    |            |                   |           |
| Propane.....  | \$ -               | \$ 22,219  | \$ 52,953         | \$ 88,750 |
| Other.....  | -                  | 4,969      | 5,343             | 18,727    |
| Total revenue.....                                      | -                  | 27,188     | 58,296            | 107,477   |
| Cost of sales.....                                      | -                  | 25,399     | 44,678            | 86,806    |
| Other operating loss (income).....                      | -                  | (83)       | (19)              | (403)     |
| Segment profit.....                                     | -                  | 1,872      | 13,637            | 21,074    |
| Depreciation and amortization.....                      | -                  | 4,725      | -                 | 14,788    |
| Gain on sale <sup>2</sup> .....                         | (3,778)            | -          | 171,586           | -         |
| Loss before taxes.....                                  | (3,778)            | (2,853)    | 185,223           | 6,286     |
| Income tax (recovery) provision.....                    | 632                | (760)      | 30,613            | 1,623     |
| Net income from discontinued operations, after tax..... | \$ (3,146)         | \$ (2,093) | \$ 154,610        | \$ 4,663  |

1. The Company derecognized the Industrial Propane segment effective March 1, 2017. Accordingly, results for nine months ending September 30, 2017 represent the activity for the period January 1, 2017 to February 28, 2017.
2. The cash proceeds of \$433.1 million and transaction costs paid of \$8.8 million have been presented within investing activities from discontinued operations on the Company's condensed consolidated statement of cash flows.

### Operational and financial performance

Industrial propane volumes decreased by 100% and 61% respectively. The decrease in both comparative periods were due to the timing of the sale on March 1, 2017, and lack of results in the three month period and the reporting of two months in the nine month period versus three and nine months in the prior periods.

Revenue decreased by 100% and 46%, respectively. The decrease in both comparative periods was due to the timing of the sale on March 1, 2017, and the lack of results in the three month period and the reporting of two months in the nine month period versus three and nine months in the prior periods.

Segment profit decreased by 100% and 35%, respectively, for the reasons discussed above. Additionally, the nine month year to date results for the two months ended February 28, 2017 were positively impacted by colder weather patterns and higher activity levels related to drilling and construction activity.

The following table summarizes the sources and uses of funds for the three and nine months ended September 30, 2017 and 2016 from discontinued operations:

|  | <u>Three months ended September 30,</u> |             | <u>Nine months ended September 30,</u> |             |
|--|---|-------------|--|-------------|
|  | <u>2017 <sup>1</sup></u>                | <u>2016</u> | <u>2017 <sup>1</sup></u>               | <u>2016</u> |
|  | (in thousands)                          |             |  |             |
| <b>Statement of Cash Flows</b>           |   |             |  |             |
| <b>Cash flows (used in) provided by:</b> |   |             |  |             |
| Operating activities.....                | \$ -                                    | \$ (10,354) | \$ (7,589)                             | \$ 8,659    |
| Investing activities.....                | (3,675)                                 | (513)       | 424,140                                | (2,854)     |
| Financing activities.....                | -                                       | -           | -                                      | -           |

1. The Company derecognized the Industrial Propane segment effective March 1, 2017. Accordingly, results for three months ended September 30, 2017 does not include any cash flows from Industrial Propane business and results for the nine months ending September 30, 2017 represent the activity for the period January 1, 2017 to February 28, 2017.

### **Cash (used in) provided by operating activities**

Cash used in operating activities in the three and nine months ended September 30, 2017 was \$nil and \$7.6 million compared to cash used in and provided by operating activities of \$10.4 million and \$8.7 million in the three and nine months ended September 30, 2016, respectively. The quarter over quarter change was due to the derecognition of the Industrial Propane segment effective March 1, 2017, whereas the decrease in nine months ended September 30, 2017 was primarily due to the reporting of two months in the current period versus nine months in the prior period as well as due to a change in working capital requirements driven by the fact that the Company is no longer required to fund working capital.

### **Cash (used in) provided by investing activities**

Cash used in investing activities was \$3.7 million for the three months ended September 30, 2017, and cash provided by investing activities as \$424.1 million for the nine months ended September 30, 2017, compared to cash used in investing activities of \$0.5 million and \$2.9 million in the three and nine months ended September 30, 2016. The quarter over quarter increase was primarily related to transaction costs incurred in 2017 related to the sale of the Industrial Propane business compared to those in the prior period which are due to the capital expenditures. The nine month year to date period increase in cash provided by investing activities was primarily due to the cash proceeds received on the sale of the Industrial Propane business, net of the transaction costs paid.

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

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

### **Income taxes**

Income tax from discontinued operations was a recovery of \$0.6 and a provision of \$30.6 million, respectively for the three and nine months ended September 30, 2017 compared to an income tax recovery of \$0.8 million and an income tax provision of \$1.6 million for the three and nine months ended September 30, 2016, as disclosed in note 4 of the condensed consolidated financial statements.

The effective tax rate was 17% and 17% during the three and nine months ended September 30, 2017 compared to 27% and 26% for the three and nine months ended September 30, 2016. The main driver for the income tax provision and the change in the effective rate was the impact of the gain on the sale of the Industrial Propane business and the fact that the Company is no longer entitled to income or losses of the business effective March 1, 2017.

## 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                   | 2017         |             |             | 2016        |              |             | 2015      |              |
|--------------------------------------|--------------|-------------|-------------|-------------|--------------|-------------|-----------|--------------|
|                                      | September 30 | June 30     | March 31    | December 31 | September 30 | June 30     | March 31  | September 30 |
| <b>Continuing operations</b>         |              |             |             |             |              |             |           |              |
| Revenue .....                        | \$1,404,194  | \$1,480,196 | \$1,449,562 | \$1,414,187 | \$1,178,741  | \$1,095,026 | \$906,227 | \$1,226,007  |
| Net (loss) income .....              | (8,497)      | (5,523)     | (9,908)     | (50,597)    | (30,777)     | (132,368)   | 35,575    | (218,373)    |
| EBITDA <sup>(2)</sup> .....          | 48,043       | 59,661      | 34,344      | 27,312      | 45,580       | (71,968)    | 95,486    | (118,227)    |
| Adjusted EBITDA <sup>(3)</sup> ..... | 55,708       | 66,387      | 73,269      | 83,927      | 60,691       | 41,553      | 57,921    | 85,846       |
| (Loss) earnings per share            |              |             |             |             |              |             |           |              |
| Basic .....                          | \$(0.06)     | \$ (0.04)   | \$ (0.07)   | \$ (0.37)   | \$ (0.22)    | \$ (1.01)   | \$ 0.28   | \$ (1.74)    |
| Diluted.....                         | \$(0.06)     | \$ (0.04)   | \$ (0.07)   | \$ (0.37)   | \$ (0.22)    | \$ (1.01)   | \$ 0.28   | \$ (1.74)    |
| <b>Discontinued operations</b>       |              |             |             |             |              |             |           |              |
| Revenue .....                        | \$ -         | \$ -        | \$58,296    | \$ 60,222   | \$ 27,188    | \$ 27,472   | \$ 52,817 | \$ 50,216    |
| Net (loss) income .....              | (3,146)      | -           | 157,756     | 13,790      | (2,093)      | (1,778)     | 8,534     | 6,153        |
| EBITDA <sup>(2)</sup> .....          | (3,778)      | -           | 189,001     | 13,292      | 1,872        | 2,728       | 16,474    | 14,763       |
| Adjusted EBITDA <sup>(3)</sup> ..... | -            | -           | 13,637      | 13,292      | 1,872        | 2,728       | 16,122    | 15,115       |
| Earnings (loss) per share            |              |             |             |             |              |             |           |              |
| Basic .....                          | \$ (0.02)    | \$ -        | \$ 1.11     | \$ 0.09     | \$ (0.01)    | \$ (0.01)   | \$ 0.07   | \$ 0.05      |
| Diluted.....                         | \$ (0.02)    | \$ -        | \$ 1.09     | \$ 0.09     | \$ (0.01)    | \$ (0.01)   | \$ 0.06   | \$ 0.05      |
| <b>Combined operations</b>           |              |             |             |             |              |             |           |              |
| Revenue <sup>(1)</sup> .....         | \$1,404,194  | \$1,480,196 | \$1,507,858 | \$1,474,409 | \$1,205,929  | \$1,122,498 | \$959,044 | \$1,276,223  |
| Net (loss) income .....              | (11,643)     | (5,523)     | 147,848     | (36,807)    | (32,870)     | (134,146)   | 44,109    | (212,220)    |
| EBITDA <sup>(2)</sup> .....          | 44,265       | 59,661      | 223,345     | 40,604      | 47,452       | (69,240)    | 111,960   | (103,464)    |
| Adjusted EBITDA <sup>(3)</sup> ..... | 55,708       | 66,387      | 86,906      | 97,219      | 62,563       | 44,281      | 74,043    | 100,961      |
| (Loss) earnings per share            |              |             |             |             |              |             |           |              |
| Basic .....                          | \$ (0.08)    | \$ (0.04)   | \$ 1.04     | \$ (0.28)   | \$ (0.23)    | \$ (1.02)   | \$ 0.35   | \$ (1.69)    |
| Diluted.....                         | \$ (0.08)    | \$ (0.04)   | \$ 1.02     | \$ (0.28)   | \$ (0.23)    | \$ (1.02)   | \$ 0.34   | \$ (1.69)    |

- (1) Revenue from combined operations represents the aggregated results of both continuing and discontinued operations and is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS.
- (2) EBITDA is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. EBITDA from continuing operations only consists of net income (loss) before interest expense, income taxes, depreciation and amortization from continuing operations. Combined EBITDA includes results from continuing and discontinued operations.
- (3) Adjusted EBITDA is defined as net income (loss) before interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including movement in the unrealized gains and losses on the Company's financial instruments, stock based compensation expense, impairment of long-term assets and asset write-downs. It also removes the impact of foreign exchange movements in the Company's U.S. dollar denominated long-term debt, debt extinguishment expenses and adjustments that are considered non-recurring in nature. Combined Adjusted EBITDA includes results from continuing and discontinued operations, while Adjusted EBITDA from continuing operations only includes results from continuing operations.

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

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

Because of these limitations, EBITDA 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 and Adjusted EBITDA for continuing operations, discontinued operations, and combined operations for the last eight quarters:

| Three months ended                  | 2017         |            |            | 2016        |              |             | 2015       |              |
|-------------------------------------|--------------|------------|------------|-------------|--------------|-------------|------------|--------------|
|                                     | September 30 | June 30    | March 31   | December 31 | September 30 | June 30     | March 31   | December 31  |
| <b>Continuing operations</b>        |              |            |            |             |              |             |            |              |
| Net (loss) income .....             | \$ (8,497)   | \$ (5,523) | \$ (9,908) | \$ (50,597) | \$ (30,777)  | \$(132,368) | \$ 35,575  | \$ (218,373) |
| Depreciation and amortization ..... | 54,569       | 49,907     | 48,287     | 62,005      | 72,051       | 59,613      | 50,739     | 96,733       |
| Interest expense .....              | 17,702       | 18,646     | 24,884     | 23,461      | 21,416       | 21,935      | 19,807     | 19,441       |
| Income tax (recovery) expense ..... | (15,731)     | (3,369)    | (28,919)   | (7,557)     | (17,110)     | (21,148)    | (10,635)   | (16,028)     |
| EBITDA .....                        | \$ 48,043    | \$ 59,661  | \$ 34,344  | \$ 27,312   | \$ 45,580    | \$(71,968)  | \$ 95,486  | \$ (118,227) |
| <b>Discontinued operations</b>      |              |            |            |             |              |             |            |              |
| Net (loss) income .....             | \$ (3,146)   | \$ -       | \$ 157,756 | \$ 13,790   | \$ (2,093)   | \$(1,778)   | \$ 8,534   | \$ 6,153     |
| Depreciation and amortization ..... | -            | -          | -          | 3,784       | 4,725        | 5,149       | 4,914      | 4,872        |
| Income tax (recovery) expense ..... | (632)        | -          | 31,245     | (4,282)     | (760)        | (643)       | 3,026      | 3,738        |
| EBITDA .....                        | \$ (3,778)   | \$ -       | \$ 189,001 | \$ 13,292   | \$ 1,872     | \$ 2,728    | \$ 16,474  | \$ 14,763    |
| <b>Combined operations</b>          |              |            |            |             |              |             |            |              |
| Net (loss) income .....             | \$ (11,643)  | \$ (5,523) | \$ 147,848 | \$ (36,807) | \$ (32,870)  | \$(134,146) | \$ 44,109  | \$ (212,220) |
| Depreciation and amortization ..... | 54,569       | 49,907     | 48,287     | 65,789      | 76,776       | 64,762      | 55,653     | 101,605      |
| Interest expense .....              | 17,702       | 18,646     | 24,884     | 23,461      | 21,416       | 21,935      | 19,807     | 19,441       |
| Income tax (recovery) expense ..... | (16,363)     | (3,369)    | 2,326      | (11,839)    | (17,870)     | (21,791)    | (7,609)    | (12,290)     |
| EBITDA .....                        | \$ 44,265    | \$ 59,661  | \$ 223,345 | \$ 40,604   | \$ 47,452    | \$(69,240)  | \$ 111,960 | \$ (103,464) |

The results of EBITDA are primarily driven by segment profit for the respective reportable segments. The following identifies the key drivers in segment profitability over the last eight quarters:

**Infrastructure** – The Infrastructure segment has progressively commissioned new storage capacity and related infrastructure, most notably in 2016, when a total of 3.4 million barrels of additional capacity and related fixed fee revenue streams were added. This increase in capacity primarily driven by the sustained demand for crude terminalling and storage services combined with the effective operation, including cost management, of its current Edmonton and Hardisty facilities has provided for the gradual increase in EBITDA.

**Logistics** – The Logistics segment provides transportation and related services which includes providing hauling services for crude, condensate, sulfur, waste water and drilling fluids for many of North America's leading oil and gas producers. Accordingly, the segment's results have been impacted by the reduction in crude oil prices and other related commodity prices which has reduced production and explorations activities thus lowering available demand from these producers. Additionally, increased competition, specific to the segment's U.S. operating areas, has impacted the ability of the Company to deliver consistent EBITDA results in this segment. However, the more recent gradual increase in the price of crude oil which has translated into slowly increasing activity

and production coupled with the availability of other commodity hauling, such as sulphur, as well as the recovery of demand for the Company's U.S. Environmental Service business as activity levels strengthened over the last two quarters has provided support for the segment's EBITDA.

Wholesale – The Wholesale segment earns margins by capturing quality, locational or time-based arbitrage opportunities related to the purchasing, selling, storing and optimization of hydrocarbon products, including crude oil and refined products. Accordingly, this segment has experienced commodity price fluctuations including in the pricing differentials between different geographic markets and product grades, most notably related to crude oil and other NGL's. These risks have been managed by purchasing and selling products through physical and financial contracts that include energy-related derivatives which have both supported and reduced segment profits from quarter to quarter in the form of realized or unrealized gains and losses.

For more details on more specific factors driving the periodic movements in segment profit, refer to the results of continuing and discontinued operations included in this MD&A.

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

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

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

The following tables reconcile segment profit to EBITDA to Adjusted EBITDA for each of the last eight quarters and Pro Forma Adjusted EBITDA for the twelve months ended September 30, 2017 and 2016:

|   | Three months ended |               |                |                   | Twelve months ended |
|---|--------------------|---------------|----------------|-------------------|---------------------|
|   | September 30, 2017 | June 30, 2017 | March 31, 2017 | December 31, 2016 | September 30, 2017  |
| <b>Continuing operations</b>  |                    |               |                |                   |                     |
| Segment profit .....  | \$ 64,211          | \$ 74,032     | \$ 86,766      | \$ 87,634         | \$ 312,643          |
| Unrealized foreign exchange gain (loss) on long-term debt <sup>(1)</sup> .... | 9,979              | 7,170         | 4,928          | (17,050)          | 5,027               |
| Stock based compensation (expense) recovery <sup>(3)</sup> .....              | (7,223)            | (6,827)       | 1,145          | (7,172)           | (20,077)            |
| Impairment of goodwill <sup>(4)</sup> .....                                   | -                  | -             | -              | (28,647)          | (28,647)            |
| Debt extinguishment costs <sup>(5)</sup> .....                                | (11,785)           | (2,010)       | (49,327)       | -                 | (63,122)            |
| Interest income.....  | 320                | 299           | 665            | 144               | 1,428               |
| Foreign exchange gain (loss) - corporate .....                                | (1,031)            | 152           | (528)          | 885               | (522)               |
| General and administrative .....  | (6,428)            | (13,155)      | (9,305)        | (8,482)           | (37,370)            |
| EBITDA.....   | \$ 48,043          | \$ 59,661     | \$ 34,344      | \$ 27,312         | \$ 169,360          |
| Unrealized foreign exchange (gain) loss on long-term debt <sup>(1)</sup> .... | (9,979)            | (7,170)       | (4,928)        | 17,050            | (5,027)             |
| Net unrealized (gain) loss from financial instruments <sup>(2)</sup> .....    | (1,364)            | 4,059         | (4,329)        | (602)             | (2,236)             |
| Stock based compensation expense (recovery) <sup>(3)</sup> .....              | 7,223              | 6,827         | (1,145)        | 7,172             | 20,077              |
| Impairment of goodwill <sup>(4)</sup> .....                                   | -                  | -             | -              | 28,647            | 28,647              |
| Debt extinguishment costs <sup>(5)</sup> .....                                | 11,785             | 2,010         | 49,327         | -                 | 63,122              |
| Severance and other costs <sup>(6)</sup> .....                                | -                  | 1,000         | -              | 4,348             | 5,348               |
| Adjusted EBITDA .....   | \$ 55,708          | \$ 66,387     | \$ 73,269      | \$ 83,927         | \$ 279,291          |
| <b>Discontinued operations</b>  |                    |               |                |                   |                     |
| Segment profit .....  | \$ -               | \$ -          | \$ 13,637      | \$ 13,292         | \$ 26,929           |
| Gain on sale.....   | (3,778)            | -             | 175,364        | -                 | 171,586             |
| EBITDA.....   | \$ (3,778)         | \$ -          | \$ 189,001     | \$ 13,292         | \$ 198,515          |
| Gain on sale.....   | 3,778              | -             | (175,364)      | -                 | (171,586)           |
| Adjusted EBITDA .....   | \$ -               | \$ -          | \$ 13,637      | \$ 13,292         | \$ 26,929           |
| <b>Combined operations</b>  |                    |               |                |                   |                     |
| Segment profit .....  | \$ 64,211          | \$ 74,032     | \$ 100,403     | \$ 100,926        | \$ 339,572          |
| Unrealized foreign exchange gain (loss) on long-term debt <sup>(1)</sup> .... | 9,979              | 7,170         | 4,928          | (17,050)          | 5,027               |
| Stock based compensation (expense) recovery <sup>(3)</sup> .....              | (7,223)            | (6,827)       | 1,145          | (7,172)           | (20,077)            |
| Impairment of goodwill <sup>(4)</sup> .....                                   | -                  | -             | -              | (28,647)          | (28,647)            |
| Debt extinguishment costs <sup>(5)</sup> .....                                | (11,785)           | (2,010)       | (49,327)       | -                 | (63,122)            |
| Interest income.....  | 320                | 299           | 665            | 144               | 1,428               |
| Foreign exchange (loss) gain - corporate .....                                | (1,031)            | 152           | (528)          | 885               | (522)               |
| General and administrative .....  | (6,428)            | (13,155)      | (9,305)        | (8,482)           | (37,370)            |
| Gain on sale.....   | (3,778)            | -             | 175,364        | -                 | 171,586             |
| EBITDA.....   | \$ 44,265          | \$ 59,661     | \$ 223,345     | \$ 40,604         | \$ 367,875          |
| Unrealized foreign exchange (gain) loss on long-term debt <sup>(1)</sup> .... | (9,979)            | (7,170)       | (4,928)        | 17,050            | (5,027)             |
| Net unrealized (gain) loss from financial instruments <sup>(2)</sup> .....    | (1,364)            | 4,059         | (4,329)        | (602)             | (2,236)             |
| Stock based compensation (recovery) expense <sup>(3)</sup> .....              | 7,223              | 6,827         | (1,145)        | 7,172             | 20,077              |
| Gain on sale.....   | 3,778              | -             | (175,364)      | -                 | (171,586)           |
| Impairment of goodwill <sup>(4)</sup> .....                                   | -                  | -             | -              | 28,647            | 28,647              |
| Debt extinguishment costs <sup>(5)</sup> .....                                | 11,785             | 2,010         | 49,327         | -                 | 63,122              |
| Severance and other costs <sup>(6)</sup> .....                                | -                  | 1,000         | -              | 4,348             | 5,348               |
| Combined Adjusted EBITDA .....  | \$ 55,708          | \$ 66,387     | \$ 86,906      | \$ 97,219         | \$ 306,220          |
| Pro forma impact of divestitures <sup>(7)</sup> .....                         | -                  | -             | -              | -                 | (26,929)            |
| Combined Pro Forma Adjusted EBITDA .....                                      | \$ 55,708          | \$ 66,387     | \$ 86,906      | \$ 97,219         | \$ 279,291          |

|   | Three months ended |               |                |                   | Twelve months ended |
|---|--------------------|---------------|----------------|-------------------|---------------------|
|   | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2016  |
| <b>Continuing operations</b>  |                    |               |                |                   |                     |
| Segment profit .....  | \$ 64,636          | \$ 47,629     | \$ 63,747      | \$ 97,335         | \$ 273,347          |
| Unrealized foreign exchange (loss) gain on long-term debt <sup>(1)</sup> .... | (5,940)            | (2,090)       | 47,795         | (24,530)          | 15,235              |
| 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)           |
| Interest income .....   | 384                | 441           | 124            | 35                | 984                 |
| Foreign exchange (loss) gain - corporate .....                                | (270)              | (911)         | (802)          | 1,344             | (639)               |
| General and administrative.....   | (6,372)            | (8,142)       | (12,022)       | (10,790)          | (37,326)            |
| EBITDA.....   | \$ 45,580          | \$ (71,968)   | \$ 95,486      | \$ (118,227)      | \$ (49,129)         |
| 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         | 1,178          | (2,078)           | 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 and other costs <sup>(6)</sup> .....                                | -                  | -             | 5,696          | -                 | 5,696               |
| Adjusted EBITDA .....   | \$ 60,691          | \$ 41,553     | \$ 57,921      | \$ 85,846         | \$ 246,011          |
| <b>Discontinued operations</b>  |                    |               |                |                   |                     |
| Segment profit and EBITDA.....  | \$ 1,872           | \$ 2,728      | \$ 16,474      | \$ 14,763         | \$ 35,837           |
| Net unrealized (gain) loss from financial instruments <sup>(2)</sup> .....    | -                  | -             | (352)          | 352               | -                   |
| Adjusted EBITDA .....   | \$ 1,872           | \$ 2,728      | \$ 16,122      | \$ 15,115         | \$ 35,837           |
| <b>Combined operations</b>  |                    |               |                |                   |                     |
| Segment profit .....  | \$ 66,508          | \$ 50,357     | \$ 80,221      | \$ 112,098        | \$ 309,184          |
| Unrealized foreign exchange (loss) gain on long-term debt <sup>(1)</sup> .... | (5,940)            | (2,090)       | 47,795         | (24,530)          | 15,235              |
| 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)           |
| Interest income .....   | 384                | 441           | 124            | 35                | 984                 |
| Foreign exchange (loss) gain - corporate .....                                | (270)              | (911)         | (802)          | 1,344             | (639)               |
| General and administrative.....   | (6,372)            | (8,142)       | (12,022)       | (10,790)          | (37,326)            |
| 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 and other costs <sup>(6)</sup> .....                                | -                  | -             | 5,696          | -                 | 5,696               |
| Combined Adjusted EBITDA .....  | \$ 62,563          | \$ 44,281     | \$ 74,043      | \$ 100,961        | \$ 281,848          |
| Pro forma impact of acquisitions <sup>(7)</sup> .....                         | -                  | -             | -              | -                 | -                   |
| Combined Pro Forma Adjusted EBITDA .....                                      | \$ 62,563          | \$ 44,281     | \$ 74,043      | \$ 100,961        | \$ 281,848          |

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

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

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

- (4) Represents the non-cash impairment of goodwill charge recorded in the twelve months ended September 30, 2017.
- (5) Represents debt extinguishment costs related to the repayment of a portion of Company's C\$ Notes and U.S. \$ Notes as discussed under debt extinguishment costs.
- (6) Represents the severance costs incurred related to a headcount rationalization review, and the incurrence of non-recurring executive payroll related costs.
- (7) Reflects the pro forma impact of acquisitions or divestitures on the Company's Adjusted EBITDA as if the acquisitions or divestitures that took place in the twelve month period occurred on October 1 of each twelve month period. The pro forma impact of acquisitions or divestitures is calculated on the same basis as Adjusted EBITDA.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity sources

The Company's primary liquidity and capital resource needs are to fund ongoing capital expenditures, growth opportunities, acquisitions, and to fund its dividend. In addition, the Company must service its debt, including interest payments, and finance working capital needs. The Company's short-term and long-term liquidity needs are met through the following sources: cash flow from operations, debt and equity financings, borrowings under the Revolving Credit Facility and proceeds from the sale of assets. As discussed in Discontinued Operations, the Company received a cash payment of \$433.1 million in connection with the sale of the Industrial Propane business. As discussed under the "Notes" paragraph within this section during the nine months ended September 30, 2017, the Company issued the New Notes and utilized the net proceeds from this issuance along with a portion of the net proceeds from the sale of the Company's Industrial Propane business, to repay a portion of the U.S.\$ Notes and C\$ Notes. As at September 30, 2017, the Company has sufficient liquidity sources to fund its ongoing capital expenditures, dividends, debt service requirements and working capital needs over the short and long-term. Additionally, it's anticipated that the Company's current working capital deficiency will be eliminated upon the completion of its Additional New Notes offering and subsequent redemption of the remaining balance of its \$264.2 million U.S.\$ Notes as described in the Capital Structure section.

### Cash flow summary

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

|  | <u>Three months ended September 30,</u> |             | <u>Nine months ended September 30,</u> |             |
|--|---|-------------|--|-------------|
|  | <u>2017</u>                             | <u>2016</u> | <u>2017</u>                            | <u>2016</u> |
|  | (in thousands)                          |             |  |             |
| <b>Statement of Cash Flows</b>           |   |             |  |             |
| <b>Cash flows provided by (used in):</b> |   |             |  |             |
| Operating activities .....               | \$ 5,245                                | \$ 14,690   | \$ 159,656                             | \$ 144,019  |
| Investing activities .....               | (38,002)                                | (64,239)    | (107,414)                              | (201,710)   |
| Financing activities.....                | 23,757                                  | (87,398)    | (487,791)                              | 65,560      |

### Cash provided by operating activities

Cash provided by operating activities for the three months ended September 30, 2017 was \$5.2 million compared to \$14.7 million for the three months ended September 30, 2016. The decrease was due to changes in working capital needs that resulted in cash used to fund working capital of \$48.2 million as a result of lower segment profit from the Wholesale segment, partially offset by higher segment profit related to the Infrastructure segment (refer to the respective section in "Results of Continuing Operations" for more details) in the three months ended September 30, 2017, compared to cash used to fund working capital of \$41.7 million in the three months ended September 30, 2016. The change in working capital requirements in the current period was largely driven by the change in inventory and accounts payable amounts.

Cash provided by operating activities for the nine months ended September 30, 2017 was \$159.7 million compared to \$144.0 million for the three months ended September 30, 2016. The increase was due to higher segment profit primarily related to the Infrastructure, Logistics and Wholesale segments (refer to the respective section in "Results of Continuing Operations" for more details) partially offset by changes in working capital needs that resulted in cash used to fund working capital of \$22.2 million

in the nine months ended September 30, 2017 compared to cash used to fund working capital of \$1.7 million in the nine months ended September 30, 2016. The change in working capital requirements was largely driven by the change in inventory and accounts payable amounts.

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

#### **Cash used in investing activities**

Cash used in investing activities consists primarily of capital expenditures. Cash used in investing activities was \$38.0 million and \$107.4 million for the three and nine months ended September 30, 2017, compared to \$64.2 million and \$201.7 million for the three and nine months ended September 30, 2016. Cash used in investing activities in the three and nine months ended September 30, 2017 largely relates to growth capital expenditures. For a summary of capital expenditures for the respective segments, see "Capital expenditures" included throughout this MD&A.

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

Cash provided by financing activities was \$23.8 million for the three months ended September 30, 2017 compared to cash used in financing activities of \$87.4 million for the three months ended September 30, 2016. The change was due to the net proceeds from credit facilities of \$140.0 million, the payment of net interest costs of \$28.4 million in the three months ended September 30, 2017 compared to net interest costs of \$41.3 million in the three months ended September 30, 2016. Partially offset by the repayment of long-term debt and financing costs of \$40.7 million.

Cash used in financing activities was \$487.8 million for the nine months ended September 30, 2017 compared to cash provided by financing activities of \$65.6 million for the nine months ended September 30, 2016. The change was due to the repayment of debt and financing costs of \$744.2 million, the proceeds received from the issuance of long-term debt of \$344.9 million, and the payment of net interest and cash dividends of \$83.6 million and \$140.9 million, respectively, in the nine months ended September 30, 2017, compared to 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. In addition, these movements were offset by the proceeds from the issuance of common shares, net of issuance costs of \$220.3 million, and from the issuance of convertible notes, net of issue costs of \$96.4 million. In the nine months ended September 30, 2017, the Company made net payments on the settlement of financial instruments of \$5.1 million and received net proceeds related to its credit facilities of \$139.9 million and in the nine months ended September 30, 2016 the Company made repayments related to its credit facilities of \$35.0 million. The increase in dividends paid was driven by the increase in shares outstanding from the share issuance completed in the second quarter of 2016, resulting in an increase of \$12.1 million in cash dividends paid during the nine months ended September 30, 2017. Please refer to "Results of Discontinued Operations" section of the MD&A for discussion on proceeds from sale of Industrial Propane business.

## Capital expenditures

The following table summarizes growth capital and upgrade and replacement capital for the three and nine months ended September 30, 2017 and 2016:

|  | Three months ended<br>September 30 |           | Nine months ended<br>September 30 |            |
|--|------------------------------------|-----------|-----------------------------------|------------|
|  | 2017                               | 2016      | 2017                              | 2016       |
| Growth capital <sup>(1)</sup> .....                  | \$ 48,579                          | \$ 60,316 | \$ 98,078                         | \$ 168,215 |
| Upgrade and replacement capital <sup>(2)</sup> ..... | 6,865                              | 3,345     | 17,521                            | 17,171     |
| Total .....  | \$ 55,444                          | \$ 63,661 | \$ 115,599                        | \$ 185,386 |

(1) Growth capital expenditures in the three and nine months ended September 30, 2017 include Other and Corporate expenditures of \$0.3 million and \$2.6 million, respectively compared to growth capital expenditures of \$0.6 million and \$2.0 million, respectively in the three and nine months ended September 30, 2016. These expenditures mainly relate to growth capital expenditure costs associated with the Company's information and operational systems. The remainder of the growth capital expenditures have been discussed in continuing and discontinued operations earlier in this MD&A.

(2) Upgrade and replacement capital expenditures in the three and nine months ended September 30, 2017 include Other and Corporate expenditures of \$0.5 million and \$1.7 million, respectively, compared to upgrade and replacement capital expenditures of \$0.3 million and \$1.5 million, respectively in the three and nine months ended September 30, 2016. These expenditures mainly relate to upgrade and replacement costs associated with the Company's information and operational systems. The remainder of the upgrade and replacement capital expenditures have been discussed in continuing and discontinued operations earlier in this MD&A.

### 2017 Capital expenditures program

Capital expenditures amounted to \$115.6 million in the nine months ended September 30, 2017. The Company is progressing towards its planned capital investment program for 2017 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.

## Capital structure

|   | As at                 |                      |
|---|-----------------------|----------------------|
|   | September 30,<br>2017 | December 31,<br>2016 |
| Notes   |                       |                      |
| Revolving credit facility.....  | \$ 140,000            | \$ -                 |
| \$250 million – December 31, 2016 7.00% Notes due July 15, 2020 .....   | -                     | 250,000              |
| U.S.\$211.2 million (U.S. \$550 million – December 31, 2016) 6.75% Notes due July 15, 2021 <sup>(1)</sup> ..... | 264,211               | 738,485              |
| \$300.0 million 5.375% Notes due July 15, 2022 .....  | 300,000               | 300,000              |
| \$350.0 million 5.25% Notes due July 15, 2024 .....   | 350,000               | -                    |
| Unamortized issue discount and debt issue costs .....   | (7,786)               | (16,646)             |
| \$100.0 million Debentures 5.25% due July 15, 2021 (liability component) .....                                  | 89,765                | 89,765               |
| Total debt outstanding .....  | 1,136,190             | 1,361,604            |
| Cash and cash equivalents.....  | (39,290)              | (60,159)             |
| Net debt <sup>(2)</sup> .....   | 1,096,900             | 1,301,445            |
| Total share capital (including Debentures – equity component) .....   | 1,931,911             | 1,919,267            |
| Total capital .....   | \$ 3,028,811          | \$ 3,220,712         |

- (1) On October 5, 2017, the Company closed its offering of \$250.0 million aggregate principal amount of 5.25% Senior Unsecured New Notes due July 15, 2024. On October 30, 2017, the Company used the net proceeds from the offering to redeem the remaining balance of its \$264.2 million U.S.\$ Notes aggregate principal amount of outstanding U.S. \$Notes.
- (2) The Debentures are included in the above total capital calculation in accordance with the Company's view of its capital structure which includes shareholders' equity, long-term debt, the Debentures, the Revolving Credit Facility and cash. The Debentures and associated interest payments are excluded from the definition of net debt included in the consolidated senior and total debt covenant ratios as well as the consolidated interest coverage covenant ratio.

## Notes

As discussed earlier in the debt extinguishment section, the Company completed a tender offer on its existing Notes and also issued the New Notes during the nine months ended September 30, 2017. The indentures governing the terms of the Notes and New Notes, including the supplemental indenture thereto (the "Indenture"), contain certain redemption options whereby the Company can redeem all or part of the Notes and New notes at prices set forth in the Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of Notes and New Notes have the right to require the Company to redeem the Notes and New Notes at the redemption prices set forth in the respective indebtedness in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the applicable Indenture.

On October 5, 2017, the Company issued the Additional New Notes on an exempt private placement basis. The Additional New Notes were issued at par and interest thereon will be payable semi-annually in arrears beginning January 15, 2018. The Additional New Notes were issued under the indenture pursuant to which the Company previously issued \$350.0 million aggregate principal amount of 5.250% senior unsecured notes due 2024, and will form a single series with such previously issued notes (collectively the "New Notes").

The net proceeds from the issuance of the Additional New Notes was used to redeem the remaining U.S.\$211.2 million aggregate principal amount of outstanding U.S.\$ Notes on October 30, 2017 (the "Redemption Date"). The redemption price for each U.S.\$1,000.00 principal amount of the U.S.\$ Notes was U.S.\$1,053.06 (the "Redemption Price"), being equal to the aggregate of (i) U.S.\$1,033.75 for each U.S.\$1,000.00 principal amount of the U.S. \$ Notes redeemed, plus (ii) approximately U.S.\$19.31 for each U.S.\$1,000.00 principal amount in accrued and unpaid interest to, but not including, the Redemption Date

## Debentures

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

## Credit facility

The Revolving Credit Facility of \$500.0 million ("Revolving Credit Facility"), the proceeds of which are available to provide financing for working capital, fund capital expenditures 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 March 7, 2022. The Revolving Credit Facility permits letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate, as the case may be, plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company's total debt leverage ratio. In addition, the Company must pay a standby fees on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins determined in a manner similar to the interest. In addition, the Company has three bilateral demand letter of credit facilities totaling \$150.0 million. The Company had \$140.0 million drawn on its \$500.0 million Revolving Credit Facility as of September 30, 2017, and had issued letters of credit totaling \$69.1 million under its bilateral demand letter of credit facilities as at September 30, 2017.

The Revolving Credit Facility contains certain covenants, including financial covenants requiring the Company to maintain ratios of maximum consolidated senior and total debt leverage as well as to maintain a minimum interest coverage ratio. Effective March

7, 2017, the Company amended certain covenants related to its \$500.0 million Revolving Credit Facility including, amongst other revisions, revising the maximum consolidated senior and the maximum consolidated total debt leverage ratios to 4.85 to 1.0 for the 2017 fiscal year, 4.25 to 1.0 for 2018 fiscal year and 4.0 to 1.0 thereafter. Furthermore, the maturity date of our Revolving Credit Facility was extended from August 2020 to March 2022.

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, 2017, the Company was in compliance with the financial ratios with the senior debt leverage ratio at 3.6 to 1.0, total debt leverage ratio at 3.6 to 1.0, and the interest coverage ratio at 3.4 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, 2017, the Company was in compliance with all of its covenants under the Notes and the Revolving Credit Facility.

#### **Dividends**

The Company is currently paying quarterly dividends to holders of common shares. The payment of dividends is not guaranteed, and the amount and timing of any dividends payable by Gibsons will be at the discretion of the Board and will be established on the basis of Gibsons' earnings, financial requirements for operations, the satisfaction of a solvency calculation and the terms of the Company's debt agreements. In addition, in connection with Company's dividend policy, after each fiscal year end the Board will formally review the annual dividend amount. In the three months ended September 30, 2017, the Company declared a dividend of \$0.33 per share for a total dividend of \$47.1 million, of which the entire amount was paid in cash on October 17, 2017. The declaration of dividends is considered on a quarterly basis and is at the sole discretion of the Board and will be determined on the basis of earnings, financial requirements for operations and a solvency calculation.

#### **Distributable cash flow**

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

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

The following is a reconciliation of distributable cash flow from combined operations to its most closely related IFRS measure, cash flow from operating activities for the twelve months ended September 30, 2017.

|   | <b>Twelve months<br/>ended<br/>September 30,<br/>2017</b> |
|---|---|
| <b><u>Continuing operations</u></b>                         |   |
| Cash flow from operating activities.....                    | \$ 191,119  |
| Adjustments:  |   |
| Changes in non-cash working capital.....                    | 75,871  |
| Upgrade and replacement capital .....                       | (25,139)  |
| Cash interest expense, including capitalized interest.....  | (80,037)  |
| Non-recurring items: .....                                  |   |
| Severance and other costs <sup>(1)</sup> .....              | 5,347   |
| Distributable cash flow from continuing operations.....     | <u>\$ 167,161</u>   |
| <br>  |   |
|   | <b>Twelve months<br/>ended<br/>September 30,<br/>2017</b> |
| <b><u>Combined operations</u></b>                           |   |
| Cash flow from operating activities.....                    | \$ 206,955  |
| Adjustments:  |   |
| Changes in non-cash working capital .....                   | 75,236  |
| Upgrade and replacement capital .....                       | (25,966)  |
| Cash interest expense, including capitalized interest ..... | (80,037)  |
| Non-recurring items: .....                                  |   |
| Severance and other costs <sup>(1)</sup> .....              | 5,347   |
| Distributable cash flow from combined operations.....       | <u>\$ 181,535</u>   |
| Dividends declared to shareholders.....                     | <u>\$ 187,984</u>   |

(1) Represents the severance costs incurred related to a headcount rationalization review throughout 2016 as well as executive payroll related costs incurred in Q2 2017, which are considered non-recurring.

Dividends declared in the twelve months ended September 30, 2017 were \$188.0 million, of which the entire amount was paid in cash. In the twelve months ended September 30, 2017, dividends declared represented 104% of the combined distributable cash flow generated.

### Contractual obligations

The following table presents, at September 30, 2017, the Company's obligations and commitments to make future payments under contracts and contingent commitments:

|   | <b>Payments due by period</b> |                             |                   |                   |                              |
|---|-------------------------------|-----------------------------|-------------------|-------------------|------------------------------|
|   | <b>Total</b>                  | <b>Less than<br/>1 year</b> | <b>1-3 years</b>  | <b>3-5 years</b>  | <b>More than<br/>5 years</b> |
| Long-term debt <sup>(1)(2)</sup> .....                                    | \$ 914,211                    | \$ 264,211                  | \$ -              | \$ 300,000        | \$ 350,000                   |
| Convertible debentures .....  | 100,000                       | -                           | -                 | 100,000           | -                            |
| Interest payments on long-term debt and Debentures <sup>(1)(2)</sup> .... | 318,675                       | 57,584                      | 115,169           | 98,803            | 47,119                       |
| Credit facilities .....   | 140,000                       | -                           | -                 | 140,000           | -                            |
| Total contractual obligations .....                                       | <u>\$ 1,472,886</u>           | <u>\$ 321,795</u>           | <u>\$ 115,169</u> | <u>\$ 638,803</u> | <u>\$ 397,119</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, 2017 of U.S.\$0.80 to CAD\$1.00.

(2) Refer to capital structure and debt extinguishment expenses section of the MD&A for subsequent event disclosure related to long-term debt and interest payments on long-term debt.

## **Contingencies**

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

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

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at September 30, 2017, there were 142.7 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 3.0 million restricted share units, performance share units and deferred share units outstanding and 3.5 million stock options outstanding as at September 30, 2017.

At September 30, 2017, awards available to grant under the equity incentive plan were approximately 7.8 million.

As at November 7, 2017, 142.8 million common shares, 2.7 million restricted share units, performance share units and deferred share units and 3.5 million stock options were outstanding.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

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

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

The fair value of futures contracts is based on quoted market prices obtained from the Chicago Mercantile Exchange. The fair value of swaps and option contracts is estimated based on quoted prices from various sources, such as independent reporting services, industry publications and brokers. These quotes are compared to the contract price of the swap, which approximates the gain or loss that would have been realized if the contracts had been closed out at the period end. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. No such positions existed as at September 30, 2017 and September 30, 2016. 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 \$8.5 million and \$9.3 million as of September 30, 2017 and 2016, respectively. A 15% unfavorable change would decrease the Company's net income by \$8.8 million and \$9.6 million as of September 30, 2017 and 2016, respectively. However, these changes may be offset by the use of one or more risk management strategies.

*Interest rate risk.* The issuance of the Additional New Notes, along with outstanding Notes, exposes the Company to fixed interest rates and accordingly changes in market interest rates do not expose the Company to future interest cash outflow variability.

Under the Revolving Credit Facility, the Company is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either the Canadian Prime Rate or U.S. LIBOR, U.S. Base Rate or Canadian Bankers' Acceptance Rate, plus an applicable margin based on the Company's total leverage ratio. As at September 30, 2017 and 2016, the Company had \$140 million drawn under the Revolving Credit Facility and, accordingly, is currently not subject to 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 \$2.4 million and \$1.3 million as at September 30, 2017 and 2016, respectively. A 5% favorable change would increase the Company's net income by \$2.3 million and \$1.3 million as at September 30, 2017 and 2016, 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, 2017, the Company had outstanding U.S. dollar denominated debt of U.S.\$211.2 million. The Company has no foreign currency hedges in place relating to its long-term debt at September 30, 2017 and, therefore, the Company is exposed to the associated foreign currency exchange risk. The Company monitors its exposure to foreign currencies, including associated interest payments, and, where optimal, will consider minimizing exposure using appropriate hedging strategies. Currently, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would impact both the carrying value of the Company's long-term debt and any related foreign currency contracts and would decrease the Company's net income by \$11.4 million and \$31.2 million as at September 30, 2017 and 2016, respectively. A corresponding favorable change would increase the Company's net income by \$11.4 million and \$31.2 million as at September 30, 2017 and 2016, respectively. Based on the interest rate in effect at September 30, 2017, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar as of September 30, 2017 would increase the Company's annual interest expense by \$0.9 million. A 5% favorable change in the value of the Canadian dollar relative to the U.S. dollar as of September 30, 2017 would decrease the Company's annual interest expense by \$0.9 million. On October 5, the Company entered

into U.S. dollar forward contracts to buy U.S. dollars on a notional amount of U.S.\$120.0 million at a weighted average rate of \$1.26 for U.S.\$1.00 which settled on October 26, 2017. On October 30, 2017 the Company no longer has any remaining foreign currency exposure related to its U.S. dollar denominated debt of U.S.\$211.2 million or its related interest payments.

*Equity price risk:* The Company has equity price and dilution exposure to shares that it issues under its stock based compensation programs. Gibsons uses equity derivatives to manage volatility derived from its stock based compensation programs. These contracts will mature at the prevailing share prices in accordance with the specific maturities of each contract over a three year period. As at September 30, 2017 and 2016, the Company estimates that a 10% increase in the Company's share price would have resulted in an increase in the Company's income of \$1.9 million and \$0.7 million, respectively. A corresponding decrease in the Company's share price would decrease the Company's net income by \$1.9 million and \$0.7 million, respectively.

## **ACCOUNTING POLICIES**

### **Critical accounting policies and estimates**

The preparation of condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the Company's condensed consolidated financial statements. The Company's critical accounting policies and estimates are discussed in the Company's Annual 2016 MD&A dated March 8, 2017 as filed on SEDAR.

### **Amended standards adopted by the Company**

#### **New and amended standards adopted by the Company**

#### ***New and amended standards adopted by the Company***

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

- The annual improvements process addresses issues in the 2014-2016 reporting cycles include changes to IFRS 12 - *Disclosure of interests in other entities*. This improvement is effective for periods beginning on or after January 1, 2017. The adoption of these improvements did not have a material impact on the condensed consolidated financial statements.
- IAS 12 – *Income taxes* ("IAS 12"), has been amended to clarify (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base, and (iii) certain other aspects of accounting for deferred tax assets. The amendment to IAS 12 is effective for years beginning on or after January 1, 2017. The adoption of this amendment did not have a material impact on the condensed consolidated financial statements.
- IAS 7 – *Statement of cash flows* ("IAS 7"), has been amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash-flows and non-cash changes. The amendment to IAS 7 is effective for years beginning on or after January 1, 2017. The adoption of this amendment did not have a material impact on the condensed consolidated financial statements, however additional disclosures will be included in the Company's 2017 annual financial statements.

### ***New standards and interpretations issued but not yet adopted***

The following accounting interpretations and standards were issued during the period:

- IFRIC 23 – *Uncertainty over income tax treatments* (“IFRIC 23”), has been amended to clarify how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax treatments. The amendment to IFRIC 23 is effective for years beginning on or after January 1, 2019. The Company has not currently assessed the impact of adopting this interpretation on its consolidated financial statements.
- IFRS 17 – *Insurance contracts* (“IFRS 17”), has been issued to clarify recognition and measurement accounting principles with respect to insurance contracts. The issuance of IFRS 17 is effective for years beginning on or after January 1, 2021. The Company has not currently assessed the impact of adopting this interpretation on its consolidated financial statements.

As disclosed in the 2016 year-end Financial Statements, the Company is currently evaluating the impact of IFRS 16, “Leases” (“IFRS 16”), IFRS 15, “Revenue From Contracts With Customers” (“IFRS 15”), and IFRS 9, “Financial Instruments” (“IFRS 9”).

#### **IFRS 15 and 16**

IFRS 16 is effective for years beginning on or after January 1, 2019, however the early adoption of IFRS 16 is permitted if IFRS 15 has been adopted. The Company has chosen to early adopt IFRS 16 effective January 1, 2018, concurrent with the adoption date of IFRS 15.

The standard may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. The Company has opted to use the modified retrospective approach in its adoption of IFRS 15 and 16. It is anticipated that the adoption of IFRS 16 will have a material impact on the Company’s Consolidated Balance Sheet due to material lease arrangements as a lessee. For Lessor accounting, the Company anticipates that the accounting treatment remains materially the same.

For IFRS 15 and IFRS 16, the Company is in the process of formalizing its technical position papers related to all contracts and arrangements which will cause an impact as a result of the adoption of IFRS 15 and 16. Once these position papers are formally approved, the Company will quantify the impacts of IFRS 15 and 16 on its financial statements. These changes include, but are not limited to (i) recognition and measurement of revenue and expenses on the Company’s consolidated financial statements; (ii) company policies and business practices; (iii) information technology systems; (iv) key operating metrics; (v) internal controls; (vi) financial covenants; and (vii) significant judgments and estimations required.

Progress towards the final determination of the impacts of these standard remains consistent with the plan and has included the completion of the following: 1) scoping and review of lease and revenue contracts; 2) identification of changes required; 3) initial assessment of quantitative impacts; 4) review and initial scoping of process changes; and 5) development of technical position papers. The Company anticipates that the following items will form the significant impacts, among other items, from the adoption of IFRS 15 and 16:

#### **IFRS 15**

- (i) Certain contracts may be recognized over time instead at a point in time which could result in recording a contract liability (deferred revenue).
- (ii) Under the previous revenue standard, disclosure requirements were specific to the significant categories of revenue arising from the sale of goods, rendering of services, interest, royalties, and dividends. Under IFRS 15, the Company will be required to disclose requirements on the disaggregation of revenue, contract balances, performance obligations, assets recognized to obtain or fulfil a contract, as well as significant judgments in the application of IFRS 15. The Company anticipates providing more robust revenue disclosure under IFRS 15 with respect to the disaggregation of revenue and anticipates the inclusion of disclosure related to the nature, amount, timing, of revenues related to each segment.

## **IFRS 16**

Upon adoption, the Company will be required to recognize lease liabilities in relation to leases under the principles of the new standard which, as discussed previously will have a material impact on our financial results. The lease liabilities will be measured at the present value of the remaining lease payments, and will be discounted using the Company's incremental borrowing rate as of the date of the adoption. The associated rights-of-use assets will be measured at the amount equal to the lease liability on the date of the adoption. The Company anticipates that a significant amount of arrangements within our Wholesale segment, Logistics segment, and Corporate groups which are currently classified as operating leases and charged through the statement of operations will be recorded on the statement of financial position as a lease liability with an offsetting right-of-use asset under IFRS 16. The Company is still assessing the impact of IFRS 16 on its owner-operator agreements (OOA's) within its Logistic segment.

## **IFRS 9**

For IFRS 9, the Company is in the process of formalizing its technical position papers, and updating processes related to the new requirements of this standard which, is primarily related to the implementation of the expected credit loss model. Specifically, the Company has concluded that it will have two types of financial assets subject to the requirements of the expected credit losses model which are trade receivables and net investments in finance leases. The Company is reviewing its impairment methodology under IFRS 9 for each of these classes of assets and plans to apply a simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.

## **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, 2017.

During the three months ended September 30, 2017, there have been no changes made to Gibsons ICFR that materially affected or are reasonably likely to materially affect, it's ICFR.

## **RISK FACTORS**

For a detailed discussion of the risks and trends that could affect the financial performance of the Company and the steps Gibsons takes to mitigate these risks, see the December 31, 2016 MD&A and Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

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

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

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

- future growth in world-wide demand for crude oil and petroleum products;
- crude oil prices;
- no material defaults by the counterparties to agreements with the Company;
- the Company’s ability to obtain qualified personnel, owner-operators, lease operators and equipment in a timely and cost-efficient manner;
- the regulatory framework governing taxes and environmental matters in the jurisdictions in which the Company conducts and will conduct its business;
- changes in credit ratings applicable to the Company;
- operating costs;
- future capital expenditures to be made by the Company;
- the Company’s ability to obtain financing for its capital programs on acceptable terms;
- the Company’s future debt levels;

- *the impact of increasing competition on the Company; and*
- *the impact of future changes in accounting policies on the Company's consolidated financial statements.*

*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 7, 2017 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.*