MANAGEMENT'S DISCUSSION & ANALYSIS

2019 Year End Report

GIBSON ENERGY

Contents

The following Management's Discussion and Analysis ("MD&A") was prepared and approved by the Board of Directors (the "Board") of Gibson Energy Inc. ("we", "our", "us", its", "Gibson" or the "Company") as of February 24, 2020 and should be read in conjunction with the audited consolidated financial statements and related notes of the Company for the years ended December 31, 2019 and 2018, 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. Amounts are stated in thousands of Canadian dollars except per share data, unless otherwise noted. Additional information about Gibson, including the Annual Information Form for the year ended December 31, 2019 ("AIF") is available on SEDAR at www.sedar.com and on our website at www.gibsonenergy.com. This MD&A contains forward-looking statements and non-GAAP measures and readers are cautioned that this MD&A should be read in conjunction with the Company's disclosure under "Forward-Looking Statements" and "Non-GAAP Financial Measures" included at the end of this MD&A.

BUSINESS OVERVIEW

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

SELECTED FINANCIAL INFORMATION

	Three months ended December 31		Years ended December 31	
	2019	2018	2019	2018
Continuing operations [1]				
Segment profit [3]	$ 132,015	$ 153,569	$ 494,250	$ 487,087
Adjusted EBITDA [2,3]	125,949	134,001	459,219	457,315
Cash flow from operating activities [3]	105,670	262,044	362,155	527,086
Distributable cash flow [2,3]	75,810	78,190	301,539	259,126
Growth capital expenditures [3]	$ 46,703	$ 81,745	$ 229,081	$ 221,198
Combined operations [2]				
Combined Adjusted EBITDA [2,3,4]	$ 125,949	$ 140,479	$ 467,316	$ 490,083
Distributable cash flow [3,4]	75,660	84,123	309,293	282,517

	Last Twelve Months - As at December 31	
	2019	2018
Debt and dividend payout ratios [1]		
Debt to capitalization ratio	49%	-
Interest coverage ratio	6.7	6.7
Combined dividend payout ratio [3]	62%	67%

	Years ended December 31		
	2019	2018	2017 [3]
Revenue [3]	$ 7,336,322	$ 6,846,589	$ 5,659,646
Net income (loss) [3]	176,339	81,125	(66,326)
Basic income (loss) per share [3]	1.21	0.57	(0.47)
Diluted income (loss) per share [3]	1.19	0.56	(0.47)
Dividends declared ($1.32 per share)	$ 192,001	$ 190,326	$ 188,470

	As at December 31		
	2019	2018	2017 [3]
Total assets	$ 2,976,690	$ 2,809,576	$ 2,964,434
Total non-current liabilities	1,626,916	1,461,685	1,498,900

1. *See definition of non-GAAP measures on pages 15 to 16 and 38. Combined Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") and Combined distributable cash flow, represents the aggregated results of both continuing and discontinued operations.*

2. *See pages 16 to 17 and 22 to 23 for a reconciliation of Adjusted EBITDA to segment profit and distributable cash flow to cash flow from operations, respectively.*

3. *The current and prior period results include the impacts from the adoption of IFRS 15 – Revenue from Contracts with Customers and IFRS 16 – Leases. 2017 comparative information has not been restated and, therefore, may not be comparable.*

2019 REVIEW

Financial highlights

- Segment profit for the Infrastructure segment of $299.1 million increased by $15.6 million, for the year ended December 31, 2019 compared to $283.5 million, for the year ended December 31, 2018 primarily due to seven additional tanks brought into service during 2019 under take-or-pay, stable fee-based contracts, the expansion of the Hardisty Unit Rail Facility (the "HURC Facility"), the Viking Pipeline Project ("Viking Pipeline") entering service, and additional capacity available at Moose Jaw Facility, partially offset by the impact of a $15.0 million future environmental remediation provision recorded in the second quarter of 2019 related to a claim filed against an adjacent operator at the Hardisty Terminal. Absent the $15.0 million future environmental remediation provision, Infrastructure segment profit increased by $30.6 million, for the year ended December 31, 2019.
- Segment profit for the Marketing segment of $195.1 million decreased by $8.5 million, for the year ended December 31, 2019 compared to $203.6 million, for the year ended December 31, 2018. The decrease was due to lower margins earned from the Refined Product businesses in 2019 due to narrower differentials in the current year.
- Segment profit from continuing operations of $494.3 million increased by $7.2 million, for the year ended December 31, 2019 compared to $487.1 million, for the year ended December 31, 2018. The increase was driven by stronger performance from the Infrastructure segment, partially offset by the $15.0 million future environmental remediation provision, and lower Marketing results in the current year.
- Adjusted EBITDA from continuing operations of $459.2 million increased by $1.9 million, for the year ended December 31, 2019 compared to $457.3 million, for the year ended December 31, 2018. The increase was due to higher segment profit as discussed above, partially offset by corporate foreign exchange losses incurred during the current year.
- The Company had record distributable cash flow from combined operations of $309.3 million, which increased by $26.8 million, for the year ended December 31, 2019 compared to $282.5 million, for the year ended December 31, 2018, resulting in a payout ratio of 62% for the year ended December 31, 2019.
- Net income from continuing operations of $176.3 million increased by $95.2 million, for the year ended December 31, 2019 compared to a net income of $81.1 million, for the year ended December 31, 2018.
- The Company declared dividends of $1.32 per common share for the years ended December 31, 2019 and 2018. Total dividends declared for the year ended December 31, 2019 were $192.0 million, and $190.3 million for the year ended December 31, 2018.

Capital projects highlights

- During the year ended December 31, 2019, the Company incurred total growth capital expenditures of $229.1 million on construction of new tanks and related infrastructure at the Hardisty and Edmonton Terminals, the expansion of the Moose Jaw Facility, and construction of U.S. pipelines.
- On March 1 ,2019, the Company announced the sanctioning of 500,000 barrels of new tankage at its Hardisty Terminal under a long-term agreement with an investment grade customer.
- On December 3, 2019, the Company, along with US Development group, LLC (through a wholly-owned affiliate, collectively, ("USD"), jointly announced an agreement to construct and operate a diluent recovery unit ("DRU") adjacent to the Company's HURC facility.
- On December 9, 2019, the Company announced the approval of the 2020 growth capital expenditure budget of $300 million with an additional $25 million allocated to replacement capital expenditures.
- On December 18, 2019, the Company announced the sanction of one million barrels of new tankage at its Hardisty Terminal, which is expected to be placed into service by the end of 2020.

Capital structure & credit ratings

- On April 1, 2019, DBRS Limited (“DBRS Morningstar”) assigned to the Company an Issuer Rating of “BBB (low)” with a “Stable” trend. DBRS Morningstar also assigned the same rating and trend to the Company’s $300 million 5.375% Notes (“2022 Notes”) and $600 million 5.25% Notes (“2024 Notes”).
- On April 3, 2019, the Company amended certain terms of its unsecured revolving credit facility (“Revolving Credit Facility”) including extending the maturity date from March 2023 to March 2024. The amended Revolving Credit Facility also moved to a ratings-based pricing grid from a leverage-based pricing grid which could result in reduced borrowing rates to the Company.
- On July 24, 2019, S&P Global Ratings (“S&P”) raised its long-term issuer credit rating and senior unsecured debt ratings on the Company to “BBB–” with a “Stable” outlook. Along with the DBRS Morningstar rating of “BBB (Low)”, this represented the Company’s second investment grade rating. Accordingly, certain amendments to the Revolving Credit Facility, 2022 Notes and 2024 Notes took effect as of July 29, 2019, including but not limited to, the replacement of the maximum senior and total debt leverage ratios with a total debt to capitalization ratio up to 65% and the removal of certain covenants including certain non-financial covenants and customary events of default clauses with respect to all the notes.
- On September 17, 2019, the Company issued $500 million Senior Unsecured Medium Term Notes (“2029 Notes”). The 2029 Notes have a fixed coupon rate of 3.6% per annum, payable, semi-annually, and mature on September 17, 2029. On October 17, 2019, the Company redeemed its 2022 Notes.

Disposition of non-core businesses

- On February 28, 2019, the Company completed the sale of its non-core Environmental Services North (“non-core ESN”) business for gross proceeds of $51.8 million.
- On July 2, 2019, the Company completed the sale of the Canadian Trucking and Transportation (“TT Canada”) business for gross proceeds of $69.5 million. The Company anticipates to close the sale of the field office and shop facilities (“Edmonton assets”) for approximately $30 million by the end of Q2 2020, subject to the satisfaction of certain conditions, with Trimac Transportation (“Trimac”) utilizing the properties under a lease arrangement in the interim period.

SUBSEQUENT EVENTS

Capital structure

- On February 14, 2020, the Company amended its Revolving Credit Facility to increase the capacity from $560.0 million to $750.0 million, and, amongst other amendments, extended the maturity date from March 2024 to February 2025.

Dividend

- On February 24, 2020, the Company announced that the Board declared a quarterly dividend of $0.34 per common share for the first quarter on its outstanding common shares. The common share dividend is payable on April 17, 2020 to shareholders of record at the close of business on March 31, 2020.

PROJECT DEVELOPMENTS AND MARKET OUTLOOK

Major growth projects

The Company continued to progress several major growth projects within its Infrastructure segment, including advancing the construction of four tanks, or 1.5 million barrels of storage, representing a further 10 percent expansion of the Hardisty Terminal. The following represents key activities with respect to major growth projects during 2019:

Tankage growth projects:

- The first phase of development at the Top of the Hill portion of the Hardisty Terminal was successfully placed into service in the first quarter of 2019. With the three tanks from the first phase at the Top of the Hill adding an incremental 1.1 million barrels of storage, the Hardisty Terminal reached an aggregate storage capacity of 10 million barrels.
- The second and third phases of development at the Top of the Hill, collectively representing four tanks and 2.0 million barrels of storage, were placed in service in November 2019. All of the first, second, and third phases were placed into service ahead of schedule and in-line with budget.
- On December 18, 2019, the Company expanded the fourth phase at the Top of the Hill by announcing the sanctioning of construction of two tanks or 1.0 million barrels of new storage at its Hardisty Terminal both of which are expected to be placed into service by the end of 2020. With the sanction of the additional tankage at the Top of the Hill portion of its Hardisty Terminal, Gibson has three tanks representing 1.5 million barrels of storage currently under construction. Once the fourth phase of development at the Top of the Hill is placed into service Gibson will have approximately 13.5 million barrels of storage capacity at its Hardisty Terminal.

DRU project:

- On December 3, 2019, the Company along with USD jointly announced an agreement to construct and operate a DRU adjacent to the Company's HURC facility. ConocoPhillips Canada has contracted to process 50,000 barrels per day of inlet bitumen blend through the DRU. USD and Gibson are currently in commercial discussions with other potential producer and refiner customers to secure long-term, take-or-pay agreements for an additional 50,000 barrels per day at the proposed DRU.

Other growth projects:

- The HURC Facility expansion and Viking Pipeline were placed into service and fully commissioned in the first quarter of 2019.
- The expansion of the Moose Jaw Facility was placed into service during the second quarter of 2019 increasing the processing capacity from 17,000 barrels per day to 22,000 barrels per day.
- The Pyote pipeline and related infrastructure was placed into service during the fourth quarter of 2019.

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

Market outlook

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

There are a number of factors that affect customers' views of market access over the short and medium-term, particularly in the Western Canadian Sedimentary Basin (the "WCSB"). These views, in addition to commodity prices, impact capital expenditure programs and ultimately the growth in production that creates a meaningful portion of opportunities at the Hardisty and Edmonton Terminals, as well as services that support those assets:

- In the short-term, crude oil pricing, location and quality disconnects, combined with the existing shortage of pipeline takeaway capacity from the WCSB, increase demand for terminal services as well as the use of crude by rail, including diluent recovery processes, as a solution for market access. The Company believes that increased reliance on storage during periods of limited egress, especially during pipeline upsets or to facilitate crude by rail, may lead customers to consider increasing their available storage. Wider differentials improve margins at the Moose Jaw Facility, and, in conjunction with increased price fluctuations, typically provide increased opportunities within the Crude Marketing business.
- There are currently three large pipeline projects at various stages of development and/or regulatory approval that have the potential to impact the Company over the short, and medium to long-term. Over the long-term, the Company would expect to benefit from incremental egress from the completion of work on the U.S. portion of Enbridge's Line 3 pipeline and the construction of both the TC Pipeline Keystone XL project and the Government of Canada's Trans Mountain Pipeline Expansion, as additional pipeline egress would encourage additional oil sands development. This increase in production in the WCSB would lead to further demand for tankage at the Company's Hardisty and Edmonton Terminals, which are either connected or in close proximity to the respective starting points of these pipeline projects, although it may moderate demand for DRU capacity. There is a risk that these projects may be substantially delayed or cancelled, which would likely result in increased demand for DRU capacity, rail capacity at the HURC Facility, as well as related services at both of Gibson's Terminals.
- At the same time, numerous smaller scale egress options, including increasing throughput on existing pipelines and increasing utilization of existing rail capacity, continue to increase takeaway capacity in the WCSB. To the extent the additional egress is available, it could lead to further demand for tankage at the Company's Hardisty and Edmonton Terminals as well as for the Company's existing and potential new gathering pipelines.

The Government of Alberta's mandated production curtailments, U.S. sanctions on imported crude grades and market concerns about security of supply from the Middle East have improved the economics for Gibson's producer customers. While these factors provide some short-term benefit for Gibson's producer customers, additional egress access remains the key to Canadian producers sanctioning new brownfield and greenfield projects.

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

RESULTS OF CONTINUING OPERATIONS

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

During the year ended December 31, 2019, the Company renamed its Wholesale reportable segment as Marketing and realigned its U.S Truck Transportation assets into the Marketing reportable segment. This realignment reflects management's view of how information of the business is regularly reviewed internally for the purposes of decision making, allocating resources and assessing performance.

The following is a discussion of the Company's segmented results of operations for the three months and years ended December 31, 2019 and 2018 and the following table sets forth revenue and profit by segment for those periods:

	Three months ended December 31		Years ended December 31	
	2019	**2018[1]**	**2019**	**2018[1]**
Segment revenue				
Infrastructure	$ 112,217	$ 95,531	$ 413,441	$ 391,627
Marketing	1,672,341	1,387,505	7,455,237	7,191,233
Total segment revenue	1,784,558	1,483,036	7,868,678	7,582,860
Revenue – inter-segmental	(117,998)	(168,431)	(532,356)	(736,271)
Total revenue – external	1,666,560	1,314,605	7,336,322	6,846,589
Segment profit				
Infrastructure	85,677	71,712	299,140	283,489
Marketing	46,338	81,857	195,110	203,598
Total segment profit	132,015	153,569	494,250	487,087
General and administrative	11,598	8,597	30,166	32,155
Depreciation and impairment	42,919	25,265	121,731	143,160
Right-of-use asset depreciation	10,404	10,359	40,527	43,184
Amortization and impairment	3,389	3,146	12,836	10,870
Impairment of goodwill	-	-	-	20,479
Stock based compensation	5,021	8,050	14,562	19,124
Debt extinguishment costs	-	-	6,057	-
(Gain) loss on net assets held for sale	(2,246)	4,974	(4,990)	4,974
Foreign exchange loss (gain)	1,496	(1,732)	3,961	2,314
Net interest expense	17,667	17,669	72,488	74,089
Income before income tax	41,767	77,241	196,912	136,738
Income tax expense	4,323	29,966	20,573	55,613
Net income from continuing operations	$ 37,444	$ 47,275	$ 176,339	$ 81,125

1. *Comparative period segment information was represented to reflect the results of continuing operations separately from discontinued operations.*

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

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

INFRASTRUCTURE

The Infrastructure segment is comprised of a network of oil infrastructure assets that include oil terminals, rail loading and unloading facilities, gathering pipelines, a crude oil processing facility and other small terminals. The primary facilities within this segment include the Hardisty and Edmonton Terminals, which are the principal hubs for aggregating and exporting oil and refined products out of the WCSB; gathering pipelines which are connected to the Hardisty Terminal; an infrastructure position located in the U.S; and a crude oil processing facility in Moose Jaw, Saskatchewan. The Moose Jaw Facility is impacted by maintenance turnarounds typically occurring within the spring period.

The following tables set forth the operating results from the Company's Infrastructure segment for the years ended December 31, 2019 and 2018:

	Three months ended December 31		Years ended December 31	
Volumes (barrels in thousands)	**2019**	**2018**	**2019**	**2018**
Terminals and facilities				
Hardisty Terminal	107,592	80,084	375,680	310,909
Edmonton Terminal	11,729	11,761	47,432	35,420
Moose Jaw Facility	3,943	1,551	8,148	5,741
Pipelines	1,401	7,697	7,318	25,252
Total terminals and facilities	124,665	101,093	438,578	377,322

	Three months ended December 31		Years ended December 31	
	2019	**2018**	**2019**	**2018**
Revenue				
Hardisty Terminal	$ 69,763	$ 53,804	$ 249,163	$ 217,253
Edmonton Terminal	18,237	18,954	70,667	84,052
Moose Jaw Facility	12,029	9,845	43,748	39,379
Pipelines	12,188	12,928	49,863	50,943
Revenue	112,217	95,531	413,441	391,627
Operating expenses and other	26,540	23,819	114,301	108,138
Segment profit	$ 85,677	$ 71,712	$ 299,140	$ 283,489

Operational performance

In the three months and year ended December 31, 2019 compared to the three months and year ended December 31, 2018:

Hardisty Terminal volumes increased 34% and 21%, respectively. The increase in both comparative periods was largely driven by the commissioning of three and four new tanks and related infrastructure during the first and fourth quarters of 2019 respectively, representing 3.1 million barrels of additional storage capacity, which resulted in higher throughput volumes primarily from certain customers that have dedicated tankage underpinned by long-term take or pay contracts, higher customer contract tankage volumes and increased inbound volume from the expansion of the HURC Facility. The increase was partially offset by the impacts of oil production curtailments which were enacted on January 1, 2019 by the Alberta Provincial Government.

Edmonton Terminal volumes were consistent and increased 34%, respectively. The year over year increase was mainly due to increased throughput from certain customers more fully utilizing their existing tankage capacity.

Moose Jaw Facility volumes increased 154% and 42%, respectively. The increase in both comparative periods was primarily due to additional throughput capacity from the debottlenecking project completed in Q2 2019.

Pipelines volumes decreased significantly in both periods mainly due to the sale of the non-core ESN business during the first quarter of 2019.

Financial performance

In the three months and year ended December 31, 2019 compared to the three months and year ended December 31, 2018:

Revenue at the Hardisty Terminal increased by $15.9 million and $31.9 million, respectively, which was largely driven by additional tankage being placed into service and the expansion of the HURC Facility, both underpinned by long-term take or pay contracts.

Revenue at the Edmonton Terminal was consistent and decreased by $13.4 million, respectively. The year over year decrease was primarily due to additional revenue recorded in the prior period related to a contractual amendment regarding a future capital commitment incurred, partially offset by additional revenue from certain customers fully utilizing their existing tankage in the current period.

Revenue at the Moose Jaw Facility increased by $2.2 million and $4.4 million, respectively, entirely due to the increase in the inter-segment fee charged by the Marketing segment to the Infrastructure segment for use of the Moose Jaw Facility, reflective of the increased throughput capacity as noted above.

Pipelines revenues decreased by $0.7 million and $1.1 million, respectively. The decrease was mainly due to the impact of sale of the non-core ESN business in the first quarter of 2019, partially offset by higher revenues from the Viking Pipeline.

Segment profit increased by $14.0 million and $15.7 million, respectively. The increase in the three month comparative period was primarily due to higher revenues from the Hardisty Terminal and the Moose Jaw Facility. The year over year comparative period increase was also impacted by a $15.0 million environmental remediation provision booked for costs related to future periods as discussed earlier in the highlights section, as well as by higher operating expenses.

Capital expenditures

Below is the summary of Infrastructure capital expenditures for the years ended December 31, 2019 and 2018:

	Years ended December 31	
	2019	**2018**
Growth capital	$ 228,629	$ 219,213
Replacement capital	18,269	17,547
Acquisitions	21,292	80,844

The increase in growth capital expenditures for the year ended December 31, 2019 compared to the year ended December 31, 2018 primarily relate to an increase in project development activities specific to additional tanks and related infrastructure at the HURC Facility expansion the expansion of the Moose Jaw Facility and U.S. pipelines in the current year.

Replacement capital increased slightly over the comparative period primarily due to higher inspection costs at the Hardisty Terminal in the current periods as a result of standard regulatory inspection requirements.

Acquisitions in the current year comprised the purchase of a joint venture interest in a terminal business. Prior year acquisitions are comprised of an agreement to acquire, develop and operate a pipeline gathering network adjacent to the existing Pyote system in the U.S.

MARKETING

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

The Marketing segment 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.

Canadian road asphalt activity, related to refined products, is affected by the impact of weather conditions on road construction. Road asphalt demand peaks during the summer months when most of the road construction activity in Canada takes place. In the off-peak demand months for road asphalt, the demand for roofing flux continues. Demand for wellsite fluids is dependent on overall well drilling and completion activities, with activity normally the busiest in the winter months. Demand for NGLs is also highest in the colder months of the year.

	Three months ended December 31		Years ended December 31	
	2019	2018	2019	2018
Western Texas Intermediate ("WTI") average price ($USD/bbl)	$ 56.96	$ 58.81	$ 57.03	$ 64.77
Western Canadian Select ("WCS") average differential ($USD/bbl)	15.83	39.43	12.76	26.31
Average foreign exchange rates ($CAD/$USD)	1.32	1.32	1.33	1.30

The following tables set forth operating results from the Company's Marketing segment for the three months and years ended December 31, 2019 and 2018:

	Three months ended December 31		Years ended December 31	
Volumes (barrels in thousands)	2019	2018	2019	2018
Crude, refined and other products	36,118	36,142	146,018	138,852

	Three months ended December 31		Years ended December 31	
	2019	2018[1]	2019	2018[1]
Revenue				
Total revenue	$ 1,672,341	$ 1,387,505	$ 7,455,237	$ 7,191,233
Cost of sales	1,614,643	1,291,034	7,208,288	6,935,040
Operating expenses and other	11,360	14,614	51,839	52,595
Segment profit	$ 46,338	$ 81,857	$ 195,110	$ 203,598

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

Operational performance

In the three months and year ended December 31, 2019 compared to the three months and year ended December 31, 2018:

Sales volumes for crude, refined, and other products were consistent and increased by 5%, respectively. The increase was mainly due to greater activity driven by higher available storage at the Company's integrated assets, and an increase in U.S. volumes attributable to the activity from the U.S. Marketing business.

Financial performance

In the three months and year ended December 31, 2019 compared to the three months and year ended December 31, 2018:

Revenue for crude, refined, and other products increased by 21% and 4%, respectively. The increase in the both comparative periods was largely due to higher volumes sold in the current year as well as higher prices for other NGLs in the three months ended December 31, 2019, partially offset by lower prices in the prior year ended December 31, 2018.

Segment profit decreased 43% and 4%, respectively. The decrease in both comparative periods was driven by lower crude and refined product margins due to narrower crude pricing spreads from locational, quality, and time-based differential opportunities and lower realized prices for asphalt and drilling fluids, partially offset by higher volumes sold as discussed above, as well as lower operating expenses.

EXPENSES

General and administrative, excluding depreciation and amortization

	Three months ended December 31		Years ended December 31	
	2019	**2018**	**2019**	**2018**
General and administrative	$ 11,598	$ 8,597	$ 30,166	$ 32,155

The quarter over quarter increase was primarily due to the recognition of higher legal and other costs related to a post-closing indemnification adjustment from a previous divestiture. The year over year decrease was due to the recognition of a credit for $11.6 million related to the amendment of the Company's retirement benefits plan during 2019, primarily offset by the impact of changes in allocation of certain overhead costs resulting in an increase in support service costs classified under general and administrative, higher legal and other costs as noted above as well as executive severance incurred during the year ended December 31, 2019.

Goodwill impairment

	Three months ended December 31		Years ended December 31	
	2019	**2018**	**2019**	**2018**
Goodwill impairment	$ -	$ -	$ -	$ 20,479

The year over year decrease relates to impairment expenses recorded in 2018 on various businesses sold.

Depreciation and impairment

	Three months ended December 31		Years ended December 31	
	2019	**2018**	**2019**	**2018**
Depreciation and impairment	$ 42,919	$ 25,265	$ 121,731	$ 143,160

The quarter over quarter increase was primarily due to the impact of impairment recorded in the quarter for assets held for sale, as well as additional depreciation on asset additions during the year ended December 31, 2019. The year over year decrease was primarily due to the higher impact of impairment related to assets held for sale in the prior year compared to the current year, partially offset by additional depreciation on asset brought into service during the year ended December 31, 2019.

Right-of-use asset depreciation

	Three months ended December 31		Years ended December 31	
	2019	**2018**	**2019**	**2018**
Right-of-use depreciation	$ 10,404	$ 10,359	$ 40,527	$ 43,184

The three month comparative period was consistent. The year over year decrease was due the disposition of the Wholesale Propane business towards the end of 2018, partially offset by the addition of new rail and tank leases during the year ended December 31, 2019.

Amortization and impairment

	Three months ended December 31		Years ended December 31	
	2019	**2018**	**2019**	**2018**
Amortization and impairment	$ 3,389	$ 3,146	$ 12,836	$ 10,870

The three month comparative period was consistent. The year over year increase was driven by the impact of intangible assets added during the current periods, partially offset by certain intangible assets becoming fully amortized during the year ended December 31, 2018.

Stock based compensation

	Three months ended December 31		Years ended December 31	
	2019	**2018**	**2019**	**2018**
Stock based compensation	$ 5,021	$ 8,050	$ 14,562	$ 19,124

The quarter over quarter decrease was primarily due to the recognition of a mark to market loss of $2.2 million related to equity swaps in the comparative period. The year over year decrease was primarily due to the settlement of equity swaps resulting in a mark to market gain of $6.5 million compared to a mark to market gain of $0.1 million in the prior period.

Gain on sale of assets held for sale

During the quarter ended December 31, 2019, the Company completed the sale of certain non-core assets resulting in the recognition of a net pre-tax gain on sale of $2.3 million. Additionally, during the year ended December 31, 2019 the Company completed the sale of its non-core ESN business for gross proceeds of $51.8 million resulting in the recognition of a net pre-tax gain on sale of $2.7 million, for a total gain of $5.0 million recorded during the year ended December 31, 2019 compared to a total loss of $5.0 million recorded in the year ended December 31, 2018.

Foreign exchange loss (gain) not affecting segment profit

	Three months ended December 31		Years ended December 31	
	2019	**2018**	**2019**	**2018**
Unrealized foreign exchange loss on the movement in exchange rates on U.S. dollar Revolving Credit Facility and long-term debt	$ -	$ -	$ -	$ 4,403
Corporate foreign exchange loss (gain)	1,496	(1,732)	3,961	(2,089)
Total foreign exchange loss (gain)	$ 1,496	$ (1,732)	$ 3,961	$ 2,314

During the three months and year ended December 31, 2019, the losses recorded are primarily driven by the net unfavorable movements in exchange rates on the translation of corporate foreign exchange primarily driven on U.S accounts receivable and cash and cash equivalent balances. During the three months and year ended December 31, 2018, the gains and losses were primarily driven by the favourable and unfavorable movements in exchange rates on the translation of the Company's U.S dollar denominated Revolving Credit Facility and corporate foreign exchange loss.

Debt extinguishment costs

During the year ended December 31, 2019 the Company incurred debt extinguishment costs related to the repayment of 2022 Notes of $6.1 million.

Net interest expense

	Three months ended December 31		Years ended December 31	
	2019	2018	2019	2018
Net interest expense	$ 17,667	$ 17,699	$ 72,488	$ 74,089

The quarter over quarter net interest expense was consistent. The yearly comparative period decrease was primarily due to lower interest on the Revolving Credit Facility in the current period, partially offset by the acceleration of amortization costs related to the refinancing of the 2022 Notes and by lower capitalized interest amounts related to our long-term capital projects in the current quarter.

Income taxes

	Three months ended December 31		Years ended December 31	
	2019	2018	2019	2018
Current income tax expense	$ 5,737	$ 22,396	$ 17,882	$ 60,178
Deferred income tax (recovery) expense	(1,414)	7,570	2,691	(4,565)
Total tax expense	$ 4,323	$ 29,966	$ 20,573	$ 55,613

Income tax expense was $4.3 million and $20.6 million for the three months and year ended December 31, 2019, compared to income tax expense of $29.9 million and $55.6 million for the three months and year ended December 31, 2018. The effective tax rate was 10.4% and 10.5% during the three months and year ended December 31, 2019 and was 38.8% and 40.7% during the three months and year ended December 31, 2018, respectively.

The effective tax rate was lower during the three months and year ended December 31, 2019 compared to the three months and year ended December 31, 2018 due to the corporate income tax rate reduction in Alberta, certain prior year true-up adjustments, and the cumulative tax recovery related to the change in tax treatment of equity benefit during 2019. In comparison to 2018, the effective tax rate in 2019 was lower due to the absence of certain non-deductible items recognized in income in the three months and year ended December 31, 2018, including the impairment of goodwill.

RESULTS OF DISCONTINUED OPERATIONS

TT Canada business

On July 2, 2019 the Company completed the sale of the TT Canada disposal group to Trimac for gross proceeds of $69.5 million with the potential for additional proceeds depending on the performance of the business over the next five years. As part of the sale, the Company also entered into an agreement with an entity affiliated with Trimac for the sale of the Edmonton assets for approximately $30 million. The Company expects the Edmonton assets sale to close by the end of the second quarter of 2020.

The TT Canada business included a suite of logistical wellsite services that enable oil and liquids production to access fixed midstream infrastructure. This business provided truck transportation and related services that allowed the Company to service its customers' needs between the wellhead and the end market and included providing hauling services. For certain services and geographical regions, the activity is generally the lowest in the winter months when daylight hours are shorter. The business is also dependent upon drilling activity in various areas of operations and is impacted by seasonality due to road bans as part of spring break-up.

U.S. Environmental Services business

On May 3, 2018, the Company completed the sale of its U.S. Environmental Services business for adjusted gross proceeds of $123.3 million (US$96 million).

The U.S. Environmental Services business included the provision of environmental and production services, such as emulsion hauling and treating, water hauling and disposal services and oilfield waste management, as well as industrial lift, exploration support services and accommodation facilities to the oil and gas industry. The U.S Environmental Services business was reported historically within Company's Infrastructure, Logistics and Other reportable segments. Operating results of this business have been included in net income (loss) from discontinued operations in the consolidated statements of operations.

The following tables set forth operating results from the discontinued operations of TT Canada and the U.S. Environmental Services business for the three months and years ended December 31, 2019 and 2018:

	Three months ended December 31		Years ended December 31	
	2019	2018[1]	2019	2018[1]
Revenue	$ -	$ 56,505	$ 98,815	$ 310,689
Cost of sales	-	50,027	90,683	277,983
Segment profit	-	6,478	8,132	32,706
Depreciation and amortization	-	30,734	-	47,708
Goodwill impairment	-	19,988	-	19,988
Finance costs and other income, net	-	92	307	573
(Loss) income before taxes	-	(44,336)	7,825	(35,563)
Income tax (recovery) expense	-	(12,310)	2,125	(9,964)
Net (loss) income from discontinued operations, after tax	-	(32,026)	5,700	(25,599)
After tax (loss) gain on sale [2, 3]	(1,948)	(816)	862	95,522
(Loss) gain on discontinued operations, after tax	$ (1,948)	$ (32,842)	$ 6,562	$ 69,923

1. *Comparative period segment information was represented to reflect the results of continuing operations separately from discontinued operations. The U.S. Environmental Services business was sold effective May 3, 2018.*

2. *The Company derecognized the TT Canada business effective July 2, 2019. Accordingly, results for the year ended December 31, 2019 represent activity for the period January 1, 2019 to July 2, 2019.*

3. *The cash proceeds of $69.5 million and transaction costs of $6.3 million, have been presented within investing activities from discontinued operations on the Company's consolidated statements of cash flows.*

Financial performance

In the three months and year ended December 31, 2019 compared to the three months and year ended December 31, 2018:

Revenue was nil and $98.8 million compared to $56.5 million and $310.7 million. The decrease in both comparative periods was primarily due to the derecognition of the TT Canada business on July 2, 2019 as compared to the derecognition of the U.S. Environmental Services business effective May 3, 2018.

Segment profit was nil and $6.5 million compared to $8.1 million and $32.7 million. The decrease in both comparative periods was mainly due to the derecognition of the TT Canada business on July 2, 2019 as compared to the derecognition of the U.S. Environmental Services business effective May 3, 2018.

Income taxes

Income tax was an expense of $nil and $2.1 million for the three months and year ended December 31, 2019 compared to a recovery of $12.3 million and $9.9 million for the three months and year ended December 31, 2018. The change in both comparative periods was mainly due to the derecognition of the TT Canada business on July 2, 2019 as compared to the derecognition of U.S. Environmental Services business effective May 3, 2018.

Cash flow summary – Discontinued operations

The following table summarizes the sources and uses of funds for the years ended December 31, 2019 and 2018 from discontinued operations:

	Years ended December 31	
	2019	2018
Statement of cash flows		
Cash flows (used in) provided by:		
Operating activities	$ 6,465	$ 36,652
Investing activities	67,735	107,777
Financing activities	$ (847)	$ (3,056)

Cash provided by operating activities

Cash provided by operating activities in the year ended December 31, 2019 was $6.5 million compared to $36.7 million for the year ended December 31, 2018. The period over period decrease was primarily due to the completion of the sale of the TT Canada business in July 2019 and the sale of the U.S. Environmental Services business as noted above as well as movement in non-cash working capital.

Cash provided by investing activities

Cash provided by investing activities in the year ended December 31, 2019 was $67.7 million compared to cash provided by investing activities of $107.8 million for the year ended December 31, 2018. The change was primarily due to proceeds received from the sale of the TT Canada business in July 2019 compared to the proceeds received from the sale of the U.S. Environmental Services business in the prior period.

Cash used in financing activities

Cash used in financing activities in the year ended December 31, 2019 was $0.8 million compared to $3.1 million for the year ended December 31, 2018. The decrease was mainly due to the derecognition of the TT Canada business on July 2, 2019.

SUMMARY OF QUARTERLY RESULTS

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

	2019				2018[1]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Continuing operations								
Revenue	$1,666,560	$1,993,440	$1,927,634	$1,748,688	$1,314,605	$2,130,022	$1,714,335	$1,687,627
Net income	37,444	45,525	34,693	58,677	47,275	6,822	15,242	11,785
Adjusted EBITDA (2)	125,949	121,232	93,555	118,483	134,001	140,448	96,113	86,753
Earnings (loss) per share								
Basic	$ 0.25	$ 0.31	$ 0.24	$ 0.41	$ 0.33	$ 0.05	$ 0.11	$ 0.08
Diluted	$ 0.25	$ 0.30	$ 0.24	$ 0.40	$ 0.32	$ 0.05	$ 0.11	$ 0.08
Discontinued operations								
Revenue	$ -	$ -	$ 46,733	$ 44,693	$ 49,643	$ 47,922	$ 68,499	$ 117,860
Net (loss) income	(1,948)	2,794	2,094	3,622	(31,210)	(4,470)	122,693	(17,090)
Adjusted EBITDA (2)	-	-	3,035	5,062	6,478	6,177	5,386	14,727
Earnings (loss) per share								
Basic	$ (0.01)	$ 0.02	$ 0.01	$ 0.02	$ (0.22)	$ (0.03)	$ 0.85	$ (0.12)
Diluted	$ (0.01)	$ 0.02	$ 0.01	$ 0.02	$ (0.22)	$ (0.03)	$ 0.83	$ (0.12)
Combined operations								
Revenue (1,3)	$1,666,560	$1,993,440	$1,974,367	$1,793,381	$ 1,364,248	$2,177,944	$ 1,782,834	$ 1,805,487
Net income (loss)	35,496	48,319	36,787	62,299	16,065	2,352	137,935	(5,305)
Adjusted EBITDA (2)	125,949	121,232	96,590	123,545	140,479	146,625	101,499	101,480
Earnings (loss) per share								
Basic	$ 0.24	$ 0.33	$ 0.25	$ 0.43	$ 0.11	$ 0.02	$ 0.96	$ (0.04)
Diluted	$ 0.24	$ 0.32	$ 0.25	$ 0.42	$ 0.10	$ 0.02	$ 0.94	$ (0.04)

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

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

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

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

The following tables reconciles segment profit to Adjusted EBITDA for continuing operations, discontinued operations and combined operations for each of the last eight quarters and for the twelve months ended December 31, 2019 and 2018:

	Three months ended (restated[2])				Twelve months ended (restated[2])
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2019
Continuing operations					
Segment profit	$ 132,015	$ 131,217	$ 95,244	$ 135,774	$ 494,250
Interest income	714	695	37	312	1,758
Foreign exchange gain (loss) – corporate	(1,496)	(1,086)	1,763	(3,142)	(3,961)
General and administrative	(11,598)	2,652	(10,189)	(11,031)	(30,166)
Net unrealized (gain) loss from financial instruments [(1)]	6,314	(12,246)	6,700	(3,430)	(2,662)
Adjusted EBITDA	$ 125,949	$ 121,232	$ 93,555	$ 118,483	459,219
Discontinued operations					
Segment profit and adjusted EBITDA	$ -	$ -	$ 3,035	$ 5,062	$ 8,097
Combined operations					
Segment profit	$ 132,015	$ 131,217	$ 98,279	$ 140,836	$ 502,347
Interest income	714	695	37	312	1,758
Foreign exchange gain (loss) – corporate	(1,496)	(1,086)	1,763	(3,142)	(3,961)
General and administrative	(11,598)	2,652	(10,189)	(11,031)	(30,166)
Net unrealized (gain) loss from financial instruments [(1)]	6,314	(12,246)	6,700	(3,430)	(2,662)
Combined Adjusted EBITDA	$ 125,949	$ 121,232	$ 96,590	$ 123,545	$ 467,316

	Three months ended (restated[2])				Twelve months ended (restated[2])
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2018
Continuing operations					
Segment profit	$ 153,569	$ 142,227	$ 95,802	$ 95,489	$ 487,087
Interest income	346	368	485	294	1,493
Foreign exchange gain (loss) – corporate	1,732	2,542	(2,357)	170	2,087
General and administrative	(8,597)	(8,286)	(6,804)	(8,468)	(32,155)
Net unrealized (gain) loss from financial instruments [(1)]	(13,049)	3,597	8,987	(732)	(1,197)
Adjusted EBITDA	$ 134,001	$ 140,448	$ 96,113	$ 86,753	$ 457,315
Discontinued operations					
Segment profit and adjusted EBITDA	$ 6,478	$ 6,177	$ 5,386	$ 14,727	$ 32,768
Combined operations					
Segment profit	$ 160,047	$ 148,404	$ 101,188	$ 110,216	$ 519,855
Interest income	346	368	485	294	1,493
Foreign exchange gain (loss) – corporate	1,732	2,542	(2,357)	170	2,087
General and administrative	(8,597)	(8,286)	(6,804)	(8,468)	(32,155)
Net unrealized (gain) loss from financial instruments [(1)]	(13,049)	3,597	8,987	(732)	(1,197)
Combined Adjusted EBITDA	$ 140,479	$ 146,625	$ 101,499	$ 101,480	$ 490,083

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

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

Infrastructure – The Infrastructure segment has progressively commissioned new storage capacity and related infrastructure, with the completion of construction of seven tanks, or 3.1 million barrels of storage and the initiation and advancement of an additional 1.5 million barrels during 2019, as well as the HURC Facility, Moose Jaw Facility and Viking Pipeline expansions put into service. This increase in capacity was primarily driven by the sustained demand for crude terminalling and storage services at its current Hardisty and Edmonton Terminals which supported the increase in segment profits.

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

Discontinued operations – The results for discontinued operations include results from both the TT Canada and the U.S Environmental Services businesses. The TT Canada business earned margins by providing transportation and related services which included providing hauling services for crude, condensate, sulphur, waste water and drilling fluids. The U.S. Environmental Services business earned margins by providing environmental and production services, such as emulsion hauling and treating, water hauling and disposal services and oilfield waste management services to the oil and gas industry. Accordingly, results have been impacted by the reduction and volatility in crude oil and other related commodity prices which has reduced production and exploration activities thus lowering available demand from these producers.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Sources

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

As at December 31, 2019, the Company had a positive working capital balance of $95.8 million, including an available cash balance of $47.2 million, and had the ability to utilize borrowings under the Revolving Credit Facility of $500.0 million. During the year ended December 31, 2019, cash flows from operations, the proceeds from the issuance of the 2029 Notes and the sale of the TT Canada disposal group were used to repay the 2022 Notes, fund our ongoing capital expenditures, dividend payments, and working capital needs. Also, the issuance of the 2029 Notes has provided added liquidity to the Company's capital structure by extending the maturity profile of its debt as well as reducing its interest costs. On February 14, 2020, the Company amended its Revolving Credit Facility to increase the capacity from $560.0 million to $750.0 million, and, amongst other amendments, extended the maturity date from March 2024 to February 2025. With the second investment grade rating received during 2019, notable growth in the Infrastructure segment as well as improved performance from the Marketing segment during 2018 and 2019, the Company's liquidity position has significantly improved. Accordingly, over the short-term the Company expects to maintain sufficient liquidity sources to fund its ongoing capital expenditures, debt service requirements, dividend payments and working capital needs.

Over the medium to long-term, the Company's ability to generate meaningful contributions from cash from operations combined with the Company's conservative capital structure and improved liquidity as discussed above, will provide support for the Company's funding of debt service requirements. Management may make adjustments to the Company's capital structure as a result of changes in economic conditions such as renegotiate new debt terms, repay existing debt, seek new borrowing, issue additional equity and/or repurchase shares.

Cash flow summary – Continuing operations

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

The following table summarizes the Company's sources and uses of funds for the years ended December 31, 2019 and 2018 from continuing operations:

	2019	2018[1]
Statement of cash flows		
Cash flows provided by (used in):		
Operating activities	$ 362,155	$ 527,086
Investing activities	(278,128)	(214,502)
Financing activities	$ (202,130)	$ (392,197)

Cash provided by operating activities

Cash provided by operating activities was $362.2 million in the year ended December 31, 2019, compared to $527.1 million in the year ended December 31, 2018. The decrease was primarily due to income tax payments in the current year of $92.9 million, compared to an income tax refund of $14.1 million in the prior year, as well as cash utilized for working capital of $2.2 million in the current year compared to cash generated from working capital of $50.2 million in the prior year.

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

Cash used in investing activities

Cash used in investing activities was $278.1 million in the year ended December 31, 2019, compared to $214.5 million in the year ended December 31, 2018 and consists primarily of capital expenditures related to the additional tanks and related infrastructure at the Hardisty Terminal, Moose Jaw Facility expansion, the HURC Facility expansion, and U.S. pipelines in the current period, partially offset by proceeds received from the sale of the non-core ESN business in 2019, as compared to higher expenditures on additional tanks and related infrastructure at the Hardisty Terminal and proceeds received from the sale of the Wholesale Propane business in 2018. For a summary of capital expenditures including acquisitions, see the "Capital expenditures" discussion throughout this MD&A.

Cash used in financing activities

Cash used in financing activities was $202.1 million in the year ended December 31, 2019 compared to cash used in financing activities of $392.2 million in the year ended December 31, 2018. The change was primarily due to the issuance of the 2029 Notes for $495.5 million in the year ended December 31, 2019, partially offset by the repayment of the 2022 Notes of $304.0 million in the same period. The decrease in case used in financing activities is also due to lower interest paid of $64.6 million in the year ended December 31, 2019 compared to $68.9 million in the year ended December 31, 2018.

Capital expenditures

The following table summarizes growth and replacement capital expenditures for the years ended December 31, 2019 and 2018:

	Years ended December 31	
	2019	2018
Growth capital (1)	$ 229,081	$ 221,198
Replacement capital (2)	24,792	25,225
Acquisitions (3)	21,292	80,844
Total	$ 275,165	$ 327,267

1. *Growth capital expenditures in the year ended December 31, 2019 include Corporate and discontinued operations expenditures of $0.5 million and $1.0 million compared to $0.8 million and $3.8 million in the year ended December 31, 2018, respectively. These expenditures mainly relate to growth capital expenditure costs associated with the Company's information and operational systems. The remainder of the growth capital expenditures have been discussed in continuing operations earlier in the MD&A.*
2. *Replacement capital expenditures in the year ended December 31, 2019 include Corporate and discontinued operations of $2.8 million and $0.3 million compared to $3.1 million and $1.6 million in the year ended December 31, 2018, respectively. These expenditures mainly relate to replacement costs associated with the Company's information and operational systems. The remainder of the replacement capital expenditures have been discussed in continuing operations earlier in the MD&A.*
3. *Acquisitions in the current year consist of the purchase of a joint venture interest in a terminal business, whereas acquisitions in the prior year consist of an agreement to acquire, develop and operate a pipeline gathering network adjacent to the existing Pyote system in the U.S.*

2020 planned capital expenditures

On December 9, 2019, the Company announced the approval of the 2020 growth capital expenditure budget of $300 million and an additional $25 million allocated to replacement capital expenditures. While the Company anticipates that these planned capital expenditures will occur, 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.

Capital structure

	As at	
	December 31, 2019	December 31, 2018
Revolving Credit Facility	$ 60,000	$ 150,000
2022 Notes	-	300,000
2024 Notes	600,000	600,000
2029 Notes	500,000	-
Unamortized issue discount and debt issue costs	(11,293)	(10,422)
$100 million Debentures 5.25% due July 15, 2021 (liability component) (1)	89,655	89,765
Lease liability	131,808	109,071
Total debt outstanding	1,370,170	1,238,414
Cash and cash equivalents	(47,231)	(95,301)
Net debt	1,322,939	1,143,113
Total share capital (including Debentures – equity component)	1,980,850	1,962,169
Total capital	$ 3,303,789	$ 3,105,282

1. *The Debentures are included in the above total capital calculation in accordance with the Company's view of its capital structure which includes shareholders' equity, long-term debt, the Debentures, the Revolving Credit Facility, lease liabilities and working capital. The Debentures and associated interest payments are excluded from the definition of net debt included in the debt to capitalization covenant ratios as well as the consolidated interest coverage covenant ratio.*

2022 Notes and 2024 Notes

On July 24, 2019, S&P raised its long-term issuer credit rating and senior unsecured debt ratings on the Company to "BBB–" with a "Stable" outlook. This represented the Company's second investment grade credit rating, as Gibson was already assigned a "BBB (low)" rating by DBRS Morningstar earlier in the year. Accordingly, with the Company having received two investment grade credit ratings, certain amendments to the 2022 Notes and 2024 Notes took effect as of July 29, 2019, including but not limited to, the removal of certain covenants including certain non-financial covenants and customary events of default clauses with respect to the 2022 Notes and 2024 Notes. The Indentures governing the terms of the 2022 Notes and 2024 Notes including the supplemental indentures thereto, contain certain redemption options whereby the Company can redeem all or part of the 2022 Notes and 2024 Notes at prices set forth in the applicable Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of 2022 Notes and 2024 Notes have the right to require the Company to redeem the 2022 Notes and 2024 Notes at the redemption prices set forth in the applicable indenture 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 17, 2019 the Company redeemed all of the 2022 Notes at a redemption price of $1,013.44 per $1,000 principal amount plus accrued and unpaid interest of $13.74 per $1,000 principal amount.

2029 Notes

On September 17, 2019, the Company issued the 2029 Notes. The 2029 Notes have a fixed coupon rate of 3.6% per annum, payable, semi-annually, on March 17 and September 17, and mature on September 17, 2029. The Indenture governing the terms of the 2029 Notes including the supplemental indenture thereto, contain certain redemption options whereby the Company can redeem all or part of the 2029 Notes at prices set forth in the applicable Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of 2029 Notes have the right to require the Company to redeem the 2029 Notes at the redemption prices set forth in the applicable indenture in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the applicable Indenture.

Debentures

On June 2, 2016, the Company issued $100.0 million aggregate principal amount of debentures (the "Debentures") at a price of $1,000 per Debenture for net proceeds of approximately $96.3 million, including debt issuance costs of $3.7 million. The Debentures, issued at par, bear interest at a rate of 5.25% per annum, payable semi-annually on January 15 and July 15 in each year commencing January 15, 2018, mature on July 15, 2021, and may be redeemed, in certain circumstances, on or after July 15, 2019. The Debentures are convertible at the holder's option into common shares at any time prior to the earlier of July 15, 2021 and the business day immediately preceding the date fixed for redemption by the Company at a conversion price of $21.65 per common share, being a ratio of approximately 46.1894 common shares per $1,000 principal amount of the Debenture. The Debentures are subordinated to the Company's senior indebtedness.

Credit facility

The Revolving Credit Facility is available to provide financing for working capital, fund capital expenditures and other general corporate purposes, has an extendible term of five years, expiring on March 31, 2024. The Revolving Credit Facility permits letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate, as the case may be, plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company's credit rating (effective April 3, 2019). The Company must pay standby fees on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins determined in a manner similar to the interest. In addition, as at December 31, 2019, the Company had two bilateral demand letter of credit facilities totaling $150.0 million. Also, as at December 31, 2019, the Company had $60.0 million drawn on its $560.0 million Revolving Credit Facility and had issued letters of credit totaling $36.9 million under its bilateral demand letter of credit facilities.

On April 3, 2019, the Company amended certain terms of its Revolving Credit Facility including extending the maturity date from March 2023 to March 2024. Additionally, with the Company achieving two investment grade ratings effective July 29, 2019, further amendments to the Revolving Credit Facility have taken effect, including but not limited to, the replacement of the maximum senior and total debt leverage ratios with a total debt to capitalization ratio up to 65% and the removal of certain covenants including certain non-financial covenants and customary events of default clauses related to the 5.25% Notes due July 15, 2024 ("2024 Notes"). The amended Revolving Credit Facility also moved to a ratings based pricing grid from a leverage based pricing grid which could result in reduced borrowing rates to the Company.

On February 14, 2020, the Company amended its Revolving Credit Facility to increase the capacity from $560.0 million to $750.0 million, and, amongst other amendments, extended the maturity date from March 2024 to February 2025.

Covenants

The Company is required to meet certain specific and customary affirmative and negative financial covenants under its Revolving Credit Facility, including the maintenance of certain financial ratios, requiring the Company to maintain a total consolidated debt to capitalization ratio to 65% as well as to maintain a minimum consolidated interest coverage ratio of no less than 2.5 to 1.0. The consolidated total debt to capitalization ratio represents the ratio of all debt obligations on the financial statements to total capitalization (total debt plus total shareholders' equity, including certain adjustments). The consolidated interest coverage ratio represents the ratio of Adjusted EBITDA to consolidated cash interest expense calculated in accordance with the Company's debt agreements. Refer to the terms defined in the respective agreements which are available at www.sedar.com.

As at December 31, 2019, the Company was in compliance with the financial ratios with the total consolidated debt to capitalization ratio at 49% and the consolidated interest coverage ratio at 6.7 to 1.0. 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 2024 Notes, 2029 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 2024 Notes, 2029 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 December 31, 2019, the Company was in compliance with all of its existing covenants under the 2024 Notes, 2029 Notes and the Revolving Credit Facility.

Dividends

The Company is currently paying quarterly dividends to holders of common shares. The amount and timing of any future dividends payable by Gibson will be at the discretion of the Board and to be established on the basis of, among other items, Gibson's earnings, financial requirements for operations, the satisfaction of a solvency calculation and the terms of the Company's debt agreements. In addition, in connection with Company's dividend policy, after each fiscal year end the Board will formally review the annual dividend amount. During the year ended December 31, 2019, the Board declared dividends of $1.32 per share.

Distributable cash flow

Distributable cash flow is not a standard measure under IFRS and, therefore, may not be comparable to similar measures reported by other entities. Distributable cash flow from continuing and combined operations is used to assess the level of cash flow generated and to evaluate the adequacy of internally generated cash flow to fund dividends and is frequently used by securities analysts, investors and other interested parties. Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of fluctuations in product inventories or other temporary changes. Replacement capital expenditures are deducted from distributable cash flow as there is an ongoing requirement to incur these types of expenditures. Lease payments are also deducted for the period starting January 1, 2018 due to the adoption of IFRS 16 – Leases . The Company may deduct or include additional items in its calculation of distributable cash flow. These items would generally, but not necessarily, be items of an unusual, non-recurring, or non-operating in nature. The Company has provided the distributable cash flow from combined operations on a trailing twelve-month basis to reflect the total cash flow available to fund dividends which includes cash available from discontinued operations. The following is a reconciliation of distributable cash flow from combined operations to its most closely related IFRS measure, cash flow from operating activities for three months and years ended December 31, 2019 and 2018.

Continuing operations	Years ended December 31 2019	2018
Cash flow from operating activities	$ 362,155	$ 527,086
Adjustments:		
Changes in non-cash working capital and taxes paid	95,145	(64,298)
Replacement capital	(24,792)	(25,225)
Cash interest expense, including capitalized interest	(64,455)	(68,474)
Lease payments	(48,632)	(49,785)
Current income tax	(17,882)	(60,178)
Distributable cash flow from continuing operations	$ 301,539	$ 259,126

Combined operations	Years ended December 31 2019	2018
Combined cash flow from operating activities	$ 368,620	$ 563,738
Adjustments:		
Combined changes in non-cash working capital and taxes paid	98,475	(69,489)
Combined replacement capital	(25,070)	(26,800)
Cash interest expense, including capitalized interest	(64,455)	(68,474)
Lease payments	(49,542)	(52,870)
Current income tax	(18,735)	(63,588)
Distributable cash flow from combined operations	$ 309,293	$ 282,517
Dividends declared to shareholders	$ 192,001	$ 190,326

Continuing operations	Quarter ended December 31 2019	2018
Cash flow from operating activities	$ 105,670	$ 262,044
Adjustments:		
Changes in non-cash working capital and taxes paid	15,047	(123,954)
Replacement capital	(10,194)	(9,604)
Cash interest expense, including capitalized interest	(15,436)	(16,713)
Lease payments	(13,540)	(11,187)
Current income tax	(5,737)	(22,396)
Distributable cash flow from continuing operations	$ 75,810	$ 78,190

Combined operations	2019	2018
Cash flow from operating activities	$ 105,670	$ 272,337
Adjustments:		
Changes in non-cash working capital and taxes paid	15,047	(127,628)
Replacement capital	(10,194)	(9,676)
Cash interest expense, including capitalized interest	(15,436)	(16,713)
Lease payments	(13,540)	(11,588)
Current income tax	(5,887)	(22,609)
Distributable cash flow from continuing operations	$ 75,660	$ 84,123
Dividends declared to shareholders	$ 48,073	$ 47,704

Dividends declared in the twelve months ended December 31, 2019 were $192 million, of which the entire amount was paid in cash. In the twelve months ended December 31, 2019, dividends declared represented 62% of the combined distributable cash flow generated.

Contractual obligations and contingencies

The following table presents, at December 31, 2019, the Company's obligations and commitments to make future payments under contracts and contingent commitments:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	$ 1,100,000	$ -	$ -	$ 600,000	$ 500,000
Credit facilities	60,000	-	-	60,000	-
Convertible debentures	99,890	-	99,890	-	-
Interest payments on long-term debt and Debentures	327,954	54,750	101,829	85,875	85,500
Lease obligations	145,239	40,000	55,875	31,117	18,247
Total contractual obligations	$ 1,733,083	$ 94,750	$ 257,594	$ 776,992	$ 603,747

1. *Lease and other commitments relate to an office lease for the Company's Calgary head office, rail tank cars, vehicles, field buildings, various equipment leases and terminal services arrangements.*

As at December 31, 2019, the Company had previously identified and approved capital expenditure commitments of $325 million that the Company expects to undertake over the next 12 months. In addition, the Company had accrued liabilities for obligations with respect to the Company's defined benefit plans of $5.0 million and provisions associated with site restoration on the retirement of assets and environmental costs of $197.0 million but the timing of such payments is uncertain due to the estimates used to calculate these amounts and the long-term nature of these balances. The Company also has commitments relating to its risk management contracts which are discussed further in "Quantitative and Qualitative Disclosures about Market Risks".

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 December 31, 2019, there were 145.7 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 1.8 million restricted share units, performance share units and deferred share units outstanding and 2.0 million stock options outstanding as at December 31, 2019.

At December 31, 2019, awards available to grant under the equity incentive plan were approximately 10.8 million.

As at February 21, 2020, 145.7 million common shares, 1.8 million restricted share units, performance share units and deferred share units and 2.0 million stock options were outstanding.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

The fair value of futures contracts is based on quoted market prices obtained from the Chicago Mercantile Exchange. The fair value of swaps and option contracts is estimated based on quoted prices from various sources, such as independent reporting services, industry publications and brokers. These quotes are compared to the contract price of the swap, which approximates the gain or loss that would have been realized if the contracts had been closed out at the period end. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. No such positions existed as at December 31, 2019 and 2018. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil, differentials and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by $9.9 million and $7.3 million as of December 31, 2019 and 2018, respectively. A 15% unfavorable change would decrease the Company's net income by $9.9 million and $7.3 million as of December 31, 2019 and 2018, respectively. However, these changes may be offset by the use of one or more risk management strategies.

Interest rate risk. The Company's long-term debt, excluding the Revolving Credit Facility, accrues interest at fixed interest rates and accordingly, changes in market interest rates do not expose the Company to future interest cash outflow variability. At December 31, 2019, the Company had $60 million drawn under the Revolving Credit Facility which is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either the Canadian Prime Rate, U.S. LIBOR, U.S. Base Rate or Canadian Bankers' Acceptance Rate, plus an applicable margin based on the Company's total leverage ratio. At current balances and rates the interest rate risk is not significant.

Currency exchange risks. The Company's monetary assets and liabilities in foreign currencies are translated at the period-end rate. Exchange differences arising from this translation are recorded in the Company's statement of operations. In addition, currency exposures can arise from revenues and purchase transactions denominated in foreign currencies. Generally, transactional currency exposures are naturally hedged (i.e., revenues and expenses are approximately matched), but, where appropriate, are covered using forward exchange contracts. All of the foreign currency forward exchange contracts entered into by the Company, although effective hedges from an economic perspective, have not been designated as hedges for accounting purposes, and therefore any gains and losses on such forward exchange contracts impact the Company's earnings. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would affect the fair value of the Company's outstanding forward currency contracts and options and would decrease the Company's net income by $2.7 million and $1.9 million as at December 31, 2019 and 2018, respectively. A 5% favorable change would increase the Company's net income by $2.7 million and $1.9 million as at December 31, 2019 and 2018, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

As at December 31, 2019, the Company had $nil U.S. dollar denominated debt as part of its draw on its Revolving Credit Facility resulting in no exposure to currency risk.

ACCOUNTING POLICIES

Critical accounting policies and estimates

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

Recoverability of asset carrying values. The Company carries out impairment reviews in respect of goodwill at least annually or if indicators of impairment exist. The Company also assesses during each reporting period whether there have been any events or changes in circumstances that indicate that property, plant and equipment, inventories and other intangible assets may be impaired and an impairment review is carried out whenever such an assessment indicates that the carrying amount may not be recoverable. Such indicators include changes in the Company's business plans, changes in activity levels, an increase in the discount rate, the intention of "holding" versus "selling" and evidence of physical damage. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Where impairment exists, the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and value in use. Impairments are recognized immediately in the consolidated statement of operations.

The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount; that is, the higher of fair value less costs to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. However, the determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters, such as the outlook for global or regional market supply-and-demand conditions, future commodity prices, the effects of inflation on operating expenses and discount rates.

Income tax. Income tax expense represents the sum of the income tax currently payable and deferred income tax. Interest and penalties relating to income tax are also included in income tax expense. Deferred income tax is provided for using the liability method of accounting. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and income tax basis of assets and liabilities. These differences are then measured using enacted or substantially enacted income tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income in the period that the change occurs.

The computation of the Company's income tax expense involves the interpretation of applicable tax laws and regulations in many jurisdictions. The resolution of tax positions taken by the Company can take significant time to complete and in some cases it is difficult to predict the ultimate outcome. In addition, the Company has carry-forward tax losses in certain taxing jurisdictions that are available to offset against future taxable profit. However, deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized. Management judgement is exercised in assessing whether this is the case. To the extent that actual outcomes differ from management's estimates, income tax charges or credits may arise in future periods.

Provisions and accrued liabilities. The Company uses estimates to record liabilities for obligations associated with site restoration on the retirement of assets and environmental costs, taxes, potential legal claims and other accruals and liabilities.

Liabilities for site restoration on the retirement of assets are recognized when the Company has an obligation to restore the site and when a reliable estimate of that liability can be made. An obligation may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The present value is determined by discounting the expenditures expected to be required to settle the obligation using a risk-free discount rate. Estimated future expenditure is based on all known facts at the time and current expected plans for decommissioning. Among the many uncertainties that may impact the estimates are changes in laws and regulations, public expectations, prices and changes in technology. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also recorded. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the completion of a feasibility study or a commitment to a formal plan of action. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure. Estimated future expenditure is based on all known facts at the time and an assessment of the ultimate outcome. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time remediation may require, the complexity of environmental regulations and the advancement of remediation technology.

Other provisions and accrued liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgment to existing facts and circumstances, which can be subject to change. Since the actual cash outflows can take place many years in the future, the carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances. A change in estimate of a recognized provision or accrued liability would result in a charge or credit to net income in the period in which the change occurs.

Assets held for sale and discontinued operations. As at December 31, 2019 and December 31, 2018, the Company considered certain businesses and assets as held-for-sale. In making these determinations, the Company used significant judgment in evaluating whether a sale was considered highly probable and considered the progress of negotiations specific to significant terms of the sales, including the structure of the transaction and if the buyer has substantially completed their due diligence review. For these businesses and assets these conditions were all met during the year ended December 31, 2019. The Company also used significant judgment in evaluating whether a disposal group represented a major line of business or geographical area of operations to be reported within discontinued operations, considering if the disposal group is a component of an entity and its materiality in relation to the reportable segment. These criteria were met for certain disposal groups.

Initial adoption of accounting policies

New and amended standards adopted by the Company:

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

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

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

- IFRS 3 – Business Combinations ("IFRS 3"), has been amended to update the definition of a business. The amendment to IFRS 3 is effective for years beginning on or after January 1, 2020. The Company assessed the impact of this amendment and has determined that more business acquisitions will qualify for assets purchases than business combinations on its consolidated financial statements.

DISCLOSURE CONTROLS & PROCEDURES

As part of the requirements mandated by the Canadian securities regulatory authorities under National Instrument 52-109-Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the design and operation of the Company's disclosure controls and procedures ("DC&P"), as such term is defined in NI 52-109, as at December 31, 2019. The CEO and CFO are also responsible for establishing and maintaining internal controls over financial reporting, ("ICFR"), as such term is defined in NI 52-109. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission framework in Internal Control – Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and compliance with IFRS. The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and operational effectiveness of such controls as at December 31, 2019.

Based on the evaluation of the design and operating effectiveness of the Company's DC&P and ICFR, the CEO and the CFO concluded that Gibson DC&P and ICFR were effective as at December 31, 2019. There have been no changes in ICFR that occurred during the period beginning January 1, 2019 and ended on December 31, 2019 that has materially affected or is reasonably likely to materially affect Gibson ICFR.

RISK FACTORS

Shareholders and prospective investors should carefully consider the risk factors noted below before investing in Gibson securities, as each of these risks may negatively affect the trading price of Gibson securities, the amount of dividends paid to shareholders and the ability of Gibson to fund its debt obligations, including debt obligations under its outstanding Debentures and any other debt securities that Gibson may issue from time to time. For a further discussion of the risks identified in this MD&A, other risks and trends that could affect Gibson performance and the steps that Gibson takes to mitigate these risks, readers are referred to Gibson AIF, which is available on SEDAR at www.sedar.com.

Hazards and Operational Risks

The Company's operations are subject to the many hazards inherent in the transportation, storage, processing, treating and distribution of crude oil, NGLs and petroleum products, including:

- explosions, fires and accidents, including road and rail accidents;
- damage to the Company's tanker trucks, pipelines, storage tanks, terminals and related equipment;
- ruptures, leaks or releases of crude oil or petroleum products into the environment;
- acts of terrorism or vandalism; and
- other accident or hazards that may occur at or during transport to, or from, commercial or industrial sites.

If any of these events were to occur, the Company could suffer substantial losses because of the resulting impact on the Company's reputation, personal injury or loss of life, severe damage to and destruction of property, equipment, information technology systems, related data and control systems, environmental damage, which may include polluting water, land or air, resulting in curtailment or suspension of the related operations. Mechanical malfunctions, faulty measurement or other errors may also result in significant costs or lost revenues.

Market and Commodity Price Risk

The Company's business includes activities related to product storage, terminalling and hub services. These activities expose the Company to certain risks including that the Company may experience volatility in revenue and impairments related to the book value of stored product, due to the fluctuations in commodity prices. Primarily, the Company enters into contracts to purchase and sell crude oil, NGLs and refined products at floating market prices. The prices of the products that are marketed by the Company are subject to volatility as a result of factors such as seasonal demand changes, extreme weather conditions, market inventory levels, general economic conditions, changes in crude oil markets and other factors. The Company manages its risk exposure by balancing purchases and sales to lock-in margins; however, the Company may not be successful in balancing its purchases and sales. Also, in certain situations, a producer or supplier could fail to deliver contracted volumes or could deliver in excess of contracted volumes or a purchaser could purchase less than contracted volumes. Any of these actions could cause the Company's purchases and sales to be unbalanced. While the Company attempts to balance its purchases and sales, if its purchases and sales are unbalanced, the Company will face increased exposure to commodity price risks and could have increased volatility in its operating income and cash flow.

Notwithstanding the Company's management of price and quality risk, marketing margins for commodities can vary and have varied significantly from period to period. This variability could have an adverse effect on the results of the Company.

Since crude oil margins can be earned by capturing spreads between different qualities of crude oil, the Company's crude oil marketing business is subject to volatility in price differentials between crude oil streams and blending agents. Due to this volatility, the Company's margins and profitability can vary significantly. The Company expects that commodity prices will continue to fluctuate significantly in the future. The Company utilizes financial derivative instruments as part of its overall risk management strategy to assist in managing the exposure to commodity prices, as well as interest rates and foreign exchange risks. For example, as NGL and refined product prices are somewhat related to the price of crude oil, crude oil financial contracts are one of the more common price risk management strategies that the Company uses. Also, with respect to crude oil, the Company manages its exposure using WTI based futures, options and swaps. These strategies are subject to basis risk between the prices of crude oil streams, WTI, NGL and refined product values and, therefore, may not fully offset future price movements. Furthermore, there is no guarantee that these strategies and other efforts to manage marketing and inventory risks will generate profits or mitigate all the market and inventory risk associated with these activities. If the Company utilizes price risk management strategies, the Company may forego the benefits that may otherwise be experienced if commodity prices were to increase. In addition, any non-compliance with the Company's trading policies could result in significantly adverse financial effects. To the extent that the Company engages in these kinds of activities, the Company is also subject to credit risks associated with counterparties with whom the Company has contracts. The Company does not trade financial instruments for speculative purposes.

Reputation

The Company relies on its reputation to build and maintain positive relationships with its stakeholders, to recruit and retain staff, and to be a credible, trusted company. Reputational risk is the potential for negative impacts that could result from the deterioration of the Company's reputation with key stakeholders. The potential for harming the Company's corporate reputation exists in every business decision and public interaction, which in turn can negatively impact the Company’s business and its securities. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity, regulatory, environmental and legal risks must all be managed effectively to safeguard the Company’s reputation. Negative impacts from a compromised reputation could include revenue loss, reduction in customer base and diminution of share price.

Decommissioning, Abandonment and Reclamation Costs

The Company is responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of the Company’s facilities and pipelines at the end of their economic life, the costs of which may be substantial. It is not possible to predict these costs with certainty since they will be a function of regulatory requirements at the time of decommissioning, abandonment and reclamation. The Company may, in the future, be required by applicable laws or regulations to establish and fund one or more decommissioning, abandonment and reclamation reserve funds to provide for payment of future decommissioning, abandonment and reclamation costs, which could decrease funds available to the Company to execute its business plan and service its debt obligations. In addition, such reserves, if established, may not be sufficient to satisfy such future decommissioning, abandonment and reclamation costs and the Company will be responsible for the payment of the balance of such costs.

Legislative and Regulatory Changes

The Company’s industry is highly regulated. There can be no guarantee that laws and other government programs relating to the oil and gas industry, the energy services industry and the transportation industry will not be changed in a manner which directly and adversely affects the Company’s business. There can also be no assurance that the laws, regulations or rules governing the Company’s customers will not be changed in a manner which adversely affects the Company’s customers and, therefore, the Company’s business. In addition, the Company’s pipelines and facilities are potentially subject to common carrier and common processor applications and to rate setting by regulatory authorities in the event agreement on fees or tariffs cannot be reached with producers. To the extent that producers believe processing fees or tariffs with respect to pipelines and facilities are too high, they may seek rate relief through regulatory means. If regulations were passed lowering or capping the Company’s rates and tariffs, the Company’s results of operations and cash flows could be adversely affected.

Petroleum products that the Company stores and transports are sold by the Company’s customers for consumption into the public market. Various federal, provincial, state and local agencies have the authority to prescribe specific product quality specifications for commodities sold into the public market. Changes in product quality specifications or blending requirements could reduce the Company’s throughput volume, require the Company to incur additional handling costs or require capital expenditures. For instance, different product specifications for different markets impact the fungibility of the products in the Company’s system and could require the construction of additional storage. If the Company is unable to recover these costs through increased revenues, the Company’s cash flows could be adversely affected. In addition, changes in the quality of the products the Company receives on its petroleum products pipeline system could reduce or eliminate the Company’s ability to blend products.

The Company’s cross-border activities are subject to additional regulation, including import and export licenses, tariffs, Canadian and U.S. customs and tax issues and toxic substance certifications. Such regulations include the Short Supply Controls of the Export Administration Act, the United States-Mexico-Canada Agreement, the Toxic Substances Control Act and the Canadian Environmental Protection Act, 1999. Violations of these licensing, tariff and tax reporting requirements could result in the imposition of significant administrative, civil and criminal penalties.

In addition, local, consumption and income tax laws relating to the Company may be changed in a manner which adversely affects the Company.

Jointly Owned Facilities

Certain of the Company’s facilities are jointly owned with third parties. Approvals must be obtained from such joint owners for proposals to make capital expenditures regarding such facilities. These approvals typically require that a capital expenditure proposal be approved by the owners holding a specified percentage of the ownership interests in the relevant facility. It may not be possible for the Company to obtain the required levels of approval from co-owners of facilities for future proposals for capital expenditures to expand or improve its jointly owned facilities. In addition, agreements for joint ownership often contain restrictions on transfer of an interest in a facility. The most frequent restrictions require a transferor who is proposing to transfer an interest to offer such interest to the other holders of interests in the facility prior to completing the transfer. Such provisions may restrict the Company's ability to transfer its interests in facilities or to acquire partners' interests in facilities and may also restrict the Company's ability to maximize the value of a sale of its interest.

As part of the Company's effort to minimize these risks, the Company maintains communication with its co-owners through participation in operating committees and formal decision-making processes. The Company also utilizes its knowledge of industry activity and relationships with other owners to mitigate the risk of uncooperative behavior. However, there is no guarantee that the Company will be able to proceed with its plans for any facilities which are jointly owned.

Capital Project Delivery and Success

The Company has a number of organic growth projects that require the expenditure of significant amounts of capital. Many of these projects involve numerous regulatory, environmental, commercial, weather-related, political and legal uncertainties that will be beyond the Company's control. As these projects are undertaken, required regulatory and other approvals may not be obtained, may be delayed or may be obtained with conditions that materially alter the expected return associated with the underlying projects. Moreover, the Company will incur financing costs during the planning and construction phases of its growth projects, but the operating cash flow the Company expects these projects to generate will not materialize until after the projects are completed. These projects may be completed behind schedule or in excess of budgeted cost. For example, the Company must compete with other companies for the materials and construction services required to complete these projects, and competition for these materials or services could result in significant delays and/or cost overruns. Any such cost overruns, or unanticipated delays in the completion or commercial development of these projects, could reduce the Company's liquidity. The Company may construct facilities or other assets in anticipation of market demand that dissipates during the intervening period between project conception and delivery to market or never materializes. As a result of these uncertainties, the anticipated benefits associated with the Company's capital projects may be lower than expected.

Regulatory Approvals

The Company's operations require it to obtain approvals from various regulatory authorities and there are no guarantees that it will be able to obtain all necessary licenses, permits and other approvals that may be required to conduct its business. In addition, obtaining certain approvals from regulatory authorities can involve, among other things, stakeholder and Indigenous consultation, environmental impact assessments and public hearings. Regulatory approvals obtained may be subject to the satisfaction of certain conditions, including, but not limited to: security deposit obligations; ongoing regulatory oversight of projects; mitigating or avoiding project impacts; habitat assessments; and other commitments or obligations. Failure to obtain applicable regulatory approvals or satisfy any of the conditions thereto on a timely basis on satisfactory terms could result in delays, abandonment or restructuring of projects and increased costs.

Environmental and Health and Safety Regulations

Each of the Company's segments are subject to the risk of incurring substantial costs and liabilities under environmental and health and safety laws and regulations. These costs and liabilities arise under increasingly stringent environmental and health and safety laws, including regulations and governmental enforcement policies and legislation, and as a result of third-party claims for damages to property or persons arising from the Company's operations. Environmental laws and regulations impose, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances into the environment. Environmental laws and regulations also require that pipelines, facilities and other properties associated with the Company's operations be constructed, operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Health and safety laws and regulations impose, among other things, requirements designed to ensure the protection of workers and to limit the exposure of persons to certain hazardous substances. In addition, certain types of projects may be required to submit and obtain approval of environmental impact assessments, to obtain and maintain environmental permits and approvals and to implement mitigative measures prior to the implementation of such projects.

Failure to comply with environmental and health and safety laws and regulations, including related permits and approvals, may result in assessment of administrative, civil and criminal penalties, the issuance of regulatory or judicial orders, the imposition of remedial obligations such as clean-up and site restoration requirements, the payment of deposits, liens, the amendment, suspension or revocation of permits and approvals and the potential issuance of injunctions to limit or cease operations. If the Company were unable to recover these costs through increased revenues, the Company's ability to meet its financial obligations could be adversely affected.

Some of the Company's facilities have been used for many years to transport, distribute or store petroleum products. Over time the Company's operations, or operations by the Company's predecessors or third parties not under the Company's control, may have resulted in the disposal or release of hydrocarbons or wastes at or from these properties upon which the facilities are situated along or over pipeline rights-of-way. In addition, some of the Company's facilities are located on or near current or former refining and terminal sites, and there is a risk that contamination is present on those sites. The Company may be subject to strict joint and several liability under a number of these environmental laws and regulations for such disposal and releases of hydrocarbons or wastes or the existence of contamination, even in circumstances where such activities or conditions were caused by third parties not under the Company's control or were otherwise lawful at the time they occurred.

Further, the transportation of hazardous materials and/or other substances in the Company's pipelines or by truck or rail may result in environmental damage, including accidental releases that may cause death or injuries to humans, damage to third parties and natural resources, and/or result in federal and/or provincial and state civil and/or criminal penalties that could be material to the Company's results of operations and cash flow.

The Company engages in operations which handle hazardous materials. As a result of these and other activities, the segment is subject to a variety of federal, provincial, state, local and foreign laws and regulations relating to the generation, transport, use handling, storage, treatment and exposure to and disposal of these materials, including record keeping, reporting and registration requirements. The Company has incurred and expects to continue to incur expenditures to maintain compliance with environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which the Company is subject could become more stringent or be more stringently enforced in the future. Failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures or remedial actions.

Certain environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and comparable state laws in the U.S., impose joint and several liability, without regard to fault or legality of the operations, on certain categories of persons, including current and prior owners or operators of a facility where there is a release or threatened release of hazardous substances, transporters of hazardous substances and entities that arranged for disposal of the hazardous substances at the site. Under CERCLA, these "responsible persons" may be held jointly and severally liable for the costs of cleaning up the hazardous substances, as well as for damages to natural resources and for the costs of certain health studies, relocation expenses and other response costs.

CERCLA generally exempts "petroleum" from the definition of hazardous substance; however, in the course of the Company's operations, the Company has accepted, handled, transported and/or generated materials that are considered "hazardous substances." Further, hazardous substances or hazardous wastes may have been released at properties owned or leased by the Company now or in the past, or at other locations where these substances or wastes were taken for treatment or disposal. Given the nature of the Company's environmental services business, it has incurred, and will in the future periodically incur, liabilities under CERCLA or other environmental cleanup laws, at its current or former facilities, adjacent or nearby third-party facilities, or offsite disposal locations. There can be no assurance that the costs associated with future cleanup activities that the Company may be required to conduct or finance will not be material. Additionally, the Company may become liable to third parties for damages, including personal injury and property damage, resulting from the disposal or release of hazardous substances into the environment.

Failure to comply with environmental regulations could have an adverse impact on the Company's reputation. There is also risk that the Company could face litigation initiated by third parties relating to climate change or other environmental regulations.

Climate Control Legislation

Climate change legislation-related risks are considered by the Company as part of its ongoing risk management processes. The materiality of such risks varies among the business operations of the Company and the jurisdictions in which such operations are conducted. Despite the potential uncertainties and longer time horizon associated with any such risks, the Board and management considers the impacts of climate change legislation over the short-, medium- and long-terms.

In 2018, the Canadian federal government enacted the Greenhouse Gas Pollution Pricing Act (the “GGPPA” or “Federal Backstop”) which established a national carbon-pricing regime requiring each province to implement a price on carbon of $10/tonne of CO2e in 2018, escalating each year another $10, to an ultimate carbon price of $50/tonne of CO2e in 2022. The Federal Backstop allows provinces some flexibility in structuring their carbon price regimes with cap and trade, carbon tax or output-based pricing systems, all being acceptable methods for implementing such carbon pricing.

To the extent each province implements a carbon pricing system that meets the stringency requirements of the GGPPA, the GGPPA will not apply. However, if such a provincial pricing system is not implemented, or does not meet the stringency requirements of the GGPPA, the Federal Backstop will apply to the extent of such deficiency.

Prior to 2020, the Federal Backstop did not apply in Alberta as Alberta’s Carbon Competitiveness Incentive Regulation (“CCIR”) applicable to large emitters, paired with the Climate Leadership Regulation (“CLR”) which implemented a province-wide carbon tax, met the stringency requirements of the Federal Backstop.

In 2019, the newly elected Alberta UCP government made several legislative changes including repealing the CLR, thereby eliminating Alberta’s carbon tax and replacing the CCIR with the Technology Innovation and Emission Reduction (“TIER”) Regulation.

TIER became effective on January 1, 2020 and requires large emitters (facilities that emit 100,000 tonnes or more of CO2e in 2016 or any subsequent year, or that are otherwise eligible to opt-in to the TIER regime) to reduce their emissions intensity by 10% relative to such facility’s historical production-weighted average emission intensity. This reduction requirement “tightens” by an additional 1% annually, beginning in 2021.

Facilities regulated under TIER have a number of compliance options including physical abatement of emissions, use of emission performance credits, use of emission offsets, the purchase of TIER fund credits, or a combination of the foregoing. Persons responsible for such regulated facilities must file annual compliance reports with the government demonstrating their compliance with TIER’s emission intensity reduction requirements and such facilities emitting 1 MT or more CO2e will have an additional requirement to file forecasts of anticipated emission for the following year.

The Canadian federal government has acknowledged that the TIER satisfies the stringency requirements of the Federal Backstop insofar as it applies to large emitters, at least in respect of 2020. It remains to be seen if TIER’s carbon pricing (currently calibrated at $30/tonne of CO2e) will be increased to align with the Federal Backstop’s pricing escalation in 2021 and 2022. However, Alberta’s repeal of the CLR has resulted in the province’s overall carbon pricing regime not meeting the stringency requirements of the Federal Backstop. This resulted in Alberta being added as a “listed province” under the GGPPA such that the federal carbon tax contemplated by the Federal Backstop will be levied in 2020 and thereafter on fossil fuels imported into or otherwise consumed within Alberta, other than in respect of TIER-regulated facilities.

While none of the Company’s Alberta facilities are considered large emitters under TIER, the Company has voluntarily submitted to TIER regulation in respect of several of its facilities via an “aggregate facility” designation available under TIER. Certain conventional oil and gas facilities which do not satisfy the large emitter criteria under TIER can be aggregated together and be treated as if they were a single aggregate facility. Accordingly, the Company will be required to reduce its emission intensity in respect of such aggregate facility in accordance with TIER, but in doing so, will avoid the application of the carbon tax pursuant to the Federal Backstop, in respect of fuels used by such aggregate facility.

Like Alberta, Saskatchewan has implemented an output-based pricing system applicable to large emitters pursuant to its Management and Reduction of Greenhouse Gases Act (“MRGGA”) and related regulations including the Management and Reduction of Greenhouse Gases (Reporting and General) Regulations (the “MRGGR”). Large emitters under the MRGGR are facilities in certain sectors that emit 25,000 or more tonnes of CO2e, and those that emit 10,000 tonnes of CO2e per year and who opt-in to the MRGGR. Annual emission intensity reduction requirements are specific to the product produced by the applicable regulated facility and increase in stringency over time in prescribed increments. Like Alberta’s TIER, person’s responsible for such regulated facilities must file annual compliance reports demonstrating their compliance. Compliance options include physical abatement of emissions, using emission offsets, using emission performance credits, purchasing technology fund credits, or a combination of the foregoing.

Saskatchewan has consistently opposed implementation of a carbon tax and the output-based pricing system contemplated by the MRGGR does not apply to certain industrial sectors. Accordingly, as of January 2019, the Federal Backstop applies in Saskatchewan in respect of: (i) electricity generating facilities and natural gas transmission pipelines, in the form of its own output-based pricing system applicable to such facilities that emit 50,000 tonnes or more of CO2e in a year (with the ability for such facilities that emit 10,000 tonnes of CO2e or more in an year to opt-in); and (ii) a carbon tax applied to fossil fuels imported into or otherwise consumed within Saskatchewan, in the same manner as how the Federal Backstop's carbon tax is applied in Alberta.

While none of the Company's Saskatchewan facilities are considered large emitters under the MRGGR, it has elected to "opt-in" to the MRGGR in respect of its Moose Jaw Facility. Accordingly, the Company will be required to reduce its emission intensity in respect of such facility in accordance with the MRGGR but will avoid the application of the carbon tax pursuant to the Federal Backstop in respect of fuels used by such facility.

Saskatchewan lost their challenge at the Saskatchewan Court of Appeal of the constitutionality of the Federal Backstop being imposed and is appealing the loss to the Supreme Court of Canada ("SCC"). Arguments are expected to be heard in spring of 2020. Alberta vowed in June 2019 to apply for intervener status in Saskatchewan's appeal. Notably, Ontario similarly challenged the tax and lost at the Ontario Court of Appeal and is appealing to the SCC.

The Alberta Court of Appeal has yet to release its decision after arguments were heard in December 2019 on the constitutionality of the carbon tax. The UCP government has vowed to appeal the case to the SCC if the ruling is not in their favour. In the interim, the Federal Backstop applies to all provinces who do not meet the federal threshold, which as of January 2020 includes Alberta, Manitoba, New Brunswick, Ontario, and Saskatchewan.

Legislative and regulatory issues related to climate change are also attracting significant political attention in the United States. It is expected that such initiatives will continue at international, national, regional and state levels of government in an effort to monitor and limit emissions of GHGs. Carbon taxes, cap-and-trade programs, GHG reporting and tracking programs, and regulations that directly limit GHG emissions from sources have, among other programs, been considered. While there is no comprehensive Federal climate change legislation to date, the USEPA has implemented the Clean Air Act that, among other things, establishes Potential for Significant Deterioration ("PSD") construction and Title V operating permit reviews for GHG emissions from certain large stationary sources that are also potential major sources of certain principal, or criteria, pollutant emissions, which reviews could require securing PSD permits at covered facilities emitting GHGs and meeting "best available control technology" standards for those GHG emissions. The USEPA further requires monitoring and annual reporting of GHG emissions from certain petroleum and natural gas system sources in the United States, which includes, among others, onshore processing, transmission, storage and distribution facilities. The USEPA also amended and expanded the GHG reporting requirements to all segments of the oil and natural gas industry in October 2015.

Congress passed the climate Action Now Act in May 2019 which aims to keep the U.S. in the Paris Agreement; the Act is with the Senate being read the second time. The USEPA is working on regulations to limit greenhouse gas emissions within its existing statutory authority under the Clean Air Act. In addition, more than one-third of the states already have begun implementing legal measures to reduce emissions of greenhouse gases.

On January 28, 2020, House Energy and Commerce Committee members released draft text of the Climate Leadership and Environmental Action for our Nation's (CLEAN) Future Act, proposing a new climate plan to ensure the United States achieves net-zero greenhouse gas pollution no later than 2050. The CLEAN Future Act proposes sector-specific and economy-wide solutions to address the "climate crisis." Feedback and recommendations from all stakeholders has been requested CLEAN Future Act is refined. The Committee intends to hold hearings and stakeholder meetings throughout 2020.

A number of U.S. states have formed regional partnerships to regulate emissions of GHGs such as the Transportation and Climate Initiative (TCI) enacted on December 17, 2019 and involving thirteen jurisdictions in the Northwest and Mid-Atlantic United States. In general, climate change legislation imposes, among other things, costs, restrictions, liabilities and obligations in connection with the handling, use, storage and transportation of crude oil and petroleum products. The complexities of changes in environmental regulations make it difficult to predict the potential future impact to the Company. However, compliance with climate change legislation requires significant expenditures and it is likely that such legislation will materially impact the nature of oil and gas operations, including those carried out by the Company and its customers. In addition, changes to such legislation or future legislation may apply to more facilities over time and result in further regulatory requirements that could affect the Company's business, or the business of its customers. At present, it is not possible to predict the impact such legislation will, or new legislation or regulatory programs could, have on the Company's business, operations and/or finances. Future capital expenditures and operating expenses could continue to increase as a result of, among other things, developments in the Company's business, operations, plans and objectives and changes to existing, or implementation of new, climate change legislation. Regulatory focus on other air emissions criteria such as VOC emissions, particulate matter and ground level ozone may also impact the oil and gas sector, particularly the midstream component. Failure to comply with climate change legislation may result in, among other things, the imposition of fines, penalties, environmental protection orders, suspension of operations, and could adversely affect the Company's reputation. The costs of complying with climate change legislation are not presently expected to have a material adverse effect on the Company's operations or financial condition, however, the implementation of new climate change legislation, the modification of existing climate change legislation, changes in climate change policy that seek to promote adaptation to climate change which affect the energy industry generally could reduce demand for crude oil and petroleum products and materially impact the Company's current or future business (including, without limitation, increasing costs of compliance) and could have an adverse effect on the Company's operations, margins, profitability and results.

The extent and magnitude of any adverse impacts of current or additional programs or regulations beyond reasonably foreseeable requirements cannot be reliably or accurately estimated at this time, in part because certain specific legislative and regulatory requirements have not been finalized and uncertainty exists with respect to the additional measures being considered and the time frames for compliance. Consequently, no assurances can be given that the effect of future climate change legislation will not be significant to the Company. There is also risk that the Company could face claims initiated by third parties relating to climate change or climate change legislation. These claims could, among other things, result in litigation targeted against the Company and the oil and gas industry generally, and should any such litigation claims arise, they may have a material adverse effect on the Company's business.

Demand for Crude Oil and Petroleum Products

Any sustained decrease in demand for crude oil and petroleum products in the markets the Company serves could result in a significant reduction in the volume of products and services that the Company provides and thereby could significantly reduce cash flow and revenues. Factors that could lead to a decrease in market demand include:

- lower demand by consumers for refined products, including asphalt and wellsite fluids, as a result of recession or other adverse economic conditions or due to high prices caused by an increase in the market price of crude oil, which is subject to wide fluctuations in response to changes in global and regional supply over which the Company has no control;
- an increase in fuel economy, whether as a result of a shift by consumers to more fuel-efficient vehicles, technological advances by manufacturers, governmental or regulatory actions or otherwise;
- provincial, state and federal legislation either already in place or under development, including carbon taxes or equivalents or requiring the inclusion of ethanol and use of biodiesel which may negatively affect the overall demand for crude oil products;
- lower demand by the oil and gas drilling industry for products such as drilling mud additives and for wellsite fluids as a result of legislation regulating hydraulic fracturing currently being considered by the U.S. Congress, a number of U.S. states and the Province of Quebec;
- technological advances in the production and longevity of fuel cells and solar, electric and battery-powered engines; and
- fluctuations in demand for crude oil, such as those caused by refinery downtime or shutdowns.

The Company cannot predict and does not have control over the impact of future economic and political conditions on the energy and petrochemical industries, which, in turn, could affect the demand for crude oil and petroleum products. As a result of decreased demand, the Company may experience a decrease in the Company's margins and profitability.

Federal Review of Environmental and Regulatory Processes

In 2016, the Government of Canada commenced a review of federal environmental and regulatory processes under various acts and in February 2018, the Government of Canada proposed the enactment of the Impact Assessment Act and the Canadian Energy Regulator Act and certain amendments to the Fisheries Act and the Navigation Protection Act.

The Impact Assessment Act came into force in August 2019 and replaced the Canadian Environmental Assessment Act, 2012. It established the Impact Assessment Agency of Canada, which will lead and coordinate impact assessments for all designated projects, including those previously administered by the National Energy Board. The Impact Assessment Act applies to designated projects listed in the Physical Activities Regulations and physical activities designated by the Minister of Environment and Climate Change Canada on an ad hoc basis. The legislation expands the assessment considerations beyond the environment to expressly include health, economic, social and gender impacts, as well as considerations related to sustainability and Canada's climate change commitments. The Canadian Energy Regulator Act also came into force in August 2019 and replaced the National Energy Board with the Canada Energy Regulator and modified the regulator's role in federal impact assessments.

The amendments to the Fisheries Act restore the previous prohibition against harmful alteration, disruption or destruction of fish habitat and the prohibition against causing the death of fish by means other than fishing. The amendments also introduce several new requirements to expand the scope of protection and role of Indigenous groups and interests. The prohibitions against the death of fish, and the harmful alteration, disruption or destruction of fish habitat may result in increased permitting requirements where the Company's operations potentially impact fish or fish habitat. The amendments came into force in August 2019.

The changes to the Navigation Protection Act, including its renaming to the Canadian Navigable Waters Act, expand its scope to all navigable waters, create greater oversight for navigable waters and, consistent with the Fisheries Act, introduce requirements to expand the scope of protection and the role of Indigenous groups and interests. The broader application of the Canadian Navigable Waters Act may result in increased permitting requirements where the Company's operations potentially impact navigable waters. These amendments came into force in August 2019.

The extent and magnitude of any adverse impacts of the above changes to the legislation or programs on project development and operations cannot be reliably or accurately estimated at this time as uncertainty exists with respect to their implementation and accompanying regulations. Increased environmental assessment obligations may create risk of increased costs and project development delays.

FORWARD-LOOKING INFORMATION

Certain statements and information included or referred to in this MD&A constitute forward-looking information (as such term is defined under applicable Canadian securities laws). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking information. The use of any of the words ''anticipate'', ''plan'', ''contemplate'', ''continue'', "aim", "target", "must", "commit", ''estimate'', ''expect'', ''intend'', ''propose'', ''might'', ''may'', ''will'', ''shall'', ''project'', ''should'', ''could'', ''would'', ''believe'', ''predict'', ''forecast'', ''pursue'', ''potential'' and ''capable'' and similar expressions expressing future outcomes or statements regarding an outlook are intended to identify forward-looking information. Forward-looking information, included or referred to in this MD&A include, but are not limited to statements with respect to:

- *realization of anticipated benefits from reorganization and headcount rationalization efforts;*
- *achieving the targets including but not limited to segment profits, payout ratio, leverage ratio and credit ratings;*
- *the addition or disposition of assets and changes in the services to be offered by the Company;*
- *the Company's projections relating to target segment profit, distributable cash flow, distributable cash flow per share, and total cash flow;*
- *the Company's projections relating to target leverage and payout ratios;*
- *the Company's investment in new equipment, technology, facilities and personnel;*
- *the Company's growth strategy to expand in existing and new markets including the anticipated benefits from the Company's basin strategy;*
- *the availability of sufficient capital and liquidity for planned growth;*
- *new technology and drilling methodology being deployed towards conventional and unconventional production within the Company's operating areas;*
- *uncertainty and volatility relating to crude prices and price differentials between crude oil streams and blending agents;*
- *increased crude oil production and exploration activity on shore in North America, including from the Canadian oil sands;*
- *the expansion of midstream infrastructure in North America to handle increased production and expansion of capacity in the U.S. refining complex to handle heavier crude oil from the WCSB;*
- *the planned construction and in service date of the DRU;*
- *the effect of competition in regions of North America and its impact on downward pricing pressure and regional crude oil price differentials among crude oil grades and locations;*
- *the effect of market volatility on the Company's marketing revenues and activities;*

- *the Company's ability to pay down and retire indebtedness;*
- *the Company's plans for additional strategic acquisitions, capital expenditures or other similar transactions, including the costs thereof;*
- *in-service dates for new storage capacity and new projects being constructed by the Company;*
- *the Company's planned hedging activities;*
- *the Company's projections of commodity purchase and sales activities;*
- *the Company's projections of currency and interest rate fluctuations;*
- *the Company's projections with respect to the adoption and implementation of new accounting standards and policies;*
- *the realization of anticipated benefits from the implementation of cost saving measures;*
- *the Company's projections of dividends; and*
- *the Company's dividend policy.*

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

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

In addition, this MD&A may contain forward-looking information attributed to third party industry sources. The Company does not undertake any obligations to publicly update or revise any forward-looking information except as required by applicable Canadian securities laws. Actual results could differ materially from those anticipated in forward-looking information as a result of numerous risks and uncertainties including, but not limited to, the risks and uncertainties described in "Risk Factors" included in this MD&A. Readers should also refer to "Forward-Looking Information" and "Risk Factors" included in the Company's current Annual Information Form and to the risk factors described in other documents Gibson files from time to time with securities regulatory authorities, available *on SEDAR at www.sedar.com and on the Company's website at www.gibsonenergy.com . No assurance can be given that these expectations will prove to be correct. As such, forward-looking information included or referred to in this MD&A and the Company's other filings with Canadian securities regulatory authorities should not be unduly relied upon. These statements speak only as of the date of this MD&A.*

Information on, or connected to, the Company's website www.gibsonenergy.com does not form part of this MD&A.

The forward-looking information included or referred to in this MD&A are expressly qualified by this cautionary statement and are made as of the date of this MD&A. The Company does not undertake any obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise except as required by applicable securities laws.

NON-GAAP FINANCIAL MEASURES

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

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