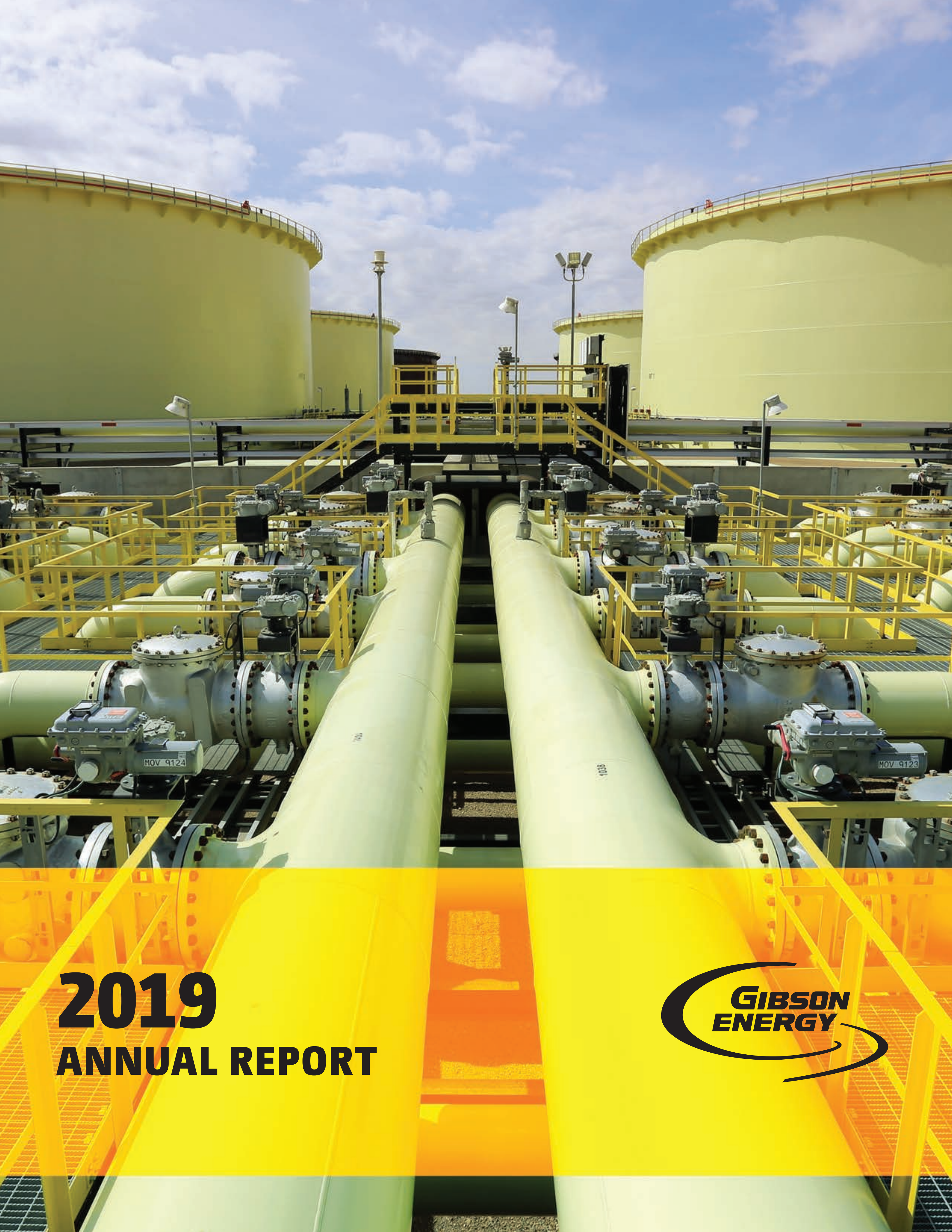

2019
ANNUAL REPORT

GIBSON ENERGY

In This Report

MANAGEMENT'S DISCUSSION & ANALYSIS

2019 Year End Report

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

<u>Major growth projects</u>

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]) December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	Twelve months ended (restated[2]) 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.*

<u>2020 planned capital expenditures</u>

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 CO_2e in a year (with the ability for such facilities that emit 10,000 tonnes of CO_2e 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.

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CONSOLIDATED FINANCIAL STATEMENTS

For the years ended
December 31, 2019 and 2018

GIBSON ENERGY

Contents

Independent auditor's report

To the Shareholders of Gibson Energy Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Gibson Energy Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

PricewaterhouseCoopers LLP
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T: +1 403 509 7500, F: +1 403 781 1825

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Khurram Asghar.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta, Canada
February 24, 2020

Gibson Energy Inc.
Consolidated Balance Sheets

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

	As at December 31,	
	2019	**2018**
Assets		
Current assets		
Cash and cash equivalents	$ 47,231	$ 95,301
Trade and other receivables (note 5)	428,892	283,816
Inventories (note 6)	137,168	85,629
Income taxes receivable	8,592	-
Prepaid and other assets	6,227	11,618
Net investment in finance leases (note 7)	7,476	1,156
Assets held for sale (note 8)	49,394	209,438
Total current assets	684,980	686,958
Non-current assets		
Property, plant and equipment (note 9)	1,558,762	1,424,211
Right-of-use assets (note 10)	95,485	99,180
Long-term prepaid and other assets (note 11)	2,757	4,803
Net investment in finance leases (note 7)	181,074	154,206
Investment in equity accounted investee	20,519	-
Deferred income tax assets (note 21)	38,869	35,874
Intangible assets (note 12)	33,597	41,996
Goodwill (note 13)	360,647	362,348
Total non-current assets	2,291,710	2,122,618
Total assets	$ 2,976,690	$ 2,809,576
Liabilities		
Current liabilities		
Trade payables and accrued charges (note 17)	$ 432,067	$ 365,410
Income taxes payables	-	66,083
Dividends payable (note 20)	48,073	47,704
Contract liabilities	66,147	15,451
Lease liabilities – current portion (note 15)	36,308	36,200
Liabilities related to assets held for sale (note 8)	6,569	58,813
Total current liabilities	589,164	589,661
Non-current liabilities		
Long-term debt (note 14)	1,148,707	1,039,578
Lease liabilities – non-current portion (note 15)	95,500	72,871
Convertible debentures (note 16)	95,129	92,466
Provisions (note 18)	197,002	162,811
Other long-term liabilities (note 19)	6,169	16,319
Deferred income tax liabilities (note 21)	84,409	77,640
Total non-current liabilities	1,626,916	1,461,685
Total liabilities	$ 2,216,080	$ 2,051,346
Equity		
Share capital (note 20)	1,973,827	1,955,146
Contributed surplus	46,316	44,461
Accumulated other comprehensive income	32,594	41,650
Convertible debentures (note 16)	7,023	7,023
Deficit	(1,299,150)	(1,290,050)
Total equity	760,610	758,230
Total liabilities and equity	$ 2,976,690	$ 2,809,576

Commitments and contingencies (note 30)
See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

(signed) "James M. Estey"
James M. Estey (Director)

(signed) "Marshall L. McRae"
Marshall L. McRae (Director)

Gibson Energy Inc.
Consolidated Statements of Operations

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

	Year ended December 31, 2019	2018
Continuing operations		
Revenue (note 22)	$ 7,336,322	$ 6,846,589
Cost of sales (notes 23 and 24)	7,002,402	6,543,958
Gross profit	333,920	302,631
General and administrative expenses (notes 23 and 24)	64,580	69,013
Impairment of goodwill (note 13)	-	20,479
Other operating income (note 25)	(6,112)	(2,091)
Operating income	275,452	215,230
Finance costs, net (note 14)	78,540	78,492
Income before income taxes	196,912	136,738
Income tax expense (note 21)	20,573	55,613
Net income from continuing operations	$ 176,339	$ 81,125
Net income from discontinued operations, after tax (note 8)	6,562	69,923
Net income	$ 182,901	$ 151,048
Earnings per share (note 26)		
Basic earnings per share from continuing operations	$ 1.21	$ 0.57
Basic earnings per share from discontinued operations	0.04	0.48
Basic earnings per share	$ 1.25	$ 1.05
Diluted earnings per share from continuing operations	$ 1.19	$ 0.56
Diluted earnings per share from discontinued operations	0.04	0.46
Diluted earnings per share	$ 1.23	$ 1.02

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.

Consolidated Statements of Comprehensive Income

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

	Year ended December 31, 2019	Year ended December 31, 2018
Net income	$ 182,901	$ 151,048
Other comprehensive (loss) income		
Items that may be reclassified subsequently to statement of operations		
Exchange differences on translating foreign operations – continuing operations	(8,767)	12,518
Other comprehensive income from discontinued operations	-	5,373
Reclassification of foreign currency translation gain on disposal of foreign operations	-	(143,601)
Items that will not be reclassified to statement of operations		
Remeasurements of post-employment benefit obligation, net of tax	(289)	(6,826)
Other comprehensive loss, net of tax	(9,056)	(132,536)
Comprehensive income	$ 173,845	$ 18,512

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.

Consolidated Statements of Changes in Equity

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

	Share capital (note 20)	Contributed surplus	Accumulated other comprehensive income (loss)	Convertible debentures	Deficit	Total Equity
Balance – January 1, 2018	1,932,103	48,706	174,186	7,023	(1,250,787)	911,231
Net income	-	-	-	-	151,048	151,048
Reclassification of foreign currency translation gain on disposal of foreign operations	-	-	(143,601)	-	-	(143,601)
Other comprehensive income, net of tax	-	-	11,065	-	-	11,065
Comprehensive (loss) income	-	-	(132,536)	-	151,048	18,512
Share based compensation	-	17,742	-	-	-	17,742
Proceeds from exercise of stock options	1,056	-	-	-	-	1,056
Reclassification of contributed surplus on issuance of awards under equity incentive plan	21,987	(21,987)	-	-	-	-
Dividends on common shares ($1.32 per common share)	-	-	-	-	(190,311)	(190,311)
Balance – December 31, 2018	$ 1,955,146	$ 44,461	$ 41,650	$ 7,023	$ (1,290,050)	$ 758,230
Balance – January 1, 2019	$ 1,955,146	$ 44,461	$ 41,650	$ 7,023	$ (1,290,050)	$ 758,230
Net income	-	-	-	-	182,901	182,901
Other comprehensive income, net of tax	-	-	(9,056)	-	-	(9,056)
Comprehensive (loss) income	-	-	(9,056)	-	182,901	173,845
Exercise of debentures conversion option	110		-	-	-	110
Share based compensation	-	19,167	-	-	-	19,167
Proceeds from exercise of stock options	1,259	-	-	-	-	1,259
Reclassification of contributed surplus on issuance of awards under equity incentive plan	17,312	(17,312)	-	-	-	-
Dividends on common shares ($1.32 per common share)	-	-	-	-	(192,001)	(192,001)
Balance – December 31, 2019	$ 1,973,827	$ 46,316	$ 32,594	$ 7,023	$ (1,299,150)	$ 760,610

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.
Consolidated Statements of Cash Flows

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

	Year ended December 31, 2019	2018
Cash flows from operating activities		
Net income from continuing operations	$ 176,339	$ 81,125
Adjustments for non-cash items (note 32)	280,961	381,663
Changes in items of working capital (note 32)	(2,169)	50,222
Income tax (payment) refund, net (note 32)	(92,976)	14,076
Cash provided by operating activities from continuing operations	362,155	527,086
Cash provided by operating activities from discontinued operations (note 8)	6,465	36,652
Net cash provided by operating activities	**368,620**	**563,738**
Cash flows from investing activities		
Purchase of property, plant and equipment	(265,951)	(224,440)
Acquisitions	(21,292)	(41,656)
Deferred consideration paid on prior period acquisition	(39,551)	-
Purchase of intangible assets	(5,470)	(4,051)
Proceeds from sale of assets held for sale, net (note 8)	48,359	41,811
Proceeds from sale of assets	5,777	13,834
Cash used in investing activities from continuing operations	(278,128)	(214,502)
Cash provided by investing activities from discontinued operations (note 8)	67,735	107,777
Net cash used in investing activities	**(210,393)**	**(106,725)**
Cash flows from financing activities		
Payment of shareholder dividends	(191,633)	(189,880)
Interest paid, net	(64,577)	(68,924)
Proceeds from exercise of stock options	1,259	1,056
Finance lease payments (note 15)	(48,632)	(49,792)
Proceeds from issuance of long-term debt, net of cost	495,485	-
Repayment of long-term debt, net of cost	(304,032)	-
Repayment of credit facilities, net	(90,000)	(84,657)
Cash used in financing activities from continuing operations	(202,130)	(392,197)
Cash used in financing activities from discontinued operations (note 8)	(847)	(3,056)
Net cash used in financing activities	**(202,977)**	**(395,253)**
Net (decrease) increase in cash and cash equivalents	(44,750)	61,760
Effect of exchange rate on cash and cash equivalents	(3,320)	1,403
Cash and cash equivalents – beginning of year	95,301	32,138
Cash and cash equivalents – end of year	**$ 47,231**	**$ 95,301**

See accompanying notes to the consolidated financial statements

See note 32 for supplemental disclosures and reconciliation of movements of financial liabilities to cash flows arising from financing activities

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

1 Description of the business and segmented disclosure

Gibson Energy Inc. ("Gibson Energy" or the "Company") was incorporated pursuant to the Business Corporations Act (Alberta) on April 11, 2011. The Company is incorporated in Alberta and domiciled in Canada. The address of the Company's principal place of business is 1700, 440 Second Avenue S.W., Calgary, Alberta, Canada. The Company's common shares are traded on the Toronto Stock Exchange under the symbol "GEI".

The Company had the following principal subsidiaries as at December 31, 2019:

Name	Nature of entity	Name	Nature of business
Gibson Energy Inc.	Ultimate Parent Company	Moose Jaw Refinery	Crude oil processing
Gibson Energy ULC	Holding Company	Gibson Energy Infrastructure Partnership	Marketing and Infrastructure
Gibson (U.S.) Acquisitionco Corp.	Holding Company		

The Company's reportable segments are:

(1) **Infrastructure,** which includes 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 Western Canadian Sedimentary Basin; gathering pipelines, which are connected to the Hardisty Terminal; an infrastructure position located in the United States ("U.S."); and a crude oil processing facility in Moose Jaw, Saskatchewan (the "Moose Jaw Facility"). The Moose Jaw Facility is impacted by maintenance turnarounds typically occurring within the spring period.

(2) **Marketing,** which is involved in 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, and road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil 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. During the first quarter of 2019, the Company renamed its Wholesale reportable segment as Marketing and realigned its U.S. Trucking and Transportation assets into the Marketing reportable segment. This realignment reflected 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 Moose Jaw Facility business is impacted by certain seasonality of operations specific to the oil and gas industry.

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

Accounting policies used for segment reporting are consistent with the accounting policies used for the preparation of the Company's consolidated financial statements. Inter-segmental transactions are eliminated upon consolidation and the Company does not recognize margins on inter-segmental transactions.

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

Year ended December 31, 2019

	Infrastructure	Marketing	Total
Statement of operations			
Revenue			
External	$ 265,124	$ 7,071,198	$ 7,336,322
Inter-segmental	148,317	384,039	532,356
External and inter-segmental	413,441	7,455,237	7,868,678
Segment profit	$ 299,140	$ 195,110	$ 494,250
Corporate & other reconciling items			
Depreciation and impairment of property, plant and equipment			121,731
Depreciation of right-of-use assets			40,527
Amortization			12,836
General and administrative			30,166
Stock based compensation			14,562
Corporate foreign exchange loss			3,961
Debt Extinguishment costs			6,057
Interest expense, net			72,488
Gain on sale of assets held for sale (note 8)			(4,990)
Net income from continuing operations before income tax			196,912
Income tax expense			20,573
Net income from continuing operations			176,339
Net income from discontinued operations, after tax (note 8)			6,562
Net income from operations			$ 182,901

Year ended December 31, 2018 [(1)]

	Infrastructure	Marketing	Total
Statement of operations			
Revenue			
External	$ 259,865	$ 6,586,724	$ 6,846,589
Inter-segmental	131,762	604,509	736,271
External and inter-segmental	391,627	7,191,233	7,582,860
Segment profit	$ 283,489	$ 203,598	$ 487,087
Corporate & other reconciling items			
Depreciation and impairment of property, plant and equipment			143,160
Depreciation of right-of-use assets			43,184
Amortization and impairment of intangible assets			10,870
Impairment of goodwill (note 13)			20,479
General and administrative			32,155
Stock based compensation			19,124
Corporate foreign exchange gain			(2,089)
Interest expense, net			74,089
Foreign exchange loss on long-term debt			4,403
Loss on sale of net assets held for sale (note 8)			4,974
Net income from continuing operations before income tax			136,738
Income tax expense			55,613
Net income from continuing operations			81,125
Net gain from discontinued operations, after tax (note 8)			69,923
Net income from operations			$ 151,048

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

The breakdown of additions to property, plant and equipment and intangible assets by reportable segments are as follows:

	Twelve months ended December 31			
	2019		2018[1]	
	Property, plant and equipment	Intangible Assets	Property, plant and equipment	Intangible Assets
Infrastructure	$ 245,838	$ 1,060	$ 265,751	$ 20,241
Marketing	630	3,128	5,147	-
Corporate	1,908	1,309	1,423	2,493
Total	$ 248,376	$ 5,497	$ 272,321	$ 22,734

1. *Comparative period segment information was restated to reflect the results of continuing operations separately from discontinued operations. See note 9 for further details.*

Geographic Data

Based on the location of the end user, approximately $1,791.9 million and $1,378.7 million of revenue was from customers in the U.S. for the year ended December 31, 2019 and 2018, respectively.

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with $145.2 million and $110.3 million in the U.S. at December 31, 2019 and 2018, respectively.

2 Basis of preparation and statement of compliance

These consolidated financial statements have been prepared in compliance with 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").

Certain reclassifications of prior year amounts have been made to conform to the current year presentation and current information presented are not comparable due to the presentation of continuing operations separately from discontinued operations as discussed in note 8.

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

These consolidated financial statements were approved for issuance by the Company's board of directors ("Board") on February 24, 2020.

3 Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the applicable years presented.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for certain items that are recorded at fair value on a recurring basis as required by the respective accounting standards.

Basis of consolidation

These consolidated financial statements include the results of the Company and its subsidiaries together with its interest in joint ventures and operations.

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date control ceases. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for the relevant financial and operational decisions. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets. Where the Company has assessed the nature of its joint arrangements to be joint operations, it has recognized its proportionate share of revenues, expenses, assets and liabilities relating to these joint operations. The Company’s joint venture is accounted for using the equity method of accounting and are initially recognized at cost. The Joint venture is adjusted thereafter for the post-acquisition change in the Company's share of the equity accounted investment's net assets. The Company's consolidated financial statements include its share of the equity accounted investment's profit or loss and other comprehensive income, until the date that joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. Distributions from investments in equity accounted investees are recognized when received.

Acquisition of an incremental ownership in a joint arrangement where the Company maintains joint control is recorded at cost or fair value if acquired as part of a business combination. Where the Company has a partial disposal, including a deemed disposal, of a joint arrangement and maintains joint control, the resulting gains or losses are recorded in earnings at the time of disposal.

Foreign currency translation

The financial statements for each of the Company’s subsidiaries and joint operations are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation and functional currency of the parent company is Canadian dollars. Assets and liabilities of foreign operations are translated into Canadian dollars at the market rates prevailing at the balance sheet date. Operating results are translated at the average rates for the period. Exchange differences arising on the consolidation of the net assets of foreign operations are recorded in other comprehensive income (loss).

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than an entity’s functional currency are recognized in the consolidated statements of operations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. For acquisitions achieved in stages, previously held equity interests in the acquired company are remeasured at the acquisition date fair value and the resulting gain or loss is recognized in the consolidated statements of operations. Direct costs incurred by the Company in connection with an acquisition, such as finder’s fees, advisors, legal, accounting, valuation and other professional or consulting fees, are expensed as general and administrative expenses when incurred. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition plus the amount of any non-controlling interest in the acquiree, and the acquisition date fair value of the acquirer’s previously held equity interest, if any, over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the consolidated statements of operations in the period of acquisition.

Any contingent consideration to be transferred by the Company is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that are deemed to be an asset or liability are recognised in the consolidated statements of operations. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

At the acquisition date, any goodwill acquired is allocated to each of the operating segments expected to benefit from the combination's synergies. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses.

An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognized separately from goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives as follows:

Long-term customer contracts ....6 – 10 years
Technology, software and license ....3 – 10 years

The expected useful lives and method of amortization of intangible assets are reviewed on an annual basis and, if necessary, changes in expected useful life are accounted for prospectively.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Expenditure on major maintenance refits or repairs comprises of the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

Depreciation is charged so as to write off the cost of assets, other than assets that are work in progress, using the straight-line method over their expected useful lives.

The useful lives of the Company's property, plant and equipment are as follows:

Buildings..........10 – 20 years
Equipment ....3 – 20 years
Pipelines and connections ....8 – 30 years
Tanks ....20 – 30 years
Plant ....10 – 25 years
Disposal wells..........20 – 25 years

The expected useful lives, method of depreciation and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes are accounted for prospectively.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statements of operations in the period the item is derecognized.

Impairments

The Company carries out impairment reviews in respect of goodwill at least annually or if indicators of possible 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 and 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, but are not limited to changes in the Company's business plans, economic performance of the assets, changes in commodity prices leading to lower activity levels, an increase in the discount rate 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 inflows. Where impairment exists, the asset is written down to its recoverable amount, which is the higher of the fair value less costs of disposal (FVLCD) and its value in use (VIU). Impairments are recognized immediately in the consolidated statements 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 FVLCD and VIU. VIU is usually determined on the basis of discounted estimated future net cash flows. In determining FVLCD, recent market transactions are taken into account, if available. In the absence of such transactions, an appropriate valuation model is used.

An impairment loss in respect of goodwill is not reversible in the future. In respect of other assets, an impairment loss is reversed if there has been a triggering event which indicates a change in the recoverable amount. If there is a trigger that impairment loss recognized in the prior periods for an asset other than goodwill may no longer exist or may have decreased, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been previously recognized.

Assets held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets and disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and:

- the assets or disposal groups are a major line of business or geographical area of operations;
- the assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the assets or disposal groups are a subsidiary acquired solely for the purpose of resale.

The assets or disposal groups that meet these criteria are measured at the lower of the carrying amount and FVLCD with impairments recognized in the consolidated statements of operations, except for deferred tax assets that are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to dispose. Non-current assets held for sale are presented separately in current assets and liabilities within the consolidated balance sheet. Assets held for sale are not depreciated, depleted or amortized. The comparative period consolidated balance sheet is not restated.

The results of discontinued operations are shown separately in the consolidated statements of operations and cash flows and comparative figures are restated.

Inventories

Inventories are carried at the lower of cost and net realizable value, with cost determined using a weighted average cost method. Net realizable value is the estimated selling price less applicable selling expenses. If carrying value exceeds net realizable amount, a write down is recognized. The write down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

Leases - lessee

All leases are accounted for as finance leases and recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statements of operations over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments on short term leases with lease terms of less than twelve months or leases on which the underlying asset is of low value are accounted for as expenses in the consolidated statements of operations.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. These lease payments are discounted using the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable.

Right-of-use assets are measured at cost comprising of the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date, any initial direct costs, and restoration costs.

Leases - lessor

Leases in contractual arrangements which transfer substantially all the risks and benefits of ownership of property to the lessee are accounted for as finance leases, while all other leases are accounted for as operating leases.

Finance leases are recorded as a net investment in a finance lease. The present value of minimum lease receivable under such arrangements are recorded as an investment in finance lease and the finance income is recognized in a manner that produces a consistent rate of return on the investment in the finance lease and is included in revenue.

Operating lease income is recognized in the consolidated statements of operations as it is earned over the lease term.

Provisions and contingencies

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized within finance costs.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured reliably and outflow of cash is less than remote. Contingent assets are not recognized, but are disclosed when an inflow of economic benefits is probable.

Decommissioning

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. Actual expenditures incurred are charged against the accumulated liability.

A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. The amount capitalized in property, plant and equipment is depreciated over the useful life of the related asset. Increases in the decommissioning liabilities resulting from the passage of time are recognized as a finance cost in the consolidated statements of operations. Other than the unwinding of the 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.

Environmental liabilities

Environmental liabilities are recognized when a remediation 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 using a risk-free discount rate.

Employee benefits

Defined benefit pension plan

The liability recognised in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income (loss) in the period in which they arise.

Past-service costs or credits are recognised immediately in the consolidated statements of operations.

Defined contribution pension plans

The Company’s defined contribution plans are funded as specified in the plans and the pension expense is recorded as the benefits are earned by employees and funded by the Company.

Share-based payments

The Company’s equity incentive plan allows for the granting of stock options, restricted share units with time based vesting (RSUs) and performance share units (PSUs) with performance based vesting conditions and deferred share units (DSUs) that vest on the date such employee redeems the DSUs after their cessation of employment with the Company.

The fair value of grants made under the employee share award plan is measured at the date of grant of the award. The resulting cost, as adjusted for the expected and actual level of vesting of the awards, is expensed over the period in which the awards vest.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management’s best estimate of the number of equity instruments that will ultimately vest.

The movement in the cumulative expense since the previous balance sheet date is recognized in the consolidated statements of operations with a corresponding impact to contributed surplus.

The fair value of RSUs, PSUs and DSUs is equal to the Company's five day weighted average share price at the date of grant.

The fair value of options is measured by using the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable and it requires the input of highly subjective assumptions. Expected volatility of the stock is based on a combination of the historical stock price of the Company and also of comparable companies in the industry. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the Government of Canada's Canadian Bond Yields with a remaining term equal to the expected life of the options used in the Black-Scholes valuation model.

Termination benefit

The Company recognizes termination benefits as an expense when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing benefits as a result of an offer made to encourage voluntary termination.

Income taxes

Income tax expense represents the sum of the income tax currently payable and deferred income tax. Interest and penalties relating to income tax are included in interest expense.

The income tax currently payable is based on the taxable income for the period. Taxable income differs from net income as reported in the consolidated statements of operations because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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. Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

The Company maintains provisions for uncertain income tax positions using the best estimate of the amount expected to be paid in resolution of the uncertainty. To ensure the adequacy of these provisions, the Company reviews uncertain tax positions at the end of each reporting period to give effect to changes in facts and circumstances and the availability of new information.

Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer, at a point in time or over time. The Company does not have contracts where the period between the transfer of the promised goods or services to the customer and payments by the customer exceeds one year. As such, no adjustments are made to the transaction prices for the time value of money.

Revenue generated through the provision of services charged through long-term fixed-fee contracts related to midstream infrastructure assets and includes a fixed and/or take or pay portion for the use of the midstream infrastructure and a variable portion related to the servicing of volume throughput. The Company accounts for individual services separately if they are distinct, indicated by the fact that they are separately identifiable from other services provided and the customer can benefit from these distinct services. The stand-alone prices on services are determined by the rates listed within the individual contracts related to the service. The Company recognizes revenue over time as services are provided on a monthly basis, consistent with when the services are billed and paid. Long-term take-or-pay contracts, under which shippers are obligated to pay fixed amounts ratably over the contract period regardless of volumes shipped, may contain breakage rights. Breakage amounts are earned by shippers when minimum volume commitments are not utilized during the period but under certain circumstances can be used to offset overages in future periods, subject to expiry periods. The Company recognizes revenues associated with breakage at the earlier of when the breakage volume is shipped, the rights expires or when it is determined that the likelihood that the shipper will utilize the right is remote.

Revenues generated from provision of transportation and related services such as hauling services for crude for many of the United State's leading oil and gas producers are typically short-term in accordance with a customer's current hauling requirements. The Company accounts for individual hauling services separately if they are distinct, indicated by the fact that they are separately identifiable from other hauling services provided and the customer can benefit from these distinct services. The stand-alone prices on services are determined by the rates listed by the Company and are predetermined based on the volume of products serviced. The Company recognizes revenue over time as hauling and transportation services are provided and control of the service transfers to the customer, consistent with when the services are billed and paid.

Revenues generated through the purchasing, selling, storing and blending of hydrocarbon products, including crude oil, Natural Gas Liquids ("NGLs"), road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil, and an oil based mud product, as well as by providing aggregation services to producers and/by capturing quality, locational or time-based arbitrage opportunities are typically short to long term in accordance with a customer's current product demands which are generally grouped as spot sales where no commitment exists prior to the day of the transaction, term sales where a commitment exists over a period of time for negotiated sales, and evergreen sales where contracts are automatically renewed on a month to month basis. The Company accounts for individual product sales separately if they are distinct, indicated by the fact that they are separately identifiable from other enforceable rights and obligations and the customer can benefit from these distinct services. The stand-alone prices on product sales are determined by the rates listed within market indexes and benchmarks and usually include quality or transportation adjustments. The Company recognizes revenue at a point in time as products are delivered and control of the product has transferred to the customer, consistent with when the products are billed and paid. All payments received before delivery are recorded as a contract liability and are recognized as revenue when delivery occurs, assuming all other criteria are met. Revenues from buy/sell transactions which are monetary transactions containing commercial substance is recognized on a gross-basis as separate performance obligation. Revenues from buy/sell transactions of non-monetary exchanges of similar products, which lack commercial substance, are recognized on a net basis.

Cost of sales

Cost of sales includes the cost of finished goods inventory (including depreciation, amortization and impairment charges), processing costs, costs related to transportation, inventory write downs and reversals, and gains and losses on derivative financial instruments relating to commodities.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the consolidated statements of operations in the period in which they are incurred.

Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options and other equity awards were exercised or converted into common shares.

Segmental reporting

The Company determines its reportable segments based on the nature of its operations, which is consistent with how the business is managed and results are reported to the chief operating decision maker. Each operating segment also uses a measure of profit and loss that represents segment profit. The chief operating decision maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the President and Chief Executive Officer.

Non-derivative financial instruments – recognition and measurement

Financial assets

Financial assets include cash and cash equivalents and trade and other receivables. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value, normally being the transaction price plus directly attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in the consolidated statements of operations when the loans and receivables are derecognized or impaired, as well as through the use of the effective interest method. This category of financial assets includes cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash on hand and short-term deposit, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of changes in value and maturity of three months or less from the date of acquisition.

A provision for impairment of trade receivables is established when there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days past the due date) are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of operations. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Financial liabilities

Financial liabilities classified as other liabilities include amounts borrowed under credit facilities, trade payables and accrued charges, dividends payable, long-term debt and the convertible debentures. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are initially recognized at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement, modification or cancellation of liabilities are recognized in the consolidated statements of operations.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Compound financial instruments

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

Derivative financial instruments – recognition and measurement

Derivative financial instruments, used periodically by the Company to manage exposure to market risks relating to commodity prices, interest rates, share based compensation and foreign currency exchange rates, are not designated as hedges. They are recorded at fair value and recorded on the Company's balance sheet as either an asset, when the fair value is positive, or a liability, when the fair value is negative. Changes in fair value are recorded immediately in the consolidated statements of operations.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment assessment of non-financial assets

The Company tests annually whether goodwill of an operating segment has suffered any impairment, in accordance with the Company's accounting policy. The recoverable amounts of the operating segments are determined based on the higher of VIU and FVLCD calculations that require the use of estimates. The Company also assesses whether there have been any events or changes in circumstances that indicate that property, plant and equipment 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.

In the impairment analysis of the Company's assets, some of the key assumptions used in estimating future cash flows include revenue growth, future commodity prices, expected margin, expected sales volumes, cost structures and the outlook of market supply and demand conditions appropriate to the local circumstances and macro-economic environment. These assumptions and estimates are uncertain and are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates.

Provisions

Accruals for decommissioning and environmental remediation are recorded when it is considered probable and the costs can be reasonably estimated. 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 technology. Considering these factors, the Company has estimated the costs of remediation, which are likely to be incurred in future years. The Company believes the provisions made for environmental matters are adequate, however it is reasonably possible that actual costs may differ from the estimated accrual, if the selected methods of remediation do not adequately reduce the contaminates and if further remedial action is required. The Company uses third-party environmental evaluators, where determined necessary, to obtain the estimates of the decommissioning and environmental provision.

Critical judgements in applying the Company's accounting policies

Identification of cash-generating unit ("CGU")

For the purposes of impairment testing, assets are grouped at the lowest levels of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets, termed as a CGU. The allocation of assets into a CGU requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures and the way in which management monitors the operations.

Critical judgements in determining lease terms

The Company uses hindsight in determining the lease term where a contract contains options to extend or terminate the lease. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed upon a trigger by a significant event or a significant change in circumstances.

Investment in finance leases

In determining whether certain of the Company's long-term tank storage arrangements are, or contain, a lease, the Company must use judgement in assessing whether if the arrangement conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where such rights do not exist, the arrangement is considered a service contract. For those arrangements considered to be a lease, further judgement is required to determine whether if substantially all of the significant risks and rewards of ownership are transferred to the customer or remain with the Company, to appropriately account for the arrangement as a finance or operating lease. These judgements can be significant as to how the Company classifies amounts related to the arrangements as property, plant and equipment or net investment in finance lease on the balance sheet. The Company has determined, based on the terms and conditions of these arrangements, that the substantial risks and rewards to the ownership of certain storage tanks have been transferred to the customer, and accordingly, these storage tanks have been recognized as an investment in finance lease.

Current and deferred taxation

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. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in consolidated statements of operations in the period in which the change occurs. 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. To the extent that actual outcomes differ from management's estimates, income tax charges or credits may arise in future periods.

4 Changes in accounting policies and disclosures

A. Adoption of new accounting standards

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 consolidated financial statements.

- 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 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 consolidated financial statements.

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

B. New standards and interpretations issued but not yet adopted

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

- IFRS 3 – Business Combinations ("IFRS 3"), has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 is effective for the years beginning on or after January 1, 2020. The Company assessed the impact of this amendment and has determined that more business acquisitions will likely qualify for assets purchases rather than business combinations on its consolidated financial statements.

5 Trade and other receivables

	December 31, 2019	December 31, 2018
Trade receivables	$ 410,226	$ 271,799
Allowance for doubtful accounts	(131)	(133)
Trade receivables, net	410,095	271,666
Risk management assets (note 29)	4,634	5,683
Broker accounts receivable	-	4,194
Indirect taxes receivable	11,241	989
Other	2,922	1,284
	$ 428,892	$ 283,816

Allowance for doubtful accounts	Year ended December 31, 2019	Year ended December 31, 2018
Opening balance	$ (133)	$ (931)
Impact of change in accounting policy	-	484
Additional allowances	-	(7,360)
Receivables written off as uncollectible	-	7,624
Effect of changes in foreign exchange rates	2	50
Closing balance	$ (131)	$ (133)

6 Inventories

	December 31, 2019	December 31, 2018
Crude oil and diluent	$ 78,291	$ 23,412
Asphalt	30,065	17,450
Natural gas liquids	13,114	30,599
Wellsite fluids and distillate	15,698	14,168
	$ 137,168	$ 85,629

The cost of the inventory sold included in cost of sales was $6,831 million and $5,656 million for the year ended December 31, 2019 and 2018, respectively.

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

7 Net investment in finance leases

The following summarizes the Company's net investment in arrangements whereby the Company has entered into fixed term contractual arrangements to allow customers to have dedicated use of certain tanks owned by the Company. These arrangements are accounted for as finance leases:

	December 31, 2019	December 31, 2018
Total minimum lease payments receivable	$ 590,990	$ 595,672
Residual value	68,464	57,073
Unearned income	(470,904)	(497,383)
	188,550	155,362
Less: current portion	7,476	1,156
Net investment in finance lease: non-current portion	$ 181,074	$ 154,206

The minimum lease receivables are expected to be as follows:

2020	$ 45,423
2021	45,659
2022	44,022
2023	34,992
2024	33,035
2025 and later	$ 387,859

8 Assets and liabilities held for sale, discontinued operations and disposals

On July 2, 2019 the Company completed the sale of the Truck Transportation Canada disposal group ("TT Canada") to Trimac Transportation ("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. Accordingly, the Company derecognized the TT Canada business effective July 2, 2019. As part of the sale, the Company also entered into an agreement with an entity affiliated with Trimac for the sale of the Edmonton field office and shop facilities ("Edmonton assets") for approximately $30.0 million subject to the satisfaction of certain closing conditions. The Company expects the Edmonton assets sale to close by the end of the second quarter of 2020 subject to satisfaction of certain conditions, with Trimac utilizing the properties under a lease arrangement in the interim period.

The sale of the TT Canada disposal group resulted in the recognition of a gain as follows:

Sale price	$ 69,000
Working capital adjustments	484
Total consideration	69,484
Cash and cash equivalents	63
Trade and other receivables	34,385
Inventories, prepaid and other assets	1,551
Property, plant and equipment (note 9)	50,908
Right-of-use asset (note 10)	8,906
Trade payables, accrued charges and other liabilities	(16,126)
Income taxes payable	(588)
Lease liabilities (note 15)	(7,904)
Deferred income tax liability	(8,835)
Net assets disposed	62,360
Costs to sell	6,262
After-tax gain on sale	$ 862

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

During the first quarter of 2019, the Company sold its non-core Environmental Services North ("ESN") business for gross proceeds of $51.8 million and incurred transaction costs of $3.3 million, which resulted in the recognition of a pre-tax gain of $2.7 million included in other operating income within the continuing operations. Major net assets disposed consists of property, plant and equipment of $66.0 million, right-of-use assets of $1.0 million, finance lease liabilities of $0.8 million and decommissioning provisions of $21.1 million. The ESN business provided environmental services from a network of midstream infrastructure assets located throughout Western Canada, which were included within the Company's Infrastructure reportable segment.

As at December 31, 2019, the Edmonton assets and U.S. Truck Transportation ("TT U.S.") disposal assets continue to be presented within assets and liabilities held for sale primarily consisting of property, plant and equipment of $45.4 million and related asset retirement obligations of $3.9 million. During the fourth quarter of 2019 certain assets and decommissioning liabilities relating to injection stations and the remaining TT U.S. business met the criteria as held for sale as there is a high probability of the sale of the business, and is available for immediate sale in its present condition. Accordingly, the assets were measured at the lower of the carrying amount and the FVLCD of which was determined through a market based model which is considered a level 3 valuation. These assets did not represent a major line of business or geographical operations, therefore the results for the period up to the sale have been included within continuing operations. Additionally, management performed an impairment test with respect to the additional assets held for sale and as a result, a property, plant and equipment impairment of $15.3 million within the TT U.S. and injection Stations business was recorded.

Discontinued Operations

The following tables set forth the operating results from discontinued operations comprising of TT Canada and U.S Environmental Services businesses:

	Year ended December 31, 2019[1]	Year ended December 31, 2018[1][2]
Revenue – External and inter-segmental	$ 98,815	$ 310,689
Revenue – Inter-segmental	(7,388)	(26,765)
Revenue – External	91,427	283,924
Cost of sales	83,415	299,116
Gross profit (loss)	8,012	(15,192)
Impairment of goodwill (note 13)	-	19,988
Finance cost and other income, net	187	383
Income (loss) before income taxes	7,825	(35,563)
Income tax provision – current	853	3,410
Income tax provision (recovery) – deferred	1,272	(13,374)
Net income (loss) from discontinued operations, after tax	$ 5,700	$ (25,599)
After-tax gain on sale	862	95,522
Gain from discontinued operations, after tax	$ 6,562	$ 69,923

1. *TT Canada business was sold effective July 2, 2019.*
2. *U.S Environmental Services business was sold effective May 3, 2018.*

Wholesale Propane business

On December 3, 2018, the Company completed the sale of the Wholesale Propane business for gross proceeds of $42.8 million, subject to purchase price adjustments, which resulted in recognition of a loss of $5.0 million included within other operating income in the consolidated statements of operations. Major net assets disposed consists of inventory of $13.0 million, property, plant and equipment of $10.6 million, right-of-use assets of $18.2 million, deferred income taxes of $8.1 million, goodwill of $13.4 million and finance lease liabilities of $16.2 million.

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

9 Property, plant and equipment

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
Cost:							
At January 1, 2019	$ 91,397	$ 299,229	$ 607,012	$ 64,769	$ 668,158	$ 256,906	$ 1,987,471
Additions	13,103	42,309	57,683	2,076	71,587	62,910	249,668
Disposals	(22)	-	(990)	(12,594)	(7,059)	-	(20,665)
Reclassifications	21,322	66,351	49,878	-	70,713	(208,264)	-
Change in decommissioning provision (note 18)	-	6,775	19,927	-	(3,128)	-	23,574
Effect of movements in exchange rates	(15)	(1,016)	(335)	(3,102)	(1,597)	(1,209)	(7,274)
Transferred to held for sale and disposals (note 8)	(371)	(58)	(5,515)	(47,821)	(18,914)	-	(72,679)
At December 31, 2019	$ 125,414	$ 413,590	$ 727,660	$ 3,328	$ 779,760	$ 110,343	$ 2,160,095
Accumulated depreciation and impairment:							
At January 1, 2019	$ 19,079	$ 90,441	$ 130,601	$ 44,332	$ 278,807	$ -	$ 563,260
Depreciation and impairment	4,265	15,684	26,549	14,223	61,010	-	121,731
Disposals	(22)	-	(359)	(12,105)	(6,660)	-	(19,146)
Effect of movements in exchange rates	(7)	-	(160)	(2,168)	(1,007)	-	(3,342)
Transferred to held for sale and disposals (note 8)	(392)	-	(2,125)	(42,206)	(16,447)	-	(61,170)
At December 31, 2019	$ 22,923	$ 106,125	$ 154,506	$ 2,076	$ 315,703	$ -	$ 601,333
Carrying amounts:							
At January 1, 2019	$ 72,318	$ 208,788	$ 476,411	$ 20,437	$ 389,351	$ 256,906	$ 1,424,211
At December 31, 2019	$ 102,491	$ 307,465	$ 573,154	$ 1,252	$ 464,057	$ 110,343	$ 1,558,762

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

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
Cost:							
At January 1, 2018	$ 189,090	$ 225,679	$642,137	$ 411,694	$ 937,378	$ 185,739	$ 2,591,717
Additions	2,296	5,780	3,194	8,348	13,074	224,816	257,508
Disposals	(1,477)	-	(3,112)	(72,897)	(37,307)	-	(114,793)
Acquisitions through business combinations	-	19,097	-	-	941	-	20,038
Reclassifications	3,419	53,722	32,264	-	59,696	(149,101)	-
Change in decommissioning provision (note 18)	-	1,761	8,898	-	3,386	-	14,045
Reclassed to net investment in finance leases (note 7)	-	-	(36,389)	-	-	-	(36,389)
Effect of movements in exchange rates	1,067	1,058	1,124	11,493	9,406	17	24,165
Transferred to held for sale and disposals (note 8)	(102,998)	(7,868)	(41,104)	(293,869)	(318,416)	(4,565)	(768,820)
At December 31, 2018	$ 91,397	$ 299,229	$607,012	$ 64,769	$ 668,158	$ 256,906	$ 1,987,471
Accumulated depreciation and impairment:							
At January 1, 2018	$ 37,865	$ 82,192	$121,173	$ 286,181	$ 444,618	$ -	$ 972,029
Depreciation	5,494	10,485	23,083	16,186	53,640	-	108,888
Impairment	9,261	2,000	8,082	31,707	25,115	-	76,165
Disposals	(1,702)	(1)	(1,290)	(59,976)	(33,358)	-	(96,327)
Effect of movements in exchange rates	201	4	486	8,554	6,649	-	15,894
Transferred to held for sale and disposals (note 8)	(32,040)	(4,239)	(20,933)	(238,320)	(217,857)	-	(513,389)
At December 31, 2018	$ 19,079	$ 90,441	$ 130,601	$ 44,332	$ 278,807	$ -	$ 563,260
Carrying amounts:							
At January 1, 2018	$ 151,225	$ 143,487	$ 520,964	$ 125,513	$ 492,760	$ 185,739	$ 1,619,688
At December 31, 2018	$ 72,318	$ 208,788	$ 476,411	$ 20,437	$ 389,351	$ 256,906	$ 1,424,211

Additions to property, plant and equipment include capitalization of interest of $4.6 million and $8.4 million for the year ended December 31, 2019 and 2018, respectively.

Property, plant and equipment are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable. During the year ended December 31, 2018, the Company recorded an impairment loss of $76.2 million, of which $74.7 million relates to assets held for sale relating to assets in the TT Canada business, Wholesale Propane business, non-core ESN business, Injection Stations, which were included within the Logistics and Infrastructure reportable segments (note 8). Key assumptions used in the determination of the recoverable amounts include reference to management's assessment of the expected proceeds to be received upon sale, as well as the depreciable replacement cost values where applicable.

Amounts in relation to tanks are under operating lease arrangements.

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

10 Right-of-use assets

	Buildings	Rail cars	Surface leases	Other	Total
Cost:					
At January 1, 2019	$ 53,558	$ 80,886	$ 1,924	$ 4,335	$ 140,703
Additions and adjustments	1,425	63,538	80	6,970	72,013
Disposals	(161)	-	(92)	-	(253)
Reclassed to net investment in finance leases (note 7)	-	(34,175)	-	-	(34,175)
Effects of movements in exchange rates	(203)	-	(10)	(430)	(643)
Transferred to held for sale and disposals (note 8)	(66)	-	(309)	(497)	(872)
At December 31, 2019	$ 54,553	$ 110,249	$ 1,593	$ 10,378	$ 176,773
Accumulated depreciation:					
At January 1, 2019	$ 7,623	$ 31,949	$ 348	$ 1,603	$ 41,523
Depreciation	7,608	28,859	109	3,756	40,332
Disposals	(156)	-	(7)	-	(163)
Effects of movements in exchange rates	(66)	-	(5)	(127)	(198)
Transferred to held for sale and disposals (note 8)	-	-	(206)	-	(206)
At December 31, 2019	$ 15,009	$ 60,808	$ 239	$ 5,232	$ 81,288
Carrying amounts:					
At January 1, 2019	$ 45,935	$ 48,937	$ 1,576	$ 2,732	$ 99,180
At December 31, 2019	$ 39,544	$ 49,441	$ 1,354	$ 5,146	$ 95,485

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

	Buildings	Rail cars	Surface leases	Other	Total
Cost:					
At January 1, 2018	$ 57,706	$ 87,458	$ 19,522	$ 5,862	$ 170,548
Additions and adjustments	4,232	12,529	619	2,126	19,506
Disposals	(224)	-	(683)	-	(907)
Effects of movements in exchange rates	588	-	493	269	1,350
Transferred to held for sale and disposals (note 8)	(8,744)	(19,101)	(18,027)	(3,922)	(49,794)
At December 31, 2018	$ 53,558	$ 80,886	$ 1,924	$ 4,335	$ 140,703
Accumulated depreciation:					
At January 1, 2018	$ -	$ -	$ -	$ -	$ -
Depreciation	8,705	32,858	805	1,679	44,047
Disposals	(81)	-	(32)	-	(113)
Effects of movements in exchange rates	50	-	11	50	111
Transferred to held for sale and disposals (note 8)	(1,051)	(909)	(436)	(126)	(2,522)
At December 31, 2018	$ 7,623	$ 31,949	$ 348	$ 1,603	$ 41,523
Carrying amounts:					
At January 1, 2018	$ 57,706	$ 87,458	$ 19,522	$ 5,862	$ 170,548
At December 31, 2018	$ 45,935	$ 48,937	$ 1,576	$ 2,732	$ 99,180

11 Long-term prepaid and other assets

	December 31, 2019	December 31, 2018
Long-term prepaid	$ 131	$ 348
Risk management assets (note 29)	15	-
Defined benefit pension plan assets	737	530
Other assets	51	89
U.S. tax receivable	1,823	3,836
	$ 2,757	$ 4,803

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

12 Intangible assets

	Brands	Customer relationships	Long-term customer contracts	Non-compete agreements	Technology, Software, and License	Total
Cost:						
At January 1, 2019	$ 34,837	$ 99,431	$ 63,625	$ 20,398	$ 74,642	$ 292,933
Additions	-	-	-	-	5,497	5,497
Disposals	(12,125)	(40,125)	-	(12,361)	(7,988)	(72,599)
Effect of movements in exchange rates	-	(1,001)	(2,943)	(365)	(134)	(4,443)
Transferred to held for sale and disposals (note 8)	(12)	(5,860)	(35,237)	(5,442)	(654)	(47,205)
At December 31, 2019	$ 22,700	$ 52,445	$ 25,445	$ 2,230	$ 71,363	$ 174,183
Accumulated amortization and impairment:						
At January 1, 2019	$ 34,825	$ 98,206	$ 43,674	$ 20,398	$ 53,834	$ 250,937
Amortization	-	1,225	1,987	-	9,624	12,836
Disposals	(12,125)	(40,125)	-	(12,361)	(7,988)	(72,599)
Effect of movements in exchange rates	-	(1,001)	(1,990)	(365)	(94)	(3,450)
Transferred to held for sale and disposals (note 8)	-	(5,860)	(35,237)	(5,442)	(599)	(47,138)
At December 31, 2019	$ 22,700	$ 52,445	$ 8,434	$ 2,230	$ 54,777	$ 140,586
Carrying amounts:						
At January 1, 2019	$ 12	$ 1,225	$ 19,951	$ -	$ 20,808	$ 41,996
At December 31, 2019	$ -	$ -	$ 17,011	$ -	$ 16,586	$ 33,597

	Brands	Customer relationships	Long-term customer contracts	Non-compete agreements	Technology and Software	Total
Cost:						
At January 1, 2018	$ 45,512	$ 252,879	$ 39,971	$ 24,598	$ 83,833	$ 446,793
Additions	-	-	-	-	3,271	3,271
Disposals	-	-	-	-	(134)	(134)
Acquisitions through business combinations	-	-	19,594	-	-	19,594
Effect of movements in exchange rates	376	6,104	4,060	124	593	11,257
Transferred to held for sale and disposals (note 8)	(11,051)	(159,552)	-	(4,324)	(12,921)	(187,848)
At December 31, 2018	$ 34,837	$ 99,431	$ 63,625	$ 20,398	$ 74,642	$ 292,933

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

Accumulated amortization and impairment:						
At January 1, 2018	$ 44,472	$ 250,560	$ 39,971	$ 24,551	$ 53,390	$ 412,944
Amortization	727	1,118	508	47	10,334	12,734
Impairment (note 8)	273	-	-	-	2,057	2,330
Disposals	-	-	-	-	(125)	(125)
Effect of movements in exchange rates	383	6,168	3,195	124	(229)	9,641
Transferred to held for sale and disposals (note 8)	(11,030)	(159,640)	-	(4,324)	(11,593)	(186,587)
At December 31, 2018	$ 34,825	$ 98,206	$ 43,674	$ 20,398	$ 53,834	$ 250,937
Carrying amounts:						
At January 1, 2018	$ 1,040	$ 2,319	$ -	$ 47	$ 30,443	$ 33,849
At December 31, 2018	$ 12	$ 1,225	$ 19,951	$ -	$ 20,808	$ 41,996

13 Goodwill

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

	Year ended December 31, 2019	Year ended December 31, 2018
Opening balance	$ 362,348	$ 381,965
Acquisitions through business combinations	-	32,656
Impairments	-	(20,479)
Transfers to assets held for sale (note 8)	-	(33,342)
Effect of changes in foreign exchange rates	(1,701)	1,548
Closing balance	$ 360,647	$ 362,348

Goodwill is monitored for impairment by management at the operating segment level. The following is a summary of goodwill allocated to each operating segment:

	December 31, 2019	December 31, 2018
Terminals	$ 195,662	$ 195,662
U.S. Pipelines	32,413	34,114
Moose Jaw Facility	89,017	89,017
Canadian Marketing	43,555	43,555
	$ 360,647	$ 362,348

The goodwill recorded on the balance sheet represents the excess of the cost of acquisitions over the fair value of identifiable assets, liabilities and contingent liabilities acquired. Of the balance as at December 31, 2019, $325.6 million, net of impairment, relates to goodwill recognized on the acquisition of the Company on December 12, 2008.

On November 30, 2019, the Company carried out its annual impairment test with respect to goodwill. For all operating segments the recoverable amount was greater than the carrying value, including goodwill.

Key assumptions used in 2019 impairment test

To calculate the recoverable amount, management uses the higher of the FVLCD and VIU. The recoverable amount was determined using either a discounted cash flow approach, an earnings multiple approach, or market based approach. The Company references Board approved budgets and cash flow forecasts, trailing twelve-month (TTM) earnings before interest, taxes, depreciation and amortization and impairment (EBITDA), implied multiples and appropriate discount rates in the valuation calculations. The implied multiple is calculated by utilizing multiples of comparable public companies by operating segment. To determine fair value, an implied forward multiple was applied to each operating segment's budgeted EBITDA less corporate expenses. In calculating fair value for each operating segment, other than U.S. Pipelines, the Company used an implied forward multiples that ranged from 8 to 14. Cash flows were projected based on past experience, actual operating results and the 2020 budget.

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

The recoverable amount of the U.S Pipelines segment was determined by discounting the forecasted future cash flows generated from continued use of the operating segments due to absence of historical periodic results. The model calculated the present value of the estimated future earnings of the above stated operating segments. Estimating future earnings requires judgement, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment. The calculation of the recoverable amount using the discounted cash flow approach was based on the following key assumptions:

	U.S. Pipelines
Pre- tax discount rate	10.3%
Terminal value growth rate	1.0%

(i) Cash flows were projected based on past experience, actual operating results and the five-year business plan.

(ii) The terminal value growth rate is based on management's best estimate of the long-term growth rate for after the forecast period, considering historic performance and future economic forecasts.

(iii) Each operating segment discount rate reflects their individual size, risk profile and circumstance and is based on past experience and industry average weighted average cost of capital.

The fair value of each operating segment was categorized as Level 3 fair value based on the unobservable inputs.

14 Loans and Borrowings

The Company had $60.0 million and $150.0 million drawn on its unsecured revolving credit facility ("Revolving Credit Facility") as of December 31, 2019 and December 31, 2018, respectively, and had issued letters of credit totaling $36.9 million and $70.9 million under its bilateral demand letter of credit facilities as at December 31, 2019 and December 31, 2018, respectively.

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 took 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 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, on March 17 and September 17 and mature of September 17, 2029. The Indentures 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 respective indebtedness in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the applicable Indenture.

On October 17, 2019 the Company redeemed all of the 5.375% Notes due July 15, 2022 ("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. During the year ended December 31, 2019 the Company incurred debt extinguishment costs related to the repayment of 2022 Notes of $6.1 million.

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

	December 31, 2019	December 31, 2018
Revolving Credit Facility, due March 31, 2024	$ 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)
Total debt	$ 1,148,707	$ 1,039,578

The Company is required to meet certain specific and customary affirmative and negative financial covenants under its Revolving Credit Facility and 2029 Notes, including the maintenance of certain financial ratios as noted above. As of December 31, 2019 and December 31, 2018, the Company was in compliance with all of its covenants.

The Notes agreements contain certain redemption options whereby the Company can redeem all or part of the Notes, at prices set forth in the agreements, from proceeds of an equity offering or on the dates specified in the agreement. In addition, the Notes holders have the right to require the Company to redeem the Notes at the redemption prices set forth in the agreement 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 agreement.

The components of finance costs are as follows:

	December 31,	
	2019	2018
Interest expense	$ 73,615	$ 78,049
Capitalized interest	(4,646)	(8,375)
Interest expense, finance lease (note 15)	5,272	5,907
Interest income	(1,758)	(1,492)
Foreign exchange loss on long-term debt	-	4,403
Debt extinguishment costs	6,057	-
Total finance cost, net	$ 78,540	$ 78,492

15 Lease Liabilities

	Year ended December 31, 2019	Year ended December 31, 2018
Opening balance	$ 109,071	$ 172,834
Additions	72,013	19,506
Disposals	(380)	(834)
Interest expense	5,272	5,907
Interest expense from discontinued operations	-	616
Lease payments	(49,479)	(52,848)
Effect of movements in exchange rates	(4,286)	8,309
Transferred to held for sale and disposals (note 8)	(403)	(44,419)
Ending balance	131,808	109,071
Less: current portion	36,308	36,200
Ending balance – non-current portion	$ 95,500	$ 72,871

The Company incurs lease payments related to rail cars, head office facilities, vehicles and equipment, and surface leases. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company has recognised lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2019 at a weighted average borrowing rate of 4.4%.

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

Short-term leases are leases with a lease term of twelve months or less while low-value assets comprised of information technology and miscellaneous equipment. The Company charged $3.6 million to cost of sales and general and administrative expenses in the consolidated statements of operations.

16 Convertible debentures

	Liability Component	Equity Component
Balance as at January 1, 2018	$ 89,919	$ 7,023
Accretion of issue costs	2,547	-
Balance as at December 31, 2018	$ 92,466	$ 7,023
Accretion of issue costs	2,773	-
Redemption	(110)	-
Balance as at December 31, 2019	$ 95,129	$ 7,023

At December 31, 2019, the Company has an aggregate of $99.9 million principal amount of unsecured subordinated convertible debentures (“the Debentures”) outstanding. The Debentures issued at par, bear interest at a rate of 5.25% per annum, payable semi-annually on July 15 and January 15 in each year commencing January 15, 2017, will mature on July 15, 2021, and may be redeemed, in certain circumstances, on or after July 15, 2019. The Debentures are convertible at the holder's option into common shares at any time prior to the earlier of the Maturity Date and the business day immediately preceding the date fixed for redemption by the Company at a conversion price of $21.65 per Share (the "Conversion Price"), being a ratio of approximately 46.1894 Shares per $1,000 principal amount of Debentures. The Debentures are subordinated to the Company's senior indebtedness.

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

17 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	December 31,	
	2019	2018
Trade payables	$ 369,256	$ 246,799
Accrued compensation charges	20,979	20,146
Accrued payment obligation	-	39,156
Indirect taxes payable	848	1,840
Risk management liabilities (note 29)	2,094	7,715
Defined benefit plan obligations	215	253
Interest payable	22,493	24,590
Insurance payable	2,333	6,266
Other	13,849	18,645
	$ 432,067	$ 365,410

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

18 Provisions

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

	Year ended December 31, 2019	2018
Opening balance	$ 162,811	$ 183,527
Settlements	(5,023)	(2,577)
Additions	28,310	8,038
Change in estimated future cash flows	(16,000)	-
Acquisitions through business combinations	-	444
Change in discount rate	27,167	7,477
Unwinding of discount	3,325	3,916
Transfer to liabilities held for sale (note 8)	(3,332)	(38,950)
Effect of changes in foreign exchange rates	(256)	936
Closing balance	$ 197,002	$ 162,811

The Company currently estimates the total undiscounted future value amount, including an inflation factor of 2.0%, of estimated cash flows to settle the future liability for asset retirement and remediation obligations to be approximately $298.7 million and $342.8 million at December 31, 2019 and 2018, respectively. In order to determine the current provision related to these future values, the estimated future values were discounted using an average risk-free rate of 1.7% and 2.2% at December 31, 2019 and 2018, respectively. The provision is expected to be settled to 39 years into the future. A one percent increase or decrease in the risk-free rate would decrease or increase the provision by $40.8 million, respectively, with a corresponding adjustment to property, plant and equipment.

19 Other long-term liabilities

	December 31, 2019	2018
Defined benefit plan obligations (note 27)	$ 1,347	$ 967
Risk management liabilities (note 29)	81	154
Other post-retirement benefits obligations (note 27)	4,741	15,198
	$ 6,169	$ 16,319

20 Share capital

Authorized

The Company is authorized to issue an unlimited number of common shares and preferred shares.

Holders of common shares are entitled to one vote per common share at meetings of shareholders of the Company, to receive dividends if, as and when declared by the Board and to receive pro rata the remaining property and assets of the Company upon its dissolution, liquidation or winding-up, subject to the rights of shares having priority over the common shares.

The preferred shares are issuable in series and have such rights, restrictions, conditions and limitations as the Board may from time to time determine. The preferred shares shall rank senior to the common shares with respect to the payment of dividends or distribution of assets or return of capital of the Company in the event of a dissolution, liquidation or winding up of the Company. There were no issued and outstanding preferred shares as at December 31, 2019 or 2018.

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

Common Shares – Issued and outstanding

The following table below sets forth the issued and outstanding common shares for the years ended December 31, 2019 and 2018.

	Common Shares	
	Number of Common Shares	Amount
Balance as at January 1, 2018	143,204,388	$ 1,932,103
Issuance in connection with the exercise of stock options	104,897	1,056
Issuance in connection with other equity awards	1,249,505	-
Reclassification of contributed surplus on issuance of awards under equity incentive plans	-	21,987
Balance as at December 31, 2018	144,558,790	$ 1,955,146
Issuance in connection with the exercise of stock options	60,210	1,259
Exercise of debentures conversion option	5,078	110
Issuance in connection with other equity awards	1,051,403	-
Reclassification of contributed surplus on issuance of awards under equity incentive plans	-	17,312
Balance as at December 31, 2019	145,675,481	$ 1,973,827

A dividend of $0.33 per share, declared on November 4, 2019, was paid on January 17, 2020. For the year ended December 31, 2019 the Company declared total dividends of $1.32 per common share.

21 Income tax

The major components of income tax are as follows:

	Year ended December 31,	
	2019	2018
Current tax expense	$ 33,784	$ 64,303
Adjustments and true-ups in respect of prior years	(15,902)	(4,125)
Current tax expense – discontinued operations (note 8)	853	3,410
Total current tax provision	18,735	63,588
Deferred tax expense (recovery)	2,717	(10,593)
Origination and reversal of temporary differences	(26)	6,028
Deferred tax expense – discontinued operations (note 8)	1,272	2,695
Total deferred tax expense (recovery)	3,963	(1,870)
Net income tax expense	$ 22,698	$ 61,718

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

The income tax recovery differs from the amounts which would be obtained by applying the Canadian statutory income tax rate to income before income taxes. These differences result from the following items:

	Year ended December 31, 2019	2018
Income before income taxes, continuing operations	$ 196,912	$ 136,738
Income before income taxes, discontinued operations	7,825	76,028
Income before income taxes	204,737	212,766
Statutory income tax rate	26.58%	26.99%
Computed income tax expense	54,419	57,426
Changes in income tax expense (recovery) resulting from:		
Foreign exchange gain, other	-	(38,834)
Non-taxable portion of the loss (gain) on sale of net assets held for sale (note 8)	(247)	24,996
Share based compensation	(1,578)	4,789
Goodwill impairment	-	10,388
Remeasurement of timing differences for rate change	(9,806)	-
Cumulative tax recovery related to change in tax treatment of equity benefit adjustments and true ups in respect of prior years	(20,344)	1,904
Other	254	1,049
	$ 22,698	$ 61,718
Effective income tax rate – continuing operations	10.5%	40.7%
Effective income tax rate – discontinued operations	27.2%	8.0%

	Year ended December 31, 2019	2018
Current tax, from continuing operations	$ 17,882	$ 60,178
Current tax, from discontinued operations	853	3,410
	$ 18,735	$ 63,588
Deferred tax, from continuing operations	$ 2,691	$ (4,565)
Deferred tax, from discontinued operations	1,272	2,695
	$ 3,963	$ (1,870)
Total current and deferred, from continuing operations	$ 20,573	$ 55,613
Total current and deferred, from discontinued operations	$ 2,125	$ 6,105

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2019	2018
Deferred tax assets:		
Deferred tax asset to be settled after more than 12 months	$ 32,206	$ 33,274
Deferred tax asset to be settled within 12 months	6,663	2,600
	$ 38,869	$ 35,874
Deferred tax liabilities:		
Deferred tax liability to be settled after more than 12 months	$ 83,949	$ 77,440
Deferred tax liability to be settled within 12 months	460	200
	$ 84,409	$ 77,640
Deferred tax liabilities, net	$ 45,540	$ 41,766

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

The gross movement on the deferred income tax account is as follows:

	Year ended December 31, 2019	2018
Opening balance	$ 41,766	$ 25,602
Effect of changes in foreign exchange rates	117	(4,164)
Transfers to assets held for sale (note 8)	-	25,108
Income statement expense (recovery)	3,963	(1,870)
Tax relating to components of other comprehensive income	(306)	(2,910)
Closing balance	$ 45,540	$ 41,766

The movement in the significant components of deferred income tax assets and liabilities during the year, without taking into consideration the offsetting balances within the same tax jurisdiction, is as follows:

Deferred tax assets	Non-capital losses carried forward	Asset retirement obligations	Retirement benefit obligations	Goodwill, Intangibles, and other	Total
At January 1, 2018	$ 45,089	$ 20,800	$ 1,530	$ 33,734	$101,153
(Charged) credited to the statement of operations	(15,692)	3,618	(152)	6,205	(6,021)
Charged to other comprehensive income	-	-	2,910	-	2,910
Transfers from assets held for sale (note 8)	(9,175)	(3,509)	-	(23,913)	(36,597)
Effect of changes in foreign exchange rates	1,751	67	-	2,890	4,708
At January 1, 2019	$ 21,973	$ 20,976	$ 4,288	$ 18,916	$ 66,153
Credited (charged) to the statement of operations	15,477	1,456	(3,208)	2,292	16,017
Charged to other comprehensive income	-	-	306	-	306
Effect of changes in foreign exchange rates	(532)	(29)	-	286	(275)
At December 31, 2019	$ 36,918	$ 22,403	$ 1,386	$ 21,494	$ 82,201

Deferred tax liabilities	Right-of-use asset, Property, Plant and Equipment	Other	Total
At January 1, 2018	$ (126,755)	$ -	$ (126,755)
Credited to the statement of operations	7,891	-	7,891
Transfers to assets held for sale (note 8)	11,489	-	11,489
Effect of changes in foreign exchange rates	(543)	-	(543)
At January 1, 2019	$ (107,918)	$ -	$ (107,918)
Credited to the statement of operations	(19,405)	(575)	(19,980)
Effect of changes in foreign exchange rates	158	-	158
At December 31, 2019	$ (127,165)	$ (575)	$(127,740)

Income tax losses carry forward

At December 31, 2019 and 2018, the Company had losses available to offset income for tax purposes of $154.2 million and $89.8 million, respectively. Certain losses arising in taxable years beginning after December 31, 2017 may be carried forward indefinitely with the net operating loss deduction limited to 80% of taxable income which is determined without regard to the deduction. At December 31, 2019, the Company has $137.8 million of the losses available in the U.S. and $16.4 million available in Canada that expire as follows:

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

December 31, 2032	$ 1,950
December 31, 2035	19,366
December 31, 2036	61,349
December 31, 2037	12,782
December 31, 2039 and beyond	58,782
	$ 154,229

No income tax liability has been recognized in respect of temporary differences associated with investments in subsidiaries, except for as disclosed in note 8 for assets held for sale, as the Company can control the timing of the reversal of the temporary difference and the reversal is not probable in the foreseeable future.

22 Revenue

	Year ended December 31,	
	2019	2018
Revenue from contracts with customers recognized at a point in time	$ 7,065,869	$ 6,559,568
Revenue from contracts with customers recognized over time	129,759	164,221
Total revenue from contracts with customers	7,195,628	6,723,789
Total revenue from lease arrangements	140,694	122,800
	$ 7,336,322	$ 6,846,589

During the year ended December 31, 2019, the Company recognized $15.5 million of revenues which were included in the contract liability balance at the beginning of the period.

Year ended December 31, 2019

	Infrastructure	Marketing	Total
Canada			
External Service Revenue			
Terminals storage and throughput/pipeline transportation and services	$ 70,749	$ -	$ 70,749
Rail services	46,144	-	46,144
Other services	5,797	-	5,797
External Product Revenue			
Crude and diluent	-	$ 3,721,603	$ 3,721,603
Other NGL	-	1,439,929	1,439,929
Refined products	-	118,313	118,313
Other	1,108	-	1,108
Total revenue – Canada	$ 123,798	$ 5,279,845	$ 5,403,643
U.S.			
External Service Revenue			
Hauling and transportation and other services	$ 632	$ 6,437	$ 7,069
External Product Revenue			
Crude and diluent	-	1,336,629	1,336,629
Other NGL	-	130,762	130,762
Refined products	-	317,525	317,525
Total revenue – U.S.	$ 632	$ 1,791,353	$ 1,791,985
Total revenue from contract with customers	$ 124,430	$ 7,071,198	$ 7,195,628

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

Year ended December 31, 2018

	Infrastructure	Marketing	Total
Canada			
External Service Revenue			
Terminals storage and throughput/pipeline transportation and services	$ 80,510	$ -	$ 80,510
Rail services	28,105	-	28,105
Other services	17,409	2,899	20,308
External Product Revenue			
Crude and diluent	-	4,616,627	4,616,627
Other NGL	-	368,006	368,006
Refined products	-	224,882	224,882
Other	6,675	-	6,675
Total revenue – Canada	$ 132,699	$ 5,212,414	$ 5,345,113
U.S.			
External Service Revenue			
Hauling and transportation and other services	$ 4,366	$ 30,932	$ 35,298
External Product Revenue			
Crude and diluent	-	727,750	727,750
Other NGL	-	392,492	392,492
Refined products	-	223,136	223,136
Total revenue – U.S.	$ 4,366	$ 1,374,310	$ 1,378,676
Total revenue from contract with customers	$ 137,065	$ 6,586,724	$ 6,723,789

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

23 Depreciation, amortization and impairment

	Year ended December 31, 2019	Year ended December 31, 2018
Depreciation and impairment of property, plant and equipment (note 9)	$ 121,731	$ 143,160
Depreciation of right-of-use asset (note 10)	40,527	43,184
Amortization and impairment of intangible assets (note 12)	12,836	10,870
	$ 175,094	$ 197,214

Depreciation and impairment of property, plant and equipment, right-of-use asset and amortization and impairment of intangible assets have been expensed as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Cost of sales	$ 157,928	$ 179,986
General and administrative	17,166	17,228
	$ 175,094	$ 197,214

24 Employee salaries and benefits

	Year ended December 31, 2019	Year ended December 31, 2018
Salaries and wages	$ 79,676	$ 98,037
Post-employment (recovery) benefits	(9,104)	4,910
Share based compensation	21,245	19,124
Termination costs	4,530	2,608
	$ 96,347	$ 124,679

1. Post employment (recovery) benefits include a credit recognized during 2019 for $11.6 million relating to the amendment of the Company's retirement benefits plan. Refer to note 27.

Employee salaries and benefits have been expensed as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Cost of sales	$ 60,824	$ 86,825
General and administrative	35,523	37,854
	$ 96,347	$ 124,679

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

Compensation of key management

Key management includes the Company's directors, executive officers, business unit leaders and other non-business unit senior vice presidents. Compensation awarded to key management was:

	Year ended December 31, 2019	Year ended December 31, 2018
Salaries and short-term employee benefits	$ 5,410	$ 6,047
Post-employment benefits	73	311
Share based compensation	5,971	6,886
Termination costs	1,630	62
	$ 13,084	$ 13,306

25 Other operating income

	Year ended December 31, 2019	Year ended December 31, 2018
Sublease income	$ 3,935	$ 3,670
Gain (loss) on sale of net assets held for sale (note 8)	4,990	(4,974)
Other (loss) income	(2,813)	3,395
	$ 6,112	$ 2,091

26 Per share amounts

The following table shows the number of shares used in the calculation of earnings per share for continuing operations:

	Year ended December 31, 2019	Year ended December 31, 2018
Weighted average common shares outstanding – Basic	145,266,245	143,970,969
Dilutive effect of:		
Stock options and other awards	2,373,281	2,506,591
Weighted average common shares – Diluted	147,639,526	146,477,560

The dilutive effect of 2.4 million (2018 – 2.5 million) stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the year ended December 31, 2019 have been included in the determination of the weighted average number of common shares outstanding for continuing and discontinued operations. The impact of 0.6 million (2018 – 1.1 million) stock options have not been included in the determination of weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net income from continuing and discontinued operations per share.

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

27 Post-retirement benefits

Defined benefit plans

The Company maintains a funded defined benefit pension plan and an unfunded defined benefit other post-retirement benefits plan ("OPRB").

The Company's defined benefit pension plans are funded based upon the advice of independent actuaries. The Company is required to file an actuarial valuation of the defined benefit pension plan with the provincial regulator every three years, with the most recent actuarial valuation filing as at December 31, 2017. Based on the actuarial valuations as at December 31, 2019 and 2018, the status of the defined benefit plans was as follows:

Accrued benefit obligation

	Year ended December 31,			
	2019		2018	
	Pension	OPRB	Pension	OPRB
Accrued benefit obligation, beginning of year	$ 14,667	$ 15,198	$ 16,317	$ 4,758
Current service cost	54	839	62	1,350
Past service cost	-	(11,616)	-	-
Interest cost	539	171	528	235
Benefits paid	(674)	(287)	(655)	(445)
Actuarial loss (gain)	1,512	345	(633)	9,300
Other	4	-	(952)	-
Accrued benefit obligation, end of year	$ 16,102	$ 4,650	$ 14,667	$ 15,198

Plan assets

	Year ended December 31,			
	2019		2018	
	Pension	OPRB	Pension	OPRB
Fair value of pension plan assets, beginning of year	$ 13,447	$ -	$ 15,404	$ -
Interest on plan assets	492	-	484	-
Actual contributions	43	287	871	445
Actual benefits paid	(674)	(287)	(655)	(445)
Actuarial gain (loss)	1,232	-	(1,068)	-
Other	-	-	(1,589)	-
Fair value of pension plan assets, end of year	$ 14,540	$ -	$ 13,447	$ -

Accrued benefit asset (liability)

	Year ended December 31,			
	2019		2018	
	Pension	OPRB	Pension	OPRB
Accrued benefit obligation	$ (16,102)	$ 4,650	$ (14,667)	$ (15,198)
Fair value of plan assets	14,540	-	13,447	-
Accrued benefit asset (liability)	$ (1,562)	$ 4,650	$ (1,220)	$ (15,198)

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

The significant weighted average actuarial assumptions adopted in measuring the Company's defined benefit plan obligation are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Discount rate	3.0%	3.8%
Rate of compensation increase	3.0%	3.0%

The assumed discount rate has an effect on the amounts reported for the defined benefit plan obligations. A one-percentage point change in the discount rate would have the following impact:

	One % point increase	One % point decrease
Increase/(decrease) in defined benefit plans obligations	$ (2,635)	$ 3,278

Defined contribution pension plan

The Company operates defined contribution plans whereby, in some cases, contributions made by participants are matched by the Company up to specified annual limits and in other cases, contributions are fully funded by the Company. The total expense recorded for the defined contribution pension plans was $2.8 million and $4.2 million for the year ended December 31, 2019 and 2018, respectively.

28 Share based compensation

The Company has established an equity incentive plan which permits the award of stock options, RSUs, PSUs and DSUs for executives, directors, employees and consultants of the Company. Stock options provide the holder with the right to exercise an option to purchase a common share, upon vesting, at a price determined on the date of grant. RSUs give the holder the right to receive, upon vesting, either a common share or a cash payment, subject to consent of the Board, or its equivalent in fully paid common shares equal to the fair market value of the Company's common shares at the date of such payment. The RSUs granted in 2019 and 2018 were expected to be settled by delivery of common shares and accordingly, were considered an equity–settled award for accounting purposes. Stock options and RSUs granted generally vest equally each year over a three year period. RSUs granted with specific performance criteria are designated as PSUs. PSU's vest at the end of the three year period and granting depends on the achievement of certain performance criteria. DSUs are similar to RSUs except that DSUs may not be redeemed until the holder ceases to hold all offices, employment and directorships.

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

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

A summary of stock option activity is as follows:

	Number of Shares	Weighted-Average Exercise Price (in dollars)
Balance at January 1, 2018	3,296,715	$ 22.89
Granted	126,939	16.70
Exercised	(104,897)	10.07
Forfeited	(1,035,140)	26.77
Balance at December 31, 2018	2,283,617	$ 21.39
Granted	515,471	22.70
Exercised	(60,210)	20.90
Forfeited	(723,935)	26.74
Balance at December 31, 2019	2,014,943	$ 19.81
Vested and exercisable at December 31, 2019	1,137,949	$ 19.35
Vested and exercisable at December 31, 2018	1,520,569	$ 23.40

Additional information regarding stock options outstanding as of December 31, 2019 is as follows:

Outstanding			Exercisable		
Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercise Price (in dollars)	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Exercise Price (in dollars)
114,002	3.2	$ 16.70	114,002	3.2	$ 16.70
1,056,387	2.5	17.09	713,530	2.5	17.09
100,028	4.2	19.97	71,362	4.2	19.97
518,148	4.2	22.71	12,677	2.5	23.13
13,158	0.5	24.44	13,158	0.5	24.44
106,422	1.4	25.57	106,422	1.4	25.67
60,087	1.5	27.87	60,087	1.5	27.87
46,711	1.4	31.68	46,711	1.4	31.68
2,014,943	2.9		1,137,949	2.5	

A summary of RSUs, PSUs and DSUs activity is set forth below:

	Number of Shares		
	RSUs	PSUs	DSUs
Balance at January 1, 2018	937,301	1,030,835	505,692
Granted	692,210	617,802	237,895
Issued for common shares	(641,811)	(381,536)	(226,148)
Forfeited	(220,145)	(519,716)	(1,091)
Balance at December 31, 2018	767,555	747,385	516,348
Granted	401,933	581,741	170,844
Issued for common shares	(373,174)	(448,615)	(229,614)
Forfeited	(178,040)	(197,910)	-
Balance at December 31, 2019	618,274	682,601	457,578
Vested, Balance at December 31, 2019	-	-	457,578
Vested, Balance at December 31, 2018	-	-	516,348

Share based compensation expense was $19.2 million and $17.7 million for the years ended December 31, 2019 and 2018, respectively, and is included in general and administrative expenses.

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

The fair value of the options granted was estimated at $2.39 and $1.99 per option for the year ended December 31, 2019 and 2018. The fair value of options was calculated by using the Black-Scholes model with the following weighted average assumptions:

	Year ended December 31, 2019	Year ended December 31, 2018
Expected dividend rate	5.8%	7.9%
Expected volatility	25.31%	31.7%
Risk-free interest rate	1.6%	1.9%
Expected life of option (years)	3.0	3.0

The fair value of RSUs, PSUs and DSUs was determined using the five days weighted average stock price prior to the date of grant.

29 Financial instruments

Non-Derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, net investment in finance lease, trade payables and accrued charges, amounts borrowed under the credit facilities, dividends payable, Debentures and long-term debt.

Cash and cash equivalents, trade and other receivables, trade payables and accrued charges and dividends payable are recorded at amortized cost which approximates fair value due to the short term nature of these instruments.

Long-term debt including credit facility are recorded at amortized cost using the effective interest method of amortization. As at December 31, 2019, the carrying amount of long-term debt was $1,148.7 million less debt discount and issue costs of $11.3 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was $1,195.6 million. As at December 31, 2018, the carrying amount of long-term debt was $1,050.0 million less debt discount and issue costs of $10.4 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was $1,038.6 million.

The Debentures liability component is recorded at amortized cost using the effective interest method of amortization. As at December 31, 2019, the total carrying amount of the debentures liability and equity components was $99.9 million less debt discount and issue costs of $2.6 million, less deferred taxes relating to the equity component of $2.8 million. The fair value of the Debentures based on period end trading prices on the secondary market (Level 2) was $125.3 million as at December 31, 2019 (December 31, 2018 – $98.1 million).

Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. The following table provides a summary of the Company's offsetting trade and other receivables and trade payables and accrued charges:

	December 31, 2019		December 31, 2018	
	Trade and other receivables	Trade payable and accrued charges	Trade and other receivables	Trade payable and accrued charges
Gross amounts	$ 544,565	$ 513,420	$ 139,239	$ 112,059
Amount offset	(405,993)	(405,993)	(90,573)	(90,573)
Net amount included in the consolidated financial statements	$ 138,572	$ 107,427	$ 48,666	$ 21,486

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

Derivative financial instruments (recurring fair value measurements)

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

	December 31, 2019		December 31, 2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Commodity futures	$ 1,069	$ 700	$ 1,937	$ 616
Commodity swaps	1,119	1,212	2,565	2,887
WTI differential futures	1,042	92	-	-
Equity swaps	-	-	677	2,915
Foreign currency forwards	1,419	171	504	1,451
Total	$ 4,649	$ 2,175	$ 5,683	$ 7,869
Less non-current portion:				
Commodity swaps	(15)	(81)	-	-
Equity swaps	-	-	-	154
	(15)	(81)	-	154
Current portion	$ 4,634	$ 2,094	$ 5,683	$ 7,715

The fair value of financial instruments is classified as a non-current asset (long-term prepaid expense and other assets) or liability (other long-term liabilities) if the remaining maturity is more than 12 months and, as a current asset or liability, if the maturity is less than 12 months.

(i) Commodity financial instruments

Futures, options and swaps

The Company enters into futures, options and swap contracts to manage the price risk associated with sales, purchases and inventories of crude oil, natural gas liquids and petroleum products.

During the year ended December 31, 2019, the Company entered into certain WTI differential futures to manage the exposure to price risks associated with the purchases of crude oil feedstock.

(ii) Currency financial instruments

The Company enters into forward and options contracts to buy and sell U.S. dollars in exchange for Canadian dollars to fix the exchange rate on its estimated future net cash inflows denominated in U.S. dollars and long-term borrowings denominated in U.S. dollars.

There were no contracts entered into during the years ended December 31, 2019 and 2018.

(iii) Equity price financial instruments

During the year ended December 31, 2019, the Company settled all of the notional shares of its equity swaps and as a result recognized a mark to market a gain of $6.5 million. During 2018, the Company had equity swaps of 1.5 million notional amount common shares at an average price of $20.18 per share for settlement over a two year period. The Company entered into these equity swap contracts to help manage equity price and dilution exposure to shares that it issues under its share based compensation programs. During the year ended December 31, 2018 the Company recognized an unrealized gain of $0.9 million.

The value of the Company's derivative financial instruments is determined using inputs that are either readily available in public markets or are quoted by counterparties to these contracts. In situations where the Company obtains inputs via quotes from its counterparties, these quotes are verified for reasonableness via similar quotes from another source for each date for which financial statements are presented. The Company has consistently applied these valuation techniques in all periods presented and the Company believes it has obtained the most accurate information available for the types of financial instrument contracts held. The Company has categorized the inputs for these contracts as Level 1, defined as observable inputs such as quoted prices in active markets; Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; or Level 3 defined as unobservable inputs in which little or no market data exists therefore requiring an entity to develop its own assumptions.

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

The Company used the following techniques to value financial instruments categorized in Level 2:

- The fair value of commodity swaps is calculated as the present value of the estimated future cash flows based on the difference between contract price and commodity price forecast.
- The fair value of foreign currency forward contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present values.

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2019 was:

	Total	Level 1	Level 2	Level 3
Assets from financial instrument contracts				
Commodity futures	$ 1,069	$ 1,069	$ -	$ -
Commodity swaps	1,119	-	1,119	-
WTI differential futures	1,042	1,042	-	-
Foreign currency forwards	1,419	-	1,419	
Total assets	4,649	$ 2,111	$ 2,538	-
Liabilities from financial instrument contracts				
Commodity futures	$ 700	$ 700	$ -	$ -
Commodity swaps	1,212	-	1,212	-
WTI differential futures	92	92	-	-
Foreign currency forwards	171	-	171	-
Total liabilities	$ 2,175	$ 792	$ 1,383	$ -

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2018 was:

	Total	Level 1	Level 2	Level 3
Assets from financial instrument contracts				
Commodity futures	$ 1,937	$ 1,937	$ -	$ -
Commodity swaps	2,565	-	2,565	-
Equity swaps	677	677	-	-
Foreign currency forwards	504	-	504	-
Total assets	$ 5,683	$ 2,614	$ 3,069	$ -
Liabilities from financial instrument contracts				
Commodity futures	$ 616	$ 561	$ 55	$ -
Commodity swaps	2,887	-	2,887	-
Equity swaps	2,915	2,915	-	-
Foreign currency forwards	1,451	-	1,451	-
Total liabilities	$ 7,869	$ 3,476	$ 4,393	$ -

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

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

	Year ended December 31, 2019	2018
Cost of sales gain	$ 2,661	$ 1,197
Share based compensation gain	6,496	923
	$ 9,157	$ 2,120

Financial Risk Management

The Company's activities expose it to certain financial risks, including foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk. The Company's risk management strategy seeks to reduce potential adverse effects on its financial performance. As a part of its strategy, both primary and derivative financial instruments are used to hedge its risk exposures.

There are clearly defined objectives and principles for managing financial risk, with policies, parameters and procedures covering the specific areas of funding, banking relationships, interest rate exposures and cash management. The Company's treasury and risk management functions are responsible for implementing the policies and providing a centralised service to the Company for identifying, evaluating and monitoring financial risks.

a) Foreign currency exchange risk

Foreign exchange risks arise from future transactions and cash flows and from recognized monetary assets and liabilities that are not denominated in the functional currency of the Company's operations.

The exposure to exchange rate movements in significant future transactions and cash flows is managed by using foreign currency forward contracts and options. These financial instruments have not been designated in a hedge relationship. No speculative positions are entered into by the Company.

Foreign currency exchange rate sensitivity

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

	December 31, 2019	2018
U.S. Dollar Forwards		
Favorable 5% change	$ 2,720	$ 1,928
Unfavorable 5% change	(2,720)	(1,928)

The movement is a result of a change in the fair value of U.S. dollar forward contracts and options.

The impact of translating the net assets of the Company's U.S operations into Canadian dollars is excluded from this sensitivity analysis.

b) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will be affected by changes in market interest rates. At December 31, 2019, the Company has insignificant exposure to changes to market interest rates that relate to the $60.0 million (2018 – $150.0 million) drawn on the Company's Revolving Credit Facility.

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

c) Commodity price risk

The Company is exposed to changes in the price of crude oil, NGLs, oil related products and electricity commodities, which are monitored regularly. Crude oil and NGL priced futures, options and swaps are used to manage the exposure to these commodities' price movements. These financial instruments are not designated as hedges. Based on the Company's risk management policies, all of the financial instruments are employed in connection with an underlying asset/liability and/or forecasted transaction and are not entered into with the objective of speculating on commodity prices.

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

	December 31,	
	2019	**2018**
Crude oil and NGL related prices		
Favorable 15% change	$ 9,933	$ 7,275
Unfavorable 15% change	(9,933)	(7,275)

d) Credit risk

The Company's credit risk arises from its outstanding trade receivables, including receivables from customers who have entered into fixed term contractual arrangements to have dedicated use of certain of the Company's tanks. A significant portion of the Company's trade receivables are due from entities in the oil and gas industry. Concentration of credit risk is mitigated by having a broad customer base and by dealing with credit-worthy counterparties in accordance with established credit approval practices. The Company actively monitors the financial strength of its customers and, in select cases, has tightened credit terms to minimize the risk of default on trade receivables.

At December 31, 2019, approximately 3% of net trade receivables were 30 days past the due date but not considered impaired (December 31, 2018 – 7%). The maximum exposure to credit risk related to trade receivables is their carrying value as disclosed in these financial statements.

The Company establishes guidelines for customer credit limits and terms. The Company review includes financial statements and external ratings when available. The Company does not usually require collateral in respect of trade and other receivables. The Company provides adequate provisions for expected losses from the credit risks associated with trade receivables. The provision is based on an individual account-by-account analysis and prior credit history.

The Company is exposed to credit risk associated with possible non-performance by financial instrument counterparties. The Company does not generally require collateral from its counterparties but believes the risk of non-performance is low. The counterparties are generally major financial institutions or commodity brokers with investment grade credit ratings as determined by recognized credit rating agencies.

The Company's cash equivalents are placed in time deposits with investment grade international banks and financial institutions.

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. The Company's process for managing liquidity risk includes preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures and authorization of contractual agreements. The Company may seek additional financing based on the results of these processes. The budgets are updated with forecasts when required and as conditions change. Cash and cash equivalents and the Revolving Credit Facility are available and are expected to be available to satisfy the Company's short and long-term requirements. As at December 31, 2019, the Company had a Revolving Credit Facility of $560.0 million and three bilateral demand letter of credit facilities totaling $150.0 million. At December 31, 2019, $60.0 million was drawn against the Revolving Credit Facility and the Company had outstanding issued letters of credit of $36.9 million.

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

The terms of the Notes and Revolving Credit Facility require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default.

Set out below is a maturity analyses of certain of the Company's financial contractual obligations as at December 31, 2019. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

	On demand or within one year	Between one and three years	Between three and five years	After five years	Total
Trade payables and accrued charges (excluding derivative financial instruments and accrued interest)	$ 407,480	$ -	$ -	$ -	$ 407,480
Dividend payable	48,073	-	-	-	48,073
Long-term debt	-	-	600,000	500,000	1,100,000
Credit facilities	-	-	60,000	-	60,000
Debentures (debt and equity component)	-	99,890	-	-	99,890
Interest on long-term debt and Debentures	54,750	101,829	85,875	85,500	327,954
Financial instrument liabilities	2,094	81	-	-	2,175
Lease liabilities	40,000	55,875	31,117	18,247	145,239
	$ 552,397	$ 257,675	$ 776,992	$ 603,747	$ 2,190,811

Capital management

The Company's objectives when managing its capital structure are to maintain financial flexibility so as to preserve the Company's ability to meet its financial obligations and to finance internally generated growth capital requirements as well as potential acquisitions.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity, long-term debt, the Debentures, the Revolving Credit Facility, lease liabilities and working capital. To maintain or adjust the capital structure, the Company may draw on its revolving credit facility, issue notes or issue equity and/or adjust its operating costs and/or capital spending to manage its current and projected debt levels.

Financing decisions are made by management and the Board based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet, lease liabilities, and the Debentures), less cash and cash equivalents. Total capital is calculated as net debt plus share capital as shown in the consolidated balance sheet.

	December 31, 2019	2018
Total financial liability borrowings	$ 1,280,515	$ 1,148,649
Debentures (liability component) [(1)]	89,655	89,765
Less: 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, and working capital. The Debentures and associated interest

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

payments are excluded from the definition of net debt included in the consolidated senior and total debt covenant ratios, as well as the consolidated interest coverage covenant ratio.

If the Company is in a net debt position, the Company will assess whether the projected cash flow and availability under the Revolving Credit Facility and the bilateral demand letter of credit facilities are sufficient to service this debt and support ongoing operations.

30 Commitments and contingencies

Commitments

Lease obligations primarily relate to office leases, rail cars, vehicles, field buildings, various equipment and terminal services arrangements. The minimum payments required under these commitments, net of sub-lease income, are as follows:

2020	$ 59,022
2021	52,445
2022	42,360
2023	33,048
2024	20,169
2025 and later	21,697
	$ 228,741

With respect to capital expenditures, at December 31, 2019, the Company had an estimated amount of $325 million remaining to be spent that relates to projects approved at that date.

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

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

31 Subsequent Events

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.

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 things extended the maturity date from March 2024 to February 2025.

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

32 Supplemental cash flow information

	Year ended December 31, 2019	Year ended December 31, 2018
Cash flow from operating activities		
Net income (loss) from continuing operations	$ 176,339	$ 81,125
Adjustments for non-cash items:		
Finance costs, net	78,540	78,492
Income tax expense	20,573	55,613
Depreciation and impairment of property, plant and equipment	121,731	143,160
Depreciation of right-of-use asset	40,527	43,184
Amortization and impairment of intangible assets	12,836	10,870
Impairment of goodwill	-	20,479
Share based compensation	14,562	19,124
Share of profit of investments in equity accounted investees	552	-
(Gain) loss on sale of property, plant and equipment	(3,035)	1,700
Provisions	16,747	-
Other	(19,411)	10,238
Net gain on fair value movement of financial instruments	(2,661)	(1,197)
Subtotal of adjustments	280,961	381,663
Changes in items of working capital:		
Trade and other receivables	(153,939)	134,586
Inventories	(52,008)	53,101
Other current assets	3,249	2,726
Trade payables and accrued charges	149,847	(148,633)
Contract liabilities	50,682	8,442
Subtotal of changes in items of working capital	(2,169)	50,222
Income tax (payment) refund, net	(92,976)	14,076
Cash provided by operating activities from continuing operations	$ 362,155	$ 527,086
Cash provided by operating activities from discontinued operations (note 8)	6,465	36,652
Net cash provided by operating activities	$ 368,620	$ 563,738

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

Reconciliation of movements of financial liabilities to cash flows arising from financing activities

	Financial Liabilities			Equity			
	Long-term debt	Lease Liabilities	Dividend payable	Share capital and Contributed Surplus	Net Interest	Retained earnings (Deficit)	Total
For the year ended December 31, 2019							
Payment of shareholder dividends	$ -	$ -	$ 368	$ -	$ -	$ (192,001)	$ (191,633)
Interest paid, net	-	-	-	-	(64,577)	-	(64,577)
Proceeds from exercise of share options	-	-	-	1,259	-	-	1,259
Proceeds from issuance of long-term debt, net of costs	495,485	-	-	-	-	-	495,485
Repayment of long-term debt, net of costs	(304,032)	-	-	-	-	-	(304,032)
Finance lease payments	-	(48,632)	-	-	-	-	(48,632)
Repayment of credit facility	(90,000)	-	-	-	-	-	(90,000)
Cash provided by (used in) financing activities from continuing operations	101,453	(48,632)	368	1,259	(64,577)	(192,001)	(202,130)
Cash used in financing activities from discontinued operations	-	(847)	-	-	-	-	(847)
Net cash provided by (used in) financing activities	$ 101,453	$ (49,479)	$ 368	$ 1,259	$ (64,577)	$ (192,001)	$ (202,977)

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

	Financial Liabilities			Equity			
	Long-term debt	**Lease Liabilities**	**Dividend payable**	**Share capital and Contributed Surplus**	**Net Interest**	**Retained earnings (Deficit)**	**Total**
For the year ended December 31, 2018							
Payment of shareholder dividends	$ -	$ -	$ 447	$ -	$ -	$ (190,327)	$ (189,880)
Interest paid, net	-	-	-	-	(68,924)	-	(68,924)
Proceeds from exercise of share options	-	-	-	1,056	-	-	1,056
Finance lease payments	-	(49,792)	-	-	-	-	(49,792)
Repayment of credit facility	(84,657)	-	-	-	-	-	(84,657)
Cash (used in) provided by financing activities from continuing operations	(84,657)	(49,792)	447	1,056	(68,924)	(190,327)	(392,197)
Cash used in financing activities from discontinued operations	-	(3,056)	-	-	-	-	(3,056)
Net cash (used in) provided by financing activities	$ (84,657)	$ (52,848)	$ 447	$ 1,056	$ (68,924)	$ (190,327)	$ (395,253)

CORPORATE INFORMATION

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