



Management's Discussion and Analysis

2018 First Quarter Report



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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 Energy", "Gibson" or the "Company") as of May 8, 2018 and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes of Gibson Energy Inc. for the three months ended March 31, 2018 and 2017, the audited consolidated financial statements and related notes for the years ended December 31, 2017 and 2016, which were prepared under International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Professional Accountants and as issued by the International Accounting Standards Board ("IASB"), also referred to as GAAP, and the MD&A for the year ended December 31, 2017. The unaudited condensed consolidated financial statements referred to above include all adjustments of a normal recurring nature necessary for the fair statement of the Company's financial position as of March 31, 2018, its results of operations for the three months ended March 31, 2018 and 2017, and its cash flows for the three months ended March 31, 2018 and 2017. The unaudited condensed consolidated financial statements do not include all the annual disclosures required by IFRS and should be read in conjunction with the annual audited consolidated financial statements and related notes for the fiscal year ending December 31, 2017. 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 adoption of new IFRS and the presentation of continuing operations separately from discontinued operations as discussed in note 3 and note 4 of our Q1 2018 unaudited condensed consolidated financial statements. The results for the interim periods are not necessarily indicative of the results to be expected for any future period or for the fiscal year ending December 31, 2017. Amounts are stated in Canadian dollars unless otherwise noted. Additional information about Gibson Energy, 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 an oil infrastructure company with our principal businesses consisting of the storage, optimization, processing, and gathering of crude oil and refined products. Headquartered in Calgary, Alberta, our operations are focused around our core terminal assets located at Hardisty, Alberta (the "Hardisty Terminal" or "Hardisty") and Edmonton, Alberta (the "Edmonton Terminal" or "Edmonton"), and also include the Moose Jaw Facility and injections stations in the Permian basin in Texas and the South-Central Oil Province ("SCOOP") and the Sooner Trend, Anadarko Basin, Canadian, and Kingfisher Counties ("STACK") basins in Oklahoma.

SELECTED FINANCIAL INFORMATION

	Three months ended March 31,	
	2018 ¹	2017 ¹
Continuing operations		
Revenue	\$ 1,736,619	\$ 1,398,823
Segment profit	102,064	84,449
Net income (loss)	12,824	(3,117)
Basic and diluted earnings (loss) per share.....	0.09	(0.02)
Adjusted EBITDA ^{3,4}	93,328	70,952
Distributable cash flow ^{3,4}	59,490	40,469
Dividends declared.....	47,472	47,057
Cash flow from operating activities	127,188	99,149
Growth capital expenditures	\$ 26,384	\$ 24,990
Combined operations ²		
Combined adjusted EBITDA ^{2,3,4}	\$ 101,480	\$ 86,906
Distributable cash flow ^{3,4}	65,293	43,714

<u>Last twelve months - as at March 31,</u>	
<u>2018</u>	<u>2017</u>

Debt ratios⁵

Total and senior debt leverage ratio	3.6	3.4
Interest coverage ratio.....	5.0	2.8

¹ The current period results include the impacts from the adoption of new accounting standards as discussed on page 29 and 30. Comparative information has not been restated and, therefore, may not be comparable.

² See definition of non-GAAP measures on pages 18 to 20 and 34. Combined Adjusted EBITDA and Combined distributable cash flow, represents the aggregated results of both continuing and discontinued operations.

³ See pages 19 to 20 and 25 to 26 for a reconciliation of Adjusted EBITDA to segment profit and distributable cash flow to cash flow from operations, respectively.

⁴ Comparative period information has been restated to reflect the impact of discontinued operations.

⁵ Refer to page 24 and 30 for more information on the ratio calculation and impact of new accounting standards on covenant calculations.

Q1 2018 REVIEW

Financial highlights

- Segment profit for the Infrastructure segment increased by 15% to \$69 million for the three months ended March 31, 2018 compared to \$60 million for the three months ended March 31, 2017 primarily as a result of the additional tank capacity and associated take-or-pay, stable fee-based contracts added during the first quarter of 2018.
- Segment profit from continuing operations increased by 21% to \$102 million for the three months ended March 31, 2018 compared to \$84 million for the three months ended March 31, 2017 primarily due to higher segment profit from the Infrastructure segment and the impact from the adoption of IFRS 16 – Leases (“IFRS 16”).
- Distributable cash flow from combined operations increased by 48% to \$65 million for the three months ended March 31, 2018, compared to \$44 million for the three months ended March 31, 2017.
- Adjusted EBITDA from continuing operations increased by 31% to \$93 million for the three months ended March 31, 2018 compared to \$71 million for the three months ended March 31, 2017 due to higher segment profits across all business segments and the impact from the adoption of IFRS 16.
- Net income from continuing operations increased by \$16 million for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.
- In the first quarter of 2018, the Company declared a dividend of \$0.33 per common share. Total dividends declared for the three months ended March 31, 2018 were \$47 million.

Capital expenditure highlights

- During the three months ended March 31, 2018, the Company incurred total growth capital expenditures of \$26 million of which the entire amount was attributable to the Infrastructure segment for new tanks and related infrastructure at the Hardisty and Edmonton Terminals.
- On January 3, 2018 the Company placed into service a total of 800,000 barrels of crude oil storage tank capacity and related pipeline connection infrastructure at the Edmonton Terminal.
- On February 21, 2018, the Company announced the sanction of the \$50 million Viking Pipeline Project. This project is underpinned by shippers through take-or-pay commitments with an area of dedication, and will extend the reach of the existing Provost Pipeline to support development by several regional producers.

Disposition of non-core businesses

- On January 30, 2018, the Company announced its new corporate strategy and plans for the sale of its non-core businesses, including NGL Wholesale, Canadian Truck Transportation, non-core Canadian Environmental Services and non-core U.S. Injection Stations and Truck Transportation assets. The Company expects to place all the non-core businesses to be disposed into the market by the end of 2018, with a target of concluding the non-core divestiture process by mid-2019. Aggregate proceeds from the sale of non-core businesses are expected to be reinvested into the core infrastructure business through funding future growth capital expenditures.
- On March 19, 2018, the Company announced it has entered into two separate definitive agreements for the divestiture of its U.S. energy services businesses, including U.S. Environmental Services and its U.S. seismic assets, for gross proceeds of US\$96 million (CAD \$125 million), prior to closing adjustments.

Credit facility

- Subsequent to the period end, the Company extended the maturity date of its unsecured revolving credit facility (“Revolving Credit Facility”) from March 2022 to March 2023, and among other revisions, the maximum consolidated senior debt leverage ratio and the maximum consolidated total debt leverage ratio were revised to 4.85 to 1.0 until the end of the 2018 fiscal year, 4.50 to 1.0 for the 2019 fiscal year and 4.0 to 1.0 thereafter.

Accounting Standards

- As disclosed in note 3 of the Q1 2018 condensed consolidated financial statements, the Company has adopted certain new accounting standards as at January 1, 2018. These standards have been applied retrospectively using the modified retrospective approach, which does not require restatement of prior period financial information and applies the standard prospectively effective January 1, 2018. Accordingly, comparative information, including non-GAAP measures, included herein are not restated for the impact of these standards. Where the impact was material, the amounts have been quantified for comparative analysis purposes in the respective sections of this document. Refer to “Accounting Policies” section for further details.

SUBSEQUENT EVENTS

Dividend

- On May 8, 2018, the Board declared a quarterly dividend of \$0.33 per common share for the three months ended June 30, 2018 on its outstanding common shares. The dividend is payable on July 17, 2018 to shareholders of record at the close of business on June 29, 2018.
- On May 3, 2018, the Company completed the sale of its U.S. energy services businesses, including U.S. Environmental Services and its U.S. seismic assets, for gross proceeds of US\$96 million (CAD \$125 million), prior to closing adjustments.

PROJECT DEVELOPMENTS AND MARKET OUTLOOK

Major growth projects

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

On January 3, 2018 the Company placed into service the 800,000 barrels of crude oil storage tanks and related pipeline connection infrastructure at the Edmonton Terminal.

On February 21, 2018, the Company announced the sanction of the \$50 million Viking Pipeline Project. Consistent with Gibson’s intention to expand its pipeline gathering network by leveraging existing storage, optimization capabilities and access to egress pipelines at its Hardisty Terminal, the Viking Pipeline Project will extend the reach of the existing Provost Pipeline to support development by several regional producers. The 120-km pipeline will have an initial capacity of 13,300 bbl/d, with the potential to expand to an estimated 25,000 bbl/d in the future. The Viking Pipeline Project is expected to be in service in Q1 2019, and is underpinned by shippers through take-or-pay commitments with an area of dedication.

In addition to the projects discussed, we continue to make progress with commercial development opportunities at both Hardisty and Edmonton including the previously announced sanction of construction of the 1.1 million barrels of crude oil storage capacity and related pipeline connection infrastructure at the Company's Hardisty Terminal. The success of these projects will enable us to add additional storage and connection infrastructure for our customers.

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 ("less than two years") and the medium to long-term ("two to five years").

There are a number of factors that affect our 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 our opportunities at the Hardisty and Edmonton terminals, as well as our 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, necessitate demand for terminal services and increase use of crude by rail as a solution for export market access. The Company believes that increased reliance on storage during periods of limited egress, especially during pipeline upsets, may lead customers to consider increasing their available storage and will be supportive of recontracting the rail facility at Hardisty. Wider differentials also improve margins at the Moose Jaw Facility, and often provide increased opportunities within the Crude Wholesale business.
- Global heavy oil demand and prices may experience transitory volatility associated with the International Marine Organization's (IMO) Annex VI regulation which will reduce the maximum sulphur content of marine fuels from 3.5% to 0.5% beginning January 1, 2020. To maintain compliance, marine shippers would need to either install sulphur scrubbers or switch to lower sulphur fuels such as diesel or LNG. Depending on the implementation and marine shipper compliance to these changes, there may be potential impacts to refinery demand for a period of time, and thus decrease prices for the high sulfur crude oils typical of Canada's oil sands.
- Over the medium to long-term, as market access becomes more certain and technology development and cost reductions continue to decrease supply costs, the supply of Canadian heavy crude oil from the oil sands should start to grow more rapidly as additional oil sands projects are sanctioned and brought on stream, resulting in increased demand for terminal services and diluent in the WCSB.
- 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, medium and long-term. The wider differentials resulting from limited egress out of Western Canada are supportive of parts of the business over the short-term, but over the long-term, the Company would expect to realize a greater benefit from incremental egress as it would encourage additional oil sands development, creating the opportunity to grow 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. There is a risk that these projects may be substantially delayed or cancelled.
 - Enbridge Inc.'s proposed replacement of its Line 3 pipeline would provide increased access to the largest refining markets in the U.S. and Eastern Canada, and the Company's Hardisty Terminal is already connected to deliver to the upgraded Line 3.
 - TransCanada's Keystone XL project would also provide increased access to large refining markets in the U.S. If placed into service, the Company's Hardisty Terminal would be connected to the pipeline.
 - Kinder Morgan Canada Limited's Trans Mountain Expansion would increase western Canadian crude access to world markets by providing waterborne access on the west coast. The starting point of the pipeline is adjacent to the Company's Edmonton Terminal which has an existing connection to the Trans Mountain terminal.

The continuing improvement in oil prices is expected to facilitate improved project economics for Gibson's producer customers. Taken together with improving cost efficiencies, there have been modest increases in capital programs being announced by a number of North American producers. However, given the uncertainty of oil prices in the short to medium term and lack of clarity on the ability to add incremental egress, producers appear to be taking a measured approach towards capital spending increases, which may limit the pace of production growth compared to past cycles. As crude oil supply and demand fundamentals rebalance, the Company anticipates a slow return to activity and production growth levels, a continued demand for midstream assets and increasing demand for storage.

Price fluctuations between crude oil types can create incremental margin opportunities in multiple areas of the Company's operations. Crude price differentials have recently widened in the face of firming of benchmark crude oil prices and the Company remains attentive to opportunities.

Over the medium to long-term the Company expects new technology for oil sands and conventional development to be deployed within the industry which should improve producers' cost structures, and further enhance the viability and resilience of the specific basins in which Gibson has strategically chosen to operate, resulting in increased demand for Gibson's services.

RESULTS OF CONTINUING OPERATIONS

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

The following is a discussion of the Company's segmented results of operations for the three months and years ended March 31, 2018 and 2017 and the following table sets forth revenue and profit by segment for those periods:

	Three months ended March 31,	
	2018 ¹	2017 ¹
Segment revenue		
Infrastructure	\$ 92,534	\$ 84,725
Logistics	72,051	80,926
Wholesale	1,768,690	1,386,627
Total segment revenue	1,933,275	1,552,278
Revenue—inter-segmental	(196,656)	(153,455)
Total revenue—external	1,736,619	1,398,823
Segment profit		
Infrastructure	68,582	60,383
Logistics	4,333	6,150
Wholesale	29,149	17,916
Total segment profit	102,064	84,449
General and administrative	8,468	9,519
Depreciation and impairment	28,809	30,627
Right-of-use asset depreciation	12,489	-
Amortization and impairment	3,556	4,452
Stock based compensation expense (recovery)	4,498	(1,359)
Debt extinguishment costs	-	49,327
Goodwill impairment	1,979	-
Net interest expense	19,331	24,219
Foreign exchange loss (gain)	3,659	(4,400)
Income (loss) before income tax	19,275	(27,936)
Income tax provision (recovery)	6,451	(24,819)
Net income (loss) from continuing operations	\$ 12,824	\$ (3,117)

1. The current period results include the impacts from the adoption of new accounting standards as discussed on pages 29 and 30. Comparative information has not been restated and, therefore, may not be comparable throughout the discussion on continuing operations. In addition, Comparative period segment information was restated 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, plant and equipment, rolling stock 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, injection stations, gathering pipelines and processing facilities that collect, store and process oil and other liquid hydrocarbon production and related products before eventual distribution to end-use markets. The primary facilities within this segment include the terminals located at Hardisty and Edmonton, which are the principal hubs for aggregating and exporting oil and refined products out of the WCSB; gathering pipelines, which are connected to the Hardisty Terminal and to one of our Processing Recovery and Disposal (“PRD”) locations; injection stations, which are located within the Permian and the SCOOP/STACK locations in the U.S.; a crude oil processing facility in Moose Jaw, Saskatchewan (the “Moose Jaw Facility”) and PRD Terminals located throughout Western Canada. The PRD business is dependent upon the drilling activity in various areas of operations and as a result, the PRD business is impacted by seasonality due to road bans as part of spring break-up.

The following tables set forth the operating results from the Company’s Infrastructure segment for the three months ended March 31, 2018 and 2017:

Volumes (barrels in thousands)	Three months ended March 31,	
	2018 ¹	2017 ¹
Terminals and facilities		
Hardisty Terminal	72,283	62,245
Edmonton Terminal	5,440	4,780
Moose Jaw Facility	1,348	1,407
PRD Terminals	3,830	3,402
Injection stations.....	1,172	3,762
Total terminals and facilities	84,073	75,596
Revenue		
Hardisty Terminal	\$ 53,529	\$ 49,914
Edmonton Terminal	17,027	13,246
Moose Jaw Facility	9,845	9,849
PRD Terminals	11,902	10,533
Injection stations.....	231	1,183
Total revenue	92,534	84,725
Operating expenses and other.....	23,952	24,342
Segment profit	\$ 68,582	\$ 60,383

1. The current period results include the impacts from the adoption of new accounting standards as discussed on pages 29 and 30. Comparative information has not been restated and, therefore, may not be comparable throughout the discussion on continuing operations. In addition, Comparative period segment information was restated to reflect the results of continuing operations separately from discontinued operations.

Operational performance

In the three months ended March 31, 2018 compared to the three months ended March 31, 2017:

Hardisty Terminal volumes increased 16%. The increase was largely driven by the increase in a customer’s contract tankage volumes, increased traffic from the Hardisty Unit Rail Facility (“HURC”) facility, higher trucked volumes and the addition of infrastructure connections which provided for higher throughput volumes from certain customers.

Edmonton Terminal volumes increased by 14%. The increase was mainly due to the commissioning of two new tanks and common infrastructure at the Edmonton Terminal in January of 2018 and additional volumes received from the Company’s Wholesale segment.

Moose Jaw Facility volumes decreased by 4%. The decrease was primarily due to the impact of lower processing activity in the first quarter of 2018 as a result of an accumulation of inventory levels in the fourth quarter of 2017.

PRD Terminal volumes increased by 13%. The increase was mainly due to higher drilling activity levels in the Company’s WCSB service areas, particularly in the Saskatchewan Viking and the Alberta Montney, primarily driven by the sustained recovery of crude prices.

Injection Station volumes decreased by 69%. The decrease was due to the termination of the injection station access agreement with a large customer in November 2017.

Financial performance

In the three months ended March 31, 2018 compared to the three months ended March 31, 2017:

Revenue at the Hardisty Terminal increased by \$3.6 million which was largely driven by the increase in a contract customer’s tankage usage, supported by additional take-or-pay, stable fee-based arrangements and higher revenues earned from trucked volumes.

Revenue at the Edmonton Terminal increased by \$3.8 million. The increase was primarily due to the impact of the revenue related to the commissioning of the two new tanks and related common infrastructure at the Edmonton Terminal in Q1 2018 which are supported by take-or-pay, stable fee-based arrangements.

PRD Terminal revenue increased by \$1.4 million mainly as a result of higher volumes processed as discussed under operational performance.

There was no material change in the revenue for the Moose Jaw Facility.

Injection station revenue decreased by \$1.0 million primarily related to lower volumes as previously discussed.

Segment profit increased by \$8.2 million. The increase was primarily due to the increased revenues from the Hardisty and Edmonton Terminals. Segment profit increase was also supported by lower operating costs due to the active cost management initiatives related to current operating requirements, and lower environmental remediation costs recorded in the current period.

Capital expenditures

Below is the summary of Infrastructure capital expenditures for the three months ended March 31, 2018 and 2017:

	Three months ended March 31	
	2018	2017
Growth capital	\$ 26,105	\$ 24,388
Replacement capital	\$ 2,573	\$ 1,897

The increase in growth capital expenditures for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily relates to an increase in the amount of construction towards additional tanks and related infrastructure at the Hardisty and Edmonton Terminals as well as the Viking pipeline in the current period.

Replacement capital includes purchases that replace existing assets as necessary to maintain current service levels or replace assets that no longer have a useful economic life. The change was primarily due to non-recurring mechanical and repair projects completed at the Moose Jaw Facility, as well as maintenance activities completed at the Hardisty Terminal.

LOGISTICS

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

For certain services and geographical regions, the activity is generally the lowest in the winter months when daylight hours are shorter.

The following tables set forth operating results from the Company's Logistics segment for the three months March 31, 2018 and 2017:

Volumes (barrels hauled in thousands)	Three months ended March 31,	
	2018 ¹	2017 ¹
Canadian crude and other products.....	10,823	12,124
U.S. crude and other products.....	6,319	7,337
Total.....	17,142	19,461

	Three months ended March 31,	
	2018 ¹	2017 ¹
Revenue		
Canadian Crude and other product hauling.....	\$ 49,020	\$ 50,848
U.S. Crude and other product hauling.....	13,586	18,804
Water hauling and disposal.....	4,499	5,788
Other products and services.....	4,946	5,486
Total revenue.....	72,051	80,926
Cost of sales.....	51,420	57,188
Operating expenses and other.....	16,298	17,588
Segment profit.....	\$ 4,333	\$ 6,150

1. The current period results include the impacts from the adoption of new accounting standards as discussed on pages 29 and 30. Comparative information has not been restated and, therefore, may not be comparable throughout the discussion on continuing operations. In addition, Comparative period segment information was restated to reflect the results of continuing operations separately from discontinued operations.

Operational performance

In the three months ended March 31, 2018 compared to the three months ended March 31, 2017:

Canadian crude and other product hauling barrels decreased by 11%. The decrease was primarily due to lower levels of hauling activity related to crude, gypsum, asphalt, petroleum coke, and liquefied petroleum gas partially offset by higher sulphur and propane and butane hauling volumes. The lower levels of hauling activity in the current period were primarily driven by poor weather conditions, increased competition in the Grande Prairie region, and the sale of the gypsum business.

U.S. crude and other products volume decreased by 14%. The decrease was primarily attributable to the decline in business with Logistics' largest U.S. trucking customer triggered by the termination of the injection station access agreement in November 2017. Trucking volume with other customers are gradually increasing, however not sufficiently yet to overcome the overall effect of the decline with the large customer.

Financial performance

In the three months ended March 31, 2018 compared to the three months ended March 31, 2017:

Canadian crude and other product revenue decreased by 4%. The decrease was primarily due to lower volumes hauled as noted under operational performance partially offset by higher hauling rates for petroleum coke and propane.

U.S. crude and other revenue decreased by 28%. The decrease was primarily driven by lower volumes as noted above.

Water hauling and disposal revenue decreased by 22%. The decrease was primarily driven by the impact of reduced activity in Northern Alberta primarily driven by poor weather conditions.

Other products and services revenue decreased by 10%. The decrease was primarily driven by lower revenue related to the elimination of certain product sales.

Segment profit decreased by 30% mainly due to decline in the U.S. crude hauling margins as a result of continued competition and availability of drivers within the Company's service areas as well as loss in volumes as discussed above. The decrease in segment profit was partially offset by lower operating costs in the current period largely due to the continuation of the reduction in payroll related costs associated with overall headcount reductions.

Capital expenditures

Below is the summary of Logistics capital expenditures for the three months ended March 31, 2018 and 2017:

	Three months ended March 31	
	2018	2017
Growth capital	\$ 5	\$ 66
Replacement capital	\$ 626	\$ 1,310

Growth capital expenditures for the three months ended March 31, 2018, remain consistent with the prior comparative period. Replacement capital decreased by \$0.7 million for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to the timing of replacement capital activities.

WHOLESALE

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

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

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 propane and other NGLs is also highest in the colder months of the year.

	Three months ended March 31,	
	2018	2017
WTI average price (\$USD/bbl).....	\$ 62.87	\$ 51.91
WCS average differential (\$USD/bbl).....	24.28	14.58
Average foreign exchange rates U.S. dollar to Canadian dollar	1.27	1.32
Propane average price (\$USD/U.S. gallon).....	0.79	0.64
Butane average price (\$USD/U.S. gallon).....	\$ 0.91	\$ 0.90

The following tables set forth operating results from the Company's Wholesale segment for the three months ended March 31, 2018 and 2017:

Volumes (barrels in thousands)	2018	2017¹
Crude and diluent	30,313	26,810
Propane and other NGL	3,336	3,551
Refined products.....	962	830
	<u>34,611</u>	<u>31,191</u>
	Three months ended March 31,	
	2018	2017¹
Revenue		
Crude and diluent.....	\$ 1,491,745	\$ 1,124,121
Propane and other NGL.....	180,243	184,502
Refined products.....	96,702	78,004
Total revenue.....	<u>1,768,690</u>	<u>1,386,627</u>
Cost of sales.....	1,733,334	1,361,595
Operating expenses and other	6,207	7,116
Segment profit.....	<u>\$ 29,149</u>	<u>\$ 17,916</u>

1. The current period results include the impacts from the adoption of new accounting standards as discussed on page 29 and 30. Comparative information has not been restated and, therefore, may not be comparable throughout the discussion on continuing operations.

Operational performance

In the three months ended March 31, 2018 compared to the three months ended March 31, 2017:

Sales volumes for crude and diluent increased by 13%. The increase was mainly due to additional opportunities to bring volumes into the Company's integrated assets, primarily attributable to the addition of new storage tanks and common infrastructure added in Q1 2018.

Sales volumes for propane and other NGLs declined 6% primarily due to tighter supply and demand conditions for these products largely driven by the constraint of rail service in the market place.

Volumes for refined products increased by 16%. The increase was primarily due to higher current period demand for drilling fluids, principally as a result of increased WCSB and U.S. drilling activity, and the ability of the Company to gain market share in the Permian and Niobrara-DJ basins in the current period. This was partially offset by the constraint of rail service which impacted the Company's ability to deliver available roofing asphalt volumes, as well as higher volumes related to asphalt spot sales in the prior period.

Financial performance

In the three months ended March 31, 2018 compared to the three months and three months ended March 31, 2017:

Revenue for crude and diluent increased by 33%. The increase was largely due to higher average crude oil prices, and the increase in volumes in the current period, partially offset by less favorable foreign exchange rates.

Revenue for propane and other NGLs decreased by 2% mainly due to reduction in volumes as noted above, partially offset by higher propane prices during the current year period.

Revenue for Refined Products increased by 24%. The increase was primarily due to higher volumes sold for drilling fluids and asphalt as well as higher average crude oil prices which supported the increase in prices for these products, partially offset by the constraint of rail service.

Segment profit increased by 63%. The increase in segment profit was mainly due to lower rail car lease expenses of \$10.8 million as

a result of the adoption of IFRS 16 as discussed under “Accounting Policies” section, higher crude margins due to more favorable light to heavy crude pricing spreads and lower purchase costs related to the availability of discounted spot purchases. The increase was also supported by higher refined product margins driven by a greater proportion of higher margin product sales, and by a higher crude price differential which supported lower cost of sales in the current period. These increases were offset by lower margins earned on propane and butane due to regional pricing constraints at a certain number of distribution hubs, strong asphalt spot sales in the prior period, and by the constraints on the availability of rail service in the market which prevented the Company from realizing on certain pricing and volume opportunities specific to Propane and other NGL and Refined Products. Additionally, margins were negatively impacted by higher losses from financial instruments during the current quarter.

EXPENSES

General and administrative (“G&A”) and other, excluding depreciation and amortization

Three months ended March 31,	
2018	2017

General and administrative	\$ 8,468	\$ 9,519
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The decrease was primarily due to lower payroll costs due to the continuing impact of our headcount rationalization efforts from 2017 and lower head office lease costs of \$2.1 million due to the adoption of IFRS 16 as noted in the “Accounting Policies” section, partially offset by higher corporate allocation costs in the current period.

Depreciation and impairment

Three months ended March 31,	
2018	2017

Depreciation and impairment	\$ 28,809	\$ 30,627
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The decrease was primarily due to impact of asset disposals, partially offset by the depreciation on asset additions in the current period.

Right-of-use asset depreciation

Three months ended March 31,	
2018	2017

Right of use asset depreciation	\$ 12,489	\$ -
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The increase was due to the impact of the adoption of IFRS 16 where the right-of-use assets are measured at cost and depreciated over the lease term. The current quarter expense represents the depreciation charge for the period.

Amortization and impairment

Three months ended March 31,	
2018	2017

Amortization and impairment	\$ 3,556	\$ 4,452
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The decrease was largely due to the impact of a certain number intangible assets becoming fully amortized in prior year periods.

Stock based compensation

	Three months ended March 31,	
	2018	2017
Stock based compensation	\$ 4,498	\$ (1,359)

The increase was primarily driven by the impact of higher expense related to deferred and restricted share unit and options due to higher grants during 2017 as well as a lower performance share unit recovery due to lower forfeitures in the current period. The increase was also due to higher mark to market expense of \$2.2 million (Q1 2017 – gain of \$0.2 million) related to equity financial instruments.

Debt extinguishment costs

	Three months ended March 31,	
	2018	2017
Redemption premium	\$ -	\$ 8,788
Unamortized debt issue costs.....	-	35,460
Realized foreign exchange (gain) loss on financial instruments	-	5,079
	<u>\$ -</u>	<u>\$ 49,327</u>

During the first quarter of 2017 the Company incurred debt extinguishment costs related to the repayment of \$211.1 million principal amount of 7.00% Senior Unsecured Notes (the “C\$ Notes”) and U.S.\$338.8 million principal amount of 6.75% Senior Unsecured Notes (the “US\$ Notes”) (collectively “Retired Notes”).

Foreign exchange (gains) loss not affecting segment profit

	Three months ended March 31,	
	2018	2017
Unrealized foreign exchange loss (gain) on the movement in exchange rates on U.S dollar Revolving Credit Facility and long-term debt	\$ 3,829	\$ (2,218)
Realized foreign exchange gain on settlement of U.S. dollar long-term debt	-	(2,710)
Corporate foreign exchange (gain) loss	(170)	528
Total foreign exchange loss (gain)	<u>\$ 3,659</u>	<u>\$ (4,400)</u>

At March 31, 2018, the gains and losses recorded are primarily driven by the favorable and unfavorable movements in exchange rates on the translation of the Company’s U.S. dollar denominated Revolving Credit Facility, while at March 31, 2017, the gains and losses were primarily driven by the favorable and unfavorable movements in exchange rates on the translation of the Company’s U.S dollar denominated long-term debt and corporate foreign exchange.

Net interest expense

	Three months ended March 31,	
	2018	2017
Net interest expense	\$ 19,331	\$ 24,219

The decrease was primarily due to the repayment of the Company’s \$250 million 7.00% Notes and US\$550 million Notes in 2017, higher capitalized interest amounts related to our long-term capital projects and finance lease interest costs of \$1.8 million related to the adoption of IFRS 16, partially offset by higher interest costs related to the Revolving Credit Facility in the current period.

Income taxes

	Three months ended March 31,	
	2018	2017
Current income tax (recovery) expense	\$ 7,660	\$ (15,437)
Deferred income tax recovery	(1,209)	(9,382)
Total tax (recovery) expense	<u>\$ 6,451</u>	<u>\$ (24,819)</u>

Income tax expense from continuing operations was \$6.5 million for the three months ended March 31, 2018 compared to an income tax recovery \$24.8 million for the three months ended March 31, 2017. The effective tax rate was 33% during the three months ended March 31, 2018 compared to 89% for the three months ended March 31, 2017. The main driver for the increase in income tax expense and the change in the effective tax rate was the impact of higher net income in the current period and unrealized amounts relating to net capital losses arising from foreign exchange movements on the Company's U.S. dollar denominated long-term debt in the prior period.

RESULTS OF DISCONTINUED OPERATIONS

During the quarter ended March 31, 2018, the Company completed the assessment of various disposal groups that met the criteria under IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations* ("IFRS 5") as held for sale and/or discontinued operations. Noted below is a brief description of each disposal group:

U.S. Environmental Services business

During the quarter ended March 31, 2018, the Company met the criteria under IFRS 5 for its U.S. Environmental Services business to be classified as held for sale. The trigger was based on certain events that occurred during the period supporting the high probability of the sale of the business, including the announcement of entering into definitive sale agreements. As a result, the related assets and liabilities were classified as held for sale and the results were presented as discontinued operations. The net assets of the business were measured at the lower of carrying amount and fair value less cost of disposal (FVLCD). The aggregate sale proceeds of US\$96 million (CAD\$125 million), less expected transaction costs of US\$4 million (CAD\$5 million), were used to determine the FVLCD. The valuation is classified as a level 3 valuation as it is based on a quoted price in an inactive market. As a result, no additional impairment write-downs were recorded in Q1 2018.

The U.S. Environmental Services business includes 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 related to the segment have been included in net income from discontinued operations in the condensed consolidated statements of operations. Comparative period balances of the condensed consolidated statements of operations and cash flows have been restated.

The following tables set forth operating results from discontinued operations of the U.S. Environmental Services business for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,	
	2018	2017¹
Revenue		
Water hauling and disposal	\$ 31,026	\$ 22,848
Other products and services	37,842	27,891
Total revenue	68,868	50,739
Cost of sales	60,716	48,424
Segment profit	8,152	2,315
Depreciation and amortization	3,493	13,206
Income (loss) before taxes	4,659	(10,891)
Income tax provision (recovery)	22,788	(4,100)
Net loss from discontinued operations, after tax	\$ (18,129)	\$ (6,791)

1. The current period results include the impacts from the adoption of new accounting standards as discussed on page 30. Comparative information has not been restated and, therefore, may not be comparable throughout the discussion on discontinued operations

Operational and financial performance

In the three months ended March 31, 2018 compared to the three months ended March 31, 2017:

Revenue increased by 36%. The increase in water hauling and disposal revenue was primarily driven by the impact of the continued increase in production related volumes in the Mid Continent (Arkoma, SCOOP and STACK regions), and Bakken. The increase in other products and services revenue was primarily driven by higher activity in the Bakken, Gulf of Mexico, Rockies, Haynesville and Eagle Ford regions, and the realization of higher service rates in certain areas.

Segment profit increased by \$5.8 million. The increase was primarily due to higher margins earned on water hauling and disposal and U.S. other products and services, driven by higher drilling activity and higher service rates. Additionally, the increase in segment profit was supported by the streamlining of operating costs in the current period which were largely consistent with the prior period despite the increase in activity.

Depreciation decreased by \$9.7 million. The decrease was primarily due to the impairment of assets recorded as at December 31, 2017.

Industrial Propane

During Q1 2017 the Company completed the closing of the sale of its Industrial Propane Business for a final sale price of \$433.1 million resulting in recognition of a post-tax gain on sale of \$150.6 million. The Company derecognized the Industrial Propane segment effective March 1, 2017, accordingly the results for the three months ended March 31, 2017 represent activity for the period between January 1, 2017 and February 28, 2017. During this period the Company had total revenues of \$58.3 million, segment profit of \$13.6 million, and net income after tax of \$157.8 million (see note 4 in the condensed consolidated financial statements).

Cash flow summary – Discontinued operations

The following table summarizes the sources and uses of funds for the three months ended March 31, 2018 and 2017 from discontinued operations:

	Three months ended	
	March 31	
	2018	2017
Statement of cash flows		
Cash flows (used in) provided by:		
Operating activities.....	\$ 9,621	\$ (4,730)
Investing activities.....	(2,350)	432,172
Financing activities.....	\$ (987)	\$ -

Cash (used in) provided by operating activities

Cash provided by operating activities in the three months ended March 31, 2018 was \$9.6 million compared to cash used in operating activities of \$4.7 million in the three months ended March 31, 2017. The increase was primarily due to higher segment profit in the current period as discussed earlier and changes in working capital whereby cash provided by working capital was \$1.5 million in Q1 2018 compared to cash used to fund working capital of \$20.6 million in Q1 2017.

Cash (used in) provided by investing activities

Cash used in investing activities was \$2.4 million for the three months ended March 31, 2018, compared to cash provided by investing activities of \$432.2 million in the three months ended March 31, 2017. The change in cash provided by investing activities was primarily due to the cash proceeds received on the sale of the Industrial Propane business in Q1 2017, net of the transaction costs paid, partially offset by purchases of property, plant, and equipment within the U.S Environmental Services business in Q1 2018.

Cash provided by (used in) financing activities

Cash used in financing activities was \$1.0 million for the three months ended March 31, 2018, compared to \$nil in the three months ended March 31, 2017. The year over year increase was primarily due to the adoption of IFRS 16 which requires the recognition of net lease payments under financing activities.

Income taxes

Income tax from discontinued operations was a provision of \$22.8 million for the three months ended March 31, 2018 compared to a provision of \$27.1 million for the three months ended March 31, 2017, as disclosed in note 9 of the consolidated financial statements. The effective tax rate was 489% during the three months ended March 31, 2018 compared to 15% for the three months ended March 31, 2017. The main driver for the income tax provision and the change in the effective rate is the impact of expected timing differences of \$21.6 million related to the held for sale accounting of the U.S. Environmental Services business in the current period and the gain on the sale of the Industrial Propane business in the prior period. Management expects a minimal cash tax impact upon the sale of the U.S. Environmental Services business.

SUMMARY OF QUARTERLY RESULTS

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

	2018		2017 ¹				2016 ¹		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Continuing operations									
Revenue	\$1,736,619	\$1,699,777	\$1,342,809	\$1,420,335	\$1,398,823	\$1,362,124	\$1,129,715	\$1,055,077	
Net income (loss)	12,824	(55,204)	(5,258)	(1,871)	(3,117)	(37,966)	3,360	(3,415)	
Adjusted EBITDA ⁽²⁾	93,328	74,555	48,585	58,848	70,952	80,572	56,656	43,074	
Earnings (loss) per share									
Basic	\$ 0.09	\$ (0.38)	\$(0.04)	\$ (0.01)	\$ (0.02)	\$ (0.28)	\$ 0.02	\$ (0.03)	
Diluted	\$ 0.09	\$ (0.38)	\$(0.04)	\$ (0.01)	\$ (0.02)	\$ (0.28)	\$ 0.02	\$ (0.03)	
Discontinued operations									
Revenue	\$ 68,868	\$ 67,110	\$ 61,385	\$ 59,861	\$ 109,035	\$ 112,285	\$ 76,214	\$ 67,421	
Net income (loss)	(18,129)	(31,343)	(6,385)	(3,652)	150,965	1,159	(36,230)	(130,731)	
Adjusted EBITDA ⁽²⁾	8,152	7,716	7,123	7,539	15,954	16,647	5,907	1,207	
Earnings (loss) per share									
Basic	\$ (0.13)	\$ (0.23)	\$(0.04)	\$ (0.03)	\$ 1.06	\$ 0.00	\$ (0.25)	\$ (0.99)	
Diluted	\$ (0.12)	\$ (0.23)	\$(0.04)	\$ (0.03)	\$ 1.04	\$ 0.00	\$ (0.25)	\$ (0.99)	
Combined operations									
Revenue ⁽³⁾	\$1,805,487	\$1,766,887	\$1,404,194	\$1,480,196	\$1,507,858	\$1,474,409	\$1,205,929	\$1,122,498	
Net income (loss)	(5,305)	(86,547)	(11,643)	(5,523)	147,848	(36,807)	(32,870)	(134,146)	
Adjusted EBITDA ⁽²⁾	101,480	82,271	55,708	66,387	86,906	97,219	62,563	44,281	
Earnings (loss) per share									
Basic	\$ (0.04)	\$ (0.61)	\$ (0.08)	\$ (0.04)	\$ 1.04	\$ (0.28)	\$ (0.23)	\$ (1.02)	
Diluted	\$ (0.03)	\$ (0.61)	\$ (0.08)	\$ (0.04)	\$ 1.02	\$ (0.28)	\$ (0.23)	\$ (1.02)	

(1) Comparative periods were restated to reflect the results of continuing operations separately from discontinued operations. Furthermore, the 2018 period results include the impacts from the adoption of new accounting standards as discussed on page 30. Comparative information has not been restated and, therefore, may not be comparable.

(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;
 - includes the impact from the adoption of IFRS 16 effective January 1, 2018 without restating the prior periods;

- does not reflect the Company's cash expenditures, or future requirements for capital expenditures or contractual commitments;
- does not reflect changes in, or cash requirements for, the Company's working capital needs; and
- does not reflect the significant interest expense, or the cash requirements necessary to service interest payments on the Company's debt, including the Debentures, and Notes (as defined herein) and the Revolving Credit Facility (as defined herein);
- 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 be 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 reconcile segment profit to Combined Adjusted EBITDA and Adjusted EBITDA for continuing operations, discontinued operations and combined operations for each of the last eight quarters and for the twelve months ended March 31, 2018 and 2017:

	Three months ended (restated ³)				Twelve months ended (restated ³)
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2018
Continuing operations					
Segment profit	\$ 102,064	\$ 77,511	\$ 57,088	\$ 66,493	\$ 303,156
Interest income	294	500	320	299	1,413
Foreign exchange gain (loss) – corporate	170	755	(1,031)	152	46
General and administrative	(8,468)	(22,316)	(6,428)	(13,155)	(50,367)
Net unrealized (gain) loss from financial instruments ⁽¹⁾	(732)	19	(1,364)	4,059	1,982
Restructuring, severance and other costs ⁽²⁾	-	18,086	-	1,000	19,086
Adjusted EBITDA	<u>\$ 93,328</u>	<u>\$ 74,555</u>	<u>\$ 48,585</u>	<u>\$ 58,848</u>	<u>\$ 275,316</u>
Discontinued operations					
Segment profit and adjusted EBITDA	<u>\$ 8,152</u>	<u>\$ 7,716</u>	<u>\$ 7,123</u>	<u>\$ 7,539</u>	<u>\$ 30,530</u>
Combined operations					
Segment profit	\$ 110,216	\$ 85,227	\$ 64,211	\$ 74,032	\$ 333,686
Interest income	294	500	320	299	1,413
Foreign exchange gain (loss) – corporate	170	755	(1,031)	152	46
General and administrative	(8,468)	(22,316)	(6,428)	(13,155)	(50,367)
Net unrealized (gain) loss from financial instruments ⁽¹⁾	(732)	19	(1,364)	4,059	1,982
Restructuring, severance and other costs ⁽²⁾	-	18,086	-	1,000	19,086
Combined Adjusted EBITDA	<u>\$ 101,480</u>	<u>\$ 82,271</u>	<u>\$ 55,708</u>	<u>\$ 66,387</u>	<u>\$ 305,846</u>

	Three months ended (restated ³)				Twelve months ended (restated ³)
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2017
Continuing operations					
Segment profit	\$ 84,449	\$ 84,279	\$ 60,601	\$ 49,150	\$ 278,479
Interest income	665	144	384	441	1,634
Foreign exchange (loss) gain – corporate	(528)	885	(270)	(911)	(824)
General and administrative	(9,305)	(8,482)	(6,372)	(8,142)	(32,301)
Net unrealized loss (gain) from financial instruments ⁽¹⁾	(4,329)	(602)	2,313	2,536	(82)
Severance costs ⁽²⁾	-	4,348	-	-	4,348
Adjusted EBITDA	\$ 70,952	\$ 80,572	\$ 56,656	\$ 43,074	\$ 251,254
Discontinued operations					
Segment profit and adjusted EBITDA	\$ 15,954	\$ 16,647	\$ 5,907	\$ 1,207	\$ 39,715
Combined operations					
Segment profit	\$ 100,403	\$ 100,926	\$ 66,508	\$ 50,357	\$ 318,194
Interest income	665	144	384	441	1,634
Foreign exchange (loss) gain – corporate	(528)	885	(270)	(911)	(824)
General and administrative	(9,305)	(8,482)	(6,372)	(8,142)	(32,301)
Net unrealized loss (gain) from financial instruments ⁽¹⁾	(4,329)	(602)	2,313	2,536	(82)
Severance costs ⁽²⁾	-	4,348	-	-	4,348
Combined Adjusted EBITDA	\$ 86,906	\$ 97,219	\$ 62,563	\$ 44,281	\$ 290,969

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. Represents the restructuring and severance costs incurred related to a headcount rationalization review, and executive payroll related costs.
3. Comparative periods were restated to reflect the results of continuing operations separately from discontinued operations. Furthermore, the 2018 period results include the impacts from the adoption of new accounting standards as discussed on page 30. Comparative information has not been restated and, therefore, may not be comparable.

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

Infrastructure – The Infrastructure segment has progressively commissioned new storage capacity and related infrastructure, most notably in Q1 2018, when a total of 800,000 barrels of additional capacity and related take-or-pay and stable fee-based cash flows were added. This increase in capacity was primarily driven by the sustained demand for crude terminalling and storage services combined with the effective operation, including cost management, of its current Hardisty and Edmonton Terminals and has provided for the gradual increase in segment profits.

Logistics – The Logistics segment provides transportation and related services which includes providing hauling services for crude, condensate, sulfur, waste water and drilling fluids for many of North America’s leading oil and gas producers. Accordingly, the segment’s results have been impacted by the increase in crude oil prices and other related commodity prices which has elevated production and exploration activities thus raising available demand from these producers. Additionally, decline in volumes due to loss of a major customer coupled with continued competition and availability of drivers within the Company’s service areas specific to the segment’s U.S. operating areas has impacted the ability of the Company to deliver consistent results in this segment. However, the more recent gradual increase in the price of crude oil which has translated into slowly increasing activity and production coupled with the availability of other commodity hauling, such as sulphur.

Wholesale – The Wholesale segment earns margins by capturing quality, locational or time-based arbitrage opportunities related to the purchasing, selling, storing and optimization of hydrocarbon products, including crude oil and refined products. Accordingly, this segment has experienced commodity price fluctuations including in the pricing differentials between different geographic markets and product grades, most notably related to crude oil and other NGL. These risks have been managed by purchasing and selling products through physical and financial contracts that include energy-related derivatives which have both supported and reduced segment profits from quarter to quarter in the form of realized or unrealized gains and losses. The Q1 2018 results also include the impacts of lower rail car lease expenses as a result of the adoption of IFRS 16.

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, 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, its revolving credit facility, and debt and equity financings.

As at March 31, 2018, the Company had a positive working capital position, with an available cash balance of \$55 million, and the ability to utilize borrowings under the Revolving Credit Facility. Also, the anticipated proceeds from the sale of non-core businesses are expected to reduce debt resulting in lower net debt to Adjusted EBITDA ratios which will allow the Company to fund its ongoing capital expenditures, debt service requirements, dividend payments, and working capital needs. 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 proceeds from the sale of non-core businesses are expected to reduce debt resulting in lower net debt to Adjusted EBITDA ratios. Combined with the extended maturity and lower interest cost profile of the Company's debt, this will provide support for the Company's funding of liquidity requirements on a long-term basis. While the Company remains confident in its ability to execute these divestitures, there are no assurances that the timing, the amount of proceeds from the sale of non-core businesses and the execution of planned capital programs will occur as planned. Please refer Company's disclosure under "Forward-Looking Information" included at the end of this MD&A.

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 March 31, 2018 and 2017 from continuing operations:

Three months ended March 31	
2018 ¹	2017 ¹

Statement of cash flows

Cash flows provided by (used in):

Operating activities	\$ 127,188	\$ 99,149
Investing activities.....	(45,075)	(44,284)
Financing activities.....	\$ (66,167)	\$ (463,001)

1. *The current period results include the impacts from the adoption of new accounting standards as discussed on page 30. Comparative information has not been restated and, therefore, may not be comparable.*

Cash provided by operating activities

The year over year increase was primarily due to higher segment profit related to the Infrastructure and Wholesale segments (refer to the respective section in "Results of Continuing Operations" for more details). Additionally, the cash from operating activities increased by \$13.7 million during Q1 2018 due to the adoption of IFRS 16 whereby the lease payments are classified as financing activities.

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

Cash used in investing activities

Cash used in investing activities consists primarily of capital expenditures. Cash used in investing activities was \$45.1 million in the three months ended March 31, 2018, compared to \$44.3 million in the three months ended March 31, 2017. Cash used in investing activities largely relates to capital expenditures which continued to progress towards completion over Q1 2018. For a summary of capital expenditures for the respective segments, see "Capital expenditures" included throughout this MD&A.

Cash used in financing activities

Cash used in financing activities was \$66.2 million in the three months ended March 31, 2018 compared to cash used in financing activities of \$463.0 million in the three months ended March 31, 2017. The change was due to the payment of net interest of \$31.2 million and payment of dividends of \$47.3 million in the current period, compared to the net repayment of debt of \$357.9 million, payment of net interest of \$54.3 million and dividends of \$46.8 million in the three months ended March 31, 2017. Due to the adoption of IFRS 16, payments related to finance leases of \$13.7 million during Q1 2018 are classified as financing activities. In addition, the Company received net proceeds from credit facilities of \$26.0 million compared to \$nil in the three months ended March 31, 2017.

Capital expenditures

The following table summarizes growth and replacement capital expenditures for the years ended March 31, 2018 and 2017:

	Three months ended	
	March 31	
	2018	2017
Growth capital ⁽¹⁾	\$ 26,384	\$ 24,990
Replacement capital ⁽²⁾	4,268	4,199
Total.....	\$ 30,652	\$ 29,189

(1) Growth capital expenditures in the years ended March 31, 2018 and 2017 include Other and Corporate expenditures of \$0.2 and \$0.5 million, 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 and discontinued operations earlier in this MD&A.

(2) Replacement capital expenditures in the years ended March 31, 2018 and 2017 include Other and Corporate expenditures of \$1.1 million and \$1.0 million, 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 and discontinued operations earlier in this MD&A.

Capital structure

	As at	
	March 31, 2018	December 31, 2017
Notes		
Revolving Credit Facility.....	\$ 256,109	\$ 230,180
\$300 million 5.375% Notes due July 15, 2022	300,000	300,000
\$600 million 5.25% Notes due July 15, 2024	600,000	600,000
Unamortized issue discount and debt issue costs	(11,630)	(12,061)
\$100 million Debentures 5.25% due July 15, 2021 (liability component)	89,765	89,765
Total debt outstanding	1,234,244	1,207,884
Cash and cash equivalents.....	(55,250)	(32,138)
Net debt ⁽²⁾	1,178,994	1,175,746
Total share capital (including Debentures – equity component)	1,951,046	1,939,126
Total capital.....	\$ 3,130,040	\$ 3,114,872

(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 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.

(2) As at March 31, 2018, net debt excludes lease liabilities of \$106.7 million (December 31, 2017 – nil) that arose as a result of the adoption of IFRS 16 as discussed under "Accounting Policies" section.

Notes

During 2017, the Company completed a tender offer on its Retired Notes and also issued the \$600 million 5.25% Notes. The indentures governing the terms of the \$600 million 5.25% Notes and the existing \$300 million 5.375% notes (collectively "Notes") including the supplemental indenture thereto, contain certain redemption options whereby the Company can redeem all or part of the 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 Notes have the right to require the Company to redeem the 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.

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, 2017, mature on July 15, 2021, and may be redeemed, in certain circumstances, on or after July 15, 2019. The Debentures are convertible at the holder's option into common shares at any time prior to the earlier of July 15, 2021 and the business day immediately preceding the date fixed for redemption by the Company at a conversion price of \$21.65 per common share, being a ratio of approximately 46.1894 common shares per \$1,000 principal amount of the Debenture. The Debentures are subordinated to the Company's senior indebtedness.

Credit facility

The Revolving Credit Facility, proceeds of which are available to provide financing for working capital, fund capital expenditures and other general corporate purposes, has an accordion feature whereby the Company can increase the Revolving Credit Facility to \$750.0 million, subject to obtaining incremental lender commitments. The Revolving Credit Facility has an extendible term of five years, expiring on March 31, 2023. The Revolving Credit Facility permits letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate, as the case may be, plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company's total debt leverage ratio. In addition, the Company must pay standby fees on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins determined in a manner similar to the interest. In addition, the Company has three bilateral demand letter of credit facilities totaling \$150.0 million. The Company had \$256.1 million drawn on its \$560.0 million Revolving Credit Facility as of March 31, 2018, and had issued letters of credit totaling \$93.3 million under its bilateral demand letter of credit facilities as at March 31, 2018.

The Revolving Credit Facility contains certain covenants, including financial covenants requiring the Company to maintain ratios of maximum consolidated senior and total debt leverage as well as to maintain a minimum interest coverage ratio. Effective March 31, 2018, the Company amended certain covenants related to its Revolving Credit Facility including, amongst other revisions, revising the maximum consolidated senior and the maximum consolidated total debt leverage ratios to 4.85 to 1.0 for the 2018 fiscal year, 4.5 to 1.0 for 2019 fiscal year and 4.0 to 1.0 thereafter. Furthermore, the maturity date of our Revolving Credit Facility was extended from March 2022 to March 2023.

In addition, the Company is also required to maintain a minimum interest coverage ratio of no less than 2.5 to 1.0. The consolidated senior debt ratio represents the ratio of all senior debt obligations to Pro Forma Adjusted EBITDA. The consolidated total debt ratio represents the ratio of total debt to Pro Forma Adjusted EBITDA. The consolidated interest coverage ratio represents the ratio of Pro Forma Adjusted EBITDA to consolidated cash interest expense.

As at March 31, 2018, the Company was in compliance with the financial ratios with the senior debt leverage ratio at 3.6 to 1.0, total debt leverage ratio at 3.6 to 1.0, and the interest coverage ratio at 5.0 to 1.0 including the financial covenants effective prior to the March 31, 2018 amendment. If the Company fails to comply with the financial covenants, the lenders may declare an event of default. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of repayment of the principal and interest outstanding and a termination of the Revolving Credit Facility. Both the leverage ratio and interest coverage ratio are based on calculations using proforma adjusted EBITDA calculated in accordance with the Company's debt agreements. Pro Forma Adjusted EBITDA differs from Adjusted EBITDA, as discussed earlier, in that it also includes the pro forma effect of acquisitions and divestitures that took place in each fiscal year as if the acquisitions and divestitures took place at the beginning of the fiscal year in which such acquisition or divestiture occurred. See “Accounting Policies” section for discussion on adoption of new accounting standard which did not have a material impact on the covenants calculations.

The Notes and the Revolving Credit Facility contain non-financial covenants that restrict, subject to certain thresholds, some of the Company's activities, including the Company's ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments and engage in specified transactions with affiliates. The Notes and the Revolving Credit Facility also contain customary events of default, including defaults based on events of bankruptcy and insolvency, non-payment of principal, interest or fees when due, breach of covenants, change in control and material inaccuracy of representations and warranties, subject to specified grace periods. As of March 31, 2018, the Company was in compliance with all of its covenants under the Notes and the Revolving Credit Facility.

Dividends

The Company is currently paying quarterly dividends to holders of common shares. The 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 things, Gibson Energy'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. In the three months ended March 31, 2018, the Company declared a dividend of \$0.33 per share for a total dividend of \$47.5 million, of which the entire amount was paid in cash on April 17, 2018.

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 as discussed on page 30. 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 currently reflected non-recurring items relating to severance costs and income taxes paid in distributable cash flow to approximate the internally generated cash flow available to the Company within its normal operating cycle. 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 the twelve months ended March 31, 2018.

	Twelve months ended March 31, 2018
<u>Continuing operations</u>	
Cash flow from operating activities.....	\$ 218,221
Adjustments:	
Changes in non-cash working capital.....	33,122
Replacement capital.....	(20,051)
Cash interest expense, including capitalized interest.....	(68,313)
Lease payments.....	(13,670)
Restructuring, severance and other costs ⁽²⁾	19,086
Distributable cash flow from continuing operations.....	<u>\$ 168,395</u>
	Twelve months ended March 31, 2018
<u>Combined operations</u>	
Cash flow from operating activities.....	\$ 239,771
Adjustments:	
Combined changes in non-cash working capital.....	40,843
Combined replacement capital.....	(28,185)
Cash interest expense, including capitalized interest.....	(68,313)
Lease payments ⁽¹⁾	(14,657)
Restructuring, severance and other costs ⁽²⁾	19,086
Working capital adjustment ⁽³⁾	10,503
Income taxes ⁽⁴⁾	6,202
Distributable cash flow from combined operations.....	<u>\$ 205,250</u>
Dividends declared to shareholders.....	<u>\$ 188,885</u>

	Quarter ended March 31	
	2018	2017
Continuing operations		
Cash flow from operating activities	\$ 127,188	\$ 99,149
Adjustments:		
Changes in non-cash working capital	(32,259)	(31,333)
Replacement capital	(4,268)	(4,199)
Cash interest expense, including capitalized interest	(17,501)	(23,148)
Lease payments ⁽¹⁾	(13,670)	-
Distributable cash flow from continuing operations	\$ 59,490	\$ 40,469

	Quarter ended December 31	
	2018	2017
Combined operations		
Combined cash flow from operating activities	\$ 136,809	\$ 94,419
Adjustments:		
Combined changes in non-cash working capital	(34,171)	(22,264)
Combined replacement capital	(5,187)	(5,293)
Cash interest expense, including capitalized interest	(17,501)	(23,148)
Lease payments ⁽¹⁾	(14,657)	-
Distributable cash flow from combined operations	\$ 65,293	\$ 43,714
Dividends declared to shareholders	\$ 47,472	\$ 47,057

(1) Due to the adoption of IFRS 16, lease payments are shown within cash flow from financing activity effective January 1, 2018. Therefore, distributable cash flow has been adjusted to deduct lease payments for the period starting January 1, 2018 to make the calculations consistent with the prior periods.

(2) Represents restructuring, severance and executive payroll related costs incurred during the respective periods.

(3) Represents a one-time adjustment related to working capital at the close of Industrial Propane segment sale whereby \$10.5 million cash balance was required to be left in the businesses prior to close and was repaid back to the Company as part of the sale proceeds. Absent this requirement, the cash flow from operations would have been higher and cash flow from investing activity would be lower by the same amount.

(4) During 2017, the Company paid net \$6.2 million as one-time cash tax on the gain on sale of the Industrial Propane business, net of the realized tax losses related to the repayment of the U.S.\$ Notes.

Dividends declared in the twelve months ended March 31, 2018 were \$188.9 million, of which the entire amount was paid in cash. In the twelve months ended March 31, 2018, dividends declared represented 92% of the combined distributable cash flow generated.

Contractual obligations and contingencies

The following table presents, at March 31, 2018, 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	\$ 900,000	\$ -	\$ -	\$ 300,000	\$ 600,000
Convertible debentures	100,000	-	-	100,000	-
Interest payments on long-term debt and Debentures	285,970	52,875	105,750	85,345	42,000
Credit facilities	256,109	-	-	256,109	-
Lease obligations.....	123,638	31,191	39,269	25,401	27,777
Total contractual obligations	<u>\$ 1,665,717</u>	<u>\$ 84,066</u>	<u>\$ 145,019</u>	<u>\$ 766,855</u>	<u>\$ 669,777</u>

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 March 31, 2018, there were 143.9 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 2.7 million restricted share units, performance share units and deferred share units outstanding and 3.1 million stock options outstanding as at March 31, 2018.

At March 31, 2018, awards available to grant under the equity incentive plan were approximately 8.6 million.

As at May 7, 2018, 143.9 million common shares, 2.7 million restricted share units, performance share units and deferred share units and 3.2 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 and NGLs, and expected purchases and sales of these commodities (relating primarily to crude oil, roofing flux, propane sales and purchases of natural gasoline). The derivative instruments utilized consist primarily of futures and option contracts traded on the New York Mercantile Exchange, 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 March 31, 2018 and March 31, 2017. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by \$0.9 million and \$6.3 million as of March 31, 2018 and 2017, respectively. A 15% unfavorable change would decrease the Company's net income by \$0.9 million and \$5.5 million as of March 31, 2018 and 2017, 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 accrues interest at fixed interest rates and accordingly, changes in market interest rates do not expose the Company to future interest cash outflow variability.

Under the Revolving Credit Facility, the Company is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either 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 March 31, 2018, the Company had \$256.1 million drawn under the Revolving Credit Facility and 5% favorable and unfavorable change in interest rates in relation to the amounts drawn at March 31, 2018 would have impacted net income by \$0.3 million. As at December 31, 2017, the Company had \$230.2 million drawn under the

Revolving Credit Facility and 5% favorable and unfavorable change in interest rates in relation to the amounts drawn would have impacted net income by \$0.3 million.

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 \$3.3 million and \$2.2 million as at March 31, 2018 and 2017, respectively. A 5% favorable change would increase the Company's net income by \$3.3 million and \$1.9 million as at March 31, 2018 and 2017, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

As at March 31, 2018, the Company had \$90.0 million U.S. dollar denominated debt as part of its draw on its Revolving Credit Facility. The Company did not have any foreign currency hedges in place in relation to its use of the Revolving Credit Facility. As a result of the settlement of US\$ Notes in 2017 and the draw of U.S. dollar amounts on its Revolving Credit Facility the Company continues foreign currency exchange risk related to its long-term debt, however this exposure to foreign currency exchange risk related to its long-term debt has been reduced. Accordingly, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would impact both the carrying value of the Company's long-term debt and would decrease the Company's net income by \$5.0 million and \$12.2 million as at March 31, 2018 and 2017, respectively. A corresponding favorable change would increase the Company's net income by \$5.0 million and \$12.2 million as at March 31, 2018 and 2017, respectively. With respect to the related interest payments on the U.S. dollar denominated debt, to date, the Company has not entered into any foreign currency hedges and, therefore, the Company is exposed to the associated foreign currency exchange risk. Based on the interest rate in effect at March 31, 2018, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar as of March 31, 2018 would increase the Company's annual interest expense by \$0.2 million. A 5% favorable change in the value of the Canadian dollar relative to the U.S. dollar as of March 31, 2018 would decrease the Company's annual interest expense by \$0.2 million. The Company monitors its exposure to foreign currencies, including associated interest payments, and, where optimal, will consider minimizing exposure using appropriate hedging strategies.

Equity price risk. The Company has equity price and dilution exposure to shares that it issues under its stock based compensation programs. Gibson uses equity derivatives to manage volatility derived from its stock based compensation programs. These contracts will mature at the prevailing share prices in accordance with the specific maturities of each contract over a three-year period. As at March 31, 2018 and 2017, the Company estimates that a 10% increase in the Company's share price would have resulted in an increase in the Company's income of \$1.8 million and \$1.6 million, respectively. A corresponding decrease in the Company's share price would decrease the Company's net income by \$1.8 million and \$1.6 million, respectively.

ACCOUNTING POLICIES

Critical accounting policies and estimates

The preparation of condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the Company's condensed consolidated financial statements. The Company's critical accounting policies and estimates are discussed in the Company's Annual 2017 MD&A dated March 5, 2018 as filed on SEDAR.

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.

- IFRS 2 – Share-based payments (“IFRS 2”), has been amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. IFRS 2 is effective for annual periods beginning on or after January 1, 2018. The Company has determined that the adoption of this interpretation did not have a material impact on its consolidated financial statements.
- IFRIC 22 – Foreign currency transactions and advance consideration (“IFRIC 22”), provides guidance on how to determine the date of the transaction when an entity either pays or receives consideration in advance for foreign currency-denominated contracts. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. The Company has determined that the adoption of this interpretation did not have a material impact on its consolidated financial statements.
- IAS 28 – Interests in associates and joint ventures (“IAS 28”), has been amended to clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in associate or joint venture to which the equity method is not applied. The amendment to IAS 28 is effective for years beginning on or after January 1, 2018. The Company has determined that the adoption of this interpretation did not have a material impact on its consolidated financial statements.
- The annual improvements process addresses issues in the 2014-2016 reporting cycles include changes to IFRS 1 – First time adoption of IFRS, IFRS 7 – Financial instruments: Disclosures, IAS 19 – Employee benefits, IFRS 10 – Consolidated financial statements and IAS 28 – Investment in associates and joint ventures. This improvement is effective for periods beginning on or after January 1, 2018. The adoption of these improvements did not have a material impact on the condensed consolidated financial statements.

Adoption of IFRS 16, IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) and IFRS 9, “Financial Instruments” (“IFRS 9”)

As disclosed in the Q1 2018 Condensed Consolidated Financial Statements, the Company has evaluated the impact of IFRS 9, IFRS 15, and IFRS 16 and adopted all three standards as at January 1, 2018.

The Company has taken pro-active measures to review the impacts of the adoption of these standards on our debt covenants including certain amendments to our covenants which provides an option to adjust for the impact of these standards or to provide a grandfathering approach. Currently the Company includes the lease liability in the total debt balance and uses the new accounting standards as a basis to calculate the covenants. Accordingly, the impact of adoption is not considered material on the Company’s debt covenant calculations.

On January 1, 2018, the Company’s policies and business practices were updated to reflect the changes required by the adoption of these new standards (refer to note 3 in the Q1 2018 Condensed Consolidated Financial Statements for the update policies).

IFRS 16 is effective for years beginning on or after January 1, 2019, however the Company has adopted IFRS 16 effective January 1, 2018, concurrent with the adoption date of IFRS 9, and IFRS 15. These standards have been applied retrospectively using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company’s balance sheet, statement of operations, and cash flow statements is not restated.

For the quarter ended March 31, 2018, the following is a summary of material impacts on the results from continuing and discontinued operations:

- Segment profit from continuing operations increased by \$11.6 million, Segment profit from discontinued operations increased by \$1.0 million and G&A expenses decreased by \$2.1 million with a total increase of \$14.7 million in Adjusted EBITDA.
- This was substantially offset by the additional depreciation charge on the right-of use-assets and interest expense for the lease liabilities.

In addition, the impacts of IFRS 9, 15 and 16, including the new accounting policies adopted as at January 1, 2018 on the balance sheet are as follows:

	<u>As reported as at December 31, 2017</u>	<u>Adjustments</u>	<u>Footnote</u>	<u>Restated balance as at January 1, 2018</u>
Accounts receivable	\$ 494,901	\$ 484	(i)	\$ 495,385
Inventories.....	169,957	4,765	(ii)	174,722
Trade payables and accrued charges	(500,662)	3,329	(ii & iii)	(497,333)
Right-of-use asset	-	170,548	(iii)	170,548
Contract liabilities.....	-	(12,676)	(ii)	(12,676)
Deferred revenue	(7,013)	7,013	(ii)	-
Lease liability – current portion.....	-	(43,490)	(iii)	(43,490)
Lease liability – non-current portion	-	(129,344)	(iii)	(129,344)
Retained deficit (earnings)	1,251,416	(629)	(i & ii)	1,250,787
Total	<u>\$ 1,408,599</u>	<u>\$ -</u>		<u>\$ 1,408,599</u>

Footnotes

(i) Financial instruments

The Company carries the following categories of financial assets subject to IFRS 9's expected credit losses model:

- Trade receivables
- Net investments in finance leases

The Company has revised its impairment methodology under IFRS 9 for the above noted classes of assets and applied the simplified approach on all trade receivables which requires the use of the lifetime expected loss provisions for expected credit losses. For lease receivables, the Company used the general approach which requires the recognition of twelve-month expected loss provisions for expected credit losses on lease receivables subject to credit risk as at January 1, 2018. Where such lease receivables have had a significant increase in credit risk since initial recognition but no objective evidence of impairment, lifetime expected loss provisions are used with interest calculated on the gross carrying amount of the receivable balance. Where objective evidence of impairment exists, interest is calculated on the carrying amount, net of the impairment. At March 31, 2018, there were no material changes to the credit risk on lease receivables.

There was no impact to the classification of the Company's financial assets from the adoption of IFRS 9.

(ii) Revenue recognition

In previous reporting periods, wholesale product revenues associated with the sales of roofing flux products owned by the Company were recognized at the time of shipment when the risk of ownership and loss are passed to the customer. Under IFRS 15, where the revenue contract provides a right to invoice prior to the physical delivery of the product, the Company will defer such revenues and recognize a contract liability, until such time when the product has been physically delivered and the transfer of control has occurred.

(iii) Leases

On adoption of IFRS 16, 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, 2017, adjusted by commitments in relation to arrangements not containing leases, short-term and low-value leases, discounted using the Company's incremental borrowing rate as of January 1, 2018. The associated right-of-use assets were measured at the amount equal to the lease liability on January 1, 2018, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the

statement of financial position immediately before the date of transition, with no impact on retained earnings.

New standards and interpretations issued but not yet adopted:

There were no new accounting standards or interpretations issued during the quarter.

DISCLOSURE CONTROLS & PROCEDURES

Based on the evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), the Chief Executive Officer and the Chief Financial Officer concluded that Gibson's DC&P and ICFR were effective as at March 31, 2018.

During the three months ended March 31, 2018, there have been no changes made to Gibson ICFR that materially affected or are reasonably likely to materially affect, its ICFR.

RISK FACTORS

For a detailed discussion of the risks and trends that could affect the financial performance of the Company and the steps Gibson takes to mitigate these risks, see the December 31, 2017 MD&A and Annual Information Form, which is available on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION

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

- *realization of anticipated benefits from reorganization and headcount rationalization efforts;*
- *realization of perceived benefits and ability to close the sale of assets and businesses as per our plans;*
- *timing, the amount of proceeds from sale of non-core businesses, the closing thereof, along with the execution of planned capital programs;*
- *achieving the targets including but not limited to segment profits, payout ratio and leverage ratio as discussed under the strategy section;*
- *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 liquidity for planned growth;*
- *new technology and drilling methodology being deployed towards conventional and unconventional production within the Company's operating areas;*
- *uncertainty and volatility relating to crude prices and price differentials between crude oil streams and blending agents;*
- *increased crude oil production and exploration activity on shore in North America, including from the Canadian oil sands;*
- *the expansion of midstream infrastructure in North America to handle increased production and expansion of capacity in the U.S. refining complex to handle heavier crude oil from the WCSB;*

- *the effect of competition in regions of North America and its impact on downward pricing pressure and regional crude oil price differentials among crude oil grades and locations;*
- *the effect of market volatility on the Company's marketing revenues and activities;*
- *the Company's ability to pay down and retire indebtedness;*
- *the Company's plans for additional strategic acquisitions, capital expenditures or other similar 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 impact of future changes in accounting policies on the Company's consolidated financial statements;*
- *the Company's ability to successfully implement the plans and programs disclosed in the Company's new strategy;*
- *the Company's ability to divest of its U.S. Environmental Services business and other non-core businesses on acceptable terms, and the timing therefore; and*
- *the Company's ability to transition to a focused oil infrastructure growth company.*

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 "Forward-Looking Information" and "Risk Factors" included in the Company's Annual Information Form dated March 5, 2018 as filed on SEDAR at www.sedar.com and available on the Gibson website at www.gibsonenergy.com.

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, Pro Forma Adjusted EBITDA from continuing operations, Pro Forma Adjusted EBITDA from discontinued operations and combined operations, 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.