Condensed Consolidated Financial Statements

June 30, 2018 and 2017

Gibson Energy Inc.

Condensed Consolidated Balance Sheets

(tabular amounts in thousands of Canadian dollars)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 39,571	$ 32,138
Trade and other receivables (note 5)	391,039	494,901
Inventories (note 6)	149,448	169,957
Income taxes receivable	451	11,102
Prepaid and other assets	11,068	18,401
Net investment in finance leases	976	1,828
Assets held for sale (note 4)	300,509	-
Total current assets	893,062	728,327
Non-current assets		
Property, plant and equipment (note 7)	1,405,711	1,619,688
Right-of-use assets (note 8)	100,775	-
Long-term prepaid and other assets	5,769	7,364
Net investment in finance leases	154,804	118,020
Deferred income tax assets	43,372	75,221
Intangible assets	27,870	33,849
Goodwill	348,224	381,965
Total non-current assets	2,086,525	2,236,107
Total assets	$ 2,979,587	$ 2,964,434
Liabilities		
Current liabilities		
Trade payables and accrued charges (note 12)	$ 395,299	$ 500,662
Income taxes payable	19,436	-
Dividends payable	47,562	47,257
Deferred revenue	-	7,013
Contract liabilities (note 3)	30,918	-
Lease liabilities – current portion (note 11)	27,704	-
Liabilities related to assets held for sale (note 4)	115,146	-
Total current liabilities	636,065	554,932
Non-current liabilities		
Long-term debt (note 10)	1,081,124	1,118,119
Lease liabilities – non-current portion (note 11)	77,729	-
Convertible debentures	91,165	89,919
Provisions (note 13)	157,001	183,527
Other long-term liabilities	6,181	6,512
Deferred income tax liabilities	102,837	100,823
Total non-current liabilities	1,516,037	1,498,900
Total liabilities	2,152,102	2,053,832
Equity		
Share capital (note 14)	1,948,507	1,932,103
Contributed surplus	40,991	48,706
Accumulated other comprehensive income	44,155	174,186
Convertible debentures	7,023	7,023
Deficit (note 3)	(1,213,191)	(1,251,416)
Total equity	827,485	910,602
Total liabilities and equity	$ 2,979,587	$ 2,964,434

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.

Condensed Consolidated Statements of Operations

(tabular amounts in thousands of Canadian dollars)

Continuing operations	Three months ended June 30, 2018	Three months ended June 30, 2017 (Restated – note 4)	Six months ended June 30, 2018	Six months ended June 30, 2017 (Restated – note 4)
Revenue (note 16)	$ 1,758,421	$ 1,421,003	$ 3,495,040	$ 2,819,826
Cost of sales (note 15)	1,701,007	1,388,680	3,376,281	2,737,489
Gross profit	57,414	32,323	118,759	82,337
General and administrative expenses (note 15)	16,949	22,963	34,586	33,888
Goodwill impairment (note 4)	-	-	1,979	-
Other operating loss (income)	238	(626)	(468)	(2,219)
Operating Income	40,227	9,986	82,662	50,668
Finance costs, net (note 10)	19,007	13,046	42,167	81,664
Income (loss) before income taxes	21,220	(3,060)	40,495	(30,996)
Income tax expense (recovery) (note 9)	6,662	(1,174)	13,113	(25,993)
Net income (loss) from continuing operations	14,558	(1,886)	27,382	(5,003)
Net income (loss) from discontinued operations, after tax (note 4)	123,377	(3,637)	105,248	147,328
Net income (loss)	$ 137,935	$ (5,523)	$ 132,630	$ 142,325
Earnings (loss) per share				
Basic earnings (loss) per share from continuing operations	$ 0.10	$ (0.01)	$ 0.19	$ (0.04)
Basic earnings (loss) earnings per share from discontinued operations	0.86	(0.03)	0.73	1.04
Basic earnings (loss) earnings per share	$ 0.96	$ (0.04)	$ 0.92	$ 1.00
Diluted earnings (loss) per share from continuing operations	$ 0.10	$ (0.01)	$ 0.19	$ (0.04)
Diluted earnings (loss) earnings per share from discontinued operations	0.84	(0.03)	0.72	1.02
Diluted earnings (loss) earnings per share	$ 0.94	$ (0.04)	$ 0.91	$ 0.98

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.

Consolidated Statement of Comprehensive Income

(tabular amounts in thousands of Canadian dollars)

	Three months ended June 30, 2018	Three months ended June 30, (Restated – note 4) 2017	Six months ended June 30, 2018	Six months ended June 30, (Restated – note 4) 2017
Net income (loss)	$ 137,935	$ (5,523)	$ 132,630	$ 142,325
Other comprehensive (loss) income				
Items that may be reclassified subsequently to consolidated statement of operations				
Exchange differences of translating foreign operations	4,175	(6,646)	6,529	(8,339)
Other comprehensive (loss) income from discontinued operations	(844)	(3,625)	5,373	(4,947)
Reclassification of foreign currency translation gain on disposal of foreign operations (note 4)	(141,933)	-	(141,933)	-
Items that will not be reclassified to statement of operations				
Remeasurements of post-employment benefit obligation, net of tax	-	-	-	59
Other comprehensive loss, net of tax	(138,602)	(10,271)	(130,031)	(13,227)
Comprehensive (loss) income	$ (667)	$ (15,794)	$ 2,599	$ 129,098

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.

Condensed Consolidated Statements of Changes in Equity

(tabular amounts in thousands of Canadian dollars)

	Share capital (note 14)	Contributed surplus	Accumulated other comprehensive income (loss)	Convertible debentures	Deficit	Total Equity
Balance – January 1, 2017	$1,909,032	$ 46,899	$ 201,089	$ 7,151	$(1,107,075)	$1,057,096
Net income	-	-	-	-	142,325	142,325
Other comprehensive loss, net of tax	-	-	(13,286)	-	59	(13,227)
Comprehensive (loss) income	-	-	(13,286)	-	142,384	129,098
Stock based compensation	-	5,682	-	-	-	5,682
Convertible debentures - tax	-		-	(128)	-	(128)
Proceeds from exercise of stock options	1,080	-	-	-	-	1,080
Reclassification of contributed surplus on issuance of awards under equity incentive plan	13,058	(13,058)	-	-	-	-
Dividends on common shares ($0.33 per common share)	-	-	-	-	(94,132)	(94,132)
Balance – June 30, 2017	$ 1,923,170	$ 39,523	$ 187,803	$ 7,023	$(1,058,823)	$1,098,696
Balance – January 1, 2018, as previously reported	$1,932,103	$ 48,706	$ 174,186	$ 7,023	$(1,251,416)	$ 910,602
Impact of change in accounting policy (note 3)	-	-	-	-	629	629
Restated balance – January 1, 2018	$1,932,103	$ 48,706	$ 174,186	$ 7,023	$(1,250,787)	$ 911,231
Net income	-	-	-	-	132,630	132,630
Reclassification of foreign currency translation gain on disposal of foreign operations (note 4)	-	-	(141,933)	-	-	(141,933)
Other comprehensive income, net of tax	-	-	11,902	-	-	11,902
Comprehensive (loss) income	-	-	(130,031)	-	132,630	2,599
Proceeds from exercise of stock options	492	-	-	-	-	492
Stock based compensation	-	8,197	-	-	-	8,197
Reclassification of contributed surplus on issuance of awards under equity incentive plan	15,912	(15,912)	-	-	-	-
Dividends on common shares ($0.33 per common share)	-	-	-	-	(95,034)	(95,034)
Balance – June 30, 2018	$ 1,948,507	$ 40,991	$ 44,155	$ 7,023	$(1,213,191)	$ 827,485

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.

Condensed Consolidated Statement of Cash Flows

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

	Three months ended June 30, 2018	Three months ended June 30, (Restated – note 4) 2017	Six months ended June 30, 2018	Six months ended June 30, (Restated – note 4) 2017
Cash flows from operating activities				
Net income (loss) from continuing operations	$ 14,558	$ (1,886)	$ 27,382	$ (5,003)
Adjustments for non-cash items (note 19)	88,099	60,447	168,937	130,666
Changes in items of working capital (note 19)	(88,504)	(7,305)	(56,245)	24,028
Income taxes refund (payment), net (note 19)	12,462	(1,258)	13,729	(544)
Cash provided by operating activities from continuing operations	26,615	49,998	153,803	149,147
Cash provided by (used in) operating activities from discontinued operations (note 4)	2,076	2,405	11,697	(2,325)
Net cash provided by operating activities	28,691	52,403	165,500	146,822
Cash flows from investing activities				
Purchase of property, plant and equipment	(31,950)	(21,815)	(80,056)	(67,420)
Purchase of intangible assets	(686)	(1,968)	(1,584)	(3,605)
Proceeds from sale of assets	7,469	1,184	11,398	4,142
Net cash used in investing activities from continuing operations	(25,167)	(22,599)	(70,242)	(66,883)
Net cash provided by (used in) investing activities from discontinued operations (note 4)	114,464	(6,886)	112,114	425,286
Net cash provided by (used in) investing activities	89,297	(29,485)	41,872	358,403
Cash flows from financing activities				
Payment of shareholder dividends	(47,472)	(47,057)	(94,729)	(93,829)
Interest paid, net	(3,689)	(784)	(34,858)	(55,131)
Proceeds from exercise of stock options	491	-	491	1,080
Finance lease payments (note 11)	(14,038)	-	(27,708)	-
Proceeds from issuance of long-term debt, net of issuance costs	-	(705)	-	344,895
Repayment of long-term debt, net of costs	-	-	-	(668,023)
Debt extinguishment costs paid	-	-	-	(35,460)
Repayment of credit facilities, net	(68,192)	-	(42,263)	-
Settlement of financial instruments not affecting operating activities (note 17)	-	-	-	(5,079)
Cash used in financing activities from continuing operations	(132,900)	(48,546)	(199,067)	(511,547)
Cash used in financing activities from discontinued operations (note 4)	(328)	-	(1,315)	-
Cash used in financing activities	(133,228)	(48,546)	(200,382)	(511,547)
Net (decrease) increase in cash and cash equivalents	(15,240)	(25,628)	6,990	(6,322)
Effect of exchange rate on cash and cash equivalents	(439)	(974)	443	(708)
Cash and cash equivalents – beginning	55,250	79,731	32,138	60,159
Cash and cash equivalents – ending	$ 39,571	$ 53,129	$ 39,571	$ 53,129

See accompanying notes to the condensed consolidated financial statements

See note 19 for supplemental disclosures

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

1 Description of the business and segmented disclosure

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

Gibson is an oil Infrastructure company with our principal businesses consisting of the storage, optimization, processing, and gathering of crude oil and refined products.

The Company's reportable segments are:

(1) **Infrastructure,** which includes a network of midstream infrastructure assets that includes 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 Western Canadian Sedimentary Basin; gathering pipelines, which are connected to the Hardisty Terminal; injection stations, which are located in the United States (U.S.); a crude oil processing facility in Moose Jaw, Saskatchewan, and processing, recovery, and disposal (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 Moose Jaw Facility is impacted by maintenance turnarounds typically occurring within the spring period.

(2) **Logistics,** which includes a suite of logistical wellsite services that enable oil and liquids production to access fixed midstream infrastructure. This segment provides transportation and related services that allow the Company to service its customers' needs between the wellhead and the end market, and includes providing hauling services for crude, condensate, propane, butane, asphalt, methanol, sulfur, petroleum coke, gypsum, emulsion, waste water and drilling fluids for many of North America's leading oil and gas producers. For certain services and geographical regions, the activity is generally the lowest in the winter months when daylight hours are shorter.

(3) **Wholesale,** which includes the purchasing, selling, storing and blending of hydrocarbon products, including crude oil, road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil, and an oil based mud product. This segment earns margins by providing aggregation services to producers and/by capturing quality, locational or time-based arbitrage opportunities. 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.

This reporting structure provides a direct connection between the Company's operations, the services it provides to customers and the ongoing strategic direction of the Company.

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

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

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

Three months ended June 30, 2018 [1]

	Infrastructure	Logistics	Wholesale	Total
Statement of operations				
Revenue				
External	$ 58,897	$ 52,842	$1,646,682	$ 1,758,421
Inter-segmental	32,414	8,280	154,636	195,330
External and inter-segmental	91,311	61,122	1,801,318	1,953,751
Segment profit	$ 67,669	$ 323	$32,110	$ 100,102

Corporate & other reconciling items	
Depreciation and impairment of property, plant and equipment	33,688
Depreciation of right-of-use assets	8,042
Amortization and impairment of intangible assets	3,099
Impairment of goodwill	-
General and administrative	6,804
Stock based compensation	5,884
Corporate foreign exchange loss	2,358
Interest expense, net	18,435
Foreign exchange loss on long-term debt	572
Net income from continuing operations before income tax	21,220
Income tax expense	6,662
Net income from continuing operations	14,558
Net income from discontinued operations, after tax (note 4)	123,377
Net income from operations	$ 137,935

Three months ended June 30, 2017 [1] (restated [2])

	Infrastructure	Logistics	Wholesale	Total
Statement of operations				
Revenue				
External	$ 52,096	$ 71,462	$ 1,297,445	$ 1,421,003
Inter-segmental	32,108	9,946	100,719	142,773
External and inter-segmental	84,204	81,408	1,398,164	1,563,776
Segment profit	$ 57,169	$ 4,912	$ 4,258	$ 66,339

Corporate & other reconciling items	
Depreciation and impairment of property, plant and equipment	30,283
Amortization and impairment of intangible assets	6,240
General and administrative	9,256
Stock based compensation	10,726
Debt extinguishment cost	2,010
Corporate foreign exchange gain	(152)
Interest expense, net	18,206
Foreign exchange gain on long-term debt	(7,170)
Net loss from continuing operations before income tax	(3,060)
Income tax recovery	(1,174)
Net loss from continuing operations	(1,886)
Net loss from discontinued operations, after tax (note 4)	(3,637)
Net loss from operations	$ (5,523)

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

Six months ended June 30, 2018 [1]

	Infrastructure	Logistics	Wholesale	Total
Statement of operations				
Revenue				
External	$ 118,403	$ 115,532	$ 3,261,105	$ 3,495,040
Inter-segmental	65,442	17,641	308,903	391,986
External and inter-segmental	183,845	133,173	3,570,008	3,887,026
Segment profit	$ 136,251	$ 4,656	$ 61,259	$ 202,166
Corporate & other reconciling items				
Depreciation and impairment of property, plant and equipment				62,497
Depreciation of right-of-use assets				20,531
Amortization and impairment of intangible assets				6,655
Impairment of goodwill				1,979
General and administrative				15,272
Stock based compensation				10,382
Corporate foreign exchange loss				2,188
Interest expense, net				37,766
Foreign exchange loss on long-term debt				4,401
Net income from continuing operations before income tax				40,495
Income tax expense				13,113
Net income from continuing operations				27,382
Net income from discontinued operations, after tax (note 4)				105,248
Net income from operations				$ 132,630

Six months ended June 30, 2017 [1] (restated [2])

	Infrastructure	Logistics	Wholesale	Total
Statement of operations				
Revenue				
External	$ 104,776	$ 140,672	$ 2,574,378	$ 2,819,826
Inter-segmental	64,153	21,662	210,413	296,228
External and inter-segmental	168,929	162,334	2,784,791	3,116,054
Segment profit	$ 117,552	$ 11,062	$ 22,174	$ 150,788
Corporate & other reconciling items				
Depreciation and impairment of property, plant and equipment				60,910
Amortization and impairment of intangible assets				10,692
General and administrative				18,775
Stock based compensation				9,367
Debt extinguishment cost				51,337
Corporate foreign exchange loss				376
Interest expense, net				42,425
Foreign exchange gain on long-term debt				(12,098)
Net loss from continuing operations before income tax				(30,996)
Income tax recovery				(25,993)
Net loss from continuing operations				(5,003)
Net income from discontinued operations, after tax (note 4)				147,328
Net income from operations				$ 142,325

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

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

	Six months ended June 30			
	2018		2017 (restated [2])	
	Property, plant and equipment	Intangible Assets	Property, plant and equipment	Intangible Assets
Infrastructure	$ 82,593	$ 172	$ 49,421	$ 2,128
Logistics	1,071	38	1,682	41
Wholesale	89	-	86	1
Corporate	885	1,095	1,749	1,732
	$ 84,638	$ 1,305	$ 52,938	$ 3,902

1. *Due to the adoption of new accounting standards effective January 1, 2018 as discussed in note 3, the comparative information has not been restated and, therefore, the results may not be comparable.*
2. *Comparative period segment information was restated to reflect the results of continuing operations separately from discontinued operations. See note 4 for further details.*

Other Geographic Data

Based on the location of the end user, approximately 16% and 19% of total revenue was from customers in the United States for the six months ended June 30, 2018 and 2017, respectively.

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with 3% and 12% in the United States at June 30, 2018 and December 31, 2017, respectively.

2 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, as set out in IAS 34, "Interim Financial Reporting". The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB. For changes in accounting policies effective January 1, 2018, refer to note 3. These condensed consolidated financial statements were approved for issuance by the Company's board of directors ("Board") on August 8, 2018. 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 IFRSs as discussed in note 3 and the presentation of continuing operations separately from discontinued operations as discussed in note 4. These condensed consolidated financial statements are presented in Canadian dollars, the Company's functional and presentation currency, and all values are rounded to the nearest thousands of dollars, except where indicated otherwise. All references to $ are to Canadian dollars and references to U.S.$ are to United States dollars.

3 Changes in accounting policies and disclosures

A. New interpretations 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 adoption of this interpretation did not have a material impact on its condensed 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 currencydenominated contracts. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. The adoption of this interpretation did not have a material impact on its condensed consolidated financial statements.

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

- 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 condensed 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.

B. New standards and interpretations issued but not yet adopted

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

- IAS 19 – *Employee benefits* ("IAS 19"), has been amended to (i) require current service cost and net interest for the period after the re-measurement to be determined using the assumptions used for the re-measurement, and (ii) clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment to IAS 19 is effective for the years beginning on or after January 1, 2019. The Company is currently assessing the impact of this amendment.

C. Adoption of new accounting standards

IFRS 16 – Leases ("IFRS 16") is effective for years beginning on or after January 1, 2019, however the Company has elected to adopt IFRS 16 effective January 1, 2018, concurrent with the adoption date of IFRS 9 – Financial Instruments ("IFRS 9"), and IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"). These standards have been applied 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 condensed consolidated balance sheets, condensed consolidated statements of operations, condensed consolidated statements of comprehensive income, condensed consolidated statements of changes in equity and condensed consolidated cash flow statements are not restated.

The impacts of the adoption of IFRS 9, 15 and 16, as at January 1, 2018 are as follows:

Condensed consolidated balance sheet adjustments

	As reported as at December 31, 2017	Adjustments	Footnote	Restated balance as at January 1, 2018
Trade and other receivables	$ 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 assets	-	170,548	(iii)	170,548
Contract liabilities	-	(12,676)	(ii)	(12,676)
Deferred revenue	(7,013)	7,013	(ii)	-
Lease liabilities – current portion	-	(43,490)	(iii)	(43,490)
Lease liabilities – non-current portion	-	(129,344)	(iii)	(129,344)
Retained deficit (earnings)	1,251,416	(629)	(i & ii)	1,250,787
Total	$ 1,408,599	$ -		$ 1,408,599

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 June 30, 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, and 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.

There was no impact to lessor accounting from the adoption of IFRS 16.

D. Change in significant accounting policies

Upon the adoption of IFRS 15, 9 and 16, the Company adopted the following significant accounting policies effective January 1, 2018:

(i) Revenue Recognition

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

Infrastructure – principally generates revenue through the provision of services which are charged through long-term fixed-fee contracts primarily related to a network of midstream infrastructure assets that includes oil terminals, rail loading and unloading facilities, PRD terminals, injection stations, gathering pipelines and processing facilities that collect, store, and process oil and other liquid hydrocarbon production and by-products before eventual distribution to end-use markets. The typical length of a contract is 10 years, with contract lengths extending up to 25 years, and includes a fixed and/or take or pay portion for the use of the midstream infrastructure and a variable portion related to the servicing of volume throughput. The Company accounts for individual services separately if they are distinct, indicated by the fact that they are separately identifiable from other services provided and the customer can benefit from these distinct services. The stand-alone prices on services are determined by the rates listed within the individual contracts related to the service. The Company recognizes revenue over time as services are provided on a monthly basis, consistent with when the services are billed and paid.

Logistics – generates revenue by providing transportation and related services that include providing hauling services for crude, condensate, propane, butane, asphalt, methanol, sulfur, petroleum coke, gypsum, emulsion, waste water and drilling fluids for many of North America's leading oil and gas producers. The typical length of the arrangement is short-term in accordance with a customer's current hauling requirements. The Company accounts for individual hauling services separately if they are distinct, indicated by the fact that they are separately identifiable from other hauling services provided and the customer can benefit from these distinct services. The stand-alone prices on services are determined by the rates listed by the Company and are predetermined based on the volume of products serviced. The Company recognizes revenue over time as hauling and transportation services are provided and control of the service transfers to the customer, consistent with when the services are billed and paid.

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

(ii) Financial Instruments

Financial assets

For trade receivables, the simplified approach is applied to the Company's respective business units, which requires the use of the lifetime expected loss provisions for expected credit losses. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of operations. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. For lease receivables, the general approach is applied which requires the recognition of twelve-month expected loss provisions for expected credit losses on lease receivables that have low credit risk 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 provision is used with interest calculated on the gross carrying amount of the asset. Where objective evidence of impairment exists, interest is calculated on the carrying amount net of the impairment.

(iii) Leases – lessee

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 – Leases ("IAS 17"). Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of operations over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

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

E. Critical accounting estimates and judgements

(i) Estimation uncertainty arising from variable lease payments

Certain leases contain variable payment terms that are linked to the Company's owner operator costs within our Logistics segment. Judgment is applied in determination of whether the owner operator arrangement contain variable payment terms. All owner operator costs that are dependent upon the activity levels are classified as variable payments and all such costs are accounted for as a single lease component and charged to the condensed consolidated statements of operations as incurred.

(ii) Critical judgements in determining the lease term

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

(iii) Impairment provision for financial assets

The impairment provisions for financial assets are based on assumptions related to the risk of default and expected loss. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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

4 Assets and liabilities held for sale, and discontinued operations

During the six months ended June 30, 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.

i) U.S. Environmental Services business

During the six months ended June 30, 2018, the Company met the criteria under IFRS 5 for its U.S. Environmental Services business to be classified as discontinued operations.

On May 3, 2018, the Company completed the sale for gross proceeds of $125.8 million (US$98 million). Accordingly, the U.S. Environmental Services business was derecognized as at May 3, 2018 and an after-tax gain on sale of $101.3 million, was recognized as noted below.

Sale price	$ 123,619
Sale price adjustments	2,201
Total cash consideration	125,820
Cash and cash equivalents	1,127
Trade and other receivables	50,225
Inventories	12,756
Prepaid and other assets	1,999
Property, plant and equipment (note 7)	85,245
Right-of-use asset (note 8)	19,679
Intangible assets	1,261
Deferred income tax asset	27,394
Other non-current assets	247
Trade payables and accrued charges	(16,478)
Other current liabilities	(2,431)
Lease liabilities (note 11)	(19,217)
Decommissioning liability	(17,309)
Net assets disposed	144,498
Costs to sell	(9,614)
Loss on sale before income taxes and reclassification of foreign currency translation gain	(28,292)
Reclassification of foreign currency translation gain on disposal of foreign operations	141,933
Income tax provision - deferred	12,381
After-tax gain on sale	$ 101,260

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

The following tables set forth the description of disposal groups classified as held for sale as at June 30, 2018 :

Disposal Group	**ii) Natural Gas Liquid (NGL) Wholesale business**	**iii) U.S. Logistics and Infrastructure disposal group**	**iv) PRD Canada business**
Held for sale classification	Met the high probability criteria of the sale of the business, including the active marketing of the disposal groups.		
Valuation of net assets	Lower of carrying amount and FVLCD		
Fair value less cost of disposal (FVLCD) determination	Multiples approach Level 3 valuation	Asset based model Level 3 valuation	Multiples approach Level 3 valuation
Impairment valuation	None taken	Impairment charge to goodwill of $2.0 million was recorded and an impairment charge to assets of $5.3 million was recorded during the six months ended June 30, 2018.	None taken
Discontinued operations determination	Included within the Company's Canadian and U.S. Wholesale operating segments. Does not represent a separate major line of business or geographical area of operations.	Assets included within the Company's Logistics and Infrastructure's operating segments. Does not represent a separate major line of business or geographical area of operations.	Assets included within the Company's Infrastructure operating segments. Does not represent a separate major line of business or geographical area of operations.

The U.S. Environmental Services business sold on May 3, 2018 included the provision of environmental and production services, such as emulsion hauling and treating, water hauling and disposal services and oilfield waste management, as well as industrial lift, exploration support services and accommodation facilities to the oil and gas industry. The U.S Environmental Services business was reported historically within Company's Infrastructure, Logistics and Other reportable segments. Operating results 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 the operating results from discontinued operations for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30,		**Six months ended June 30,**	
	2018	**2017**	**2018**	**2017**
Revenue	$ 24,413	$ 59,193	$ 93,281	$ 109,932
Cost of sales	21,999	65,256	86,481	126,990
Gross profit (loss)	2,414	(6,063)	6,800	(17,058)
Finance cost and other (income), net	1,637	(231)	1,364	(335)
Income (loss) before income taxes	777	(5,832)	5,436	(16,723)
Income tax (recovery) provision – current	-	(385)	-	70
Income tax (recovery) provision – deferred	(21,340)	(1,810)	1,448	(6,365)
Net income from discontinued operations after tax	22,117	(3,637)	3,988	(10,428)
After-tax gain on sale	101,260	-	101,260	-
Gain from discontinued operations, after tax	$ 123,377	$ (3,637)	$ 105,248	$ (10,428)

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

Assets and liabilities held for sale comprises of the following:

	As at June 30, 2018			
Assets	**NGL Wholesale business**	**U.S. other disposal group**	**PRD Canada**	**Total**
Trade and other receivables	$ 52,547	$ -	$ 4,023	$ 56,570
Inventories	48,724	-	935	49,659
Property, plant and equipment (note 7)	10,544	3,797	104,671	119,012
Right-of-use assets (note 8)	38,479	19	855	39,353
Goodwill	31,852	-	-	31,852
Other assets	3,962	-	101	4,063
Total assets held for sale	$ 186,108	$ 3,816	$ 110,585	$ 300,509
Liabilities				
Trade payables and accrued charges	$ 54,510	$ -	$ 2,723	$ 57,233
Contract liabilities	54	-	-	54
Lease liability (note 11)	35,898	18	850	36,766
Provisions (note 13)	-	1,031	19,091	20,122
Deferred income tax liability	971	-	-	971
Total liabilities held for sale	$ 91,433	$ 1,049	$ 22,664	$ 115,146

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

ii) Industrial Propane

During the first quarter of 2017, the Company sold its Industrial Propane segment for cash proceeds of $433.1 million as disclosed in note 8 of the Company's annual consolidated financial statements for the year ended December 31, 2017. The following tables set forth operating results from discontinued operations:

	Six months ended June 30, 2017 [1]
Revenue	$ 58,296
Cost of sales	44,678
Gross profit	13,618
Other operating income	(19)
Segment profit	13,637
Gain on sale	(175,364)
Income before income taxes	189,001
Income tax expense – current	30,970
Income tax expense – deferred	275
Net income from discontinued operations, after tax	$ 157,756

1. The Company derecognized the Industrial Propane segment effective March 1, 2017, accordingly, results for six months ended June 30, 2017 represent the activity for the period January 1, 2017 to February 28, 2017.

5 Trade and other receivables

	June 30, 2018	December 31, 2017
Trade receivables	$ 361,151	$ 480,084
Allowance for doubtful accounts	(207)	(931)
Trade receivables – net	360,944	479,153
Risk management assets (note 17)	7,969	6,032
Broker accounts receivable	15,788	4,441
Indirect taxes receivable	2,917	2,712
Other	3,421	2,563
	$ 391,039	$ 494,901

6 Inventories

	June 30, 2018	December 31, 2017
Crude oil and diluent	$ 112,353	$ 79,223
Asphalt	19,768	19,817
Natural gas liquids	-	44,087
Wellsite fluids and distillate	16,200	13,150
Spare parts and other	1,127	13,680
	$ 149,448	$ 169,957

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

7 Property, plant and equipment

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
Cost:							
At January 1, 2018	$ 189,090	$ 225,679	$ 642,137	$ 411,694	$ 937,378	$ 185,739	$ 2,591,717
Additions	743	1,456	1,470	3,840	4,677	76,222	88,408
Disposals	(1,032)	-	(1,913)	(51,596)	(29,893)	-	(84,434)
Reclassifications	1,941	31,674	30,536	-	48,434	(112,585)	-
Change in decommissioning provision (note 13)	-	493	7,085	-	1,706	-	9,284
Reclassed to net investment in finance leases	-	-	(36,389)	-	-	-	(36,389)
Effect of movements in exchange rates	999	-	618	8,892	8,297	197	19,003
Transferred to held for sale and disposals (note 4)	(47,423)	(6,688)	(34,868)	(116,933)	(323,114)	(4,752)	(533,778)
At June 30, 2018	$ 144,318	$ 252,614	$ 608,676	$ 255,897	$ 647,485	$ 144,821	$ 2,053,811
Accumulated depreciation:							
At January 1, 2018	$ 37,865	$ 82,192	$ 121,173	$ 286,181	$ 444,618	$ -	$ 972,029
Depreciation	2,941	4,911	12,283	11,254	28,327	-	59,716
Impairment	-	-	82	5,453	115	-	5,650
Disposals	(730)	(1)	(1,519)	(41,887)	(28,626)	-	(72,763)
Effect of movements in exchange rates	176	-	254	6,831	5,728	-	12,989
Transferred to held for sale and disposals (note 4)	(11,708)	(1,849)	(10,654)	(108,592)	(196,718)	-	(329,521)
At June 30, 2018	$ 28,544	$ 85,253	$ 121,619	$ 159,240	$ 253,444	$ -	$ 648,100
Carrying amounts:							
At January 1, 2018	$ 151,225	$ 143,487	$ 520,964	$ 125,513	$ 492,760	$ 185,739	$ 1,619,688
At June 30, 2018	$ 115,774	$ 167,361	$ 487,057	$ 96,657	$ 394,041	$ 144,821	$ 1,405,711

Additions to property, plant and equipment include capitalization of interest of $2.0 million and $0.7 million for the three months ended June 30, 2018 and 2017, respectively, and includes capitalization of interest of $4.1 million and $1.6 million for the six months ended June 30, 2018 and 2017, respectively. Amounts in relation to tanks are under operating lease arrangements.

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

8 Right-of-use assets

	Buildings	Rail cars	Surface leases	Other	Total
Cost:					
At January 1, 2018 (note 3)	$ 57,706	$ 87,458	$ 19,522	$ 5,862	$ 170,548
Additions and adjustments	4,132	3,662	146	2,117	10,057
Disposals	-	-	(694)	-	(694)
Effects of movements in exchange rates	310	-	424	112	846
Transferred to held for sale and disposals (note 4)	(2,134)	(43,013)	(17,973)	(1,056)	(64,176)
At June 30, 2018	$ 60,014	$48,107	$ 1,425	$ 7,035	$ 116,581
Accumulated depreciation:					
At January 1, 2018 (note 3)	$ -	$ -	$ -	$ -	$ -
Depreciation	4,737	14,842	691	829	21,099
Disposals	-	-	(32)	-	(32)
Effects of movements in exchange rates	17	-	(142)	8	(117)
Transferred to held for sale and disposals (note 4)	(141)	(4,533)	(437)	(33)	(5,144)
At June 30, 2018	$ 4,613	$ 10,309	$ 80	$ 804	$ 15,806
Carrying amounts:					
At January 1, 2018	$ 57,706	$ 87,458	$ 19,522	$ 5,862	$ 170,548
At June 30, 2018	$ 55,401	$ 37,798	$ 1,345	$ 6,231	$ 100,775

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

9 Income tax provision (recovery)

The income tax provision (recovery) included in the condensed consolidated statement of operations is classified as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Current, from continuing operations	$ 9,159	$ 4,001	$ 16,819	$ (11,436)
Current, from discontinued operations (note 4)	-	(385)	-	31,040
	$ 9,159	$ 3,616	$ 16,819	$ 19,604
Deferred, from continuing operations	$ (2,497)	$ (5,175)	$ (3,706)	$ (14,557)
Deferred, from discontinued operations (note 4)	(8,959)	(1,810)	13,829	(6,090)
	$ (11,456)	$ (6,985)	$ 10,123	$ (20,647)
Total current and deferred, from continuing operations	6,662	(1,174)	13,113	(25,993)
Total current and deferred, from discontinued operations (note 4)	(8,959)	(2,195)	13,829	24,950
Effective income tax rate – continuing operations	31.4%	38.4%	32.4%	83.9%
Effective income tax rate – discontinued operations (note 4)	(7.8)%	37.6%	11.6%	14.5%

10 Loans and Borrowings

Revolving Credit Facility

During the six months ended June 30, 2018, the Company amended the unsecured revolving credit facility of $560.0 million (the "Revolving Credit Facility"), to extend the maturity date of the facility to March 31, 2023 and amend certain financial covenants as noted below. In addition, the Company has three demand letter of credit facilities totaling $150.0 million.

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 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 based on the Company's total debt leverage ratio.

Under the terms of Revolving Credit Facility, the Company is required to adhere to certain financial and maintenance covenants including maintaining maximum consolidated senior and maximum consolidated total debt leverage ratios of 4.85 to 1.0 for the 2018 fiscal year, 4.5 to 1.0 for the 2019 fiscal year and 4.0 to 1.0 thereafter. In addition, the Company is also required to maintain a minimum interest coverage ratio of no less than 2.5 to 1.0. As at June 30, 2018, the Company was in compliance with all covenants under the Revolving Credit Facility.

The Company had $192.3 million (US$1.2 million; $190.7 million) and $230.2 million (US$100.0 million; $105.0 million) drawn on its $560.0 million and $500.0 million Revolving Credit Facility as of June 30, 2018 and December 31, 2017, respectively, and had issued letters of credit totaling $88.9 million and $68.9 million under its bilateral demand letter of credit facilities as at June 30, 2018 and December 31, 2017, respectively. During the three months and six months ended June 30, 2018, the Company made net repayments of $68.2 million and $42.3 million.

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

Long-term debt

	June 30, 2018	December 31, 2017
Revolving credit facility, due March 31, 2023	$ 192,318	$ 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	(11,194)	(12,061)
Long-term debt	$ 1,081,124	$ 1,118,119

The indentures governing the terms of the $600 million 5.25% Notes and the existing $300 million 5.375% notes (collectively ‘‘Notes”) agreements contain certain redemption options whereby the Company can redeem all or part of the Notes, at prices set forth in the agreements, from proceeds of an equity offering or on the dates specified in the agreement. In addition, the Notes holders have the right to require the Company to redeem the Notes at the redemption prices set forth in the agreement in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the agreement.

The Company’s long-term debt contains non-financial covenants and customary events of default clauses. As at June 30, 2018 and December 31, 2017, the Company was in compliance with all of its covenants.

The components of finance costs are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest expense, net of capitalized interest	$ 17,490	$ 18,500	$ 35,287	$ 43,389
Interest expense, finance lease (note 11)	1,429	-	3,257	-
Interest income	(484)	(294)	(778)	(964)
Realized foreign exchange loss (gain) on long-term debt	4,380	-	4,380	(2,710)
Unrealized foreign exchange (gain) loss on long-term debt	(3,808)	(7,170)	21	(9,388)
Debt extinguishment cost	-	2,010	-	51,337
Total finance cost, net	$ 19,007	$ 13,046	$ 42,167	$ 81,664

11 Lease liabilities

	Six months ended June 30, 2018
Opening balance (note 3)	$ 172,834
Additions	10,057
Disposals	(689)
Interest expense	3,257
Interest expense from discontinued operations (note 4)	284
Lease payments	(29,023)
Effect of movements in exchange rates	4,696
Transferred to held for sale and disposals (note 4)	(55,983)
Ending balance	$ 105,433
Less: current portion	27,704
Ending balance – non-current portion	$ 77,729

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

	Three months ended June 30, 2018	Six months ended June 30, 2018
Variable lease payments	$ 63,951	$ 105,488
Short-term and low-value leases	940	1,809
Sub-lease income	(705)	(1,233)
Total	$ 64,186	$ 106,064

The Company incurs lease payments related to rail cars, head office facilities, vehicles and equipment, and surface leases. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company has recognised lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at June 30, 2018 at an incremental borrowing rate of 5.0%.

Short-term leases are leases with a lease term of twelve months or less while low-value assets comprised of information technology and miscellaneous equipment. Such items are charged to cost of sales and general and administrative expenses in the condensed consolidated statement of operations.

12 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	June 30, 2018	December 31, 2017
Trade payables	$ 319,645	$ 413,745
Accrued compensation charges	12,962	30,523
Indirect taxes payable	1,200	3,122
Risk management liabilities (note 17)	21,300	11,276
Defined benefit plan obligations	686	686
Interest payable	24,580	25,607
Insurance payable	6,095	7,114
Other	8,831	8,589
	$ 395,299	$ 500,662

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

13 Provisions

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

	Six months ended June 30, 2018	Year ended December 31, 2017
Opening balance	$ 183,527	$ 171,038
Settlements	(1,069)	(3,146)
Additions	5,825	3,656
Change in discount rate	3,459	9,607
Unwinding of discount	1,962	3,912
Liabilities transferred to held for sale and disposals (note 4)	(37,431)	-
Effect of changes in foreign exchange rates	728	(1,540)
Closing balance	$ 157,001	$ 183,527

In order to determine the current provision, the estimated future values were discounted using an average risk-free rate of 2.16% and 2.20% at June 30, 2018 and December 31, 2017, respectively. The provision is expected to be settled up to 40 years into the future.

14 Share capital

Common Shares – Issued and Outstanding

	Common Shares	
	Number of Common shares	Amount
At January 1, 2018	143,204,388	$ 1,932,103
Issuance in connection with the exercise of stock options	54,278	492
Issuance in connection with other equity awards	868,776	-
Reclassification of contributed surplus on issuance of awards under equity incentive plans	-	15,912
At June 30, 2018	144,127,442	$ 1,948,507

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

Share based compensation

A summary of activity under the equity incentive plan is as follows:

	Stock Options		Restricted Share Units	Performance Share Units	Deferred Share Units
	Number of shares	Weighted average exercise price (in dollars)	Number of Shares		
Balance at January 1, 2018	3,296,715	$ 22.89	937,301	1,030,835	505,692
Granted	126,939	16.70	622,529	518,052	141,992
Exercised and released for common shares	(54,278)	9.07	(580,837)	(231,266)	(56,667)
Forfeited	(215,192)	27.06	(116,216)	(353,940)	(1,086)
Balance at June 30, 2018	3,154,184	$ 22.60	862,777	963,681	589,931
Vested	2,391,136	$ 24.27	16,843	-	569,906

Per share amounts

The following table shows the number of shares used in the calculation of earnings (loss) per share:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Weighted average common shares outstanding - Basic	143,993,685	142,618,350	143,649,001	142,236,655
Dilutive effect of:				
Stock options and other awards	2,615,779	-	2,554,985	-
Weighted average common shares outstanding - Diluted	146,609,464	142,618,350	146,203,986	142,236,655

The dilutive effect of 2.6 million and 2.6 million stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the three and six months ended June 30, 2018 have been included in the determination of the weighted average number of common shares outstanding. The dilutive effect of 2.6 million and 2.6 million stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the three and six months ended June 30, 2018 have been included in the determination of the weighted average number of common shares outstanding for discontinued operations.

The dilutive effect of 3.2 million and 3.1 million stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the three and six months ended June 30, 2017 have not been included in the determination of the weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net loss from continuing operations per share. The dilutive effect of 3.2 million stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the three months ended June 30, 2018 have not been included in the determination of the weighted average number of common shares outstanding for discontinued operations. The dilutive effect of 3.1 million stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the six months ended June 30, 2018 have been included in the determination of the weighted average number of common shares outstanding for discontinued operations.

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

15 Employee salaries and benefits

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Salaries and wages	$ 28,422	$ 34,222	$ 59,507	$ 70,025
Post-employment benefits	1,255	1,468	2,608	2,879
Share based compensation	5,318	10,726	9,816	9,367
Termination benefits	592	509	1,144	1,372
	$ 35,587	$ 46,925	$ 73,075	$ 83,643

Employee salaries and benefits have been expensed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cost of sales	$ 25,343	$ 30,438	$ 53,980	$ 63,430
General and administrative	10,244	16,487	19,095	20,213
	$ 35,587	$ 46,925	$ 73,075	$ 83,643

16 Revenue

	Three months ended June 30,		Six months ended June 30,	
	2018	2017[1]	2018	2017[1]
Revenue from contracts with customers recognized at a point in time (2017 – Products)	$ 1,647,931	$ 1,299,303	$ 3,263,844	$ 2,577,739
Revenue from contracts with customers recognized over time (2017 – Services)	79,773	121,700	169,797	242,087
Total revenue from contracts with customers	$ 1,727,704	$ 1,421,003	$ 3,433,641	$ 2,819,826
Total revenue from lease arrangements	30,717	-	61,399	-
	1,758,421	1,421,003	3,495,040	2,819,826

1. *Due to the adoption of IFRS 15 effective January 1, 2018 as discussed in note 3, the comparative information has not been restated and, therefore, the results may not be comparable.*

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

Disaggregation of revenue from contracts with customers are as follows:

Three months ended June 30, 2018

	Infrastructure	Logistics	Wholesale	Total
Statement of operations				
Canada				
External Service Revenue				
Terminals storage and throughput/pipeline transportation and services	$ 16,533	$ -	$ -	$ 16,533
Rail services	6,839	-	-	6,839
Hauling and transportation	-	43,651	-	43,651
PRD and other services	2,434	396	438	3,268
External Product Revenue				
Crude and diluent	$ -	$ -	$ 1,301,836	1,301,836
Propane and other NGL	-	-	3,541	3,541
Refined products	-	-	32,749	32,749
Other	1,645	42	-	1,687
Total revenue – Canada	$ 27,451	$44,089	$ 1,338,564	$ 1,410,104
United States (U.S.)				
External Service Revenue				
Hauling and transportation	$ -	$ 7,360	$ -	$ 7,360
PRD and other services	729	1,393		2,122
External Product Revenue				
Crude and diluent	$ -	$ -	$ 143,505	$ 143,505
Propane and other NGL	-	-	89,884	89,884
Refined products	-	-	74,729	74,729
Total revenue – U.S.	$ 729	$ 8,753	$ 308,118	$ 317,600
Total revenue from contract with customers	$ 28,180	$ 52,842	$ 1,646,682	$1,727,704

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

Six months ended June 30, 2018

	Infrastructure	Logistics	Wholesale	Total
Statement of operations				
Canada				
External Service Revenue				
Terminals storage and throughput/pipeline transportation and services	$ 32,584	$ -	$ -	$ 32,584
Rail services	13,668	-	-	13,668
Hauling and transportation	-	89,618	-	89,618
PRD and other services	5,932	3,400	1,257	10,589
External Product Revenue				
Crude and diluent	$ -	$ -	$ 2,573,406	$ 2,573,406
Propane and other NGL	-	-	76,553	76,553
Refined products	-	-	75,946	75,946
Other	3,918	78	-	3,996
Total revenue – Canada	$ 56,102	$ 93,096	$ 2,727,162	$ 2,876,360
United States (U.S.)				
External Service Revenue				
Hauling and transportation	$ -	$ 19,138	$ -	$ 19,138
PRD and other services	902	3,298		4,200
External Product Revenue				
Crude and diluent	$ -	$ -	$ 209,483	$ 209,483
Propane and other NGL	-	-	196,505	196,505
Refined products	-	-	127,955	127,955
Total revenue – U.S.	$ 902	$ 22,436	$ 533,943	$ 557,281
Total revenue from contract with customers	$ 57,004	$ 115,532	$ 3,261,105	$ 3,433,641

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

17 Financial instruments

Derivative financial instruments (recurring fair value measurements)

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

	June 30, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Commodity futures	$ 506	$ 16,294	$ 384	$ 6,257
Commodity swaps	5,426	1,311	4,808	2,214
Equity swaps	-	3,891	324	3,297
Foreign currency forwards	2,251	246	1,883	-
Total	$ 8,183	$ 21,742	$ 7,399	$ 11,768
Less non-current portion:				
Commodity futures	214	-	384	215
Commodity swaps	-	-	567	-
Equity swaps	-	442	294	277
Foreign currency forwards	-	-	122	-
	214	442	1,367	492
Current portion	$ 7,969	$ 21,300	$ 6,032	$ 11,276

During the six months ended June 30, 2017, the Company entered into U.S. dollar forward contracts to buy U.S. dollars on a notional amount of U.S.$310.0 million at a weighted average rate of $1.3504 for U.S.$1.00 settling on March 22, 2017. The value of the U.S. dollar forward contracts at settlement was $5.1 million.

During the three and six months ended June 30, 2018, the Company entered into certain WTI differential futures to manage the exposure to price risks associated with the purchases of crude oil feedstock. During the three and six months ended June 30, 2018 the Company recognized an unrealized loss of $1.6 million and an unrealized gain of $0.8 million.

During the three and six months ended June 30, 2018, the Company recognized an unrealized gain of $1.3 million and an unrealized loss of $0.9 million on its equity swaps compared to an unrealized loss of $3.9 million and $3.7 million during the three and six months ended June 30, 2017.

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

The fair value of financial instrument contracts by fair value hierarchy at June 30, 2018 was:

	Total	Level 1	Level 2	Level 3
Assets from financial instrument contracts				
Commodity futures	$ 506	$ 506	$ -	$ -
Commodity swaps	5,426	-	5,426	-
Foreign currency forward	2,251	-	2,251	-
Total assets	$ 8,183	$ 506	$ 7,677	$ -
Liabilities from financial instrument contracts				
Commodity futures	$ 16,294	$ 16,294	$ -	$ -
Commodity swaps	1,311	-	1,311	-
Equity swaps	3,891	3,891	-	-
Foreign currency forwards	246	-	246	-
Total liabilities	$ 21,742	$ 20,185	$ 1,557	$ -

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2017 was:

	Total	Level 1	Level 2	Level 3
Assets from financial instrument contracts				
Commodity futures	$ 384	$ 384	$ -	$ -
Commodity swaps	4,808	-	4,808	-
Equity swaps	324	324	-	-
Foreign currency forwards	1,883	-	1,883	-
Total assets	$ 7,399	$ 708	$ 6,691	$ -
Liabilities from financial instrument contracts				
Commodity futures	$ 6,257	$ 6,257	$ -	$ -
Commodity swaps	2,214	-	2,214	-
Equity swaps	3,297	3,297	-	-
Total liabilities	$ 11,768	$ 9,554	$ 2,214	$ -

The impact of the movement in the fair value of financial instruments has been expensed in the condensed consolidated statement of operations as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cost of sales (loss) gain	$ (8,987)	$ (160)	$ (8,245)	$ 4,071
Stock based compensation gain (loss)	1,317	(3,899)	(917)	(709)
	$ (7,670)	$ (4,059)	$ (9,162)	$ 3,362

As at June 30, 2018 and December 31, 2017, the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was $905.1 million and $1,144.1 million, respectively.

As at June 30, 2018 and December 31, 2017, the fair value of the Debentures based on period end trading prices on the secondary market (Level 2) was $106.4 million and $105.0 million, respectively.

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

Sensitivity

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

	As at June 30, 2018	As at June 30, 2017
U.S. Dollar Forwards and Options		
Favorable 5% change	$ 6,083	$ 1,158
Unfavorable 5% change	(6,083)	(1,178)

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

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

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

	As at June 30, 2018	As at June 30, 2017
Crude oil and NGL related prices		
Favorable 15% change	$ 9,975	$ 7,265
Unfavorable 15% change	(9,975)	(7,122)

	As at June 30, 2018	As at June 30, 2017
WTI Differential Futures		
Favorable 15% change	$ 3,230	$ -
Unfavorable 15% change	(3,230)	-

The Company is exposed to changes in the Company's share price with respect to equity swap contracts. If the Company's share price increased or decreased by 10%, the impact on net income and equity would be as follows:

	As at June 30, 2018	As at June 30, 2017
Equity Swaps		
Favorable 10% change	$ 1,860	$ 1,778
Unfavorable 10% change	(1,860)	(1,778)

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

Set out below is a maturity analyses of certain of the Company's financial contractual obligations as at June 30, 2018. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

	On demand or within one year	Between one and five years	After five years	Total
Trade payables and accrued charges, excluding derivative financial instruments and accrued interest	$ 349,419	$ -	$ -	$ 349,419
Dividend payable	47,562	-	-	47,562
Long-term debt	-	300,000	600,000	900,000
Credit facilities	-	-	192,318	192,318
Debentures (debt and equity component)	-	100,000	-	100,000
Interest on long-term debt and Debentures	52,875	185,751	34,125	272,751
Commodity futures	16,294	-	-	16,294
Commodity swaps	1,311	-	-	1,311
Equity swap	3,449	442	-	3,891
Foreign currency forwards	246	-	-	246
Lease liabilities	32,380	63,112	27,323	122,815
	$ 503,536	$ 649,305	$ 853,766	$ 2,006,607

18 Subsequent Events

On August 8, 2018, the Board declared a quarterly dividend of $0.33 per common share for the three months ending September 30, 2018 on its outstanding common shares. The dividend is payable on October 17, 2018 to shareholders of record at the close of business on September 28, 2018.

On August 8, 2018, the Company entered into an agreement to acquire, develop and operate a pipeline gathering network within the U.S. Infrastructure business. The purchase price consideration of US$55 million includes two installment payments, subject to certain closing adjustments. Due to the limited time between the acquisition and the preparation of these condensed consolidated financial statements, the value of the assets acquired and the liabilities assumed on the acquisition were not available to complete the purchase price allocation.

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

19 Supplemental cash flow information

	Three months ended June 30, 2018	Three months ended June 30, (Restated – note 4) 2017	Six months ended June 30, 2018	Six months ended June 30, (Restated – note 4) 2017
Cash flows from operating activities				
Net income (loss) from continuing operations	$ 14,558	$ (1,886)	$ 27,382	$ (5,003)
Adjustments for non-cash items:				
Finance costs, net (note 10)	19,007	13,046	42,167	81,664
Income tax expense (recovery)	6,662	(1,174)	13,113	(25,993)
Depreciation and impairment of property, plant and equipment (note 7)	33,688	30,283	62,497	60,910
Depreciation on right-of-use assets (note 8)	8,042	-	20,531	-
Amortization and impairment of intangible assets	3,099	6,240	6,655	10,692
Impairment of goodwill	-	-	1,979	-
Stock based compensation	5,884	10,726	10,382	9,367
Loss (gain) on sale of property, plant and equipment	778	(449)	(513)	(2,889)
Other	1,953	1,615	3,872	870
Net loss (gain) on fair value movement of financial instruments (note 17)	8,986	160	8,254	(3,955)
Subtotal of adjustments	88,099	60,447	168,937	130,666
Changes in items of working capital				
Trade and other receivables	(24,590)	28,415	7,505	47,315
Inventories	(81,486)	(12,218)	(46,406)	(3,083)
Other current assets	(1,330)	(75)	245	1,605
Trade payables and accrued charges	2,191	(29,832)	(41,558)	(24,560)
Deferred revenue	-	6,405	-	2,751
Contract liabilities (note 3)	16,711	-	23,969	-
Subtotal of changes in items of working capital	(88,504)	(7,305)	(56,245)	24,028
Income taxes refund (payment), net	12,462	(1,258)	13,729	(544)
Cash provided by operating activities from continuing operations	26,615	49,998	153,803	149,147
Cash provided by (used in) operating activities from discontinued operations (note 4)	2,076	2,405	11,697	(2,325)
Net cash provided by operating activities	28,691	52,403	165,500	146,822

See accompanying notes to the condensed consolidated financial statements