# MANAGEMENT'S DISCUSSION & ANALYSIS

2020 Second 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" or the "Company") as of August 4, 2020 and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes of Gibson Energy Inc. for the three and six months ended June 30, 2020 and 2019, the audited consolidated financial statements and related notes for the years ended December 31, 2019 and 2018, which were prepared under International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Professional Accountants and as issued by the International Accounting Standards Board ("IASB"), also referred to as GAAP, and the MD&A for the year ended December 31, 2019. 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 June 30, 2020, its results of operations for the three and six months ended June 30, 2020 and 2019, and its cash flows for the three and six months ended June 30, 2020 and 2019. 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 ended December 31, 2019. Certain reclassifications of prior period amounts have been made to conform to the current period presentation and current information presented are not comparable due to the presentation of continuing operations separately from discontinued operations. 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, 2020. 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 a Canadian-based oil infrastructure company with its principal businesses consisting of the storage, optimization, processing, and gathering of crude oil and refined products. Headquartered in Calgary, Alberta, the Company's operations are focused around its core terminal assets located at Hardisty and Edmonton, Alberta, and also include a crude oil processing facility in Moose Jaw, Saskatchewan (the" Moose Jaw Facility") and an infrastructure position in the United States ("U.S.").

## SELECTED FINANCIAL INFORMATION

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Continuing operations** [1] | | | | |
| Revenue | $ 794,474 | $ 1,927,634 | $ 2,253,164 | $ 3,676,322 |
| Segment profit | 133,887 | 95,244 | 267,998 | 231,018 |
| Net income | 41,314 | 34,693 | 91,317 | 93,370 |
| Basic income per share | 0.28 | 0.24 | 0.62 | 0.65 |
| Diluted income per share | 0.28 | 0.24 | 0.62 | 0.64 |
| Adjusted EBITDA [2] | 142,769 | 93,555 | 271,466 | 212,038 |
| Distributable cash flow [2] | 93,911 | 74,840 | 179,860 | 153,790 |
| Dividends declared | 49,720 | 47,980 | 99,428 | 95,917 |
| Cash flow from operating activities | 152,843 | 37,651 | 308,539 | 25,154 |
| Growth capital including equity investments [3] | $ 117,152 | $ 59,124 | $ 176,084 | $ 100,198 |
| **Combined operations** [1] | | | | |
| Combined Adjusted EBITDA [1,2] | $ 142,769 | $ 96,590 | $ 271,466 | $ 220,135 |
| Distributable cash flow [2] | $ 93,911 | $ 79,786 | $ 179,860 | $ 162,619 |

| | Last twelve months – As at June 30, | |
|---|---|---|
| | **2020** | **2019** |
| **Debt and dividend payout ratios** | | |
| Debt to capitalization ratio | 48% | - |
| Interest coverage ratio | 7.8 | 7.3 |
| Combined dividend payout ratio | 60% | 58% |

1. *See definition of non-GAAP measures on pages 13 to 14 and 26. Combined Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") and Combined distributable cash flow, represents the aggregated results of both continuing and discontinued operations*
2. *See pages 13 to 14 and 20 to 21 for a reconciliation of Adjusted EBITDA to segment profit and distributable cash flow to cash flow from operations, respectively*
3. *Growth capital expenditures include contributions to our equity accounted investments*

## Q2 2020 REVIEW

Financial highlights

- Segment profit for the Infrastructure segment of $89.8 million and $187.9 million increased by $32.5 million and $56.0 million, for the three and six months ended June 30, 2020 compared to $57.3 million and $131.9 million, for the three and six months ended June 30, 2019 primarily due to additional tankage brought into service in 2019 under take-or-pay, stable fee-based contracts, the expansion of the Hardisty Unit Rail Facility (the "HURC Facility") and the Moose Jaw Facility, as well as a $15.0 million future environmental remediation provision recorded in the prior periods.
- Segment profit for the Marketing segment of $44.0 million and $80.1 million increased by $6.1 million and decreased by $19.0 million, for the three and six months ended June 30, 2020 compared to $37.9 million and $99.1 million, for the three and six months ended June 30, 2019. The increase in the three month comparative period was due to higher margins and higher crude volumes. The decrease in the six month comparative period was due to lower margins earned from the Refined Product and the Crude Marketing businesses as the first quarter of 2019 benefitted from the opportunities created by volatility in crude differentials and a stronger market for Refined Products.
- Segment profit from continuing operations of $133.8 million and $267.9 million increased by $38.6 million and $36.9 million, for the three and six months ended June 30, 2020 compared to $95.2 million and $231.0 million, for the three and six months ended June 30, 2019 primarily due to a stronger performance from both the Infrastructure and Marketing segments in the current periods and $15.0 million of future environmental remediation provision recorded in the prior periods.
- Adjusted EBITDA from continuing operations of $142.7 million and $271.5 million increased by $49.1 million and $59.5 million, for the three and six months ended June 30, 2020 compared to $93.6 million and $212.0 million, for the three and six months ended June 30, 2019. The increase in the three month comparative period was primarily due to higher segment profit earned in the current period as discussed above as well as lower general and administrative expenses. The comparative increase in Adjusted EBITDA relative to segment profit for the six month comparative period was due to higher segment profits in the current period, a corporate foreign exchange gain and financial instruments adjustments of $20.6 million in the current period compared to a corporate foreign exchange loss and financial instrument adjustments of $1.9 million in the prior period.
- Distributable cash flow from combined operations of $93.9 million and $179.9 million increased by $14.1 million and $17.3 million, for the three and six months ended June 30, 2020 compared to $79.8 million and $162.6 million, for the three and six months ended June 30, 2019. Distributable cash flow during the twelve months ended June 30, 2020 resulted in a payout ratio of approximately 60%.
- Net income from continuing operations of $41.3 million and $91.3 million increased by $6.6 million and decreased by $2.1 million, for the three and six months ended June 30, 2020 compared to a net income of $34.7 million and $93.4 million, for the three and six months ended June 30, 2019.

- The Company declared a dividend of $0.34 and $0.33 per common share during the six months ended June 30, 2020 and June 30, 2019, respectively. Total dividends declared for the three and six months ended June 30, 2020 were $49.7 million and $99.4 million, compared to $47.9 million and $95.9 million for the three and six months ended June 30, 2019.

Capital projects and investments highlights

- During the six months ended June 30, 2020, the Company along with US Development Group, LLC (through a wholly-owned affiliate, collectively, ("USD")) received all required regulatory approvals and finalized all required commercial agreements to start construction of the Diluent Recovery Unit ("DRU") near Hardisty, Alberta, Canada. The initial phase of the DRU at 50,000 barrels per day of inlet bitumen capacity is underpinned by a long-term, take-or-pay agreement with ConocoPhillips Canada.
- During the three and six months ended June 30, 2020, the Company incurred total growth capital expenditures including equity investments of $115.1 million and $173.3 million on construction of new tanks and related infrastructure at the Hardisty and Edmonton Terminals, Company's contribution to the DRU project and the construction of additional gathering pipelines and related infrastructure in the U.S.

Capital structure

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

Corona virus

- Since March 2020, the Corona virus ("COVID-19") global health pandemic has significantly impacted the global economy including demand for hydrocarbon products. This demand destruction has had a significant impact on global energy markets and has resulted in a significant drop in crude based commodity prices. Although commodity prices have partially recovered, financial markets and commodity prices continues to remain volatile impacting overall economic activity. As noted in our Q1 2020 MD&A, the Company implemented a business continuity plan and enacted its emergency response plan to provide centralized, cross-functional, strategic direction as the safety of our people, customers and our assets are a priority. Specifically, Gibson continues to prioritize the health and safety of its workforce, including through making it possible for employees to work remotely from home pursuant to the Company's business continuity plan. For employees at the Company's facilities, Gibson continues to operate under "business minimum" staffing levels in combination with stringent safety and hygiene protocols to both protect employees and ensure uninterrupted delivery of critical services to meet the needs of customers and other stakeholders. The Company has begun re-opening certain of its office locations on a part-time basis with only a limited portion of its workforce returning at this time. Gibson believes that the organization has remained very effective despite the constraints of a work from home environment, and as a result, expects to be measured in its pace of re-entry back into its business offices. Additional disclosures were added within this MD&A where impacts were deemed material on our results of operations. Please also refer to Risk Factors on page 24 for a further discussion of the risk associated with COVID-19 pandemic on our business.

**SUBSEQUENT EVENTS**

Debt refinancing

- On July 14, 2020, the Company closed its offering of $650.0 million of Senior Unsecured Medium Term Notes consisting of $325.0 million of 2.45% notes with a maturity date of July 14, 2025 ("2025 Notes") and $325 million of 2.85% notes with a maturity date of July 14, 2027 ("2027 Notes").
- On July 22, 2020, the Company redeemed all of the $600 million Senior Unsecured Notes due July 15, 2024 carrying a coupon rate of 5.25%, ("2024 Notes") at a redemption price of $1,039.38 per $1,000 principal amount plus accrued and unpaid interest of $1.02 per $1,000 principal amount.

Dividend

- On August 4, 2020, the Board declared a quarterly dividend of $0.34 per common share for the second quarter on its outstanding common shares. The dividend is payable on October 16, 2020 to shareholders of record at the close of business on September 30, 2020.

## PROJECT DEVELOPMENTS AND MARKET OUTLOOK

Major growth projects

The Company continued to progress several major growth projects within its Infrastructure segment, including advancing the construction of three tanks, or 1.5 million barrels of storage, representing a further 12.5 percent expansion of the Hardisty Terminal. The following represents key activities with respect to major growth projects during the six months ended June 30, 2020:

Tankage growth projects:

- The Company continued to progress with the fourth phase of development at the Top of the Hill. Gibson has three tanks representing 1.5 million barrels of storage currently under construction which is expected to be placed into service by the end of 2020. Once the fourth phase of development at the Top of the Hill is placed into service Gibson will have approximately 13.5 million barrels of storage capacity at its Hardisty Terminal.

DRU project:

- On February 25, 2020, the Company along with USD jointly announced the receipt of all required regulatory approvals from the Government of Alberta to proceed with the construction of a DRU near Hardisty, Alberta, Canada. Additionally, USD and Gibson have finalized all required commercial agreements with ConocoPhillips Canada to fully underpin and sanction the construction of the initial phase of the DRU at 50,000 barrels per day of inlet bitumen blend capacity and enable rail shipments of DRUbit to the U.S. Gulf Coast. Construction of the DRU commenced in April 2020 and the project is expected to be placed into service in the middle of 2021.

Other growth projects:

- The Company continued to advance certain infrastructure projects in the U.S. which are expected to be completed in the fourth quarter of 2020.

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

Market outlook

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

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

- In the short-term, the impacts from the COVID-19 virus have had a profound impact on the global economy. Specific to our industry, COVID-19 has resulted in a significant decrease in demand for refined products which has resulted in a sharp decrease in crude oil prices as current global supply of crude oil meaningfully exceeds crude oil consumption. While it is currently unclear both how production cuts will be allocated in order to better align global crude oil supply and demand in the very near term and how crude oil demand will recover subsequently, this environment has already resulted in upstream customers facing a significant decrease in the profitability of their operations, driving reducing planned capital expenditures and shutting in of production volumes. For our refining customers, many have reduced refinery runs and are also facing compressed margins. Accordingly, the Company anticipates that these factors will drive increased demand for crude oil storage, but could decrease volume throughput through the Company's terminals and pipelines, decrease margins and demand for refined products from the Moose Jaw Facility and result in a decrease in certain opportunities within the Crude Marketing business.
- In the medium to long-term, the Company believes that increased reliance on storage during periods of limited egress, especially during pipeline upsets or to facilitate crude by rail, may lead customers to consider increasing their available storage. Wider differentials improve margins at the Moose Jaw Facility, and, in conjunction with increased price volatility,

typically provide increased opportunities within the Crude Marketing business. Also, if Western Canadian production returns to levels seen at the very beginning of 2020, with a shortage of pipeline takeaway capacity from the WCSB could provide for an increase in demand for terminal services as well as the use of crude by rail, including diluent recovery processes, as a solution for market access.

- 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 medium to long-term. Over the long-term, the Company would expect to benefit from incremental egress from the completion of work on the U.S. portion of Enbridge's Line 3 pipeline and the construction of both the TC Pipeline Keystone XL project and the Government of Canada's Trans Mountain Pipeline Expansion, as additional pipeline egress would encourage additional oil sands development. This increase in production in the WCSB would lead to further demand for tankage at the Company's Hardisty and Edmonton Terminals, which are either connected or in close proximity to the respective starting points of these pipeline projects, although it may moderate demand for DRU capacity. There is a risk that these projects may be substantially delayed or cancelled, which would likely result in increased demand for DRU capacity, rail capacity at the HURC Facility, as well as related services at both of Gibson's Terminals.

Price fluctuations between crude oil types as well as differences in crude pricing between various markets and time periods often creates incremental margin opportunities in multiple areas of the Company's operations. Crude price differentials remain volatile and the Company remains attentive to potential opportunities.

## RESULTS OF CONTINUING OPERATIONS

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

The following is a discussion of the Company's segmented results of operations for the three and six months ended June 30, 2020 and 2019 and the following table sets forth revenue and profit by segment for those periods:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Segment revenue** | | | | |
| Infrastructure | $ 112,796 | $ 97,584 | $ 232,846 | $ 197,095 |
| Marketing | 722,986 | 1,975,814 | 2,109,177 | 3,782,377 |
| Total segment revenue | 835,782 | 2,073,398 | 2,342,023 | 3,979,472 |
| Revenue – inter-segmental | (41,308) | (145,764) | (88,859) | (303,150) |
| Total revenue – external | 794,474 | 1,927,634 | 2,253,164 | 3,676,322 |
| **Segment profit** | | | | |
| Infrastructure | 89,846 | 57,348 | 187,918 | 131,936 |
| Marketing | 44,041 | 37,896 | 80,080 | 99,082 |
| Total segment profit | 133,887 | 95,244 | 267,998 | 231,018 |
| General and administrative | 8,377 | 10,189 | 17,298 | 21,220 |
| Depreciation and impairment | 28,845 | 26,599 | 57,403 | 50,985 |
| Right-of-use asset depreciation | 9,612 | 10,632 | 19,173 | 20,402 |
| Amortization and impairment | 1,846 | 3,059 | 3,866 | 6,118 |
| Stock based compensation | 4,710 | 4,186 | 10,735 | 4,792 |
| Gain on sale of assets held for sale | - | - | - | (2,744) |
| Foreign exchange loss (gain) | 2,363 | (1,763) | (5,263) | 1,379 |
| Debt extinguishment costs | 6,204 | - | 6,204 | - |
| Net interest expense | 17,127 | 19,752 | 36,459 | 37,352 |
| Income before income tax | 54,803 | 22,590 | 122,123 | 91,514 |
| Income tax expense (recovery) | 13,489 | (12,103) | 30,806 | (1,856) |
| Net income from continuing operations | $ 41,314 | $ 34,693 | $ 91,317 | $ 93,370 |

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

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

## INFRASTRUCTURE

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

The following tables set forth the operating results from the Company's Infrastructure segment for the three and six months ended June 30, 2020 and 2019:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **Volumes (barrels in thousands)** | **2020** | **2019** | **2020** | **2019** |
| **Terminals and facilities** | | | | |
| Hardisty Terminal | 84,636 | 90,731 | 173,025 | 167,074 |
| Edmonton Terminal | 12,043 | 11,698 | 23,829 | 22,772 |
| Moose Jaw Facility | 666 | 821 | 2,496 | 2,322 |
| Pipelines | 1,136 | 1,618 | 2,534 | 4,434 |
| Total terminals and facilities | 98,481 | 104,868 | 201,884 | 196,602 |

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Revenue | | | | |
| Hardisty Terminal | $ 71,467 | $ 59,074 | $ 149,123 | $ 115,802 |
| Edmonton Terminal | 18,225 | 17,376 | 36,647 | 34,739 |
| Moose Jaw Facility | 12,029 | 9,845 | 24,058 | 19,690 |
| Pipelines | 11,075 | 11,289 | 23,018 | 26,864 |
| Revenue | 112,796 | 97,584 | 232,846 | 197,095 |
| Operating expenses and other | 22,950 | 40,236 | 44,928 | 65,159 |
| Segment profit | $ 89,846 | $ 57,348 | $ 187,918 | $ 131,936 |

**Operational performance**

In the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019:

Hardisty Terminal volumes decreased 7% and increased 4%, respectively. The decrease in the three month comparative period was due to lower throughput volumes at the Hardisty Terminal related to the impact from the COVID-19 pandemic. The increase in the six month comparative period was largely driven by the commissioning of four new tanks and related infrastructure in the first and fourth quarters of 2019, which provided for higher throughput volumes primarily from certain customers that have dedicated tankage underpinned by long-term take or pay contracts, higher customer's contract tankage volumes and increased traffic from the expansion of the HURC Facility, partially offset by the impact from the COVID-19 pandemic as noted earlier.

Edmonton Terminal volumes increased marginally by 3% and 5%.

Moose Jaw Facility volumes decreased 19% and increased 7%, respectively. The decrease in the three month comparative period was due to an extended turnaround program completed in the current quarter. The increase in the six month comparative period was primarily due to higher available capacity as a result of the debottlenecking project completed in Q2 of 2019, partially offset by the impact of extended turnaround as noted earlier.

Pipelines volumes decreased significantly. The decrease in both comparative periods was mainly due to the sale of the of the non-core Environmental Services North ("ESN") business in the prior period, and lower facility and Injection Station activity levels in the current periods related to the impact from the COVID-19 pandemic.

**Financial performance**

In the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019:

Revenue at the Hardisty Terminal increased by $12.4 million and $33.3 million, respectively, which was largely driven by the addition of dedicated tankage and the expansion of the HURC Facility underpinned by long-term take or pay contracts as noted above.

Revenue at the Edmonton Terminal increased by $0.8 million and $1.9 million, respectively, which was primarily due to increased throughput.

Revenue at the Moose Jaw Facility increased by $2.2 million and $4.4 million, respectively. This was due to increased fixed fees charged to the Marketing segment as a result of the increased capacity from the debottlenecking project noted above.

Pipelines revenues were consistent and decreased $3.8 million, respectively. The decrease was mainly due to lower volumes as discussed above.

Segment profit increased by $32.5 million and $55.9 million, respectively. The increase was primarily due to the increased revenues from the Hardisty and Edmonton Terminals as noted above, as well as lower, operating and overhead costs and a $15.0 million future environmental remediation provision recorded in the prior periods.

**Capital expenditures and equity investments**

Below is the summary of Infrastructure capital expenditures and equity investments for the three and six months ended June 30, 2020 and 2019:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Growth capital and equity investments | $ 115,061 | $ 58,854 | $ 173,291 | $ 99,468 |
| Replacement capital | 7,632 | 2,492 | 12,317 | 5,452 |

The increase in growth capital expenditures for the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019 primarily related to construction of new tanks and related infrastructure at the Hardisty and Edmonton Terminals and the construction of additional gathering pipelines and related infrastructure in the U.S. Furthermore, during the three months ended June 30, 2020, the Company made capital contributions of $52.6 million towards the construction of the DRU project.

Replacement capital increased in both comparative periods primarily due to higher inspection costs incurred at the Moose Jaw Facility a result of a feeder pipeline replacement during Q1 2020 as well as a longer turnaround period in Q2 2020.

## MARKETING

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

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Western Texas Intermediate ("WTI") average price ($USD/bbl) | $ 27.85 | $ 54.90 | $ 37.01 | $ 57.36 |
| Western Canadian Select ("WCS") average differential ($USD/bbl) | 11.47 | 12.29 | 16.00 | 11.48 |
| Average foreign exchange rates ($CAD/$USD) | 1.39 | 1.33 | 1.37 | 1.33 |

The following tables set forth operating results from the Company's Marketing segment for the three and six months ended June 30, 2020 and 2019:

| Volumes (barrels in thousands) | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Crude, refined and other products | 39,531 | 34,375 | 77,463 | 69,505 |

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Revenue** | | | | |
| Total revenue | $ 722,986 | $ 1,975,814 | $ 2,109,177 | $ 3,782,377 |
| Cost of sales | 666,787 | 1,924,525 | 2,007,243 | 3,655,505 |
| Operating expenses and other | 12,158 | 13,393 | 21,854 | 27,790 |
| Segment profit | $ 44,041 | $ 37,896 | $ 80,080 | $ 99,082 |

### Operational performance

In the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019:

Sales volumes for crude, refined and other products increased by 15% and 11%, respectively. The increase was mainly due to higher crude volumes in both comparative periods primarily driven by more storage capacity available to the Crude Marketing business. This increase was partially offset by lower refined products and NGL volumes which was driven by the reduction in market conditions which lowered available volumes for these products into the Company's integrated assets.

### Financial performance

In the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019:

Revenue for crude, refined and other products decreased by 63% and 44%, respectively, due to lower average prices for crude, refined and other products driven by the impact from the COVID-19 pandemic, partially offset by higher volumes as noted above.

Segment profit increased 16% in the current quarter primarily due to higher volumes as discussed above as well as favorable crude pricing spreads in the current period. Segment profit in the six months ended June 30, 2019, benefitted from significant opportunities created by volatility in crude differentials and a stronger market for Refined Products primarily in the first quarter. With those opportunities not as available in the current year to date period, segment profit saw a decrease of 19%.

## EXPENSES

### General and administrative ("G&A"), excluding depreciation and amortization

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| General and administrative | $ 8,377 | $ 10,189 | $ 17,298 | $ 21,220 |

The decrease in both comparative periods was primarily due to the incurrence of costs related to executive severance in the prior period and the allocation of certain overhead costs resulting in a comparative decrease in support service costs.

### Depreciation

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Depreciation and impairment | $ 28,845 | $ 26,599 | $ 57,403 | $ 50,985 |

Depreciation costs increased in both comparative periods due to additional assets added in 2019.

**Right-of-use asset depreciation**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Right-of-use depreciation | $ 9,612 | $ 10,632 | $ 19,173 | $ 20,402 |

Right of use asset depreciation was consistent for both comparative periods.

**Amortization and impairment**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Amortization and impairment | $ 1,846 | $ 3,059 | $ 3,866 | $ 6,118 |

The quarter over quarter decrease in both comparative periods was driven by certain intangible assets becoming fully amortized in the prior periods, partially offset by the impact of intangible assets added during the quarter.

**Stock based compensation**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Stock based compensation | $ 4,710 | $ 4,186 | $ 10,735 | $ 4,792 |

The increase in both comparative periods was primarily due to the recognition of a mark to market gain related to equity swaps in the comparative periods of $0.3 million and $6.2 million, respectively.

**Gain on sale of assets held for sale**

During the six months ended June 30, 2019 the Company completed the sale of its non-core ESN business for gross proceeds of $51.8 million resulting in the recognition of a net pre-tax gain on sale of $2.7 million.

**Foreign exchange loss (gain) not affecting segment profit**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Corporate foreign exchange loss (gain) | $ 2,363 | $ (1,763) | $ (5,263) | $ 1,379 |

During the three and six months ended June 30, 2020, the loss (gain) is primarily driven by the net unfavorable/favorable movements in exchange rates on the translation of corporate foreign exchange primarily driven on U.S. cash and account receivable balances. During the three and six months ended June 30, 2019, the (gain)/loss recorded is primarily driven by the net favorable/unfavorable movements in exchange rates on the translation of corporate foreign exchange primarily driven on U.S. cash and account receivable balances.

**Debt extinguishment costs**

During the three months and six months ended June 30, 2020 the Company incurred debt extinguishment costs related to the acceleration of unamortized debt issue costs on its 2024 Notes of $6.2 million.

**Net interest expense**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net interest expense | $ 17,127 | $ 19,752 | $ 36,459 | $ 37,352 |

The net interest expense decreased in both comparative periods primarily due to lower interest paid on its Revolving Credit Facility related to lower interest rates and balances drawn as a result of the debt refinancing that occurred in Q3 2019 and Q1 2020.

**Income taxes**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Current income tax expense (recovery) | $ 12,055 | $ (197) | $ 23,439 | $ 4,345 |
| Deferred income tax expense (recovery) | 1,434 | (11,906) | 7,367 | (6,201) |
| Total tax (recovery) expense | $ 13,489 | $ (12,103) | $ 30,806 | $ (1,856) |

Income tax expense was $13.5 million (effective tax rate – 24.6%) and $30.8 million (effective tax rate – 25.2%) for the three and six months ended June 30, 2020, compared to income tax recovery of $12.1 million (effective tax rate – (53.6)%) and $1.8 million (effective tax rate – (2.0)%) for the three and six months ended June 30, 2019. The period over period change in total income tax expense and the effective tax rate for both comparative periods was primarily due to the recognition of a cumulative benefit for share based compensation during the first and second quarters of 2019. In addition, the Company recorded a benefit on the remeasurement of deferred tax balances for the 2019 announcement of the phased reduction in the Alberta corporate tax rate in the second quarter of 2019.

## RESULTS OF DISCONTINUED OPERATIONS

**Truck Transportation Canada business ("TT Canada business")**

On July 2, 2019 the Company completed the sale of the TT Canada business to Trimac Transportation Limited ("Trimac") for gross proceeds of $69.5 million with the potential for additional proceeds depending on the performance of the business over the next five years. As part of the sale, the Company also entered into an agreement with an entity affiliated with Trimac for the sale of the Edmonton building for approximately $30 million. On June 30th, 2020 the Company received net proceeds of $30.0 million on the sale of the Edmonton building.

## SUMMARY OF QUARTERLY RESULTS

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

| | 2020 | | 2019 | | | | 2018 [1] | |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| **Continuing operations** | | | | | | | | |
| Revenue | $ 794,474 | $ 1,458,690 | $1,666,560 | $1,993,440 | $1,927,634 | $1,748,688 | $1,314,605 | $ 2,130,022 |
| Net income (loss) | 41,314 | 50,003 | 37,444 | 45,525 | 34,693 | 58,677 | 47,275 | 6,822 |
| Adjusted EBITDA [(2)] | 142,769 | 128,697 | 125,949 | 121,232 | 93,555 | 118,483 | 134,001 | 140,448 |
| Earnings (loss) per share | | | | | | | | |
| Basic | $ 0.28 | $ 0.34 | $ 0.25 | $ 0.31 | $ 0.24 | $ 0.41 | $ 0.33 | $ 0.05 |
| Diluted | $ 0.28 | $ 0.34 | $ 0.25 | $ 0.30 | $ 0.24 | $ 0.40 | $ 0.32 | $ 0.05 |
| **Discontinued operations** | | | | | | | | |
| Revenue | $ - | $ - | $ - | $ - | $ 46,733 | $ 44,693 | $ 49,643 | $ 47,922 |
| Net income (loss) | - | - | (1,948) | 2,794 | 2,094 | 3,622 | (31,210) | (4,470) |
| Adjusted EBITDA [(2)] | - | - | - | - | 3,035 | 5,062 | 6,478 | 6,177 |
| Earnings (loss) per share | | | | | | | | |
| Basic | $ - | $ - | $ (0.01) | $ 0.02 | $ 0.01 | $ 0.02 | $ (0.22) | $ (0.03) |
| Diluted | $ - | $ - | $ (0.01) | $ 0.02 | $ 0.01 | $ 0.02 | $ (0.22) | $ (0.03) |
| **Combined operations** | | | | | | | | |
| Revenue [(3)] | $ 794,474 | $ 1,458,690 | $1,666,560 | $1,993,440 | $1,974,367 | $1,793,381 | $1,364,248 | $ 2,177,944 |
| Net income (loss) | 41,314 | 50,003 | 35,496 | 48,319 | 36,787 | 62,299 | 16,065 | 2,352 |
| Adjusted EBITDA [(2)] | 142,769 | 128,697 | 125,949 | 121,232 | 96,590 | 123,545 | 140,479 | 146,625 |
| Earnings (loss) per share | | | | | | | | |
| Basic | $ 0.28 | $ 0.34 | $ 0.24 | $ 0.33 | $ 0.25 | $ 0.43 | $ 0.11 | $ 0.02 |
| Diluted | $ 0.28 | $ 0.34 | $ 0.24 | $ 0.32 | $ 0.25 | $ 0.42 | $ 0.10 | $ 0.02 |

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

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

- Adjusted EBITDA and Combined Adjusted EBITDA:
    - excludes certain income tax payments that may represent a reduction in cash available to the Company;
    - does not reflect the Company's cash expenditures, or future requirements for capital expenditures or contractual commitments;
    - does not reflect changes in, or cash requirements for, the Company's working capital needs;

- does not reflect the significant interest expense, or the cash requirements necessary to service interest payments on the Company's debt, including the Debentures (as defined herein), lease liabilities and the 2024 (as defined herein) and $500 million Senior Unsecured Medium Term Notes due September 17, 2029 ("2029 Notes") and the Revolving Credit Facility (as defined herein); and
- excludes gains and losses recorded on the sale of businesses.

- Although depreciation, amortization and impairment are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in the industry may calculate Combined Adjusted EBITDA and Adjusted EBITDA differently than the Company does, limiting its usefulness as a comparative measure.

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

The following tables reconciles segment profit to Adjusted EBITDA for continuing operations, discontinued operations and combined operations for each of the last eight quarters and for the twelve months ended June 30, 2020 and 2019:

| | Three months ended | | | | Twelve months ended |
|---|---|---|---|---|---|
| | June 30, 2020 | March 31, 2020 | December 31, 2019 | September 30, 2019 | June 30, 2020 |
| **Continuing operations** | | | | | |
| Segment profit | $ 133,887 | $ 134,111 | $ 132,015 | $ 131,217 | $ 531,230 |
| Interest income | 22 | 145 | 714 | 695 | 1,576 |
| Foreign exchange gain (loss) – corporate | (2,363) | 7,626 | (1,496) | (1,086) | 2,681 |
| General and administrative | (8,377) | (8,923) | (11,598) | 2,652 | (26,246) |
| Net unrealized (gain) loss from financial instruments (1) | 19,600 | (4,262) | 6,314 | (12,246) | 9,406 |
| Adjusted EBITDA | $ 142,769 | $ 128,697 | $ 125,949 | $ 121,232 | $ 518,647 |
| **Discontinued operations** | | | | | |
| Segment profit and adjusted EBITDA | $ - | $ - | $ - | $ - | $ - |
| **Combined operations** | | | | | |
| Segment profit | $ 133,887 | $ 134,111 | $ 132,015 | $ 131,217 | $ 531,230 |
| Interest income | 22 | 145 | 714 | 695 | 1,576 |
| Foreign exchange gain (loss) – corporate | (2,363) | 7,626 | (1,496) | (1,086) | 2,681 |
| General and administrative | (8,377) | (8,923) | (11,598) | 2,652 | (26,246) |
| Net unrealized (gain) loss from financial instruments (1) | 19,600 | (4,262) | 6,314 | (12,246) | 9,406 |
| Combined Adjusted EBITDA | $ 142,769 | $ 128,697 | $ 125,949 | $ 121,232 | $ 518,647 |

| | Three months ended | | | | Twelve months ended |
|---|---|---|---|---|---|
| | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2019 |
| **Continuing operations** | | | | | |
| Segment profit | $ 95,244 | $ 135,774 | $ 153,569 | $ 142,227 | $ 526,814 |
| Interest income | 37 | 312 | 346 | 368 | 1,063 |
| Foreign exchange gain (loss) – corporate | 1,763 | (3,142) | 1,732 | 2,542 | 2,895 |
| General and administrative | (10,189) | (11,031) | (8,597) | (8,286) | (38,103) |
| Net unrealized (gain) loss from financial instruments [1] | 6,700 | (3,430) | (13,049) | 3,597 | (6,182) |
| Adjusted EBITDA | $ 93,555 | $ 118,483 | $ 134,001 | $ 140,448 | $ 486,487 |
| **Discontinued operations** | | | | | |
| Segment profit and adjusted EBITDA | $ 3,035 | $ 5,062 | $ 6,478 | $ 6,177 | $ 20,752 |
| **Combined operations** | | | | | |
| Segment profit | $ 98,279 | $ 140,836 | $ 160,047 | $ 148,404 | $ 547,566 |
| Interest income | 37 | 312 | 346 | 368 | 1,063 |
| Foreign exchange gain (loss) – corporate | 1,763 | (3,142) | 1,732 | 2,542 | 2,895 |
| General and administrative | (10,189) | (11,031) | (8,597) | (8,286) | (38,103) |
| Net unrealized (gain) loss from financial instruments [1] | 6,700 | (3,430) | (13,049) | 3,597 | (6,182) |
| Combined Adjusted EBITDA | $ 96,590 | $ 123,545 | $ 140,479 | $ 146,625 | $ 507,239 |

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.*

The results of Adjusted EBITDA are driven primarily 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, with the completion of construction of seven tanks, or 3.1 million barrels of storage in 2019 and the initiation and advancement of an additional 1.5 million barrels expected to be in service in the fourth quarter, as well as the HURC Facility, Moose Jaw Facility and Viking Pipeline expansions put into service. This increase in capacity was primarily driven by the sustained demand for crude terminalling and storage services at its current Hardisty and Edmonton Terminals which supported the increase in segment profits.

Marketing – The Marketing segment earns margins by purchasing, selling, storing and optimizing of hydrocarbon products as part of supplying the Moose Jaw Facility and marketing its refined products as well as helping to drive volumes through the Company's key infrastructure assets. The Marketing segment also engages in optimization opportunities which are typically location, quality and time-based. The hydrocarbon products include crude oil, natural gas liquids, and road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil and an oil-based mud product. Accordingly, this segment has been impacted by commodity price fluctuations in the pricing differentials between different geographic markets and product grades, most notably related to crude oil and NGLs. Additionally, the market impacts from the COVID-19 pandemic have created further volatility and fluctuations in overall prices and differentials. These fluctuations have and continue to be managed by purchasing and selling products through physical and financial contracts that include energy-related derivatives which have both supported and reduced segment profits from quarter to quarter in the form of realized or unrealized gains and losses.

Discontinued operations – The results for discontinued operations include results from the TT Canada business. The TT Canada business earned margins by providing transportation and related services which included providing hauling services for crude, condensate, sulphur, waste water and drilling fluids. Accordingly, results have been impacted by the reduction and volatility in crude oil and other related commodity prices.

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

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

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity Sources

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

As at June 30, 2020, the Company had a positive working capital balance of $10.7 million, including an available cash balance of $77.6 million, and had the ability to utilize borrowings under the Revolving Credit Facility of $670.0 million. On February 14, 2020, the Company amended its Revolving Credit Facility to increase the capacity from $560.0 million to $750.0 million, and, amongst other amendments, extended the maturity date from March 2024 to February 2025. With the issuance of the 2029 Notes during 2019 and the 2025 and 2027 Notes subsequent to June 30, 2020, the Company has added additional liquidity to the Company's capital structure by extending the maturity profile of its debt as well as reducing its interest costs. During the three and six months ended June 30, 2020, cash flows from operations, and draws on the Revolving Credit Facility were available to fund our ongoing capital expenditures, dividend payments, and working capital needs. Additionally, supporting the improvement in the Company's liquidity position over the last four quarters is notable growth in segment profit. In regard to the challenges posed by the COVID-19 pandemic and reduction in crude oil prices, the current financial position provides the Company with sufficient financial flexibility and resources to manage its liquidity requirements. Accordingly, over the short-term the Company expects to maintain sufficient liquidity sources to fund its ongoing capital expenditures, debt service requirements, dividend payments and working capital needs.

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

**Cash flow summary – Continuing operations**

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

The following table summarizes the Company's sources and uses of funds for the three and six months ended June 30, 2020 and 2019 from continuing operations:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (in thousands) | | | |
| **Statement of Cash Flows** | | | | |
| **Cash flows provided by (used in):** | | | | |
| Operating activities | $ 152,843 | $ 37,651 | $ 308,539 | $ 25,154 |
| Investing activities | (97,535) | (16,245) | (147,872) | (33,688) |
| Financing activities | (31,785) | (17,823) | (131,385) | (21,652) |

**Cash provided by operating activities**

Cash provided by operating activities was $152.8 million and $308.5 million in the three and six months ended June 30, 2020, compared to cash provided by operating activities of $37.7 million and $25.2 million in the three and six months ended June 30, 2019. The increase was driven by the following:

- Higher cash flow from operations before income taxes and working capital changes of $143.7 million and $275.1 million in the current periods compared to $105.9 million and $223.6 million in the prior periods;
- Income tax refund in the current quarter of $1.9 million and income tax installments paid of $4.3 million in the current year to date period compared to income tax installments paid of $6.1 million in the prior quarter and $83.3 million in the prior year to date period due to a lump sum installment paid; and
- Cash generated by working capital of $7.2 million and $37.7 million in the current periods compared to cash used in working capital of $62.2 million and $115.2 million in the prior periods, primarily driven by higher inventory purchases in the prior periods (refer to the respective section in "Results of Continuing Operations" for more details).

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

**Cash used in investing activities**

Cash used in investing activities was $97.5 million and $147.9 million in the three and six months ended June 30, 2020, compared to $16.2 million and $33.7 million in the three and six months ended June 30, 2019 and consists primarily of capital expenditures related to the construction of new tanks and related infrastructure at the Hardisty and Edmonton Terminals, the DRU project and the construction of gathering pipelines and related infrastructure in the U.S, partially offset by proceeds received from the sale of the non-core ESN business in the prior quarter. For a summary of capital expenditures including acquisitions, see the "Capital expenditures" discussion throughout this MD&A.

**Cash used in financing activities**

Cash used in financing activities was $31.8 million and $131.4 million in three and six months ended June 30, 2020 compared to cash used in financing activities of $17.8 million and 21.7 million in the three and six months ended June 30, 2019. The change in both comparative periods was primarily due to net draws on the Revolving Credit Facility of $30.0 million and $20.0 million in the current periods, compared to net draws on the Company's borrowings of $45.0 million and $130.0 million in the prior periods.

## Capital expenditures and equity investments

The following table summarizes growth, replacement and equity investments for the three and six months ended June 30, 2020 and 2019:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Growth capital and equity investments | $ 117,152 | $ 59,124 | $ 176,084 | $ 100,198 |
| Replacement capital [(1)] | 7,800 | 3,282 | 14,219 | 8,314 |
| Total | $ 124,952 | $ 62,406 | $ 190,303 | $ 108,512 |

1. *Replacement capital expenditures in the three and six months ended June 30, 2020 include Corporate expenditures of $0.2 million and $1.9 million compared to $0.7 million and $1.7 million in the three and six months ended June 30, 2019, respectively. These expenditures mainly relate to replacement costs associated with the Company's information and operational systems. The remainder of the replacement capital expenditures have been discussed in continuing operations earlier in the MD&A.*

## Capital structure

| | As at | |
|---|---|---|
| | June 30, 2020 | December 31, 2019 |
| Revolving Credit Facility | $ 80,000 | $ 60,000 |
| 2024 Notes | 600,000 | 600,000 |
| 2029 Notes | 500,000 | 500,000 |
| Unamortized issue discount and debt issue costs | (4,231) | (11,293) |
| $100 million Debentures 5.25% due July 15, 2021 (liability component) [(1)] | 89,096 | 89,655 |
| Lease liability | 126,022 | 131,808 |
| Total debt outstanding | 1,390,887 | 1,370,170 |
| Cash and cash equivalents | (77,618) | (47,231) |
| Net debt | 1,313,269 | 1,322,939 |
| Total share capital (including Debentures – equity component) | 1,991,637 | 1,980,850 |
| Total capital | $ 3,304,906 | $ 3,303,789 |

(1) *The Debentures are included in the above total capital calculation in accordance with the Company's view of its capital structure which includes shareholders' equity, long-term debt, the Debentures, the Revolving Credit Facility, lease liabilities and working capital.*

### 2024 Notes

The Indentures governing the terms of the 2024 Notes including the supplemental indentures thereto, contain certain redemption options whereby the Company can redeem all or part of the 2024 Notes at prices set forth in the applicable Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of the 2024 Notes have the right to require the Company to redeem the 2024 Notes at the redemption prices set forth in the applicable indenture in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the applicable Indenture.

On July 22, 2020, the Company redeemed all of the 2024 Notes carrying a coupon rate of 5.25%, at a redemption price of $1,039.38 per $1,000 principal amount plus accrued and unpaid interest of $1.02 per $1,000 principal amount.

### 2025 and 2027 Notes

On July 14, 2020, the Company closed its offering of the 2025 Notes with a maturity date of July 14, 2025 and the 2027 Notes with a maturity date of July 14, 2027. The fixed coupon is payable semi-annually, on January and July 14 for both the 2025 and 2027 Notes.

The Indenture governing the terms of the 2025 and 2027 Notes including the supplemental indenture thereto, contain certain redemption options whereby the Company can redeem all or part of the 2025 and 2027 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 2025 and 2027 Notes have the right to require the Company to redeem the 2025 and 2027 Notes at the redemption prices set forth in the applicable

indenture in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the applicable Indenture.

**2029 Notes**

The Indenture governing the terms of the 2029 Notes including the supplemental indenture thereto, contain certain redemption options whereby the Company can redeem all or part of the 2029 Notes at prices set forth in the applicable Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of 2029 Notes have the right to require the Company to redeem the 2029 Notes at the redemption prices set forth in the applicable indenture in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the applicable Indenture.

**Debentures**

The $100.0 million aggregate principal amount of debentures (the "Debentures"), issued at par, bear interest at a rate of 5.25% per annum, payable semi-annually on January 15 and July 15, 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.

**Revolving credit facility**

On February 14, 2020, the Company amended its Revolving Credit Facility to increase the capacity from $560.0 million to $750.0 million, and, amongst other amendments, extended the maturity date from March 2024 to February 2025. The Revolving Credit Facility is available to provide financing for working capital, fund capital expenditures and other general corporate purposes, has an extendible term of five years, expiring in February 2025. The Revolving Credit Facility permits letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate, as the case may be, plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company's credit rating. 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.

As at June 30, 2020, the Company had $80.0 million drawn on its $750.0 million Revolving Credit Facility. In addition, as at June 30, 2020, the Company had two bilateral demand letter of credit facilities, which has been amended during the quarter to allow for use for general corporate purposes or letters of credit, totaling $150.0 million under which it had issued letters of credit totaling $35.2 million. In aggregate, the Company has access to $900M of liquidity including the two bilateral demand letter of credit facilities.

**Covenants**

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

As at June 30, 2020, the Company was in compliance with the financial ratios with the total consolidated debt to capitalization ratio at 48% and the consolidated interest coverage ratio at 7.8 to 1.0. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of repayment of the principal and interest outstanding and a termination of the Revolving Credit Facility.

The 2024 Notes, 2025 Notes, 2027 Notes and 2029 Notes and the Revolving Credit Facility contain non-financial covenants that restrict, subject to certain thresholds, some of the Company's activities, including the Company's ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments and engage in specified transactions with affiliates. The 2024 Notes, 2029 Notes and the Revolving Credit Facility also contain customary events of default, including defaults based on events of bankruptcy and insolvency, non-payment of principal, interest or fees when due, breach of covenants, change in control and material inaccuracy of representations and warranties, subject to specified grace periods.

As of June 30, 2020, the Company was in compliance with all of its existing covenants under the 2024 Notes, 2029 Notes and the Revolving Credit Facility.

## Dividends

The Company is currently paying quarterly dividends to holders of common shares. The amount and timing of any future dividends payable by Gibson will be at the discretion of the Board and to be established on the basis of, among other things, Gibson's earnings, financial requirements for operations, the satisfaction of a solvency calculation and the terms of the Company's debt agreements. During the three and six months ended June 30, 2020, the Board declared dividends of $0.34 per share.

## Distributable cash flow

Distributable cash flow is not a standard measure under IFRS and, therefore, may not be comparable to similar measures reported by other entities. Distributable cash flow from continuing and combined operations is used to assess the level of cash flow generated and to evaluate the adequacy of internally generated cash flow to fund dividends and is frequently used by securities analysts, investors and other interested parties. Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of fluctuations in product inventories or other temporary changes. Replacement capital expenditures are deducted from distributable cash flow as there is an ongoing requirement to incur these types of expenditures. The Company may deduct or include additional items in its calculation of distributable cash flow. These items would generally, but not necessarily, be items of an unusual, non-recurring, or non-operating in nature. The Company has provided the distributable cash flow from combined operations on a trailing twelve-month basis to reflect the total cash flow available to fund dividends which includes cash available from discontinued operations.

The following is a reconciliation of distributable cash flow from combined operations to its most closely related IFRS measure, cash flow from operating activities for the twelve and three months ended June 30, 2020 and 2019.

| | Twelve months ended June 30 | |
|---|---|---|
| **Continuing operations** | **2020** | **2019** |
| Cash flow from operating activities | $ 645,543 | $ 405,440 |
| Adjustments: | | |
| Changes in non-cash working capital and taxes paid | (140,728) | 94,241 |
| Replacement capital | (30,697) | (23,729) |
| Cash interest expense, including capitalized interest | (61,404) | (66,392) |
| Lease payments | (48,126) | (47,546) |
| Current income tax | (36,976) | (49,019) |
| Distributable cash flow from continuing operations | $ 327,612 | $ 312,995 |

| | Twelve months ended June 30 | |
|---|---|---|
| **Combined operations** | **2020** | **2019** |
| Combined cash flow from operating activities | $ 645,543 | $ 429,860 |
| Adjustments: | | |
| Combined changes in non-cash working capital and taxes paid | (140,728) | 93,650 |
| Combined replacement capital | (30,697) | (24,117) |
| Cash interest expense, including capitalized interest | (61,404) | (66,392) |
| Lease payments | (48,126) | (49,287) |
| Current income tax | (36,976) | (51,817) |
| Distributable cash flow from combined operations | $ 327,612 | $ 331,897 |
| Dividends declared to shareholders | $ 195,514 | $ 191,209 |

| Continuing operations | Three months ended June 30 2020 | Three months ended June 30 2019 | Six months ended June 30 2020 | Six months ended June 30 2019 |
|---|---|---|---|---|
| Cash flow from operating activities | $ 152,843 | $ 37,651 | $ 308,539 | $ 25,154 |
| Adjustments | | | | |
| Changes in non-cash working capital | (13,153) | 68,270 | (37,447) | 198,427 |
| Replacement capital | (7,800) | (3,282) | (14,219) | (8,314) |
| Cash interest expense, including capitalized interest | (14,680) | (16,491) | (29,550) | (32,602) |
| Lease payments | (11,244) | (11,505) | (24,024) | (24,530) |
| Current income tax | (12,055) | 197 | (23,439) | (4,345) |
| Distributable cash flow from continuing operations | $ 93,911 | $ 74,840 | $ 179,860 | $ 153,790 |

| Combined operations | Three months ended June 30 2020 | Three months ended June 30 2019 | Six months ended June 30 2020 | Six months ended June 30 2019 |
|---|---|---|---|---|
| Cash flow from operating activities | $ 152,843 | $ 34,924 | $ 308,539 | $ 31,619 |
| Adjustments | | | | |
| Changes in non-cash working capital | (13,153) | 76,361 | (37,447) | 202,681 |
| Replacement capital | (7,800) | (3,498) | (14,219) | (8,592) |
| Cash interest expense, including capitalized interest | (14,680) | (16,491) | (29,550) | (32,601) |
| Lease payments | (11,244) | (11,926) | (24,024) | (25,440) |
| Current income tax | (12,055) | 416 | (23,439) | (5,048) |
| Distributable cash flow from combined operations | $ 93,911 | $ 79,786 | $ 179,860 | $ 162,619 |
| Dividends declared to shareholders | $ 49,720 | $ 47,980 | $ 99,428 | $ 95,917 |

Dividends declared in the twelve months ended June 30, 2020 were $195.5 million, of which the entire amount was paid in cash. In the twelve months ended June 30, 2020, dividends declared represented 60% of the combined distributable cash flow generated.

## Contractual obligations and contingencies

The following table presents, at June 30, 2020, the Company's obligations and commitments to make future payments under contracts and contingent commitments:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term debt | $ 1,100,000 | $ - | $ - | $ 600,000 | $ 500,000 |
| Credit facility | 80,000 | - | - | 80,000 | - |
| Debentures | 99,331 | - | 99,331 | - | - |
| Interest payments on long-term debt and Debentures | 301,891 | 54,750 | 99,204 | 70,125 | 77,812 |
| Lease obligations | 136,797 | 41,375 | 53,369 | 28,995 | 13,058 |
| Total contractual obligations | $ 1,718,019 | $ 96,125 | $ 251,904 | $ 779,120 | $ 590,870 |

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

### 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 June 30, 2020, there were 146.2 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 2.4 million restricted share units, performance share units and deferred share units outstanding and 2.0 million stock options outstanding as at June 30, 2020.

At June 30, 2020, awards available to grant under the equity incentive plan were approximately 4.3 million.

As at July 31, 2020, 146.2 million common shares, 2.4 million restricted share units, performance share units and deferred share units and 2.0 million stock options were outstanding.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

*Commodity Price Risk.* The Company hedges its exposure to price fluctuations with respect to crude oil, refined products, natural gas, differentials and NGLs, and expected purchases and sales of these commodities (relating primarily to crude oil, roofing flux, 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 June 30, 2020 and June 30, 2019. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil, differentials and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by $12.9 million and $8.7 million as of June 30, 2020 and 2019, respectively. A 15% unfavorable change would decrease the Company's net income by $12.9 million and $8.7 million as of June 30, 2020 and 2019, respectively. However, these changes may be offset by the use of one or more risk management strategies.

*Interest rate risk.* The Company's long-term debt, excluding the Revolving Credit Facility, accrues interest at fixed interest rates and accordingly, changes in market interest rates do not expose the Company to future interest cash outflow variability. At June 30, 2020, the Company had $80.0 million drawn under the Revolving Credit Facility which is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either the Canadian Prime Rate, U.S. LIBOR, U.S. Base Rate or Canadian Bankers' Acceptance Rate, plus an applicable margin based on the Company's total leverage ratio. At current balances and rates the interest rate risk is not significant.

*Currency exchange risks.* The Company's monetary assets and liabilities in foreign currencies are translated at the period-end rate. Exchange differences arising from this translation are recorded in the Company's statement of operations. In addition, currency exposures can arise from revenues and purchase transactions denominated in foreign currencies. Generally, transactional currency exposures are naturally hedged (i.e., revenues and expenses are approximately matched), but, where appropriate, are covered using forward exchange contracts. All of the foreign currency forward exchange contracts entered into by the Company, although effective hedges from an economic perspective, have not been designated as hedges for accounting purposes, and therefore any gains and losses on such forward exchange contracts impact the Company's earnings. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would affect the fair value of the Company's outstanding forward currency contracts and options and would decrease the Company's net income by $3.1 million and $6.6 million as at June 30, 2020 and 2019, respectively. A 5% favorable change would increase the Company's net income by $3.1 million and $6.6 million as at June 30, 2020 and 2019, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

As at June 30, 2020, the Company had $nil U.S. dollar denominated debt as part of its draw on its Revolving Credit Facility resulting in no exposure to currency risk.

## ACCOUNTING POLICIES

***Critical accounting policies and estimates***

The preparation of 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 2019 MD&A dated February 24, 2020 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 3 – Business Combinations ("IFRS 3"), has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 is effective for the years beginning on or after January 1, 2020. The Company assessed the impact of this amendment and has determined that more business acquisitions will likely qualify for assets purchases rather than business combinations on its consolidated financial statements.

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

- IAS 1 – Presentation of Financial Statements ("IAS 1"), has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- The annual improvements process addresses issues in the 2018-2020 reporting cycles including changes to IFRS 9, Financial Instruments, IFRS 1, First Time adoption of IFRS, IFRS 16, Leases, and IAS 41, Biological Assets. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- IAS 37 – Provisions ("IAS 37"), has been amended to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. These amendments are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- IAS 16 – Property, Plant and Equipment ("IAS 16"), has been Amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and (iii) require certain related disclosures. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.

## 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 June 30, 2020.

During the three months ended June 30, 2020, 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, 2019 MD&A and 2019 Annual Information Form, which is available on SEDAR. The risk factors disclosed in the 2019 MD&A and Annual Information Form addressed the risks on the Company's business and operations as reasonably understood at the time. Given the rapid global spread of COVID-19 with the potential to cause severe respiratory illness and the declaration of a global pandemic by the World Health Organization on March 11, 2020, subsequent to the release of the 2019 MD&A, the Company is updating Risk Factors to include the following disclosures:

With the majority of jurisdictions in which the Company operates declaring a state of emergency in response to the COVID-19 pandemic, the Company's financial and/or operating performance could be materially adversely impacted by way of suspensions of the Company's projects, either by its customers or due to a broader government directive, slowdowns or stoppages in the performance of projects due to labour shortages, union action and/or high levels of absenteeism, supply chain disruptions, and increased collection risk from customers. The Company has implemented a business continuity plan and has enacted its emergency response plan to provide centralized, cross-functional, strategic direction during the COVID-19 pandemic. While these measures may

partially mitigate the impact of the COVID-19 pandemic, minimize recovery time and reduce business losses, the plan can neither account for nor control all possible events. The COVID-19 pandemic, therefore, may have adverse financial and operational implications for the Company.

Additionally, the duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as 1) the severity and transmission rate of the virus, 2) the extent and effectiveness of containment actions, 3) how quickly and to what extent normal economic and operating conditions can resume worldwide, and 4) the impact of these and other factors on our customers, particularly those upon whom we have a major reliance, vendors, employees, etc. This situation is changing rapidly and future impacts may materialize that are not yet known. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change.

## FORWARD-LOOKING INFORMATION

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

- *the effect of the COVID-19 pandemic on the Company's projections relating to target segment profit, distributable cash flow, distributable cash flow per share, and total cash flow;*
- *achieving the targets including but not limited to segment profits, payout ratio, leverage ratio and credit ratings;*
- *the addition or disposition of assets and changes in the services to be offered by the Company;*
- *the Company's projections relating to target segment profit, distributable cash flow, distributable cash flow per share, and total cash flow;*
- *the Company's investment in new equipment, technology, facilities and personnel;*
- *the Company's growth strategy to expand in existing and new markets including the anticipated benefits from the Company's basin strategy;*
- *the availability of sufficient capital and liquidity for planned growth;*
- *new technology and drilling methodology being deployed towards conventional and unconventional production within the Company's operating areas;*
- *uncertainty and volatility relating to crude prices and price differentials between crude oil streams and blending agents;*
- *increased crude oil production and exploration activity on shore in North America, including from the Canadian oil sands;*
- *the expansion of midstream infrastructure in North America to handle increased production and expansion of capacity in the U.S. refining complex to handle heavier crude oil from the WCSB;*
- *the planned construction and in service date of the DRU;*
- *the effect of competition in regions of North America and its impact on downward pricing pressure and regional crude oil price differentials among crude oil grades and locations;*
- *the effect of market volatility on the Company's marketing revenues and activities;*
- *the Company's ability to pay down and retire indebtedness;*
- *the Company's plans for additional strategic acquisitions, capital expenditures or other similar transactions, including the costs thereof;*
- *in-service dates for new storage capacity and new projects being constructed by the Company;*
- *the Company's planned hedging activities;*
- *the Company's projections of commodity purchase and sales activities;*
- *the Company's projections of currency and interest rate fluctuations;*
- *the Company's projections with respect to the adoption and implementation of new accounting standards and policies;*
- *the realization of anticipated benefits from the implementation of cost saving measures;*
- *the Company's projections of dividends; and*
- *the Company's dividend policy.*

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

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

*In addition, this MD&A may contain forward-looking information attributed to third party industry sources. The Company does not undertake any obligations to publicly update or revise any forward-looking information except as required by applicable Canadian securities laws. Actual results could differ materially from those anticipated in forward-looking information as a result of numerous risks and uncertainties including, but not limited to, the risks and uncertainties described in "Risk Factors" included in the Company's MD&A and current Annual Information Form dated February 24, 2020 as filed on SEDAR and available on the Gibson website at www.gibsonenergy.com. Readers should also refer to "Forward-Looking Information" and "Risk Factors" included in the Company's current Annual Information Form and to the risk factors described in other documents Gibson files from time to time with securities regulatory authorities, available on SEDAR and on the Company's website at www.gibsonenergy.com . No assurance can be given that these expectations will prove to be correct. As such, forward-looking information included or referred to in this MD&A and the Company's other filings with Canadian securities regulatory authorities should not be unduly relied upon. These statements speak only as of the date of this MD&A.*

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

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

## NON-GAAP FINANCIAL MEASURES

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

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