



CONSOLIDATED FINANCIAL STATEMENTS

For the years ended
December 31, 2019 and 2018





Independent auditor's report

To the Shareholders of Gibson Energy Inc.

Our opinion

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

What we have audited

The Company's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Other information

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta, Canada
February 24, 2020

Gibson Energy Inc.
Consolidated Balance Sheets

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

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

Commitments and contingencies (note 30)

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

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

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

Gibson Energy Inc.
Consolidated Statements of Operations

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

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

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.**Consolidated Statements of Comprehensive Income**

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

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

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.

Consolidated Statements of Changes in Equity

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

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

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.**Consolidated Statements of Cash Flows***(tabular amounts in thousands of Canadian dollars, except where noted)*

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

*See accompanying notes to the consolidated financial statements**See note 32 for supplemental disclosures and reconciliation of movements of financial liabilities to cash flows arising from financing activities*

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

1 Description of the business and segmented disclosure

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

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

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

The Company’s reportable segments are:

- (1) **Infrastructure**, which includes a network of oil infrastructure assets that include oil terminals, rail loading and unloading facilities, gathering pipelines, a crude oil processing facility, and other small terminals. The primary facilities within this segment include the Hardisty and Edmonton Terminals, which are the principal hubs for aggregating and exporting oil and refined products out of the Western Canadian Sedimentary Basin; gathering pipelines, which are connected to the Hardisty Terminal; an infrastructure position located in the United States (“U.S.”); and a crude oil processing facility in Moose Jaw, Saskatchewan (the “Moose Jaw Facility”). The Moose Jaw Facility is impacted by maintenance turnarounds typically occurring within the spring period.
- (2) **Marketing**, which is involved in the purchasing, selling, storing and optimizing of hydrocarbon products as part of supplying the Moose Jaw Facility and marketing its refined products as well as helping to drive volumes through the Company’s key infrastructure assets. The Marketing segment also engages in optimization opportunities which are typically location, quality and time-based. The hydrocarbon products include crude oil, natural gas liquids, and road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil and an oil-based mud product. The Marketing segment sources the majority of its hydrocarbon products from Western Canada as well as the Permian basin and markets those products throughout Canada and the U.S. During the first quarter of 2019, the Company renamed its Wholesale reportable segment as Marketing and realigned its U.S. Trucking and Transportation assets into the Marketing reportable segment. This realignment reflected management’s view of how information of the business is regularly reviewed internally for the purposes of decision making, allocating resources and assessing performance. The Moose Jaw Facility business is impacted by certain seasonality of operations specific to the oil and gas industry.

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

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

Gibson Energy Inc.
Notes to Consolidated Financial Statements

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

Year ended December 31, 2019

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

Year ended December 31, 2018 ⁽¹⁾

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

Gibson Energy Inc.
Notes to Consolidated Financial Statements

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

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

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

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

Geographic Data

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

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

2 Basis of preparation and statement of compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Professional Accountants and as issued by the International Accounting Standards Board ("IASB").

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

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

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

3 Significant accounting policies

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

Basis of measurement

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Basis of consolidation

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

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

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

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

Foreign currency translation

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

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

Business combinations and goodwill

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

Intangible assets

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

Impairments

The Company carries out impairment reviews in respect of goodwill at least annually or if indicators of possible impairment exist. The Company also assesses during each reporting period whether there have been any events or changes in circumstances that indicate that property, plant and equipment and intangible assets may be impaired and an impairment review is carried out whenever such an assessment indicates that the carrying amount may not be recoverable. Such indicators include, but are not limited to changes in the Company's business plans, economic performance of the assets, changes in commodity prices leading to lower activity levels, an increase in the discount rate and evidence of physical damage. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Where impairment exists, the asset is written down to its recoverable amount, which is the higher of the fair value less costs of disposal (FVLCD) and its value in use (VIU). Impairments are recognized immediately in the consolidated statements of operations.

The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount, that is, the higher of FVLCD and VIU. VIU is usually determined on the basis of discounted estimated future net cash flows. In determining FVLCD, recent market transactions are taken into account, if available. In the absence of such transactions, an appropriate valuation model is used.

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

Assets held for sale and discontinued operations

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

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

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Inventories

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

Leases - lessee

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

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

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

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

Leases - lessor

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

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

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

Provisions and contingencies

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Decommissioning

Liabilities for site restoration on the retirement of assets are recognized when the Company has an obligation to restore the site, and when a reliable estimate of that liability can be made. An obligation may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The present value is determined by discounting the expenditures expected to be required to settle the obligation using a risk-free discount rate. Actual expenditures incurred are charged against the accumulated liability.

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

Environmental liabilities

Environmental liabilities are recognized when a remediation is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the completion of a feasibility study or a commitment to a formal plan of action. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure using a risk-free discount rate.

Employee benefits

Defined benefit pension plan

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

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

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

Defined contribution pension plans

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

Share-based payments

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

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

Termination benefit

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

Income taxes

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

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

Deferred income tax is provided for using the liability method of accounting. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and income tax basis of assets and liabilities. These differences are then measured using enacted or substantially enacted income tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income in the period that the change occurs. Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

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

Revenue recognition

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

Cost of sales

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

Borrowing costs

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

Per share amounts

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

Segmental reporting

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Non-derivative financial instruments – recognition and measurement

Financial assets

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

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

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

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

Financial liabilities

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

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

Compound financial instruments

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

Derivative financial instruments – recognition and measurement

Derivative financial instruments, used periodically by the Company to manage exposure to market risks relating to commodity prices, interest rates, share based compensation and foreign currency exchange rates, are not designated as hedges. They are recorded at

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

fair value and recorded on the Company's balance sheet as either an asset, when the fair value is positive, or a liability, when the fair value is negative. Changes in fair value are recorded immediately in the consolidated statements of operations.

Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

Impairment assessment of non-financial assets

The Company tests annually whether goodwill of an operating segment has suffered any impairment, in accordance with the Company's accounting policy. The recoverable amounts of the operating segments are determined based on the higher of VIU and FVLCD calculations that require the use of estimates. The Company also assesses whether there have been any events or changes in circumstances that indicate that property, plant and equipment and other intangible assets may be impaired and an impairment review is carried out whenever such an assessment indicates that the carrying amount may not be recoverable.

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

Provisions

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

Critical judgements in applying the Company's accounting policies

Identification of cash-generating unit ("CGU")

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

Critical judgements in determining lease terms

The Company uses hindsight in determining the lease term where a contract contains options to extend or terminate the lease. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

extension option, or not exercise a termination option. The assessment is reviewed upon a trigger by a significant event or a significant change in circumstances.

Investment in finance leases

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

Current and deferred taxation

The computation of the Company's income tax expense involves the interpretation of applicable tax laws and regulations in many jurisdictions. The resolution of tax positions taken by the Company can take significant time to complete and in some cases it is difficult to predict the ultimate outcome. In addition, the Company has carry-forward tax losses in certain taxing jurisdictions that are available to offset against future taxable profit. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in consolidated statements of operations in the period in which the change occurs. However, deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized. To the extent that actual outcomes differ from management's estimates, income tax charges or credits may arise in future periods.

4 Changes in accounting policies and disclosures

A. Adoption of new accounting standards

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

B. New standards and interpretations issued but not yet adopted

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

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

5 Trade and other receivables

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

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

6 Inventories

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

7 Net investment in finance leases

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

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

The minimum lease receivables are expected to be as follows:

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

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

On July 2, 2019 the Company completed the sale of the Truck Transportation Canada disposal group ("TT Canada") to Trimac Transportation ("Trimac") for gross proceeds of \$69.5 million, with the potential for additional proceeds depending on the performance of the business over the next five years. Accordingly, the Company derecognized the TT Canada business effective July 2, 2019. As part of the sale, the Company also entered into an agreement with an entity affiliated with Trimac for the sale of the Edmonton field office and shop facilities ("Edmonton assets") for approximately \$30.0 million subject to the satisfaction of certain closing conditions. The Company expects the Edmonton assets sale to close by the end of the second quarter of 2020 subject to satisfaction of certain conditions, with Trimac utilizing the properties under a lease arrangement in the interim period.

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

Discontinued Operations

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

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

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

Wholesale Propane business

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

9 Property, plant and equipment

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
Cost:							
At January 1, 2018	\$ 189,090	\$ 225,679	\$ 642,137	\$ 411,694	\$ 937,378	\$ 185,739	\$ 2,591,717
Additions	2,296	5,780	3,194	8,348	13,074	224,816	257,508
Disposals	(1,477)	-	(3,112)	(72,897)	(37,307)	-	(114,793)
Acquisitions through business combinations	-	19,097	-	-	941	-	20,038
Reclassifications	3,419	53,722	32,264	-	59,696	(149,101)	-
Change in decommissioning provision (note 18)	-	1,761	8,898	-	3,386	-	14,045
Reclassified to net investment in finance leases (note 7)	-	-	(36,389)	-	-	-	(36,389)
Effect of movements in exchange rates	1,067	1,058	1,124	11,493	9,406	17	24,165
Transferred to held for sale and disposals (note 8)	(102,998)	(7,868)	(41,104)	(293,869)	(318,416)	(4,565)	(768,820)
At December 31, 2018	<u>\$ 91,397</u>	<u>\$ 299,229</u>	<u>\$ 607,012</u>	<u>\$ 64,769</u>	<u>\$ 668,158</u>	<u>\$ 256,906</u>	<u>\$ 1,987,471</u>

Accumulated depreciation and impairment:

At January 1, 2018	\$ 37,865	\$ 82,192	\$ 121,173	\$ 286,181	\$ 444,618	\$ -	\$ 972,029
Depreciation	5,494	10,485	23,083	16,186	53,640	-	108,888
Impairment	9,261	2,000	8,082	31,707	25,115	-	76,165
Disposals	(1,702)	(1)	(1,290)	(59,976)	(33,358)	-	(96,327)
Effect of movements in exchange rates	201	4	486	8,554	6,649	-	15,894
Transferred to held for sale and disposals (note 8)	(32,040)	(4,239)	(20,933)	(238,320)	(217,857)	-	(513,389)
At December 31, 2018	<u>\$ 19,079</u>	<u>\$ 90,441</u>	<u>\$ 130,601</u>	<u>\$ 44,332</u>	<u>\$ 278,807</u>	<u>\$ -</u>	<u>\$ 563,260</u>

Carrying amounts:

At January 1, 2018	\$ 151,225	\$ 143,487	\$ 520,964	\$ 125,513	\$ 492,760	\$ 185,739	\$ 1,619,688
At December 31, 2018	\$ 72,318	\$ 208,788	\$ 476,411	\$ 20,437	\$ 389,351	\$ 256,906	\$ 1,424,211

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

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

Amounts in relation to tanks are under operating lease arrangements.

Gibson Energy Inc.**Notes to Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)***10 Right-of-use assets**

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

Gibson Energy Inc.**Notes to Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)*

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

11 Long-term prepaid and other assets

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

12 Intangible assets

	Brands	Customer relationships	Long-term customer contracts	Non-compete agreements	Technology, Software, and License	Total
Cost:						
At January 1, 2019	\$ 34,837	\$ 99,431	\$ 63,625	\$ 20,398	\$ 74,642	\$ 292,933
Additions	-	-	-	-	5,497	5,497
Disposals	(12,125)	(40,125)	-	(12,361)	(7,988)	(72,599)
Effect of movements in exchange rates	-	(1,001)	(2,943)	(365)	(134)	(4,443)
Transferred to held for sale and disposals (note 8)	(12)	(5,860)	(35,237)	(5,442)	(654)	(47,205)
At December 31, 2019	\$ 22,700	\$ 52,445	\$ 25,445	\$ 2,230	\$ 71,363	\$ 174,183

Accumulated amortization and impairment:

At January 1, 2019	\$ 34,825	\$ 98,206	\$ 43,674	\$ 20,398	\$ 53,834	\$ 250,937
Amortization	-	1,225	1,987	-	9,624	12,836
Disposals	(12,125)	(40,125)	-	(12,361)	(7,988)	(72,599)
Effect of movements in exchange rates	-	(1,001)	(1,990)	(365)	(94)	(3,450)
Transferred to held for sale and disposals (note 8)	-	(5,860)	(35,237)	(5,442)	(599)	(47,138)
At December 31, 2019	\$ 22,700	\$ 52,445	\$ 8,434	\$ 2,230	\$ 54,777	\$ 140,586

Carrying amounts:

At January 1, 2019	\$ 12	\$ 1,225	\$ 19,951	\$ -	\$ 20,808	\$ 41,996
At December 31, 2019	\$ -	\$ -	\$ 17,011	\$ -	\$ 16,586	\$ 33,597

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Accumulated amortization and impairment:

At January 1, 2018	\$ 44,472	\$ 250,560	\$ 39,971	\$ 24,551	\$ 53,390	\$ 412,944
Amortization	727	1,118	508	47	10,334	12,734
Impairment (note 8)	273	-	-	-	2,057	2,330
Disposals	-	-	-	-	(125)	(125)
Effect of movements in exchange rates	383	6,168	3,195	124	(229)	9,641
Transferred to held for sale and disposals (note 8)	(11,030)	(159,640)	-	(4,324)	(11,593)	(186,587)
At December 31, 2018	<u>\$ 34,825</u>	<u>\$ 98,206</u>	<u>\$ 43,674</u>	<u>\$ 20,398</u>	<u>\$ 53,834</u>	<u>\$ 250,937</u>

Carrying amounts:

At January 1, 2018	\$ 1,040	\$ 2,319	\$ -	\$ 47	\$ 30,443	\$ 33,849
At December 31, 2018	\$ 12	\$ 1,225	\$ 19,951	\$ -	\$ 20,808	\$ 41,996

13 Goodwill

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

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

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

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

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

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

Key assumptions used in 2019 impairment test

To calculate the recoverable amount, management uses the higher of the FVLCD and VIU. The recoverable amount was determined using either a discounted cash flow approach, an earnings multiple approach, or market based approach. The Company references Board approved budgets and cash flow forecasts, trailing twelve-month (TTM) earnings before interest, taxes, depreciation and amortization and impairment (EBITDA), implied multiples and appropriate discount rates in the valuation calculations. The implied

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

multiple is calculated by utilizing multiples of comparable public companies by operating segment. To determine fair value, an implied forward multiple was applied to each operating segment's budgeted EBITDA less corporate expenses. In calculating fair value for each operating segment, other than U.S. Pipelines, the Company used an implied forward multiples that ranged from 8 to 14. Cash flows were projected based on past experience, actual operating results and the 2020 budget.

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

	<u>U.S. Pipelines</u>
Pre- tax discount rate	10.3%
Terminal value growth rate	1.0%

- (i) Cash flows were projected based on past experience, actual operating results and the five-year business plan.
- (ii) The terminal value growth rate is based on management's best estimate of the long-term growth rate for after the forecast period, considering historic performance and future economic forecasts.
- (iii) Each operating segment discount rate reflects their individual size, risk profile and circumstance and is based on past experience and industry average weighted average cost of capital.

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

14 Loans and Borrowings

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

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

On September 17, 2019, the Company issued \$500 million Senior Unsecured Medium Term Notes ("2029 Notes"). The 2029 Notes have a fixed coupon rate of 3.6% per annum, payable, semi-annually, on March 17 and September 17 and mature of September 17, 2029. The Indentures governing the terms of the 2029 Notes, including the supplemental indenture thereto, contain certain redemption options whereby the Company can redeem all or part of the 2029 Notes at prices set forth in the applicable Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of 2029 Notes have the right to require the Company to redeem the 2029 Notes at the redemption prices set forth in the respective indebtedness in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the applicable Indenture.

On October 17, 2019 the Company redeemed all of the 5.375% Notes due July 15, 2022 ("2022 Notes") at a redemption price of \$1,013.44 per \$1,000 principal amount plus accrued and unpaid interest of \$13.74 per \$1,000 principal amount. During the year ended December 31, 2019 the Company incurred debt extinguishment costs related to the repayment of 2022 Notes of \$6.1 million.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Revolving Credit Facility, due March 31, 2024	\$ 60,000	\$ 150,000
2022 Notes	-	300,000
2024 Notes	600,000	600,000
2029 Notes	500,000	-
Unamortized issue discount and debt issue costs.....	(11,293)	(10,422)
Total debt	<u>\$ 1,148,707</u>	<u>\$ 1,039,578</u>

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

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

The components of finance costs are as follows:

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

15 Lease Liabilities

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

The Company incurs lease payments related to rail cars, head office facilities, vehicles and equipment, and surface leases. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company has recognised lease liabilities in relation to all lease arrangements measured

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

at the present value of the remaining lease payments from commitments disclosed as at December 31, 2019 at a weighted average borrowing rate of 4.4%.

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

16 Convertible debentures

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

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

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

17 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

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

Gibson Energy Inc.
Notes to Consolidated Financial Statements

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

18 Provisions

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

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

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

19 Other long-term liabilities

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

20 Share capital

Authorized

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Common Shares – Issued and outstanding

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

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

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

21 Income tax

The major components of income tax are as follows:

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

Gibson Energy Inc.**Notes to Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)*

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

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

Effective income tax rate – continuing operations	10.5%	40.7%
Effective income tax rate – discontinued operations.....	27.2%	8.0%

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

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

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

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

Income tax losses carry forward

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

December 31, 2032.....	\$ 1,950
December 31, 2035.....	19,366
December 31, 2036.....	61,349
December 31, 2037.....	12,782
December 31, 2039 and beyond.....	58,782
	<u>\$ 154,229</u>

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

22 Revenue

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

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

Year ended December 31, 2019

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

Gibson Energy Inc.**Notes to Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)***Year ended December 31, 2018**

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

Gibson Energy Inc.**Notes to Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)***23 Depreciation, amortization and impairment**

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

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

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

24 Employee salaries and benefits

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

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

Employee salaries and benefits have been expensed as follows:

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Compensation of key management

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

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

25 Other operating income

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

26 Per share amounts

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

27 Post-retirement benefits

Defined benefit plans

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

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

Accrued benefit obligation

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

Plan assets

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

Accrued benefit asset (liability)

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

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

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

Defined contribution pension plan

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

28 Share based compensation

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

A summary of stock option activity is as follows:

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

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

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

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

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

29 Financial instruments

Non-Derivative financial instruments

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

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

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

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Derivative financial instruments (recurring fair value measurements)

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

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

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

(i) Commodity financial instruments

Futures, options and swaps

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

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

(ii) Currency financial instruments

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

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

(iii) Equity price financial instruments

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

The value of the Company's derivative financial instruments is determined using inputs that are either readily available in public markets or are quoted by counterparties to these contracts. In situations where the Company obtains inputs via quotes from its counterparties, these quotes are verified for reasonableness via similar quotes from another source for each date for which financial statements are presented. The Company has consistently applied these valuation techniques in all periods presented and the Company believes it has obtained the most accurate information available for the types of financial instrument contracts held. The Company has categorized the inputs for these contracts as Level 1, defined as observable inputs such as quoted prices in active

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

markets; Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; or Level 3 defined as unobservable inputs in which little or no market data exists therefore requiring an entity to develop its own assumptions.

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

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

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

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

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

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

Gibson Energy Inc.
Notes to Consolidated Financial Statements

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

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

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

Financial Risk Management

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

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

a) Foreign currency exchange risk

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

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

Foreign currency exchange rate sensitivity

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

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

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

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

b) Interest rate risk

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

c) Commodity price risk

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

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

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

d) Credit risk

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

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

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

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

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

e) Liquidity risk

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

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

Capital management

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

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

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

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

	December 31,	
	2019	2018
Total financial liability borrowings	\$ 1,280,515	\$ 1,148,649
Debentures (liability component) ⁽¹⁾	89,655	89,765
Less: cash and cash equivalents	(47,231)	(95,301)
Net debt	1,322,939	1,143,113
Total share capital (including Debentures – equity component)	1,980,850	1,962,169
Total capital	<u>\$ 3,303,789</u>	<u>\$ 3,105,282</u>

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

30 Commitments and contingencies

Commitments

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

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

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

Contingencies

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

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

31 Subsequent Events

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

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

Gibson Energy Inc.**Notes to Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)***32 Supplemental cash flow information**

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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