



Management's
Discussion and Analysis
2017 First Quarter Report



The following Management's Discussion and Analysis ("MD&A") was prepared and approved by the Board of Directors (the "Board") of Gibson Energy Inc. ("we", "our", "us", "its", "Gibsons" or the "Company") as of May 8, 2017 and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes of Gibson Energy Inc. for the three months ended March 31, 2017 and 2016, the audited consolidated financial statements and related notes for the years ended December 31, 2016 and 2015, which were prepared under International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Professional Accountants and as issued by the International Accounting Standards Board ("IASB"), also referred to as GAAP, and the MD&A for the year ended December 31, 2016. The unaudited condensed consolidated financial statements referred to above include all adjustments of a normal recurring nature necessary for the fair statement of the Company's financial position as of March 31, 2017, its results of operations for the three months ended March 31, 2017 and 2016, and its cash flows for the three months ended March 31, 2017 and 2016. The unaudited condensed consolidated financial statements do not include all the annual disclosures required by IFRS and should be read in conjunction with the annual audited consolidated financial statements and related notes for the fiscal year ending December 31, 2016. The results for the interim periods are not necessarily indicative of the results to be expected for any future period or for the fiscal year ending December 31, 2016. Amounts are stated in Canadian dollars unless otherwise noted. Additional information about Gibsons, is available on SEDAR at www.sedar.com and on our website at www.gibsons.com.

This MD&A contains forward-looking statements and non-GAAP measures and readers are cautioned that this MD&A should be read in conjunction with the Company's disclosure under "Forward-Looking Statements" and "Non-GAAP Financial Measures" included at the end of this MD&A.

BUSINESS OVERVIEW

We are a Canadian-based midstream energy company headquartered in Calgary, Alberta, with operations in key hydrocarbon basins across North America. For over 60 years, Gibsons has delivered integrated midstream solutions to customers in the oil and gas industry, safely and reliably. Our North American operations include the movement, storage, blending, processing, marketing and distribution of crude oil, natural gas liquids ("NGLs") and refined products, including oilfield waste and water management services.

Our strategy and strengths

Our principal business strategy is to use our assets, market knowledge and operational expertise to move, and provide storage for, crude oil, NGLs and refined products from the source of production to the most appropriate end-market, throughout Canada and the United States ("U.S.").

To achieve this, our strategy is to:

- Invest in midstream infrastructure with a focus on fixed fee-based commercial structures not dependent on volumes that are responsive to customers and generate predictable, sustainable, long-term cash flow and earnings;
- Expand our business by improving and enhancing services at existing facilities;
- Pursue focused, complementary 'bolt-on' growth, within our existing footprint, that directly supports our infrastructure assets;
- Deliver safe and reliable operations, while aggressively managing costs to maintain and improve operating margins; and
- Maintain a strong balance sheet and ample liquidity to be prepared for different market conditions and be responsive to opportunities.

We believe that our business model provides significant competitive advantages:

- *Strategic Asset Base:* We have competitively advantaged land positions and infrastructure in Canada's major crude oil hubs at Hardisty, Alberta and Edmonton, Alberta, largely underpinned by dedicated tanks with fixed fee arrangements not dependent on volumes. Our broad North American presence allows us to build local relationships in those basins, provide competitive services and capitalize on opportunities.
- *Integrated Solutions:* Through our integrated solutions offering, we can deliver customers a broad range of synergistic midstream services. This approach allows us to use the full value of our assets and network to better solve customer challenges, create opportunities and, ultimately, deliver more profitable results. We believe we are one of the few industry players who have the capability to deliver these integrated solutions to our customers.

- *Customer relationships:* Our culture is based on putting the customer at the center of everything we do. We focus on building long-term relationships with our customers and we believe this approach allows us to better understand and be more responsive to our customers' midstream challenges and requirements.
- *Operational Excellence:* In addition to being highly skilled in building and operating our infrastructure, we have a track record of sourcing and successfully executing internal growth projects. We do all of this with a firm commitment to be a leader in health, safety, security and the environment. Our experienced leadership team has a proven history of successful operations and a strong industry reputation.

SELECTED FINANCIAL INFORMATION

	Three months ended March 31,	
	2017	2016 ⁴
Continuing operations		
Revenue	\$ 1,449,562	\$ 906,227
Segment profit	86,766	63,747
Net (loss) income	(9,908)	35,575
Basic and diluted (loss) earnings per share.....	(0.07)	0.28
Adjusted EBITDA ^{2,3}	73,269	57,921
EBITDA ^{2,3}	34,344	95,486
Distributable cash flow ^{2,3}	41,780	16,544
Dividends declared.....	47,057	41,743
Cash flow from operating activities	102,008	59,354
Growth capital expenditures	\$ 25,165	\$ 55,535
Combined operations ¹		
Segment profit ¹	\$ 100,403	\$ 80,221
Combined adjusted EBITDA ^{1, 2, 3}	86,906	74,043
Combined EBITDA ^{1, 2, 3}	223,345	111,960
Distributable cash flow ^{2, 3}	\$ 43,636	\$ 31,850
As at March 31,		
	2017	2016⁴
Ratios		
Total and senior debt leverage ratio.....	3.4	3.8
Interest coverage ratio ⁵	2.8	4.0

¹ See discussion on non-GAAP measures on page 34. Combined segment profit, Adjusted EBITDA and EBITDA represent the aggregated results of both continuing and discontinued operations which are provided separately in this document.

² See discussion on non-GAAP measures on pages 18 to 23 and 34.

³ See pages 28 and 18 to 23 for a reconciliation of distributable cash flow to cash flow from operations and EBITDA to net income (loss), respectively. Distributable cash flow from combined operations include results from continuing and discontinued operations.

⁴ Comparative period information has been restated to reflect the impact of discontinued operations in accordance with the requirements of IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. Unless otherwise stated, the Industrial Propane segment will be referred to as "Discontinued Operations", and the remaining operations as "Continuing Operations", and the total discontinued and continuing operations as "Combined Operations" throughout this MD&A.

⁵ The interest coverage ratio as at March 31, 2017 does not reflect the impact of interest expense savings from the refinancing as discussed later in the MD&A. Any benefits from future interest cost reductions will have a positive impact on our debt ratios in future periods starting with Q2 2017.

Q1 2017 REVIEW

Financial highlights

- Segment profit for the Infrastructure segment increased by 25% to \$60.3 million for the three months ended March 31, 2017 compared to \$48.4 million for the three months ended March 31, 2016 primarily as a result of the additional tank capacity and associated fixed fee contracts added during the fourth quarter of 2016.
- Combined segment profit increased by 25% to \$100.4 million for the three months ended March 31, 2017 compared to \$80.2 million for the three months ended March 31, 2016.
- Combined Adjusted EBITDA increased by 17% to \$86.9 million for the three months ended March 31, 2017 compared to \$74.0 million for the three months ended March 31, 2016.
- For the three months ended March 31, 2017 the Company incurred a net loss from continuing operations of \$9.9 million compared to a net income of \$35.6 million for the three months ended March 31, 2016.
- In the first quarter of 2017, the Company declared a dividend of \$0.33 per common share. Total dividends declared for the three months ended March 31, 2017, was \$47.1 million representing a 13% increase over the \$41.7 million declared for the three months ended March 31, 2016.
- Distributable cash flow from continuing operations increased by 153% to \$41.8 million for the three months ended March 31, 2017 compared to \$16.5 million for the three months ended March 31, 2016.
- On March 1, 2017, Gibsons granted an Option Right to Superior Plus LP ("Superior") to purchase Gibsons' Industrial Propane segment pursuant to the Option Agreement in exchange for an adjusted cash consideration of \$434.8 million, at which time Superior exercised the Option Right in accordance with the Option Agreement. As a result, the Company derecognized the Industrial Propane segment effective March 1, 2017 and recorded a net gain, after tax of \$148.6 million within discontinued operations results. Gibsons will continue to operate the business based on the terms and covenants of the Option Agreement under the direction of the current management team, until 100% of the partnership units and shares (the "Securities") of the Canwest and Stittco businesses are transferred to Superior, which is expected to occur no later than the fourth quarter of 2017, subject to the receipt of customary regulatory approvals.
- On March 22, 2017, the Company closed the issuance of \$350.0 million aggregate principal amount of 5.25% senior unsecured notes due July 15, 2024 (the "New Notes"). The net proceeds of the issuance, along with a portion of the net proceeds from the previously announced sale of the Company's Industrial Propane business, were utilized to repay \$211.1 million of its 7.00% senior notes due 2020 and U.S.\$338.8 million of its 6.75% senior notes due 2021. Accordingly, the Company recorded debt extinguishment costs of \$49.3 million. The closing of the New Notes issuance, in combination with the early retirement of the portions of the existing notes, strengthens the Company's balance sheet by reducing its long-term indebtedness, decreases its annual interest costs and extends its debt maturity profile.

Capital expenditure highlights

- During the quarter ended March 31, 2017, the Company incurred total growth capital expenditures of \$25.0 million of which \$24.3 million was attributable to the Infrastructure segment for new tanks and related infrastructure at the Hardisty and Edmonton terminals.

Credit facility

- During the three months ended March 31, 2017, the Company amended its Revolving Credit Facility whereby, amongst other revisions, the maximum consolidated senior debt leverage ratio and the maximum consolidated total debt leverage ratio are now 4.85 to 1.0 for the 2017 fiscal year, 4.25 to 1.0 for the 2018 fiscal year and 4.0 to 1.0 thereafter. Furthermore, the maturity date of our Revolving Credit Facility has been extended from August 2020 to March 2022.

SUBSEQUENT EVENTS

Dividend

- On May 8, 2017, the Board declared a quarterly dividend of \$0.33 per common share for the three months ended June 30, 2017 on its outstanding common shares. The dividend is payable on July 17, 2017 to shareholders of record at the close of business on June 30, 2017.

PROJECT DEVELOPMENTS AND MARKET OUTLOOK

Major growth projects

The Company continues to progress towards the completion of major growth projects within its Infrastructure segment, primarily related to the construction of tankage and pipeline connections. These projects include the construction of two new 400,000 barrel crude oil storage tanks and related pipeline connection infrastructure at the Company's Edmonton Terminal. These new tanks, which are now expected to be in-service in the first half of 2018, are underpinned by a long-term, fixed fee contract not dependent on volumes with a large, integrated, investment grade customer.

Additionally, we continue to make progress with commercial development opportunities that, with success, will enable us to add additional storage and connection infrastructure for our customers. In anticipation of success with our customer contracting process, we are moving forward with the front-end engineering and initial civil work to develop an array of up to four tanks on the east side of our Hardisty Terminal. Similar to prior new tank construction initiatives, full development of these tanks will be supported by long-term fixed fee contracts not dependent on volumes.

Market outlook

Gibsons periodically evaluates its long-range strategic plan in order to assess the implications of emerging industry trends. These industry trends have the ability to affect Gibsons' business and prospects over the short-term ("2 years or less") and the medium to long-term ("two to five years").

There are a number of factors that affect our producer customers' views of market access over the short and medium term, particularly in the Western Canadian Sedimentary Basin (the "WCSB"). These views, in addition to commodity prices, influence their willingness to increase capital expenditure programs, that ultimately increase activity and production volumes, which create opportunities for our terminals at Hardisty and Edmonton, as well as our integrated services that support those assets:

- The recent receipt of Canadian federal approval for the Trans Mountain Expansion pipeline, and U.S. Presidential Permit for the Keystone XL pipeline have revived the prospects for two of three crucial initiatives (including the Energy East pipeline project) that should help the growing supply of Canadian crude oil garner improved access to the large refining markets in the U.S., Eastern Canada and other foreign locales. The starting point for the pipelines would be adjacent to the Company's Hardisty (Keystone XL) and Edmonton (Trans Mountain Expansion) terminals which could provide increased opportunities for the Company's terminalling services. The timelines for these pipelines would be within our medium to long-term horizon;
- More immediately, Enbridge Inc.'s ("Enbridge") expansion of its Line 67, which went into operation in July 2015, and the proposed replacement of its Line 3, will help the growing supply of Canadian crude oil gain access to the largest refining markets in the U.S. and Eastern Canada. The replacement of Line 3, which received Canadian approval in December, 2016, and is awaiting U.S. approval, could provide incremental capacity by 2019. The Hardisty Terminal is connected to deliver to both of these pipelines and these expansions should provide increased opportunities for the Company's terminal services at Hardisty;
- Enbridge's twinning of the southern section of its Athabasca pipeline, commissioned in January, 2017, should also provide for incremental volumes into the Hardisty Terminal and increased opportunities for the Company's terminal services at Hardisty;
- In the short-term, crude oil pricing, location and quality disconnects, combined with the existing shortage of pipeline takeaway capacity from the WCSB, necessitate demand for terminal services and crude by rail ("CBR") as a solution for export market access. While low crude oil prices have negatively impacted the economics of CBR in recent quarters, the Company expects that as oil prices stabilize, and when export pipeline access becomes a barrier to reach markets, opportunities for the Company to increase its service offering to include more CBR movements will arise;
- Over the medium to long-term, as market access solutions become more certain, the supply of Canadian heavy crude oil from the oil sands should start to grow more rapidly again, resulting in increased demand for terminal services and diluent in the WCSB. Additionally, the sanctioning of oil sands related projects in Alberta, such as Kirby North (Canadian Natural Resources Limited) and Christina Lake Phase G (Cenovus Energy Inc.) should result in increased demand for terminal services and movements of diluent through the Hardisty, Edmonton and Alberta Heartland areas' pipeline and terminal infrastructure and may generate increased opportunities for Gibsons' services; and
- The lifting of the U.S. crude oil export ban in December, 2015 may further advance demand for the utilization of midstream assets to enable increased volumes of crude oil to access tidewater export locations. Gibsons' U.S. presence and extensive

footprint offer an important growth platform that should prove advantageous to the Company's North America-wide core midstream infrastructure development plan.

In light of the low crude oil prices and Canada's ensuing greenhouse policy divergence with its largest export market, the recent consolidation of Canadian crude oil assets should promote operational synergies and facilitate improved production netbacks for Gibsons' producer customers, as well as transform the nature of competition within the midstream sector. Additionally, the exit of foreign ownership in favor of Canadian oil sand companies that are experts in the development and production of this specialized resource could accelerate the development and production of additional reserves from these resources. Gibsons remains comparatively advantaged, by its uniquely sited and scalable infrastructure to: capture barrels; offer economies of scale; optimize service levels and mitigate execution risks for its producer customers – all of which attributes are crucial, in the short to medium term, in making Canadian crude more competitive and defending its share of export markets.

The current sustained crude prices at the WTI U.S. \$50 per barrel level, combined with the commitments of the Organization of the Petroleum Exporting Countries ("OPEC") to limit supply, improving cost efficiencies and increasing optimism regarding market access solutions, have resulted in modest increases in capital programs being announced over the two preceding quarters by a number of our North American producer customers. However, the ongoing tension between OPEC production containment and U.S. production increases is creating uncertainty around the sustainability of a supply management strategy by OPEC and is also translating into a bearish and tightened range bound outlook for crude prices for the remainder of 2017 and 2018. Over the medium-term, as crude oil supply and demand fundamentals rebalance, the Company anticipates a slow return to increased activity and production levels, a continued demand for midstream assets and a slowly increasing demand for the services provided by our more activity sensitive businesses.

Price fluctuations between crude oil types can create incremental margin opportunities in multiple areas of the Company's operations. While current price differentials have continued to remain compressed in spite of the recent firming of benchmark crude oil prices and, in fact, have collapsed even further at the end of Q1 which will extend well into Q2 due to the Syncrude fire in mid-March 2017, the Company remains attentive to opportunities as this trend continues to evolve.

Over the medium to long-term the Company expects new technology for drilling, completion and oil sands development to be deployed within the industry which should improve producers' cost structures and further enhance the viability and resilience of the specific basins in which Gibsons has strategically chosen to operate, resulting in increased North American production and increased demand for Gibsons' services. This should also translate into a significant increase in produced water and other oilfield waste. This increase in oilfield waste, together with increased regulatory scrutiny, should increase demand for the Company's Logistics services.

RESULTS OF CONTINUING OPERATIONS

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

The following is a discussion of the Company's segmented results of operations for the three months ended March 31, 2017 and 2016 and the following table sets forth revenue and profit by segment for those periods:

	Three months ended March 31,	
	2017	2016
Segment revenue		
Infrastructure	\$ 85,626	\$ 71,623
Logistics	126,890	140,049
Wholesale	1,386,627	785,773
Other	4,097	6,026
Total segment revenue	1,603,240	1,003,471
Revenue—inter-segmental	(153,678)	(97,244)
Total revenue—external	1,449,562	906,227
Segment profit		
Infrastructure	60,262	48,361
Logistics	8,581	9,683
Wholesale	17,916	5,165
Other	7	538
Total segment profit	86,766	63,747
General and administrative	9,305	12,022
Depreciation	42,581	40,087
Amortization	5,706	10,652
Stock based compensation (recovery) expense	(1,145)	3,356
Debt extinguishment costs	49,327	-
Net interest expense	24,219	19,683
Foreign exchange gain	(4,400)	(46,993)
(Loss) income before income tax	(38,827)	24,940
Income tax recovery	(28,919)	(10,635)
Net (loss) income from continuing operations	\$ (9,908)	\$ 35,575

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

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

INFRASTRUCTURE

The Infrastructure segment is comprised of a network of midstream infrastructure assets that include oil terminals, rail loading and unloading facilities, injection stations, gathering pipelines and processing facilities that collect, store and process oil and other liquid hydrocarbon production and by-products before eventual distribution to end-use markets. The primary facilities within this segment include the terminals located at Hardisty and Edmonton, which are the principal hubs for aggregating and exporting oil and refined products out of the WCSB; gathering pipelines, which are connected to the Hardisty Terminal and to one of our Processing Recovery and Disposal (“PRD”) locations; injection stations, which are located in the U.S.; a crude oil processing facility in Moose Jaw, Saskatchewan (the “Moose Jaw Facility”) and processing, recovery, and disposal terminals located throughout Western Canada and the Northern U.S.

The following tables set forth the operating results from the Company’s Infrastructure segment for the three months ended March 31, 2017 and 2016:

Volumes (barrels in thousands)	Three months ended March 31,	
	2017	2016
Terminals and facilities		
Hardisty Terminals	62,245	55,587
Edmonton Terminals	4,780	4,124
Moose Jaw Facility	1,407	1,475
PRD Terminals	4,132	3,484
Injection stations.....	3,762	9,307
Total terminals and facilities	<u>76,326</u>	<u>73,977</u>
	Three months ended March 31,	
	2017	2016
Revenue		
Hardisty Terminals	\$ 49,914	\$ 41,833
Edmonton Terminals	13,246	9,568
Moose Jaw Facility	9,849	9,851
PRD Terminals	11,434	8,295
Injection stations.....	1,183	2,076
Total revenue	<u>85,626</u>	<u>71,623</u>
Operating expenses and other.....	<u>25,364</u>	<u>23,262</u>
Segment profit	<u>\$ 60,262</u>	<u>\$ 48,361</u>

Operational performance

Hardisty Terminal volumes increased by 12% primarily driven by the impact of the new tanks commissioned in the fourth quarter of 2016.

Edmonton Terminal volumes increased by 16% which was mainly due to commissioning of the Edmonton West Terminal, completed in the fourth quarter of 2016.

Moose Jaw Facility volumes decreased by 5% primarily due to the impact of lower processing activity as inventory levels accumulated in the fourth quarter of 2016 were drawn down during the first quarter and were sufficient to service increased demand for distillates related to the drilling activity in the WCSB and the North Dakota Bakken.

PRD Terminal volumes increased by 19%, mainly due to higher drilling activity levels, primarily driven by the recovery of crude prices in the quarter, in the Company’s WCSB service areas particularly in the Saskatchewan Viking and the Alberta Montney.

Injection Station volumes decreased by 60%, mainly due to a decrease in activity with a major customer in the North Dakota Bakken and South Texas as a result of the low netbacks in the region causing them to shift focus to other basins.

Financial performance

Revenue at the Hardisty Terminal increased by \$8.1 million largely driven by additional revenue from the new tanks commissioned in the fourth quarter of 2016 providing more customers with dedicated tank usage pursuant to fixed fee arrangements not dependent on volumes.

Revenue at the Edmonton Terminal increased by \$3.7 million primarily due to the impact of the revenue related to the commissioning of the Edmonton East Terminal expansion and the impact of additional fixed fee arrangements and associated volumes related to the new tank at the Edmonton West Terminal that was commissioned in the third quarter of 2016.

PRD Terminal revenue increased by \$3.1 million primarily due to higher crude prices and increased drilling activity in the current quarter, which helped drive additional volumes into the Company's facilities, and provided for additional contribution from recovered oil revenues.

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

Injection station revenue decreased by \$0.9 million primarily related to lower volumes as previously discussed.

Segment profit increased by \$11.9 million, primarily due to the increased revenues from both the Hardisty Terminal and the Edmonton Terminal. The revenue increase was partially offset by reductions in revenues from injection stations, and marginally higher operating costs, from the expansion of the terminals.

Capital expenditures

Below is the summary of the Infrastructure capital expenditures for the three months ended March 31, 2017 and 2016:

	Three months ended March 31	
	2017	2016
Growth capital	\$ 24,320	\$ 52,727
Upgrade and replacement capital.....	\$ 1,897	\$ 1,046

Growth capital expenditures for the three months ended March 31, 2017 primarily relate to the construction of additional tanks and related infrastructure at the Edmonton and Hardisty Terminals. Expenditures for the three months ended March 31, 2016 include the construction of additional tanks and related infrastructure at the Hardisty Terminal, the Edmonton Terminal and the Moose Jaw Facility.

Upgrade capital includes improvement projects that extend the physical life of an asset, while replacement capital includes purchases that replace existing assets as necessary to maintain current service levels or replace assets that no longer have a useful economic life. Upgrade and replacement capital increased by \$0.9 million for the three months ended March 31, 2017 compared to the same period prior year, primarily due to mechanical and repair projects completed in preparation for the annual Moose Jaw Facility turnaround.

LOGISTICS

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

The following tables set forth operating results from the Company's Logistics segment for the three months ended March 31, 2017 and 2016:

Volumes (barrels hauled in thousands)	Three months ended March 31,	
	2017	2016
Canadian crude and other products.....	12,124	10,895
U.S. crude and other products.....	7,337	9,972
Total.....	19,461	20,867

	Three months ended March 31,	
	2017	2016
Revenue		
Canadian Crude and other product hauling.....	\$ 50,848	\$ 47,038
U.S. Crude and other product hauling.....	18,804	29,920
Water hauling and disposal.....	28,636	27,440
Other products and services.....	28,602	35,651
Total revenue.....	126,890	140,049
Cost of sales.....	94,331	101,626
Operating expenses and other.....	23,978	28,740
Segment profit.....	\$ 8,581	\$ 9,683

Operational performance

Canadian crude and other product hauling barrels increased by 11% primarily due to higher levels of volume-based hauling activity in Northern Alberta and the Saskatchewan Bakken attributable to the increase in drilling activity. This increase in crude, condensate and asphalt volumes hauled was partially offset by lower sulphur volumes in the current quarter.

U.S. crude and other products volume decreased by 26% primarily due to the completion of more gathering system connections to existing wells in the areas the Company services and increased competition in the Permian and other parts of Texas. Additionally, the current quarter volumes were negatively impacted as the Company chose to exit the Utica Basin in the fourth quarter of 2016 due to uneconomic hauling margins in the region.

Financial performance

Canadian crude and other product revenue increased by 8% primarily due to higher volumes hauled from increasing production volumes as a consequence of higher drilling activity in Northern Alberta and Saskatchewan Bakken.

U.S. crude and other revenue decreased by 37%, primarily driven by lower volumes hauled due to gathering system connections in the Permian basin and by the Company's exit from the Utica basin.

Water hauling and disposal revenue increased by 4%, primarily driven by the impact of the continued increase in production related volumes in the Bakken and Northern Alberta which is in line with the trend noted in the fourth quarter of 2016.

Other products and services revenue decreased by 20%, primarily driven by the continued increase in competition in the Bakken, Rockies and Eagle Ford regions as noted in the fourth quarter of 2016.

Segment profit decreased by 11%. The decrease was primarily due to lower gross margins earned on U.S. crude and other products, driven by reduced volumes and lower rates. Canadian operations were positively impacted by higher and improved margins primarily related to petroleum coke and crude hauling, however this was offset by lower margins earned on sulphur, gypsum, and propane in the quarter. The reduction in margins was partially offset by lower overall operating expenses, largely due to the continuation of the reduction in payroll related costs associated with overall headcount reductions.

Capital expenditures

Below is the summary of the Logistics capital expenditures for the three months ended March 31, 2017 and 2016:

	Three months ended March 31	
	2017	2016
Growth capital.....	\$ 119	\$ 1,792
Upgrade and replacement capital.....	\$ 2,280	\$ 2,476

Growth capital expenditures for the three months ended March 31, 2016 largely represent final completion expenditures related to the building of the new Edmonton truck terminal.

Upgrade and replacement capital decreased 8% for the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily due to a decrease in spending related to the replacement of on-board computer software for the truck fleet.

WHOLESALE

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

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

	Three months ended March 31,	
	2017	2016
WTI average price (\$USD/bbl).....	\$ 51.91	\$ 33.45
WCS differential (\$USD/bbl)	14.58	14.24
Average foreign exchange rates U.S. dollar to Canadian dollar	1.32	1.37
Propane average price (\$USD/U.S. gallon).....	0.64	0.36
Butane average price (\$USD/U.S. gallon).....	\$ 0.90	\$ 0.53
	Three months ended March 31,	
	2017	2016
Volumes (barrels in thousands)		
Crude and diluent	26,810	23,519
Propane and other NGL	3,551	4,603
Refined products.....	830	676
	31,191	28,798
	Three months ended March 31,	
	2017	2016
Revenue		
Crude and diluent.....	\$ 1,124,121	\$ 616,715
Propane and other NGL.....	184,502	126,455
Refined products.....	78,004	42,603
Total revenue.....	1,386,627	785,773
Cost of sales.....	1,361,595	772,088
Operating expenses and other	7,116	8,520
Segment profit.....	\$ 17,916	\$ 5,165

Operational performance

Sales volumes for crude and diluent increased by 14%. The increase was mainly due to additional opportunities to bring volumes into the Company's integrated assets, attributable to the rise in available production volumes driven by the increase in crude prices. Additionally, the introduction of the Hardisty single shipper model in the latter half of 2016 has contributed towards higher volumes at the Hardisty terminal in the current period.

Sales volumes for propane and other NGLs declined 23% primarily due to tighter supply and demand conditions for these products largely driven by the current over supply of rail cars in the market place and increased competition specific to the Company's end markets.

Volumes for refined products increased by 23% primarily due to higher demand for OBM, distillates, and roofing flux, principally as a result of increased WCSB drilling activity and increased demand for roofing asphalt.

Financial performance

Revenue for crude and diluent increased by 82% largely due to higher average crude oil prices and the increase in volumes in the current quarter.

Revenue for propane and other NGLs increased by 46% mainly due to higher butane and propane prices during the current year period, partially offset by a reduction in volumes.

Revenue for Refined Products increased by 83% due to higher volumes sold, as well as higher average crude oil prices which supported the increase in prices for OBM, distillates, and roofing flux.

Segment profit increased by 247%. The increase was mainly due to higher propane and butane margins in the current period resulting from higher prices during the quarter. Furthermore, operating expenses decreased primarily due to a foreign exchange loss of \$0.4 million, recorded in 2017, compared to a foreign exchange loss of \$1.2 million, recorded in 2016. The overall segment profit increase was partially offset by the impact of lower gross margins on crude oil, primarily driven by the narrow spreads in crude oil grades negatively impacting quality arbitrage opportunities.

OTHER

The Other segment includes the provision of other services to the oil and gas industry including exploration support services ("ESS") and accommodation services.

The following tables set forth the operating results from the Company's Other segment for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,	
	2017	2016
Revenue.....	\$ 4,097	\$ 6,026
Cost of sales.....	3,804	5,101
Operating expenses and other	286	387
Segment profit	<u>\$ 7</u>	<u>\$ 538</u>

Operational and financial performance

Revenue decreased by 32% mainly due to an overall decline in the ESS business in the current quarter.

Segment profit decreased by 99% primarily driven by the decline in revenue, partially offset by lower costs of sales, reflecting the impact of lower direct labour and materials costs.

General and administrative and other, excluding depreciation and amortization

General and administrative expense (“G&A”) is comprised of costs incurred at the corporate level and relates to items such as executive, finance and operational support services. G&A expense was \$9.3 million for the three months ended March 31, 2017, compared to \$12.0 million for the three months ended March 31, 2016. The decrease for the three months ended March 31, 2017 was a function of lower payroll costs due to the continuing impact of our headcount rationalization efforts from 2016 which led to higher severance costs incurred during the prior year, and head office overhead cost reductions, partially offset by mark to market movements related to equity financial instruments.

Depreciation

Depreciation expense for the three months ended March 31, 2017 was \$42.6 million compared to \$40.1 million, for the three months ended March 31, 2016. The increase was primarily due to the impact of additional depreciation on asset additions in the latter half of 2016 partially offset by asset disposals and assets reaching the end of depreciable lives.

Amortization

Amortization expense was \$5.7 million for the three months ended March 31, 2017 compared to \$10.7 million for the three months ended March 31, 2016. The decrease was largely due to the revision of useful lives of certain intangible assets within the Company’s Logistics segment which resulted in additional amortization expense in the prior year period.

Stock based compensation

Stock based compensation recovery was \$1.1 million for the three months ended March 31, 2017, compared to stock based compensation expense of \$3.4 million, for the three months ended March 31, 2016. The decrease was primarily driven by the impact of forfeitures of performance share units in the current quarter, partially offset by additional expense from the granting of stock awards in lieu of cash bonuses for senior employees during the three months ended March 31, 2016.

Debt extinguishment costs

On March 22, 2017, the Company completed a tender on its existing U.S.\$550.0 million 6.75% Notes and \$250.0 million 7.00% Notes under which it repaid U.S.\$338.8 million principal amount of 6.75% Senior Unsecured Notes due July 15, 2021 at a tender price of 105.13% (the “U.S.\$ Notes”) and \$211.1 million principal amount of 7.00% Senior Unsecured Notes due July 15, 2020 at a tender price of 105.31% (the “C\$ Notes”) (the C\$ Notes, U.S.\$ Notes and \$300.0 million 5.375% Notes altogether referred to as the “Notes”). Interest is payable semi-annually on January 15 and July 15 of each year the Notes and New Notes are outstanding. Accordingly, the Company recorded debt extinguishment costs of \$49.3 million comprising unamortized debt issue costs of \$9.6 million, loss on financial statements relating to long-term debt of \$5.1 million and tender offer premium consideration of \$34.6 million in the three months ended March 31, 2017.

Foreign exchange gain not affecting segment profit and realized loss on financial instruments related to long-term debt

In the three months ended March 31, 2017 and 2016, the Company recorded a foreign exchange gain of \$4.4 million and \$47.0 million, respectively.

The gains and losses recorded are primarily driven by the movement in exchange rates on the translation of the Company’s U.S. dollar denominated long-term debt and related financial instruments. In the three months ended March 31, 2017 and 2016, a gain of \$4.9 million and a gain of \$47.8 million, respectively, were recorded due to the favorable movements in exchange rates on the translation of Company’s U.S. dollar denominated long-term debt.

Net interest expense

Net interest expense was \$24.2 million for the three months ended March 31, 2017, compared to \$19.7 million for the three months ended March 31, 2016. The increase for the three months ended March 31, 2017 was primarily due to higher interest costs related to drawing on the revolving line of credit in the current year compared to the prior year, and the issuance of convertible debentures (“Debentures”) in the second quarter of 2016, and lower capitalized interest amounts related to our long-term capital projects in the current period.

Income tax provision

Income tax recovery from continuing operations was \$28.9 million for the three months ended March 31, 2017 compared to an income tax recovery of \$10.6 million for the three months ended March 31, 2016, as disclosed in note 8 of the condensed consolidated financial statements. The effective tax rate was 74.5% during the three months ended March 31, 2017 compared to negative 43.4% for the three months ended March 31, 2016. The main driver for the income tax provision and the change in the effective rate was the impact of the of realized and unrealized amounts relating to the net capital gains arising from foreign exchange movements, including repayments, on the Company's U.S. dollar denominated long-term debt.

RESULTS OF DISCONTINUED OPERATIONS

On March 1, 2017, Gibsons granted an Option Right to Superior Plus LP ("Superior") to purchase Gibsons' Industrial Propane segment pursuant to the Option Agreement in exchange for an adjusted cash consideration of \$434.8 million, at which time Superior exercised the Option Right in accordance with the Option Agreement. Gibsons will continue to operate the business based on the terms and covenants of the Option Agreement under the direction of the current management team, until the Securities are transferred to Superior, which is expected to occur no later than the fourth quarter of 2017, subject to the receipt of customary regulatory approvals.

The Industrial Propane business is one of the largest retail propane suppliers in Canada with a diversified customer base with a focus on oil and gas customers in Western Canada. This segment operates under the Canwest and Stittco brands and sells propane and related equipment to oil and gas, commercial and other end-user customers. This segment is characterized by a high degree of seasonality driven by the impact of weather on the need for heating and the amount of propane required to produce power for oil and gas related applications. Therefore, volumes are low during the summer months relative to the winter months. Operating profits are also considerably lower during the summer months. Most of the annual segment profit is earned from October to March each year.

The following tables set forth operating results from discontinued operations of the Industrial Propane segment for the three months ended March 31, 2017 and 2016:

Volumes (litres in thousands)	Three months ended March 31,	
	2017 ¹	2016
Oilfield.....	41,578	51,708
Commercial.....	46,850	63,405
Other.....	22,723	28,676
	<u>111,151</u>	<u>143,789</u>

Revenue	Three months ended March 31,	
	2017 ¹	2016
	(in thousands)	
Propane.....	\$ 52,953	\$ 45,063
Other.....	5,343	7,754
Total revenue.....	58,296	52,817
Cost of sales.....	44,678	36,549
Other operating income.....	19	206
Segment profit.....	13,637	16,474
Depreciation and amortization.....	-	4,914
Gain on sale ²	175,364	-
Income before taxes.....	189,001	11,560
Income tax provision.....	31,245	3,026
Net income from discontinued operations, after tax.....	<u>\$ 157,756</u>	<u>\$ 8,534</u>

1. The Company derecognized the Industrial Propane segment effective March 1, 2017. Accordingly, results for three months ending March 31, 2017 represent the activity for the period January 1, 2017 to February 28, 2017.
2. The cash proceeds of \$434.8 million and transaction costs paid of \$1.7 million have been presented within investing activities from discontinued operations on the Company's condensed consolidated statement of cash flows.

Operational and financial performance

Industrial propane volumes decreased by 23% due to the timing of the sale on March 1, 2017, and the reporting of two months in the current period versus three months in the prior period, partially offset by higher oilfield and other volumes primarily driven by increased drilling and construction activity.

Revenue increased by 10%. The increase was due to higher prices, partially offset by the timing of the sale on March 1, 2017 and the reporting of two months of revenue in the current period versus three months in the prior period.

Segment profit decreased by 17% due to the timing of the sale on March 1, 2017, and the reporting of two months in the current period versus three months in the prior period, partially offset due to improved activity levels on a relative basis quarter over quarter principally driven by colder weather patterns in the current period.

The following table summarizes the sources and uses of funds for the three months ended March 31, 2017 and 2016 from discontinued operations:

	Three months ended March 31,	
	2017	2016
Statement of cash flows		
Cash flows provided by (used in):		
Operating activities	\$ (7,589)	\$ 26,190
Investing activities.....	432,967	(1,043)
Financing activities.....	\$ -	\$ -

Cash provided by operating activities

Cash used in operating activities in the three months ended March 31, 2017 was \$7.6 million compared to cash provided by operating activities of \$26.2 million in the three months ended March 31, 2016. The decrease was primarily due to a change in working capital requirements driven by the movements in accounts receivable and payable balances.

Cash used in investing activities

Cash provided by investing activities was \$433.0 million in the three months ended March 31, 2017, compared to cash used in investing activities of \$1.0 million in the three months ended March 31, 2016. The increase was due to the cash proceeds received on the sale of the Industrial Propane business, net of the transaction costs paid.

Cash provided by (used in) financing activities

There was no cash provided by (used in) financing activities related to discontinued operations.

Income tax provision

Income tax provision from discontinued operations was \$31.2 million for the three months ended March 31, 2017 compared to an income tax provision of \$3.0 million for the three months ended March 31, 2016, as disclosed in note 8 of the condensed consolidated financial statements. The effective tax rate was 16.4% during the three months ended March 31, 2017 compared to negative 26.2% for the three months ended March 31, 2016. The main driver for the income tax provision and the change in the effective rate was the impact of the gain on the sale of the Industrial Propane business.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended	2017		2016		2015			
	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30
Continuing operations								
Revenue	\$1,449,562	\$1,414,187	\$1,178,741	\$1,095,026	\$906,227	\$1,226,007	\$1,319,048	\$1,540,759
Net (loss) income	(9,908)	(50,597)	(30,777)	(132,368)	35,575	(218,373)	(39,693)	(6,195)
EBITDA ⁽²⁾	34,344	27,312	45,580	(71,968)	95,486	(118,227)	36,286	70,569
Adjusted EBITDA ⁽³⁾	73,269	83,927	60,691	41,553	57,921	85,846	92,169	71,396
Earnings (loss) per share								
Basic	\$ (0.07)	\$ (0.37)	\$ (0.22)	\$ (1.01)	\$ 0.28	\$ (1.74)	\$ (0.31)	\$ (0.05)
Diluted	\$ (0.07)	\$ (0.37)	\$ (0.22)	\$ (1.01)	\$ 0.28	\$ (1.74)	\$ (0.31)	\$ (0.05)
Discontinued operations								
Revenue	\$58,296	\$ 60,222	\$ 27,188	\$ 27,472	\$ 52,817	\$ 50,216	\$ 29,942	\$ 33,668
Net income (loss)	157,756	13,790	(2,093)	(1,778)	8,534	6,153	(1,502)	(546)
EBITDA ⁽²⁾	189,001	13,292	1,872	2,728	16,474	14,763	2,938	4,247
Adjusted EBITDA ⁽³⁾	13,637	13,292	1,872	2,728	16,122	15,115	2,938	4,247
Earnings (loss) per share								
Basic	\$ 1.11	\$ 0.09	\$ (0.01)	\$ (0.01)	\$ 0.07	\$ 0.05	\$ (0.02)	\$ -
Diluted	\$ 1.09	\$ 0.09	\$ (0.01)	\$ (0.01)	\$ 0.06	\$ 0.05	\$ (0.02)	\$ -
Combined operations								
Revenue ⁽¹⁾	\$1,507,858	\$1,474,409	\$1,205,929	\$1,122,498	\$959,044	\$1,276,223	\$1,348,990	\$1,574,427
Net (loss) income	147,848	(36,807)	(32,870)	(134,146)	44,109	(212,220)	(41,195)	(6,741)
EBITDA ⁽²⁾	223,345	40,604	47,452	(69,240)	111,960	(103,464)	39,224	74,816
Adjusted EBITDA ⁽³⁾	86,906	97,219	62,563	44,281	74,043	100,961	95,107	75,643
Earnings (loss) per share								
Basic	\$ 1.04	\$ (0.28)	\$ (0.23)	\$ (1.02)	\$ 0.35	\$ (1.69)	\$ (0.33)	\$ (0.05)
Diluted	\$ 1.02	\$ (0.28)	\$ (0.23)	\$ (1.02)	\$ 0.34	\$ (1.69)	\$ (0.33)	\$ (0.05)

(1) Revenue from combined operations represents the aggregated results of both continuing and discontinued operations and is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS.

(2) EBITDA is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. EBITDA from continuing operations only consists of net income (loss) before interest expense, income taxes, depreciation and amortization from continuing operations. Combined EBITDA includes results from continuing and discontinued operations.

(3) Adjusted EBITDA is defined as net income (loss) before interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including movement in the unrealized gains and losses on the Company's financial instruments, stock based compensation expense, impairment of long-term assets and asset write-downs. It also removes the impact of foreign exchange movements in the Company's U.S. dollar denominated long-term debt, debt extinguishment expenses and adjustments that are considered non-recurring in nature. Combined Adjusted EBITDA includes results from continuing and discontinued operations, while Adjusted EBITDA from continuing operations only includes results from continuing operations.

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

- EBITDA and Adjusted EBITDA:
 - each exclude certain income tax payments that may represent a reduction in cash available to the Company;
 - do not reflect the Company's cash expenditures, or future requirements for capital expenditures or contractual commitments;
 - do not reflect changes in, or cash requirements for, the Company's working capital needs; and
 - do not reflect the significant interest expense, or the cash requirements necessary to service interest payments on the Company's debt, including the Debentures, Notes (as defined herein) and the Revolving Credit Facility, (as defined herein);
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and
- Other companies in the industry may calculate EBITDA and Adjusted EBITDA differently than the Company does, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Company to invest in the growth of the Company's business. The Company compensates for these limitations by relying primarily on the Company's IFRS results and using EBITDA and Adjusted EBITDA for continuing operations, discontinued operations, and combined operations for the last eight quarters:

Three months ended	2017				2016				2015			
	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30
Continuing operations												
Net (loss) income	\$ (9,908)	\$ (50,597)	\$ (30,777)	\$ (132,368)	\$ 35,575	\$ (218,373)	\$ (39,693)	\$ (6,195)				
Depreciation and amortization	48,287	62,005	72,051	59,613	50,739	96,733	56,038	57,023				
Interest expense	24,884	23,461	21,416	21,935	19,807	19,441	19,471	20,206				
Income tax (recovery) expense	(28,919)	(7,557)	(17,110)	(21,148)	(10,635)	(16,028)	470	(465)				
EBITDA	<u>\$ 34,344</u>	<u>\$ 27,312</u>	<u>\$ 45,580</u>	<u>\$ (71,968)</u>	<u>\$ 95,486</u>	<u>\$ (118,227)</u>	<u>\$ 36,286</u>	<u>\$ 70,569</u>				
Discontinued operations												
Net income (loss)	\$ 157,756	\$ 13,790	\$ (2,093)	\$ (1,778)	\$ 8,534	\$ 6,153	\$ (1,502)	\$ (546)				
Depreciation and amortization	-	3,784	4,725	5,149	4,914	4,872	4,972	4,984				
Income tax expense (recovery)	31,245	(4,282)	(760)	(643)	3,026	3,738	(532)	(191)				
EBITDA	<u>\$ 189,001</u>	<u>\$ 13,292</u>	<u>\$ 1,872</u>	<u>\$ 2,728</u>	<u>\$ 16,474</u>	<u>\$ 14,763</u>	<u>\$ 2,938</u>	<u>\$ 4,247</u>				
Combined operations												
Net income (loss)	\$ 147,848	\$ (36,807)	\$ (32,870)	\$ (134,146)	\$ 44,109	\$ (212,220)	\$ (41,195)	\$ (6,741)				
Depreciation and amortization	48,287	65,789	76,776	64,762	55,653	101,605	61,010	62,007				
Interest expense	24,884	23,461	21,416	21,935	19,807	19,441	19,471	20,206				
Income tax expense (recovery)	2,326	(11,839)	(17,870)	(21,791)	(7,609)	(12,290)	(62)	(656)				
EBITDA	<u>\$ 223,345</u>	<u>\$ 40,604</u>	<u>\$ 47,452</u>	<u>\$ (69,240)</u>	<u>\$ 111,960</u>	<u>\$ (103,464)</u>	<u>\$ 39,224</u>	<u>\$ 74,816</u>				

The results of EBITDA are primarily driven by segment profit for the respective reportable segments. The following identifies the key drivers in segment profitability over the last eight quarters:

Infrastructure – The segment has progressively commissioned new storage capacity and related infrastructure, most notably in 2016, a total of 3.4 million barrels of additional capacity and related fixed fee revenue streams were added. This increase in capacity primarily driven by the sustained demand for crude terminalling and storage services combined with the effective operation, including cost management, of its current Edmonton and Hardisty facilities has provided for the gradual increase in EBITDA.

Logistics – The segment provides transportation and related services which includes providing hauling services for crude, condensate, sulfur, waste water and drilling fluids for many of North America's leading oil and gas producers. Accordingly, the segment's results have been impacted by the reduction in crude oil prices and other related commodity prices which has reduced production and explorations activities thus lowering available demand from these producers. Additionally, increased competition, specific to the segment's U.S. operating areas, has impacted the ability of the Company to deliver consistent EBITDA results in this segment. However, the gradual increase in the price of crude oil which has translated into slowly increasing activity and production

coupled with the availability of other commodity hauling, such as sulphur, over the last two quarters has provided support for the segment's EBITDA.

Wholesale – This segment earns margins by capturing quality, locational or time-based arbitrage opportunities related to the purchasing, selling, storing and blending of hydrocarbon products, including crude oil and refined products. Accordingly, this segment has experienced commodity price fluctuations including in the pricing differentials between different geographic markets and product grades, most notably related to crude oil and other NGL's. These risks have been managed by purchasing and selling products through physical and financial contracts that include energy-related derivatives which have both supported and reduced segment profits from quarter to quarter in the form of realized or unrealized gains and losses.

For more details on more specific factors driving the periodic movements in segment profit, refer to the results of continuing and discontinued operations included in this MD&A.

Adjusted EBITDA and Pro Forma Adjusted EBITDA for continuing, discontinued, and combined operations (***collectively Adjusted EBITDA and Pro Forma Adjusted EBITDA***) are presented in the table below because the Company believes it facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting relative interest expense and foreign exchange differences on the Company's long-term debt and Debentures), the book amortization of intangibles (affecting relative amortization expense) and the age and book value of property, plant and equipment (affecting relative depreciation expense). The Company also presents Adjusted EBITDA and Pro Forma Adjusted EBITDA because it believes such measures are frequently used by securities analysts, investors and other interested parties as measures of financial performance. Adjusted EBITDA and Pro Forma Adjusted EBITDA, as presented herein, are not recognized measures under IFRS and should not be considered as an alternative to operating income or net income as measures of operating results or an alternative to cash flows as measures of liquidity. Adjusted EBITDA differs from the term EBITDA as it is commonly used. Adjusted EBITDA is defined as consolidated net income (loss) before interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including movement in the unrealized gains and losses on the Company's financial instruments, stock based compensation expense, impairment of long-term assets and asset write-downs. It also removes the impact of foreign exchange movements in the Company's U.S. dollar denominated long-term debt, debt extinguishment expenses and other adjustments that are considered non-recurring in nature. Pro Forma Adjusted EBITDA differs from the term Adjusted EBITDA in that it also includes the pro forma effect of acquisitions and divestitures that took place in each fiscal year as if the acquisitions and divestitures took place at the beginning of the fiscal year in which such acquisition or divestiture occurred. Pro Forma Adjusted EBITDA is also used in calculating the Company's covenant compliance under the Company's debt agreements.

The Company's calculation of Adjusted EBITDA and Pro Forma Adjusted EBITDA may not be comparable to such calculations used by other companies. In calculating Pro Forma Adjusted EBITDA, the Company makes certain adjustments that are based on assumptions and estimates that may prove to have been inaccurate. In addition, in evaluating Adjusted EBITDA and Pro Forma Adjusted EBITDA, readers should be aware that in the future the Company may incur expenses similar to those eliminated in the presentation herein.

The results of Adjusted EBITDA are driven by segment profit for the respective reportable segments as well as the adjustments discussed below in the tables. For more details on the specific factors driving the periodic movements in segment profit, refer to the results of continuing and discontinued operations included in this MD&A.

The following tables reconcile segment profit to EBITDA to Adjusted EBITDA for each of the last eight quarters and Pro Forma Adjusted EBITDA for the twelve months ended March 31, 2017 and 2016:

	Three months ended				Twelve months ended
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2017
Continuing operations					
Segment profit	\$ 86,766	\$ 87,634	\$ 64,636	\$ 47,629	\$ 286,665
Unrealized foreign exchange gain (loss) on long-term debt ⁽¹⁾	4,928	(17,050)	(5,940)	(2,090)	(20,152)
Stock based compensation recovery (expense) ⁽³⁾	1,145	(7,172)	(6,858)	(7,490)	(20,375)
Impairment of goodwill ⁽⁴⁾	-	(28,647)	-	(101,405)	(130,052)
Debt extinguishment costs ⁽⁵⁾	(49,327)	-	-	-	(49,327)
Interest income	665	144	384	441	1,634
Foreign exchange (loss) gain - corporate	(528)	885	(270)	(911)	(824)
General and administrative	(9,305)	(8,482)	(6,372)	(8,142)	(32,301)
EBITDA.....	\$ 34,344	\$ 27,312	\$ 45,580	\$ (71,968)	\$ 35,268
Unrealized foreign exchange (gain) loss on long-term debt ⁽¹⁾	(4,928)	17,050	5,940	2,090	20,152
Net unrealized loss (gain) from financial instruments ⁽²⁾	(4,329)	(602)	2,313	2,536	(82)
Stock based compensation (recovery) expense ⁽³⁾	(1,145)	7,172	6,858	7,490	20,375
Impairment of goodwill ⁽⁴⁾	-	28,647	-	101,405	130,052
Debt extinguishment costs ⁽⁵⁾	49,327	-	-	-	49,327
Severance costs ⁽⁶⁾	-	4,348	-	-	4,348
Adjusted EBITDA	\$ 73,269	\$ 83,927	\$ 60,691	\$ 41,553	\$ 259,440
Discontinued operations					
Segment profit	\$ 13,637	\$ 13,292	\$ 1,872	\$ 2,728	\$ 31,529
Gain on sale.....	175,364	-	-	-	175,364
EBITDA.....	\$ 189,001	\$ 13,292	\$ 1,872	\$ 2,728	\$ 206,893
Gain on sale.....	(175,364)	-	-	-	(175,364)
Adjusted EBITDA	\$ 13,637	\$ 13,292	\$ 1,872	\$ 2,728	\$ 31,529
Combined operations					
Segment profit	\$ 100,403	\$ 100,926	\$ 66,508	\$ 50,357	\$ 318,194
Unrealized foreign exchange gain (loss) on long-term debt ⁽¹⁾	4,928	(17,050)	(5,940)	(2,090)	(20,152)
Stock based compensation recovery (expense) ⁽³⁾	1,145	(7,172)	(6,858)	(7,490)	(20,375)
Impairment of goodwill ⁽⁴⁾	-	(28,647)	-	(101,405)	(130,052)
Debt extinguishment costs ⁽⁵⁾	(49,327)	-	-	-	(49,327)
Interest income	665	144	384	441	1,634
Foreign exchange (loss) gain - corporate	(528)	885	(270)	(911)	(824)
General and administrative	(9,305)	(8,482)	(6,372)	(8,142)	(32,301)
Gain on sale.....	175,364	-	-	-	175,364
EBITDA.....	\$ 223,345	\$ 40,604	\$ 47,452	\$ (69,240)	\$ 242,161
Unrealized foreign exchange (gain) loss on long-term debt ⁽¹⁾	(4,928)	17,050	5,940	2,090	20,152
Net unrealized loss (gain) from financial instruments ⁽²⁾	(4,329)	(602)	2,313	2,536	(82)
Stock based compensation (recovery) expense ⁽³⁾	(1,145)	7,172	6,858	7,490	20,375
Gain on sale.....	(175,364)	-	-	-	(175,364)
Impairment of goodwill ⁽⁴⁾	-	28,647	-	101,405	130,052
Debt extinguishment costs ⁽⁵⁾	49,327	-	-	-	49,327
Severance costs ⁽⁶⁾	-	4,348	-	-	4,348
Combined Adjusted EBITDA	\$ 86,906	\$ 97,219	\$ 62,563	\$ 44,281	\$ 290,969
Pro forma impact of divestitures ⁽⁸⁾	-	-	-	-	(31,529)
Combined Pro Forma Adjusted EBITDA	\$ 86,906	\$ 97,219	\$ 62,563	\$ 44,281	\$ 259,440

	Three months ended				Twelve months ended
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2016
Continuing operations					
Segment profit	\$ 63,747	\$ 97,335	\$ 99,264	\$ 77,424	\$ 337,770
Unrealized foreign exchange gain (loss) on long-term debt ⁽¹⁾	47,795	(24,530)	(50,600)	11,495	(15,840)
Stock based compensation ⁽³⁾	(3,356)	(5,662)	(5,135)	(5,116)	(19,269)
Impairment of goodwill ⁽⁴⁾	-	(175,959)	-	-	(175,959)
Interest income.....	124	35	20	421	600
Foreign exchange (loss) gain - corporate	(802)	1,344	1,134	(1,833)	(157)
General and administrative.....	(12,022)	(10,790)	(8,397)	(11,822)	(43,031)
EBITDA.....	\$ 95,486	\$ (118,227)	\$ 36,286	\$ 70,569	\$ 84,114
Unrealized foreign exchange loss (gain) on long-term debt ⁽¹⁾	(47,795)	24,530	50,600	(11,495)	15,840
Net unrealized loss (gain) from financial instruments ⁽²⁾	1,178	(2,078)	82	7,206	6,388
Stock based compensation ⁽³⁾	3,356	5,662	5,135	5,116	19,269
Impairment of goodwill ⁽⁴⁾	-	175,959	-	-	175,959
Severance costs ⁽⁶⁾	5,696	-	-	-	5,696
Acquisition related costs ⁽⁷⁾	-	-	66	-	66
Adjusted EBITDA	\$ 57,921	\$ 85,846	\$ 92,169	\$ 71,396	\$ 307,332
Discontinued operations					
Segment profit and EBITDA.....	\$ 16,474	\$ 14,763	\$ 2,938	\$ 4,247	\$ 38,422
Net unrealized loss from financial instruments ⁽²⁾	(352)	352	-	-	-
Adjusted EBITDA	\$ 16,122	\$ 15,115	\$ 2,938	\$ 4,247	\$ 38,422
Combined operations					
Segment profit	\$ 80,221	\$ 112,098	\$ 102,202	\$ 81,671	\$ 376,192
Unrealized foreign exchange gain (loss) on long-term debt ⁽¹⁾	47,795	(24,530)	(50,600)	11,495	(15,840)
Stock based compensation ⁽³⁾	(3,356)	(5,662)	(5,135)	(5,116)	(19,269)
Impairment of goodwill ⁽⁴⁾	-	(175,959)	-	-	(175,959)
Interest income.....	124	35	20	421	600
Foreign exchange (loss) gain - corporate	(802)	1,344	1,134	(1,833)	(157)
General and administrative.....	(12,022)	(10,790)	(8,397)	(11,822)	(43,031)
EBITDA.....	\$ 111,960	\$ (103,464)	\$ 39,224	\$ 74,816	\$ 122,536
Unrealized foreign exchange loss (gain) on long-term debt ⁽¹⁾	(47,795)	24,530	50,600	(11,495)	15,840
Net unrealized loss (gain) from financial instruments ⁽²⁾	826	(1,726)	82	7,206	6,388
Stock based compensation ⁽³⁾	3,356	5,662	5,135	5,116	19,269
Impairment of goodwill ⁽⁴⁾	-	175,959	-	-	175,959
Severance costs ⁽⁶⁾	5,696	-	-	-	5,696
Acquisition related costs ⁽⁷⁾	-	-	66	-	66
Combined Adjusted EBITDA	\$ 74,043	\$ 100,961	\$ 95,107	\$ 75,643	\$ 345,754
Pro forma impact of acquisitions ⁽⁸⁾					1,316
Combined Pro Forma Adjusted EBITDA					\$ 347,070

(1) Non-cash adjustment representing the unrealized foreign exchange gain and loss and foreign exchange gain and loss related to long-term debt as a result of the movement in exchange rates in the periods.

(2) Reflects the exclusion of the movement in the mark-to-market valuation of financial instruments used in risk management activities. The Company uses crude oil and NGL priced futures, options and swaps to manage the exposure to commodities price movements and foreign currency forward contracts and options to manage foreign exchange risks, although the Company does not formally designate these financial instruments as hedges for accounting purposes. Accordingly, the unrealized gains or losses on these financial instruments are recorded directly to the income statement. Management believes that this adjustment better correlates the effect of risk management activities to the underlying operating activities to which they relate.

- (3) Represents the non-cash stock based compensation relating to the Company's equity incentive plan.
- (4) Represents the non-cash impairment of goodwill charge recorded in the twelve months ended March 31, 2017.
- (5) Represents debt extinguishment costs related to the repayment of a portion of Company's U.S.\$550.0 million 6.75% Notes and \$250.0 million 7.00% Notes as discussed under debt extinguishment costs.
- (6) Represents the severance costs incurred related to a headcount rationalization review throughout 2016.
- (7) Represents transaction fees that were expensed in connection with acquisitions made by the Company.
- (8) Reflects the pro forma impact of acquisitions or divestitures on the Company's Adjusted EBITDA as if the acquisitions or divestitures that took place in the twelve month period occurred on April 1 of each twelve month period. The pro forma impact of acquisitions or divestitures is calculated on the same basis as Adjusted EBITDA.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Sources

The Company's primary liquidity and capital resource needs are to fund ongoing capital expenditures, growth opportunities, acquisitions, and to fund its dividend. In addition, the Company must service its debt, including interest payments, and finance working capital needs. The Company's short-term and long-term liquidity needs are met through the following sources: cash flow from operations, debt and equity financings, borrowings under the Revolving Credit Facility and proceeds from the sale of assets. As discussed in Discontinued Operations, the Company received a cash payment of \$434.8 million on March 1, 2017, in connection with the sale of the Industrial Propane business. As discussed under the "Notes" paragraph within this section during the three months ended March 31, 2017, the Company issued the New Notes and utilized the net proceeds from this issuance along with a portion of the net proceeds from the sale of the Company's Industrial Propane business, to repay a portion of the U.S. Notes and C\$ Notes. As at March 31, 2017, the Company has sufficient liquidity sources to fund its ongoing capital expenditures, growth opportunities, dividends, debt service requirements and working capital needs over the short and long-term.

Cash flow summary

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

Continuing operations

The following table summarizes the Company's sources and uses of funds for the three months ended March 31, 2017 and 2016 from continuing operations:

	Three months ended March 31,	
	2017	2016
Statement of Cash Flows		
Cash flows provided by (used in):		
Operating activities	\$ 102,008	\$ 59,354
Investing activities	(45,079)	(96,626)
Financing activities	(463,001)	(29,729)

Cash provided by operating activities

Cash provided by operating activities for the three months ended March 31, 2017 was \$102.0 million compared to \$59.4 million for the three months ended 31, 2016. The increase was due to higher segment profit primarily related to the Infrastructure and Wholesale segments (refer to the respective section in "Results of Continuing Operations" for more details) as well as changes in working capital needs that resulted in cash provided to fund working capital of \$31.9 million in the three months ended March 31, 2017 compared to cash provided to fund working capital of \$22.1 million in the three months ended March 31, 2016. The change in working capital requirements in the current period was largely driven by the change in inventory and accounts payable amounts.

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

Cash used in investing activities

Cash provided by and used in investing activities consists primarily of capital expenditures.

Cash used in investing activities was \$45.1 million for the three months ended March 31, 2017, compared to \$96.6 million for the three months ended March 31, 2016. Cash used in investing activities in the three months ended March 31, 2017 largely relates to growth capital expenditures. For a summary of capital expenditures for the respective segments, see "Capital expenditures" included throughout this MD&A.

Cash used in financing activities

Cash used in financing activities was \$463.0 million for the three months ended March 31, 2017 compared to cash used in financing activities of \$29.7 million for the three months ended 31, 2016. The change was due to the repayment of debt and financing costs of \$668.0 million, debt extinguishment costs of \$35.5 million and the payment of net interest and cash dividends of \$54.3 million and \$46.8 million, respectively, in the three months ended March 31, 2017 compared to net interest and cash dividends of \$44.7 million and \$40.4 million, respectively, in the three months ended March 31, 2016. In addition, in the three months ended March 31, 2017, the Company made net payments on the settlement of financial instruments of \$5.1 million and in the three months ended March 31, 2016 the Company received net proceeds from credit facilities of \$55.3 million. These movements were partially offset by the proceeds from the issuance of long-term debt, net of issuance costs of \$345.6 million. The increase in dividends paid was driven by the increase in shares outstanding from the share issuance completed in the second quarter of 2016, resulting in a \$6.4 million increase in cash dividends paid during 2017.

Capital expenditures

The following table summarizes growth capital and upgrade and replacement capital for the three months ended March 31, 2017 and 2016:

	Three months ended March 31	
	2017	2016
Growth capital ⁽¹⁾	\$ 25,042	\$ 55,535
Upgrade and replacement capital ⁽²⁾	5,184	4,483
Total.....	<u>\$ 30,226</u>	<u>\$ 60,018</u>

(1) Growth capital expenditures in the three months ended March 31, 2017 and 2016 include Other and Corporate expenditures of \$0.5 million and \$1.0 million, respectively. These expenditures mainly relate to growth capital expenditure costs associated with the Company's information and operational systems. The remainder of the growth capital expenditures have been discussed in continuing and discontinued operations earlier in this MD&A.

(2) Upgrade and replacement capital expenditures in the three months ended March 31, 2017 and 2016 include Other and Corporate expenditures of \$1.0 million and \$1.0 million, respectively. These expenditures mainly relate to upgrade and replacement costs associated with the Company's information and operational systems. The remainder of the upgrade and replacement capital expenditures have been discussed in continuing and discontinued operations earlier in this MD&A.

Planned capital expenditures

Capital expenditures amounted to \$30.2 million in the three months ended March 31, 2017. The Company is progressing towards its planned capital investment program for 2017 as previously disclosed. However, certain capital projects are subject to general economic, financial, competitive, legislative, regulatory and other factors, some of which are beyond the Company's control and could impact the Company's ability to complete such activities as planned.

In addition to anticipated capital expenditures, the Company may engage in strategic acquisitions and additional capital expenditures as opportunities arise that benefit the Company's existing operations by expanding the Company's reach in existing markets or by providing platforms by which to enter new markets. Any such acquisition or capital expenditure could be material and could have a material effect on the Company's liquidity, cash flows and capital commitments and resources. Any future acquisitions, capital expenditures or other similar transactions may require additional capital and there can be no assurance that such capital will be available to the Company on acceptable terms, or at all.

Capital structure

	As at March 31	
	March 31, 2017	December 31, 2016
Notes		
U.S.\$211.2 million (U.S. \$550 million – December 31, 2016) 6.75% Notes due July 15, 2021	\$ 281,361	\$ 738,485
\$38.9 million (\$250 million – December 31, 2016) 7.00% Notes due July 15, 2020	38,948	250,000
\$300.0 million 5.375% Notes due July 15, 2022	300,000	300,000
\$350.0 million 5.25% Notes due July 15, 2024	350,000	-
Unamortized issue discount and debt issue costs	(12,144)	(16,646)
Total financial liability borrowings.....	958,165	1,271,839
\$100.0 million Debentures 5.25% due July 15, 2021 (liability component)	89,765	89,765
Total debt outstanding	1,047,930	1,361,604
Cash and cash equivalents.....	(79,731)	(60,159)
Net debt ⁽¹⁾	968,199	1,301,445
Total share capital (including Debentures – equity component)	1,932,846	1,919,267
Total capital.....	<u>\$ 2,901,045</u>	<u>\$ 3,220,712</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 cash. The Debentures and associated interest payments are excluded from the definition of net debt included in the consolidated senior and total debt covenant ratios as well as the consolidated interest coverage covenant ratio.

Notes

As discussed earlier in the debt extinguishment section, the Company completed a tender offer on its existing Notes and also issued the New Notes during the three months ended March 31, 2017. The indentures governing the terms of the Notes and New Notes, including the supplemental indenture thereto (the "Indenture"), contain certain redemption options whereby the Company can redeem all or part of the Notes and New notes at prices set forth in the Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of Notes and New Notes have the right to require the Company to redeem the Notes and New 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 respective indebtedness.

Debentures

On June 2, 2016, the Company issued \$100.0 million aggregate principal amount of Debentures at a price of \$1,000 per Debenture for net proceeds of approximately \$96.3 million, including debt issuance costs of \$3.7 million. The Debentures, issued at par, bear interest at a rate of 5.25% per annum, payable semi-annually on January 15 and July 15 in each year commencing January 15, 2017, mature on July 15, 2021, and may be redeemed, in certain circumstances, on or after July 15, 2019. The Debentures are convertible at the holder's option into common shares at any time prior to the earlier of July 15, 2021 and the business day immediately preceding the date fixed for redemption by the Company at a conversion price of \$21.65 per common share, being a ratio of approximately 46.1894 common shares per \$1,000 principal amount of the Debenture. The Debentures are subordinated to the Company's senior indebtedness.

Credit facility

The Revolving Credit Facility of \$500.0 million ("Revolving Credit Facility"), the proceeds of which are available to provide financing for working capital and other general corporate purposes, has an accordion feature whereby the Company can increase the Revolving Credit Facility to \$750.0 million, subject to obtaining incremental lender commitments. The Revolving Credit Facility has an extendible term of five years, expiring on March 7, 2022. The Revolving Credit Facility permits letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate, as the case may be, plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company's total debt leverage ratio. In addition, the Company must pay a standby fees on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins determined in a manner similar to the interest. In addition, the Company has three bilateral demand letter of credit facilities totaling \$150.0 million. The Company had \$nil drawn on its \$500.0 million Revolving Credit Facility as of March 31, 2017, and had issued letters of credit totaling \$50.6 million under its bilateral demand letter of credit facilities as at March 31, 2017.

The Revolving Credit Facility contains certain covenants, including financial covenants requiring the Company to maintain ratios of maximum consolidated senior and total debt leverage as well as to maintain a minimum interest coverage ratio. Effective March 7, 2017, the Company amended certain covenants related to its \$500.0 million Revolving Credit Facility including, amongst other revisions, revising the maximum consolidated senior and the maximum consolidated total debt leverage ratios to 4.85 to 1.0 for the 2017 fiscal year, 4.25 to 1.0 for 2018 fiscal year and 4.0 to 1.0 thereafter. Furthermore, the maturity date of our Revolving Credit Facility has been extended from August 2020 to March 2022.

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

As at March 31, 2017, the Company was in compliance with the financial ratios with the senior debt leverage ratio at 3.4 to 1.0, total debt leverage ratio at 3.4 to 1.0, and the interest coverage ratio at 2.8 to 1.0. If the Company fails to comply with the financial covenants, the lenders may declare an event of default. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of repayment of the principal and interest outstanding and a termination of the Revolving Credit Facility.

The Notes and the Revolving Credit Facility contain non-financial covenants that restrict, subject to certain thresholds, some of the Company's activities, including the Company's ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments and engage in specified transactions with affiliates. The Notes and the Revolving Credit Facility also contain

customary events of default, including defaults based on events of bankruptcy and insolvency, non-payment of principal, interest or fees when due, breach of covenants, change in control and material inaccuracy of representations and warranties, subject to specified grace periods. As of March 31, 2017, the Company was in compliance with all of its covenants under the Notes and the Revolving Credit Facility.

Dividends

The Company is currently paying quarterly dividends to holders of common shares. The payment of dividends is not guaranteed, and the amount and timing of any dividends payable by Gibsons will be at the discretion of the Board and will be established on the basis of Gibsons' earnings, financial requirements for operations, the satisfaction of a solvency calculation and the terms of the Company's debt agreements. In addition, in connection with Company's dividend policy, after each fiscal year end the Board will formally review the annual dividend amount. In the three months ended March 31, 2017, the Company declared a dividend of \$0.33 per share for a total dividend of \$47.1 million, of which the entire amount was paid in cash on April 17, 2017. The declaration of dividends is considered on a quarterly basis and is at the sole discretion of the Board and will be determined on the basis of earnings, financial requirements for operations and a solvency calculation.

Distributable cash flow

Distributable cash flow is not a standard measure under IFRS and, therefore, may not be comparable to similar measures reported by other entities. Distributable cash flow from continuing and combined operations (collectively "distributable cash flow") is used to assess the level of cash flow generated and to evaluate the adequacy of internally generated cash flow to fund dividends. Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of fluctuations in product inventories or other temporary changes. Upgrade and replacement capital expenditures are deducted from distributable cash flow as there is an ongoing requirement to incur these types of expenditures. The Company may deduct or include additional items in its calculation of distributable cash flow; these items would generally, but not necessarily, be items of a non-recurring nature. The Company has currently reflected non-recurring items relating to severance costs and income taxes paid in distributable cash flow to approximate the internally generated cash flow available to the Company within its normal operating cycle.

During the fourth quarter of 2016, the Company revised its distributable cash flow calculations whereby certain non-recurring adjustments were excluded from the measure. Income taxes were also adjusted to include the impact of cash taxes paid during the period instead of current income taxes. In the Company's view, the revised calculations provide a more meaningful measure to the users of the MD&A.

The following is a reconciliation of distributable cash flow from combined operations to its most closely related IFRS measure, cash flow from operating activities for the twelve months ended March 31, 2017.

	Twelve months ended March 31, 2017
<u>Continuing operations</u>	
Cash flow from operating activities.....	\$ 218,137
Adjustments:	
Changes in non-cash working capital.....	22,739
Upgrade and replacement capital	(25,489)
Cash interest expense, including capitalized interest.....	(92,507)
Non-recurring items:	
Severance costs ⁽¹⁾	4,348
Distributable cash flow from continuing operations.....	<u>\$ 127,228</u>

	Twelve months ended March 31, 2017
Combined operations	
Cash flow from operating activities.....	\$ 216,441
Adjustments:	
Changes in non-cash working capital	44,396
Upgrade and replacement capital	(28,838)
Cash interest expense, including capitalized interest	(92,507)
Non-recurring items:	
Severance costs ⁽¹⁾	4,348
Distributable cash flow from combined operations	<u>\$ 143,840</u>
Dividends declared to shareholders.....	<u>\$ 187,308</u>

(1) Represents the severance costs incurred related to a headcount rationalization review throughout 2016, which are considered non-recurring.

Dividends declared in the twelve months ended March 31, 2017 were \$187.3 million, of which the entire amount was paid in cash. In the twelve months ended March 31, 2017, dividends declared represented 130% of the combined distributable cash flow generated.

Contractual obligations

The following table presents, at March 31, 2017, the Company's obligations and commitments to make future payments under contracts and contingent commitments:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt ⁽¹⁾	\$ 970,309	\$ -	\$ -	\$ 320,309	\$ 650,000
Convertible debentures	100,000	-	-	100,000	-
Interest payments on long-term debt and Debentures ⁽¹⁾	332,616	55,649	111,299	89,455	76,213
Total contractual obligations	<u>\$ 1,402,925</u>	<u>\$ 55,649</u>	<u>\$ 111,299</u>	<u>\$ 509,764</u>	<u>\$ 726,213</u>

(1) The exchange rate used to translate the U.S. dollar obligations on the Company's long-term debt and interest payments is the rate as of March 31, 2017 of U.S.\$0.75 to CAD\$1.00.

Contingencies

The Company is currently undergoing various tax related audits. While the final outcome of such audits cannot be predicted with certainty, the Company believes that the resolution of these audits will not have a material impact on the Company's consolidated financial position or results of operations.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial performance or financial condition.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at March 31, 2017, there were 142.6 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive plan, there were an aggregate of 3.1 million restricted share units, performance share units and deferred share units outstanding and 3.0 million stock options outstanding as at March 31, 2017.

At March 31, 2017, awards available to grant under the equity incentive plan were approximately 8.2 million.

As at May 7, 2017, 142.6 million common shares, 3.1 million restricted share units, performance share units and deferred share units and 2.6 million stock options were outstanding.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Commodity Price Risk. The Company hedges its exposure to price fluctuations with respect to crude oil, refined products, natural gas and NGLs, and expected purchases and sales of these commodities (relating primarily to crude oil, roofing flux, propane sales and purchases of natural gasoline). The derivative instruments utilized consist primarily of futures and option contracts traded on the New York Mercantile Exchange, the Intercontinental Exchange and over-the-counter transactions, including swap and option contracts entered into with financial institutions and other energy companies. The Company's policy is to transact only in commodity derivative products for which the Company physically transacts, and to structure the Company's hedging activities so that price fluctuations for those products do not materially affect the net cash the Company ultimately receives from its commodity related marketing activities.

Although the Company seeks to maintain a position that is substantially balanced within the Company's various commodity purchase and sales activities, the Company may experience net unbalanced positions as a result of production, transportation and delivery variances as well as logistical issues associated with inclement weather conditions.

The intent of the Company's risk management strategy is to hedge the Company's margin. However, the Company has not designated nor attempted to qualify for hedge accounting. Thus, changes in the fair values of all of the Company's derivatives are recognized in earnings and result in greater potential for earnings volatility.

The fair value of futures contracts is based on quoted market prices obtained from the Chicago Mercantile Exchange. The fair value of swaps and option contracts is estimated based on quoted prices from various sources, such as independent reporting services, industry publications and brokers. These quotes are compared to the contract price of the swap, which approximates

the gain or loss that would have been realized if the contracts had been closed out at the period end. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. No such positions existed as at March 31, 2017 and March 31, 2016. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by \$6.3 million and \$9.7 million as of March 31, 2017 and 2016, respectively. A 15% unfavorable change would decrease the Company's net income by \$5.5 million and \$10.1 million as of March 31, 2017 and 2016, respectively. However, these changes may be offset by the use of one or more risk management strategies.

Interest rate risk. The addition of the New Notes, along with outstanding Notes, exposes the Company to fixed interest rates and accordingly changes in market interest rates do not expose the Company to future interest cash outflow variability.

Under the Revolving Credit Facility, the Company is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either the Canadian Prime Rate or U.S. LIBOR, U.S. Base Rate or Canadian Bankers' Acceptance Rate, plus an applicable margin based on the Company's total leverage ratio. As at March 31, 2017 and 2016, the Company had \$nil drawn under the Revolving Credit Facility and, accordingly, is currently not subject to interest rate cash flow risk associated with these amounts.

Currency exchange risks. The Company's monetary assets and liabilities in foreign currencies are translated at the period-end rate. Exchange differences arising from this translation are recorded in the Company's statement of operations. In addition, currency exposures can arise from revenues and purchase transactions denominated in foreign currencies. Generally, transactional currency exposures are naturally hedged (i.e., revenues and expenses are approximately matched), but, where appropriate, are covered using forward exchange contracts. All of the foreign currency forward exchange contracts entered into by the Company, although effective hedges from an economic perspective, have not been designated as hedges for accounting purposes, and therefore any gains and losses on such forward exchange contracts impact the Company's earnings. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would affect the fair value of the Company's outstanding forward currency contracts and options and would decrease the Company's net income by \$2.2 million and \$1.3 million as at March 31, 2017 and 2016, respectively. A 5% favorable change would increase the Company's net income by \$1.9 million and \$1.3 million as at March 31, 2017 and 2016, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

Additionally, currency exposure occurs on a portion of the principal of the Company's long-term debt and the related interest payments, as they are denominated in U.S. dollars. As at March 31, 2017, the Company had outstanding U.S. dollar denominated debt of U.S.\$211.2 million. As a result of the settlement of U.S. forward and options contracts in the first quarter of 2015, the Company has no foreign currency hedges in place relating to its long-term debt at March 31, 2017 and, therefore, the Company is exposed to the associated foreign currency exchange risk. The Company monitors its exposure to foreign currencies, including associated interest payments, and, where optimal, will consider minimizing exposure using appropriate hedging strategies. Currently, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would impact both the carrying value of the Company's long-term debt and any related foreign currency contracts and would decrease the Company's net income by \$12.2 million and \$30.5 million as at March 31, 2017 and 2016, respectively. A corresponding favorable change would increase the Company's net income by \$12.2 million and \$31.0 million as at March 31, 2017 and 2016, respectively. With respect to the related interest payments on the U.S. dollar denominated long-term debt, to date, the Company has not entered into any foreign currency hedges and, therefore, the Company is exposed to the associated foreign currency exchange risk. Based on the interest rate in effect at March 31, 2017, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar as of March 31, 2017 would increase the Company's annual interest expense by \$1.0 million. A 5% favorable change in the value of the Canadian dollar relative to the U.S. dollar as of March 31, 2017 would decrease the Company's annual interest expense by \$1.0 million.

Equity price risk: The Company has equity price and dilution exposure to shares that it issues under its stock based compensation programs. Gibsons uses equity derivatives to manage volatility derived from its stock based compensation programs. These contracts will mature at the prevailing share prices in accordance with the specific maturities of each contract over a three year period. As at March 31, 2017 and 2016, the Company estimates that a 10% increase in the Company's share price would have resulted in an increase in the Company's income of \$1.6 million and \$0.7 million, respectively. A corresponding decrease in the Company's share price would decrease the Company's net income by \$1.6 million and \$0.7 million, respectively.

ACCOUNTING POLICIES

Critical accounting policies and estimates

The preparation of condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the Company's condensed consolidated financial statements. The Company's critical accounting policies and estimates are discussed in the Company's Annual 2016 MD&A dated March 8, 2016 as filed on SEDAR.

Amended standards adopted by the Company

New and amended standards adopted by the Company

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

- The annual improvements process addresses issues in the 2014-2016 reporting cycles include changes to IFRS 12 - Disclosure of interests in other entities. This improvement is effective for periods beginning on or after January 1, 2017. The adoption of these improvements did not have a material impact on the consolidated financial statements.
- IAS 12 – Income taxes (“IAS 12”), has been amended to clarify (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base, and (iii) certain other aspects of accounting for deferred tax assets. The amendment to IAS 12 is effective for years beginning on or after January 1, 2017. The adoption of this amendment did not have a material impact on the condensed consolidated financial statements.
- IAS 7 – Statement of cash flows (“IAS 7”), has been amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash-flows and non-cash changes. The amendment to IAS 7 is effective for years beginning on or after January 1, 2017. The adoption of this amendment did not have a material impact on the condensed consolidated financial statements, however, additional disclosures will be included in the Company's 2017 annual financial statements.

New standards and interpretations issued but not yet adopted

There were no new accounting standards or interpretations issued during the quarter. As disclosed in the 2016 year-end Financial Statements, the Company is currently evaluating the impact of IFRS 16, “Leases” (“IFRS 16”) and IFRS 15, “Revenue From Contracts With Customers” (“IFRS 15”).

IFRS 16 is effective for years beginning on or after January 1, 2019, however the early adoption of IFRS 16 is permitted if IFRS 15 has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. It is anticipated that the adoption of IFRS 16 will have a material impact on the Company's Consolidated Balance Sheets due to material operating lease commitments. For Lessor accounting, the Company anticipates that the accounting treatment remains materially the same. The Company has decided to early adopt IFRS 16 effective January 1, 2018, consistent with the adoption date of IFRS 15.

For IFRS 15 and IFRS 16, the Company is in the process of developing an implementation plan to identify all contracts and arrangements which will fall within the scope of IFRS 15 and 16. The Company's management believes that it has sufficient resources allocated to the project to ensure timely implementation and has commenced its assessment of key contracts. Once all applicable contracts and arrangements are identified and reviewed, the Company will assess applicable impacts. These include, but are not limited to, impacts to (i) recognition and measurement of revenue on the Company's consolidated financial statements; (ii) company policies and business practices; (iii) information technology systems; (iv) key operating metrics; (v) internal controls; (vi) financial covenants; and (vii) significant judgments and estimations required.

DISCLOSURE CONTROLS & PROCEDURES

Based on the evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), the Chief Executive Officer and the Chief Financial Officer concluded that Gibson's DC&P and ICFR were effective as at March 31, 2017.

During the three months ended March 31, 2017, there have been no changes made to Gibsons ICFR that materially affected or are reasonably likely to materially affect, it's ICFR.

RISK FACTORS

For a detailed discussion of the risks and trends that could affect the financial performance of the Company and the steps Gibsons takes to mitigate these risks, see the December 31, 2016 MD&A and Annual Information Form, which is available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

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

- *the completion of the sale of the Industrial Propane segment;*
- *realization of anticipated benefits from headcount rationalization efforts;*
- *the addition or disposition of assets and changes in the services to be offered by the Company;*
- *the Company's investment in new equipment, technology, facilities and personnel;*
- *the Company's growth strategy to expand in existing and new markets;*
- *the availability of sufficient liquidity for planned growth;*
- *new technology and drilling methodology being deployed towards conventional and unconventional production within the Company's operating areas;*
- *uncertainty and volatility relating to crude prices and price differentials between crude oil streams and blending agents;*
- *increased crude oil production and exploration activity on shore in North America, including from the Canadian oil sands;*
- *the expansion of midstream infrastructure in North America to handle increased production and expansion of capacity in the U.S. refining complex to handle heavier crude oil from the WCSB;*
- *the effect of competition in regions of North America and its impact on downward pricing pressure and regional crude oil price differentials among crude oil grades and locations;*
- *the effect of market volatility on the Company's marketing revenues and activities;*
- *the Company's ability to pay down and retire indebtedness;*
- *the Company's plans for additional strategic acquisitions, capital expenditures or other similar transactions, including the costs thereof;*
- *in-service dates for new storage capacity being constructed by the Company;*
- *the Company's planned hedging activities;*
- *the Company's projections of commodity purchase and sales activities;*
- *the Company's projections of currency and interest rate fluctuations;*
- *the realization of anticipated benefits from the implementation of cost saving measures;*
- *the Company's projections of dividends; and*
- *the Company's dividend policy.*

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

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

In addition, this MD&A may contain forward-looking statements and forward-looking information attributed to third party industry sources. The Company does not undertake any obligations to publicly update or revise any forward-looking statements except as required by securities law. Actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous risks and uncertainties including, but not limited to, the risks and uncertainties described in "Forward-Looking Statements" and "Risk Factors" included in the Company's Annual Information Form dated March 7, 2017 as filed on SEDAR at www.sedar.com and available on Gibsons website at www.gibsons.com.

NON-GAAP FINANCIAL MEASURES

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

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