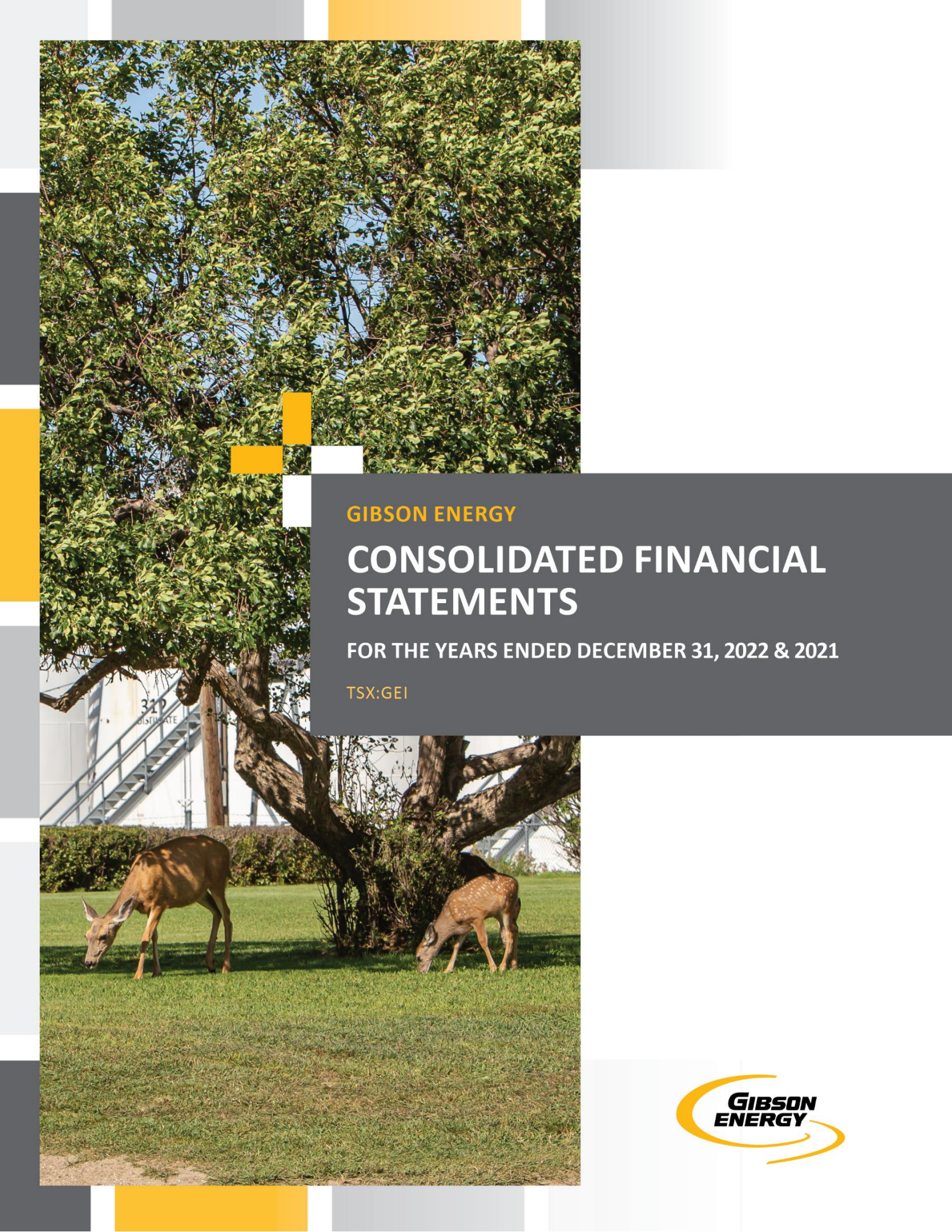




GIBSON ENERGY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 & 2021

TSX:GEI





Independent auditor's report

To the Shareholders of Gibson Energy Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Gibson Energy Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2022 and 2021;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

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



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill <i>Refer to note 3 – Significant accounting policies and note 12 – Goodwill to the consolidated financial statements.</i> The Company had goodwill of \$362.1 million as at December 31, 2022. Management performs an impairment assessment annually or more frequently if events or circumstances indicate that the carrying value may be impaired. An impairment assessment is conducted over a group of assets that generate independent cash inflows; management has grouped these cash generating units (CGUs) at the operating segment level for the purpose of the goodwill impairment assessment. An impairment loss is recognized if the carrying amount of an operating segment to which the goodwill relates exceeds its recoverable amount. The recoverable amounts of the operating segments were based on a fair value less cost of disposal method using either a discounted cash flow approach or an earnings multiple approach. Key assumptions used in the discounted cash flow approach included revenue growth rates, terminal value, expected margins and discount rate. Key assumptions used in the earnings multiple approach were budgeted earnings before interest, taxes, depreciation and amortization less corporate expenses (EBITDA) and earnings multiples.	Our approach to addressing the matter involved the following procedures, among others: • Tested the operating effectiveness of internal controls related to the impairment assessment of goodwill. • Evaluated how management determined the recoverable amounts of the operating segments, which included the following: - Tested the appropriateness of the method and approaches used and the mathematical accuracy of the calculations. - Tested the underlying data used by management in the discounted cash flow approach and the earnings multiple approach. - When an earnings multiple approach was used, tested the reasonableness of the assumptions used by management in determining the budgeted EBITDA by considering (i) the current and past performance of the operating segments; (ii) external market and industry data; and (iii) evidence obtained in other areas of the audit. - When a discounted cash flow approach was used, tested the reasonableness of the revenue growth rates and expected margins by considering management's strategic plans approved by the Board, industry growth rates and available third party published economic data.



Key audit matter

How our audit addressed the key audit matter

We considered this a key audit matter due to (i) the significance of the goodwill balance and (ii) the significant judgment made by management in determining the recoverable amounts of the operating segments, including the use of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing the audit procedures. Professionals with skill and knowledge in the field of valuation assisted us in performing our procedures.

- Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonability of the earnings multiples, discount rate and terminal value.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the 2022 Report to Shareholders, Management's Discussion and Analysis and Annual Financial Statements.

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

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

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

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

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

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



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

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

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

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

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



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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 21, 2023

Gibson Energy Inc.**Consolidated Balance Sheets***(Amounts in thousands of Canadian dollars, except per share amounts)*

		As at December 31,	
	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents		83,596	62,688
Trade and other receivables	5	464,305	667,588
Inventories	6	257,754	255,131
Income taxes receivable	18	273	4,809
Prepaid and other assets		9,682	7,340
Net investment in finance leases	7	5,914	8,883
		821,524	1,006,439
Non-current assets			
Property, plant and equipment	8	1,556,427	1,612,636
Right-of-use assets	9	47,739	52,582
Long-term prepaid and other assets		1,607	2,065
Net investment in finance leases	7	192,318	163,687
Investment in equity accounted investees	10	165,111	172,715
Deferred income tax assets	18	19,141	27,406
Intangible assets	11	29,063	34,355
Goodwill	12	362,068	359,875
		2,373,474	2,425,321
Total assets		3,194,998	3,431,760
Liabilities and equity			
Current liabilities			
Trade payables and accrued charges	15	574,568	683,708
Dividends payable	17	52,896	51,319
Contract liabilities		21,029	31,733
Lease liabilities	14	37,196	29,748
		685,689	796,508
Non-current liabilities			
Long-term debt	13	1,646,772	1,660,609
Lease liabilities	14	34,504	52,031
Provisions	16	145,057	180,270
Other long-term liabilities		2,164	4,061
Deferred income tax liabilities	18	107,796	94,155
		1,936,293	1,991,126
Total liabilities		2,621,982	2,787,634
Equity			
Share capital	17	1,964,515	1,997,255
Contributed surplus		60,399	66,002
Accumulated other comprehensive income		48,233	24,310
Accumulated deficit		(1,500,131)	(1,443,441)
		573,016	644,126
Total liabilities and equity		3,194,998	3,431,760

Commitments and contingencies (note 25)*See accompanying notes to the consolidated financial statements*

Approved by the Board of Directors:

(signed) "James M. Estey"

James M. Estey (Director)

(signed) "Marshall L. McRae"

Marshall L. McRae (Director)

Gibson Energy Inc.**Consolidated Statements of Operations***(Amounts in thousands of Canadian dollars, except per share amounts)*

	<i>Note</i>	Year ended December 31,	
		2022	2021*
Revenue	19	11,035,411	7,211,148
Cost of sales	20, 21	10,640,976	6,912,820
Gross profit		394,435	298,328
Share of profit from equity accounted investees	10	(20,926)	(6,083)
General and administrative expenses	20, 21, 22	70,348	68,812
Other operating income, net		(10,061)	(6,982)
Operating income		355,074	242,581
Finance costs, net	13	64,939	61,344
Income before income taxes		290,135	181,237
Income tax expense	18	66,890	36,184
Net income		223,245	145,053
Earnings per share	17		
Basic earnings per share		1.53	0.99
Diluted earnings per share		1.50	0.97

See Note 2 for reclassification of prior period resultsSee accompanying notes to the consolidated financial statements*

Gibson Energy Inc.**Consolidated Statements of Comprehensive Income***(Amounts in thousands of Canadian dollars, except per share amounts)*

	Year ended December 31,	
	2022	2021
Net Income	223,245	145,053
Other comprehensive income (loss)		
<i>Items that may be reclassified subsequently to statement of operations</i>		
Exchange differences from translating foreign operations	21,593	(2,912)
<i>Items that will not be reclassified subsequently to statement of operations</i>		
Remeasurement of post-employment benefit obligation, net of tax	2,330	3,156
Other comprehensive income, net of tax	23,923	244
Comprehensive income	247,168	145,297

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.

Consolidated Statements of Changes in Equity

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

	Share Capital (note 17)	Contributed Surplus	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Equity
Balance – January 1, 2021	1,977,104	61,820	24,066	(1,383,340)	679,650
Net income	-	-	-	145,053	145,053
Other comprehensive income, net of tax	-	-	244	-	244
Comprehensive income	-	-	244	145,053	145,297
Share-based compensation	-	20,905	-	-	20,905
Tax effect of equity settled awards	1,172	109	-	-	1,281
Proceeds from exercise of stock options	2,147	-	-	-	2,147
Reclassification of contributed surplus	16,832	(16,832)	-	-	-
Dividends on common shares (\$1.40 per per common share)	-	-	-	(205,154)	(205,154)
Balance – December 31, 2021	1,997,255	66,002	24,310	(1,443,441)	644,126
Balance – January 1, 2022	1,997,255	66,002	24,310	(1,443,441)	644,126
Net income	-	-	-	223,245	223,245
Other comprehensive income, net of tax	-	-	23,923	-	23,923
Comprehensive income	-	-	23,923	223,245	247,168
Share-based compensation	-	18,229	-	-	18,229
Tax effect of equity settled awards	680	250	-	-	930
Proceeds from exercise of stock options	24,068	-	-	-	24,068
Reclassification of contributed surplus	24,082	(24,082)	-	-	-
Dividends on common shares (\$1.48 per common share)	-	-	-	(215,446)	(215,446)
Repurchase of shares under normal course issuer bid ("NCIB")	(81,570)	-	-	(64,489)	(146,059)
Balance – December 31, 2022	1,964,515	60,399	48,233	(1,500,131)	573,016

See accompanying notes to the consolidated financial statements

Gibson Energy Inc.

Consolidated Statements of Cash Flows

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

	Note	Year ended December 31,	
		2022	2021
Cash flows from operating activities			
Net income		223,245	145,053
Adjustments	27	293,491	284,578
Changes in items of working capital	27	119,197	(183,103)
Income tax payment, net	27	(37,621)	(29,722)
Net cash inflow from operating activities		598,312	216,806
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	8	(140,381)	(117,672)
Investment in equity accounted investees	10	(2,259)	(29,210)
Proceeds from sale of assets		8,240	19,822
Net cash outflow from investing activities		(134,400)	(127,060)
Cash flows from financing activities			
Payment of shareholder dividends		(213,869)	(203,329)
Interest paid, net		(59,249)	(54,751)
Proceeds from exercise of stock options		24,068	2,147
Lease payments	14	(35,397)	(36,694)
(Repayment of) draws on credit facility, net	13	(15,000)	209,672
Repurchase of shares under NCIB	17	(146,059)	-
Net cash outflow from financing activities		(445,506)	(82,955)
Net increase in cash and cash equivalents		18,406	6,791
Effect of exchange rate on cash and cash equivalents		2,502	2,221
Cash and cash equivalents – beginning		62,688	53,676
Cash and cash equivalents – end		83,596	62,688

See accompanying notes to the consolidated financial statements

See notes 13, 14 and 17 for reconciliation of movement of financial liabilities and equity.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 1 Description of Business and Segmented Disclosure

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

The Company had the following principal subsidiaries as at December 31, 2022:

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

The Company is a Canadian-based liquids infrastructure company with its principal businesses consisting of storage, optimization, processing, and gathering of liquids and refined products.

The Company's reportable segments are:

Infrastructure, which includes a network of liquids infrastructure assets that include oil terminals, rail loading and unloading facilities, gathering pipelines, a crude oil processing facility, and other small terminals. The primary facilities within this segment include the Hardisty and Edmonton Terminals, which are the principal hubs for aggregating and exporting liquids and refined products out of the Western Canadian Sedimentary Basin; gathering pipelines, which are connected to the Hardisty Terminal; a crude oil processing facility in Moose Jaw, Saskatchewan (the "Moose Jaw Facility"); and an infrastructure position located in the United States ("U.S."). The Infrastructure segment also includes the Company's share of equity pickup from equity accounted investees. Select assets are impacted by maintenance turnarounds typically occurring within the spring every few years.

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

*(Amounts in thousands of Canadian dollars, except per share amounts)***a) Statement of operations**

Year ended December 31, 2022	Infrastructure	Marketing	Total
Revenue			
External	318,372	10,717,039	11,035,411
Inter-segmental	207,438	111,195	318,633
External and inter-segmental	525,810	10,828,234	11,354,044
Segment profit	434,998	122,020	557,018
Corporate and other reconciling items:			
Depreciation and impairment of property, plant and equipment			107,353
Depreciation and impairment of right-of-use assets			29,184
Amortization of intangible assets			7,942
General and administrative			40,196
Stock based compensation			20,543
Corporate foreign exchange gain			(3,274)
Interest expense, net			64,939
Net income before income tax			290,135
Income tax expense			66,890
Net income			223,245

Statement of operations

Year ended December 31, 2021	Infrastructure	Marketing	Total
Revenue			
External	333,715	6,877,433	7,211,148
Inter-segmental	186,047	86,148	272,195
External and inter-segmental	519,762	6,963,581	7,483,343
Segment profit	433,929	41,267	475,196
Corporate and other reconciling items:			
Depreciation and impairment of property, plant and equipment			136,068
Depreciation and impairment of right-of-use assets			29,123
Amortization of intangible assets			8,670
General and administrative			34,481
Stock based compensation			23,335
Corporate foreign exchange loss			938
Interest expense, net			61,344
Net income before income tax			181,237
Income tax expense			36,184
Net income			145,053

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

The breakdown of additions to property, plant and equipment, investment in equity accounted investees and intangible assets by reportable segment is as follows:

Additions	Year ended December 31,	
	2022	2021
Infrastructure	94,203	168,152
Marketing	16,430	2,308
Corporate	6,592	5,937
	117,225	176,397

b) Geographic Data

Based on the location of the end user, approximately \$1,706.7 million and \$1,462.4 million of revenue was from customers in the U.S. for the years ended December 31, 2022, and 2021, respectively.

The Company's non-current assets, excluding investment in finance leases, investment in equity accounted investees and deferred tax assets are primarily concentrated in Canada, with \$230.2 million and \$220.2 million in the U.S. as at December 31, 2022, and 2021, respectively.

c) Major Customers

Primarily in connection with the marketing business, the Company had two customers which individually accounted for more than 10% of revenue for the year ended December 31, 2022. These customers accounted for \$1,424.7 million and \$1,207.8 million of revenue, respectively.

Note 2 Basis of Preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

For the year ended December 31, 2022, share of profit from equity accounted investees has been presented separately in the consolidated statement of operations, which was previously presented within the cost of sales. Comparative information has been updated to reflect the current presentation.

These consolidated financial statements were approved for issuance by the Company's board of directors (the "Board") on February 21, 2023.

Note 3 Significant Accounting Policies

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

a) Basis of measurement

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

b) Basis of consolidation

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

All intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements. Gains arising from transactions with investments in equity accounted investees are eliminated against the investment to the extent of Company's interest in the investee. Losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

c) Foreign currency translation

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

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

d) Business combinations and goodwill

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

e) Intangible assets

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

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

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

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

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

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

f) Property, plant and equipment

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

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

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

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

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

Buildings	10 – 20 years
Equipment	5 – 40 years
Pipelines and connections	8 – 50 years
Tanks	20 – 40 years
Plant	10 – 35 years
Disposal wells	20 – 25 years

The expected useful lives, method of depreciation and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes are accounted for prospectively. During 2022, certain expected useful lives were revised, as disclosed in note 8 of the consolidated financial statements.

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

g) Impairments

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

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

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

h) Inventories

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

i) Leases - lessee

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

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

j) Leases - lessor

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

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

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

k) Provisions and contingencies

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

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

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

Decommissioning liabilities

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

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

Environmental liabilities

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

l) Employee benefits

Defined benefit pension plans

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

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

Defined contribution pension plans

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

Share-based payments

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

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

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

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

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

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

Termination benefits

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

m) Income taxes

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

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

n) Revenue recognition

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

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

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

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

o) Cost of sales

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

p) Borrowing costs

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

q) Per share amounts

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

r) Segmental reporting

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

s) Non-derivative financial instruments – recognition and measurement

Financial assets

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

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

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

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

Financial liabilities

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

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

t) Derivative financial instruments – recognition and measurement

Derivative financial instruments, used periodically by the Company to manage exposure to market risks relating to commodity prices, share-based compensation and foreign currency, are not designated as hedges. They are recorded at fair value and recorded on the Company's balance sheet as either an asset, when the fair value is positive, or a liability, when the fair value is negative. Changes in fair value are recorded immediately in the consolidated statement of operations.

u) Critical accounting estimates and judgements

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

i) Critical accounting estimates and assumptions

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

Impairment assessment of non-financial assets

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

In the impairment analysis of the Company's assets, some of the key assumptions used are budgeted earnings before interest, taxes, depreciation and amortization less corporate expenses (EBITDA) which involves estimating revenue growth rates, future commodity prices, expected margins, expected sales volumes, cost structures, multiples of comparable public companies of the operating segment, terminal value and discount rates.

These assumptions and estimates are uncertain and are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates.

Provisions

Provisions for decommissioning and environmental remediation are recorded when it is considered probable and the costs can be reasonably estimated. The eventual costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and constructive obligations, the application of new technologies, and the Company's past experience in comparable decommissioning and environmental remediation activities. The Company uses third-party evaluators, where determined necessary, to obtain the estimates of the decommissioning and environmental provision.

ii) Critical judgements in applying the Company's accounting policies

Critical judgements in determining lease terms

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Joint arrangements

The determination of joint control requires judgment about the influence the Company has over the financial and operating decisions of an arrangement and the extent of the benefits it obtains based on the facts and circumstances of the arrangement during the reporting period. Joint control exists when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Ownership percentage alone may not be a determinant of joint control. Once joint control has been determined, the arrangement is classified as a joint venture or a joint operation, depending on the rights and obligations of the parties to the agreement.

Investment in finance leases

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

Current and deferred taxation

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

v) Change in accounting estimates

During the fourth quarter of 2022, the Company performed an annual review of the useful lives estimates for the property, plant, and equipment assets. The review was based on the current conditions of the company's assets, operational history and economic environment where the Company operates, along with the results of asset integrity assessments conducted over the course of past several years. As a result of this review, effective October 1, 2022, the useful life estimates of select assets was revised, generally resulting in longer estimates lives for the Company's storage and transportation infrastructure and associated equipment, as outlined in note 8 – Property, Plant and Equipment.

The adjustment was treated as a change in accounting estimate and accounted for prospectively, resulting in a decrease in the pre-tax depreciation expense of \$11.2 million for the fourth quarter of 2022 with a similar quarterly impact expected for the 2023 fiscal year.

Note 4 Changes in Accounting Policies and Disclosures

New interpretations and amended standards adopted by the Company:

The Company adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with applicable transitional provisions and did not have a material impact on the on the consolidated financial statements.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

- The annual improvements process addresses issues in the 2018-2021 reporting cycles including changes to IFRS 9, Financial Instruments, IFRS 1, First Time Adoption of IFRS, IFRS 16, Leases, and IAS 41, Biological Assets. These improvements are effective for periods beginning on or after January 1, 2022;
- IAS 37 – Provisions (“IAS 37”), has been amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. These amendments are effective for periods beginning on or after January 1, 2022; and
- IAS 16 – Property, Plant and Equipment (“IAS 16”), has been amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. These improvements are effective for periods beginning on or after January 1, 2022.

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

The Company has assessed the impact of the following amendments to the standards and interpretations applicable for future periods and do not expect these to have a material impact on the Company’s consolidated financial statements at the adoption date:

- IAS 12 – Income Taxes (“IAS 12”), has been amended to separately recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These amendments are effective for annual periods beginning on or after January 1, 2023; and
- IAS 1 – Presentation of Financial Statements (“IAS 1”), has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2024.

Note 5 Trade and Other Receivables

		December 31,	
	Note	2022	2021
Trade receivables		445,832	648,729
Allowance for doubtful accounts		(272)	(262)
Trade receivables, net		445,560	648,467
Risk management assets	24	4,170	4,476
Indirect taxes receivable		12,940	14,008
Other		1,635	637
		464,305	667,588

	Year ended December 31,	
Allowance for doubtful accounts	2022	2021
Opening balance	(262)	(566)
Additional allowances and adjustments	(485)	186
Receivables written off as uncollectible	485	120
Effect of changes in foreign exchange rates	(10)	(2)
Closing balance	(272)	(262)

Gibson Energy Inc.

Notes to Consolidated Financial Statements

*(Amounts in thousands of Canadian dollars, except per share amounts)***Note 6 Inventories**

		December 31,
	2022	2021
Crude oil, natural gas liquids and diluent	201,293	194,511
Asphalt	42,153	48,518
Wellsite fluids and distillate	14,308	12,102
	257,754	255,131

The cost of the inventory sold included in cost of sales was \$10,355.0 million and \$6,639.0 million for the years ended December 31, 2022, and 2021, respectively.

Note 7 Net Investment in Finance Leases

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

		December 31,
	2022	2021
Total minimum lease payments receivable	627,565	499,939
Residual value	67,951	68,464
Unearned income	(497,284)	(395,833)
	198,232	172,570
Less: current portion	5,914	8,883
Net investment in finance lease: non-current portion	192,318	163,687

The minimum lease receivables are expected to be as follows:

2023	39,419
2024	38,906
2025	39,172
2026	39,445
2027	39,727
2028 and later	430,896

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 8 Property, Plant and Equipment

	Land and Buildings	Pipelines and Connections	Tanks	Plant, Equipment and Other	Work in Progress	Total
Cost:						
At January 1, 2022	134,335	494,245	823,434	911,950	136,399	2,500,363
Additions and adjustments	502	33,040	30,346	78,428	(28,014)	114,302
Disposals	(1,764)	-	(91)	(24,169)	-	(26,024)
Reclassified from (to) net investment in finance leases, net	-	-	2,629	(42,099)	-	(39,470)
Reclassifications	17,710	6,307	(2,512)	(21,505)	-	-
Change in decommissioning provision	(235)	(3,352)	(22,411)	(5,694)	-	(31,692)
Effect of movements in exchange rates	451	6,452	1,282	3,251	1,249	12,685
At December 31, 2022	150,999	536,692	832,677	900,162	109,634	2,530,164
Accumulated depreciation and impairment:						
At January 1, 2022	35,200	151,747	219,540	481,240	-	887,727
Depreciation and adjustments	5,658	21,117	26,781	53,515	-	107,071
Disposals	(471)	-	(76)	(22,610)	-	(23,157)
Reclassifications	15,052	3,156	(1,904)	(16,304)	-	-
Effect of movements in exchange rates	60	594	284	1,158	-	2,096
At December 31, 2022	55,499	176,614	244,625	496,999	-	973,737
Carrying amounts:						
At January 1, 2022	99,135	342,498	603,894	430,710	136,399	1,612,636
At December 31, 2022	95,500	360,078	588,052	403,163	109,634	1,556,427

	Land and Buildings	Pipelines and Connections	Tanks	Plant, Equipment and Other	Work in Progress	Total
Cost:						
At January 1, 2021	123,661	482,350	823,871	922,220	80,021	2,432,123
Additions and adjustments	5,155	13,662	12,113	31,596	89,892	152,418
Disposals	(14)	-	(334)	(26,663)	-	(27,011)
Reclassifications	5,560	2,009	2,151	23,613	(33,333)	-
Change in decommissioning provision	-	(3,092)	(14,271)	(38,057)	-	(55,420)
Effect of movements in exchange	(27)	(684)	(96)	(759)	(181)	(1,747)
At December 31, 2021	134,335	494,245	823,434	911,950	136,399	2,500,363

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

	Land and Buildings	Pipelines and Connections	Tanks	Plant, Equipment and Other	Work in Progress	Total
Accumulated depreciation and impairment:						
At January 1, 2021	27,727	128,640	185,961	426,146	-	768,474
Depreciation and adjustments	7,472	23,096	33,829	80,507	-	144,904
Disposals	(1)	-	(239)	(24,951)	-	(25,191)
Effect of movements in exchange rates	2	11	(11)	(462)	-	(460)
At December 31, 2021	35,200	151,747	219,540	481,240	-	887,727
Carrying amounts:						
At January 1, 2021	95,934	353,710	637,910	496,074	80,021	1,663,649
At December 31, 2021	99,135	342,498	603,894	430,710	136,399	1,612,636

Additions to property, plant and equipment include the capitalization of interest of \$2.3 million and \$1.4 million for the years ended December 31, 2022, and 2021, respectively. Amounts in relation to infrastructure assets are under operating lease arrangements.

Change in accounting estimates

During the fourth quarter of 2022, the Company performed an annual review of the useful lives estimates for the property, plant, and equipment assets. The review was based on the current conditions of the company's assets, operational history and economic environment where the Company operates, along with the results of asset integrity assessments conducted over the course of past several years. As a result of this review, effective October 1, 2022, the following changes were made to the Company's estimates of the useful lives for various asset groups:

	Previous useful lives estimates	Revised useful lives estimates
Buildings	10 – 20 years	10 – 20 Years
Equipment	3 – 20 years	5 – 40 Years
Pipelines and connections	8 – 30 years	8 – 50 Years
Tanks	20 – 30 years	20 – 40 Years
Plant	10 – 25 years	10 – 35 Years

The adjustment was treated as a change in accounting estimate and accounted for prospectively, resulting in a decrease in the pre-tax depreciation expense of \$11.2 million for the fourth quarter of 2022, with a similar quarterly impact expected for the 2023 year.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

*(Amounts in thousands of Canadian dollars, except per share amounts)***Note 9 Right-of-use Assets**

	Buildings	Rail Cars	Other	Total
Cost:				
At January 1, 2022	44,749	100,810	6,059	151,618
Additions and adjustments	117	15,584	3,777	19,478
Disposals	(490)	(5,622)	-	(6,112)
Effect of movements in exchange rates	59	-	336	395
At December 31, 2022	44,435	110,772	10,172	165,379
Accumulated depreciation and impairment:				
At January 1, 2022	20,322	74,741	3,973	99,036
Depreciation and adjustments	4,941	15,573	3,959	24,473
Disposals	(464)	(5,622)	-	(6,086)
Reclassification	-	44	(44)	-
Effect of movements in exchange rates	31	-	186	217
At December 31, 2022	24,830	84,736	8,074	117,640
Carrying amounts:				
At January 1, 2022	24,427	26,069	2,086	52,582
At December 31, 2022	19,605	26,036	2,098	47,739

	Buildings	Rail Cars	Other	Total
Cost:				
At January 1, 2021	49,500	110,835	12,764	173,099
Additions and adjustments	594	10,446	3,008	14,048
Disposals	(5,326)	(20,471)	(9,770)	(35,567)
Effect of movements in exchange rates	(19)	-	57	38
At December 31, 2021	44,749	100,810	6,059	151,618
Accumulated depreciation and impairment:				
At January 1, 2021	20,352	73,402	10,150	103,904
Depreciation and adjustments	5,298	21,810	3,554	30,662
Disposals	(5,327)	(20,471)	(9,770)	(35,568)
Effect of movements in exchange rates	(1)	-	39	38
At December 31, 2021	20,322	74,741	3,973	99,036
Carrying amounts:				
At January 1, 2021	29,148	37,433	2,614	69,195
At December 31, 2021	24,427	26,069	2,086	52,582

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 10 Investment in Equity Accounted Investees

	Ownership %	Share of Profit for the year		Investment in Equity Accounted Investees at	
		December 31,		December 31,	
		2022	2021	2022	2021
Hardisty Energy Terminal Limited Partnership ("HET")	50%	18,572	5,475	142,134	151,378
Zenith Energy Terminals Joliet Holdings LLC ("Zenith")	36%	2,354	608	22,977	21,337
		20,926	6,083	165,111	172,715

The Company, as the operator, holds a 50% interest in HET, operating a Diluent Recovery Unit ("DRU") adjacent to the Company's Hardisty Terminal. The DRU started operations in the third quarter of 2021. The Company also holds 36% interest in Zenith which owns and operates a crude-by-rail and storage terminal and a pipeline connection to a common carrier crude oil pipeline in Joliet, Illinois. The Company's share of profit or loss from these investments is included within the Infrastructure segment's profit. During the year ended December 31, 2022, the Company contributed \$2.3 million (year ended December 31, 2021 – \$29.2 million) to the equity investments.

Noted below is summarized financial information (presented at 100%):

	Year ended December 31,	
	2022	2021
Net income and comprehensive income		
Revenue	77,229	31,430
Cost of sales	6,629	6,485
General and administrative	19,347	7,594
Depreciation and amortization	15,482	8,600
Other income	(7,893)	(3,903)
Net income and comprehensive income	43,664	12,654
Net income and comprehensive income attributable to the Company	20,926	6,083

	December 31,	
	2022	2021
Balance sheet		
Current assets ⁽¹⁾	21,609	32,710
Non-current assets ⁽²⁾	333,110	346,850
Current liabilities	22,475	26,189
Non-current liabilities ⁽³⁾	16,323	22,986

(1) Includes cash and cash equivalents of \$18.9 million (2021: \$31.3 million)

(2) Includes property, plant and equipment (net) of \$331.9 million (2021: \$345.6 million)

(3) Comprise of provisions of \$16.3 million (2021: \$22.9 million)

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 11 Intangible Assets

	Brands	Customer Relationships	Long-term Customer Contracts	Non-compete Agreements	Technology, Software and License	Total
Cost:						
At January 1, 2022	22,700	57,851	59,346	7,506	54,839	202,242
Additions and adjustments	-	-	-	-	1,892	1,892
Disposals	-	(19,442)	(35,388)	(6,836)	(1,162)	(62,828)
Effect of movements in exchange rates	-	792	942	32	12	1,778
At December 31, 2022	22,700	39,201	24,900	702	55,581	143,084
Accumulated amortization and impairment:						
At January 1, 2022	22,700	57,851	46,538	7,506	33,292	167,887
Amortization and adjustments	-	-	2,029	-	5,913	7,942
Disposals	-	(19,442)	(35,388)	(6,836)	(1,085)	(62,751)
Effect of movements in exchange rates	-	792	128	32	(9)	943
At December 31, 2022	22,700	39,201	13,307	702	38,111	114,021
Carrying amounts:						
At January 1, 2022	-	-	12,808	-	21,547	34,355
At December 31, 2022	-	-	11,593	-	17,470	29,063
	Brands	Customer Relationships	Long-term Customer Contracts	Non-compete Agreements	Technology, Software and License	Total
Cost:						
At January 1, 2021	22,700	57,996	59,774	7,559	74,902	222,931
Additions and adjustments	-	-	-	-	7,441	7,441
Disposals	-	-	-	-	(27,588)	(27,588)
Effect of movements in exchange rates	-	(145)	(428)	(53)	84	(542)
At December 31, 2021	22,700	57,851	59,346	7,506	54,839	202,242
Accumulated amortization and impairment:						
At January 1, 2021	22,700	57,996	44,952	7,559	53,943	187,150
Amortization and adjustments	-	-	1,882	-	6,788	8,670
Disposals	-	-	-	-	(27,520)	(27,520)
Effect of movements in exchange rates	-	(145)	(296)	(53)	81	(413)
At December 31, 2021	22,700	57,851	46,538	7,506	33,292	167,887
Carrying amounts:						
At January 1, 2021	-	-	14,822	-	20,959	35,781
At December 31, 2021	-	-	12,808	-	21,547	34,355

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 12 Goodwill

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

	December 31,	
	2022	2021
Terminals	195,662	195,662
U.S. Pipelines	33,834	31,641
Moose Jaw Facility	89,017	89,017
Marketing Canada	43,555	43,555
	362,068	359,875

The goodwill recorded on the balance sheet represents the excess of the cost of acquisitions over the fair value of identifiable assets, liabilities and contingent liabilities acquired. Of the balance as at December 31, 2022, \$325.6 million, net of impairment, relates to goodwill recognized on the acquisition of the Company on December 12, 2008.

On November 30, 2022, the Company carried out its annual impairment test with respect to goodwill. For all operating segments the recoverable amount was greater than the carrying value, including goodwill.

Key assumptions used in 2022 impairment test

The recoverable amount of the operating segments were based on fair value less cost of disposal method using either a discounted cash flow approach or an earnings multiple approach. The Company references approved budgets and cash flow forecasts, trailing twelve-month EBITDA, implied multiples and appropriate discount rates in the valuation calculations. The implied multiple is calculated by utilizing multiples of comparable public companies by operating segment. To determine fair value, historic and implied forward market multiples were applied to each operating segment's budgeted EBITDA less corporate expenses. In calculating fair value for each operating segment, other than U.S. Pipelines, the Company used implied forward market multiples that ranged from 5 to 13. Cash flows were projected based on past experience, actual operating results and the 2023 budget.

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

	U.S. Pipelines
Discount rate	11.5%
Terminal value multiple	7x

- (i) Cash flows were projected based on past experience, actual operating results and the long-term business plan
- (ii) The terminal value multiple is based on management's best estimate of transaction multiples over the longer term
- (iii) The discount rate reflects the individual size, risk profile and circumstance and is based on past experience and industry average weighted average cost of capital

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 13 Long-Term Debt

	Coupon Rate	Year of Maturity	December 31, 2022	December 31, 2021
Unsecured revolving credit facility	floating	2027	255,000	270,000
Senior unsecured notes	2.45%	2025	325,000	325,000
Senior unsecured notes	2.85%	2027	325,000	325,000
Senior unsecured notes	3.60%	2029	500,000	500,000
Unsecured hybrid notes	5.25%	2080	250,000	250,000
Unamortized issue discount and debt issue costs			(8,228)	(9,391)
Total debt			1,646,772	1,660,609

Unsecured revolving credit facility

The revolving credit facility of \$750.0 million is available to provide financing for working capital, fund capital expenditures and other general corporate purposes. The revolving credit facility permits letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the revolving credit facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate, as the case may be, plus an applicable margin. The applicable margin for borrowings under the revolving credit facility is subject to step up and step down based on the Company's credit rating and relative performance to selected environmental, social and governance targets. The Company must pay standby fees on the unused portion of the revolving credit facility and customary letter of credit fees equal to the applicable margins determined in a manner similar to interest.

During the second quarter of 2022, the Company extended the maturity date of the revolving credit facility from April 2026 to April 2027. Subsequent to the end of the year, the Company extended the maturity date of the sustainability-linked revolving credit facility from April 2027 to February 2028, amongst other amendments.

As at December 31, 2022, the Company had the ability to utilize borrowings under the revolving credit facility of \$495.0 million. In addition, the Company has two bilateral demand facilities, which are available for use for general corporate purposes or letters of credit, totaling \$150.0 million under which it had issued letters of credit totaling \$37.5 million (December 31, 2021 – \$35.0 million).

Senior unsecured notes

The senior unsecured notes carrying a fixed 2.45% per annum coupon rate have semi-annual interest payment dates of January and July 14 and a maturity date of July 14, 2025.

The senior unsecured notes carrying a fixed 2.85% per annum coupon rate have semi-annual interest payment dates of January and July 14 and a maturity date of July 14, 2027.

The senior unsecured notes carrying a fixed 3.60% per annum coupon rate have semi-annual interest payment dates of March and September 17 and a maturity date of September 17, 2029.

The indenture(s) governing the terms of the Company's senior unsecured notes, as supplemented, contains certain redemption options whereby the Company can redeem all or part of the senior unsecured notes at such prices and on such dates as set forth therein. In addition, the holders of the notes have the right to require the Company to repurchase the notes at the purchase prices set forth in the applicable indenture in the event of a change of control triggering event, being both a change in control of the Company or a ratings decline of the applicable notes to below an investment grade rating, as such terms are defined in the applicable indenture.

Unsecured hybrid notes

The unsecured hybrid notes currently carrying a 5.25% per annum coupon rate have a maturity date of December 22, 2080. Interest is payable semi-annually on June 22 and December 22 of each year the notes are outstanding from December 22, 2020 to, but excluding, December 22, 2030. From, and including, December 22, 2030, during each Interest Reset Period (as defined in the applicable indenture) during which the notes are outstanding, the interest rate on the 2080 Hybrid Notes will be reset at a fixed rate

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

per annum equal to the 5-Year Government of Canada Yield on the business day prior to such Interest Reset Date (as defined in the applicable indenture) plus, (i) for the period from, and including, December 22, 2030 to, but not including, December 22, 2050, 4.715% and (ii) for the period from, and including, December 22, 2050 to, but not including, the maturity date, 5.465% in each case, to be reset by the Calculation Agent (as defined in the applicable indenture) on each Interest Reset Date and with the interest during such period payable in arrears, in equal semi-annual payments on June 22 and December 22 in each year.

The indenture governing the terms of the unsecured hybrid notes, as supplemented, contains certain redemption options whereby the Company can redeem all or part of the unsecured hybrid notes at such prices and on such dates as set forth therein. In addition, the holders of the unsecured hybrid notes have the right to require the Company to repurchase the unsecured hybrid notes at the purchase prices set forth in the applicable indenture in the event of a change in control triggering event, being both a change of control of the Company or ratings decline of the applicable notes to below an investment grade rating, as such terms are defined in the applicable indenture.

The unsecured hybrid notes receive a 50% equity treatment by the Company's rating agencies, under certain conditions.

Covenants

The Company is required to meet certain specific and customary affirmative and negative financial covenants under various debt agreements. As at December 31, 2022, the Company was in compliance with all of its covenants.

The components of finance costs are as follows:

		Year ended December 31,	
	Note	2022	2021
Interest expense		64,860	58,838
Capitalized interest	8	(2,304)	(1,432)
Interest expense, finance lease	14	2,908	3,656
Interest (income) expense		(525)	282
		64,939	61,344

Reconciliation of cash flows arising from financing activities

	Year ended December 31,	
	2022	2021
Opening balance	1,660,609	1,449,481
(Repayment of) proceeds from issuance of long-term debt, net	(15,000)	209,672
Net cash provided by financing activities from financing activities	1,645,609	1,659,153
Deferred financing costs and other	1,163	1,456
Closing balance	1,646,772	1,660,609

Gibson Energy Inc.

Notes to Consolidated Financial Statements

*(Amounts in thousands of Canadian dollars, except per share amounts)***Note 14 Lease Liabilities**

		December 31,
	2022	2021
Opening balance	81,779	102,742
Additions	19,382	12,514
Disposals	-	(19)
Interest expense	2,908	3,656
Lease payments	(35,397)	(36,694)
Effect of movements in exchange rates	3,028	(420)
Closing balance	71,700	81,779
Less: current portion	37,196	29,748
Closing balance – non-current portion	34,504	52,031

The Company incurs lease payments primarily related to rail cars, head office facilities and vehicles. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets.

Note 15 Trade Payables and Accrued Charges

Trade payables and accrued charges comprise of the following items:

	Note	2022	December 31, 2021
Trade payables		530,212	630,329
Accrued compensation charges		15,447	17,506
Indirect taxes payable		969	1,652
Risk management liabilities	24	8,227	11,711
Interest payable		13,969	13,903
Insurance payable		2,291	2,516
Other		3,453	6,091
		574,568	683,708

Note 16 Provisions

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

	Note	2022	December 31, 2021
Opening balance		180,270	236,952
Settlements		(7,204)	(4,135)
Additions		5,523	4,979
Disposals		-	(139)
Change in estimated future cash flows	8	7,772	(34,478)
Change in discount rate	8	(45,437)	(26,118)
Unwind of discount		3,632	3,284
Effect of movements in exchange rates		501	(75)
Closing balance		145,057	180,270

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

The Company currently estimates the total undiscounted future value amount, including an inflation factor of 6.0% for 2023, 4.0% for 2024 and 2.0% thereafter, of estimated cash flows to settle the future liability for asset retirement and remediation obligations to be approximately \$293.4 million and \$267.2 million at December 31, 2022, and 2021, respectively. In order to determine the current provision related to these future values, the estimated future values were discounted using an average risk-free rate of 3.3% and 1.7% at December 31, 2022, and 2021, respectively. The change in the risk-free rate results in an adjustment in cost to the corresponding asset. Changes in the estimated future cash flows above represent revisions made as a result of the Company's review of the amount of future cash flows to settle decommissioning obligations for select assets. The undiscounted cash flows at the decommissioning are calculated using an estimated timing of economic outflows ranging up to 43 years with the majority estimated around 26 years.

A one percent increase or decrease in the risk-free rate would decrease or increase the provision by \$26.5 million (December 31, 2021 – \$40.0 million), respectively, with a corresponding adjustment to property, plant and equipment.

Note 17 Share Capital

a) Authorized

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

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

The preferred shares are issuable in series and have such rights, restrictions, conditions and limitations as the Board may from time to time determine. The preferred shares shall rank senior to the common shares with respect to the payment of dividends or distribution of assets or return of capital of the Company in the event of a dissolution, liquidation or winding-up of the Company. There were no issued and outstanding preferred shares as at December 31, 2022 or 2021. The unsecured hybrid notes include terms which could result in conversion into conversion preference shares.

b) Common Shares – Issued and Outstanding

The following table below sets forth the issued and outstanding common shares for the years ended December 31, 2022, and 2021.

	Number of Common Shares	Amount
At January 1, 2021	145,571,455	1,977,104
Issuance in connection with the exercise of stock options	107,405	2,147
Tax effect of equity settled awards	-	1,172
Reclassification of contributed surplus on issuance of awards under equity incentive plans	948,222	16,832
At December 31, 2021	146,627,082	1,997,255
Issuance in connection with the exercise of stock options	1,321,639	24,068
Tax effect of equity settled awards	-	680
Reclassification of contributed surplus on issuance of awards under equity incentive plans	1,001,058	24,082
Purchased common shares under NCIB	(5,988,400)	(81,570)
At December 31, 2022	142,961,379	1,964,515

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

A dividend of \$0.37 per share, declared on October 31, 2022, was paid on January 17, 2023. For the year ended December 31, 2022, the Company declared total dividends of \$1.48 per common share.

Under the NCIB, the Company is permitted to purchase for cancellation up to 7.5% of the public float of common shares or 8,760,553 common shares, in accordance with the applicable rules and policies of the TSX and applicable securities laws. During the year ended December 31, 2022, the Company extended its NCIB from August 31, 2022, to August 30, 2023. During the year ended December 31, 2022 the Company purchased 5,988,400 common shares at a weighted average price of \$24.39 per common share for a total cost of \$146.1 million. Retained deficit was credited by \$64.5 million, representing the excess of the purchase price of common shares over their average carrying value.

Under the currently allowable NCIB limit, the Company has repurchased 3,529,600 common shares as at December 31, 2022, leaving 5,230,953 common shares available for repurchase prior to August 30, 2023.

c) Per Share Amounts

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

	Year ended December 31,	
	2022	2021
Weighted average common shares outstanding – Basic	146,221,479	146,344,843
Dilutive effect of stock options and other awards	2,592,961	2,780,715
Weighted average common shares – Diluted	148,814,440	149,125,558

The dilutive effect of 2.6 million (December 31, 2021 – 2.8 million) stock options and other awards for the year ended December 31, 2022, have been included in the determination of the weighted average number of common shares outstanding. The impact of 0.1 million (December 31, 2021 – 0.1 million) for the year ended December 31, 2022, stock options have not been included in the determination of weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net income per share.

Note 18 Income Taxes

The major components of income tax are as follows:

	Year ended December 31,	
	2022	2021
Current tax expense	46,310	27,548
Adjustments and true ups in respect of prior years	(3,236)	(2,502)
Total current tax provision	43,074	25,046
Deferred tax expense	21,672	8,472
Origination and reversal of temporary differences	2,144	2,666
Total deferred tax expense	23,816	11,138
Net income tax expense	66,890	36,184

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

	Year ended December 31,	
	2022	2021
Income before income tax	290,135	181,237
Statutory income tax rate	23.40%	23.45%
Computed income tax expense	67,892	42,500
Changes in income tax expense (recovery) resulting from:		
Statutory and other rate differences	120	(4,996)
Adjustments and true ups in prior years	(762)	(1,282)
Others	(360)	(38)
Net income tax expense	66,890	36,184
Effective income tax rate	23.05%	19.97%

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

	Year ended December 31,	
	2022	2021
Deferred tax assets:		
Deferred tax assets to be settled after more than 12 months	15,564	24,300
Deferred tax assets to be settled within 12 months	3,577	3,106
	19,141	27,406
Deferred tax liabilities:		
Deferred tax liabilities to be settled after more than 12 months	105,864	92,996
Deferred tax liabilities to be settled within 12 months	1,932	1,159
	107,796	94,155
Deferred tax liabilities, net	88,655	66,749

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

	Year ended December 31,	
	2022	2021
Opening balance:	66,749	54,778
Effect of changes in foreign exchange rates	(1,692)	202
Income statement expense	23,816	11,138
Tax relating to components of other comprehensive income and contributed surplus	462	1,803
Tax credited directly to equity	(680)	(1,172)
Closing balance	88,655	66,749

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

Deferred tax assets	Non-capital Losses Carried Forward	Asset Retirement Obligations	Goodwill, Intangibles, and Other	Total
At January 1, 2021	34,856	24,761	27,812	87,429
Charged to the statement of operations	(3,366)	(5,238)	(8,577)	(17,181)
Charged to other comprehensive income	-	-	(1,803)	(1,803)
Effect of changes in foreign exchange rates	293	20	(371)	(58)
Tax charged directly to equity	-	-	1,172	1,172
At December 31, 2021	31,783	19,543	18,233	69,559
Charged to the statement of operations	(2,733)	178	5,301	2,746
Charged to other comprehensive income	-	-	(462)	(462)
Effect of changes in foreign exchange rates	1,982	81	261	2,324
Tax charged directly to equity	-	-	680	680
At December 31, 2022	31,032	19,802	24,013	74,847

Deferred tax liabilities	Investments in Equity Accounted Investees	Property, Plant and Equipment and Other	Total
At January 1, 2021	-	(142,207)	(142,207)
(Credited) / charged to the statement of operations	(4,407)	10,450	6,043
Effect of changes in foreign exchange rates	-	(144)	(144)
At December 31, 2021	(4,407)	(131,901)	(136,308)
Credited to the statement of operations	(9,645)	(16,917)	(26,562)
Effect of changes in foreign exchange rates	-	(632)	(632)
At December 31, 2022	(14,052)	(149,450)	(163,502)

Income tax losses carry forward

At December 31, 2022, and 2021, the Company had losses available to offset income for tax purposes of \$136.9 million and \$140.0 million, respectively. Certain losses arising in taxable years beginning after December 31, 2018, may be carried forward indefinitely with the net operating loss deduction limited to 80% of taxable income which is determined without regard to the deduction. At December 31, 2022, the Company has \$136.9 million of the losses available in the U.S. that expire as follows:

December 31, 2035	6,883
December 31, 2036	64,039
December 31, 2037	13,343
December 31, 2039 and beyond	52,668
	<u>136,933</u>

No income tax liability has been recognized in respect of temporary differences associated with investments in subsidiaries, except for investments in equity accounted investees, as the Company can control the timing of the reversal of the temporary difference and the reversal is not probable in the foreseeable future.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 19 Revenue

	Year ended December 31,	
	2022	2021
Revenue from contracts with customers recognized at a point in time	10,717,039	6,897,328
Revenue from contracts with customers recognized over time	164,519	131,908
Total revenue from contracts with customers	10,881,558	7,029,236
Total revenue from lease arrangements	153,853	181,912
	11,035,411	7,211,148

During the year ended December 31, 2022, the Company recognized \$31.7 million (2021 – \$45.4 million) of revenue which were included in the contract liability balance at the beginning of the period.

Year ended December 31, 2022	Infrastructure	Marketing	Total
Canada			
External Service Revenue			
Terminals storage and throughput / pipeline transportation	128,581	-	128,581
Rail and other	35,938	-	35,938
External Product Revenue			
Crude, diluent and other products	-	8,855,201	8,855,201
Refined products	-	155,123	155,123
	164,519	9,010,324	9,174,843
U.S.			
External Product Revenue			
Crude, diluent and other products	-	1,268,342	1,268,342
Refined products and other	-	438,373	438,373
	-	1,706,715	1,706,715
Total revenue from contracts with customers	164,519	10,717,039	10,881,558

Year ended December 31, 2021	Infrastructure	Marketing	Total
Canada			
External Service Revenue			
Terminals storage and throughput / pipeline transportation	84,446	-	84,446
Rail and other	67,343	-	67,343
External Product Revenue			
Crude, diluent and other products	-	5,290,736	5,290,736
Refined products	-	124,313	124,313
	151,789	5,415,049	5,566,838
U.S.			
External Product Revenue			
Crude, diluent and other products	-	1,155,324	1,155,324
Refined products and other	14	307,060	307,074
	14	1,462,384	1,462,398
Total revenue from contracts with customers	151,803	6,877,433	7,029,236

Gibson Energy Inc.

Notes to Consolidated Financial Statements

*(Amounts in thousands of Canadian dollars, except per share amounts)***Note 20 Depreciation, Amortization and Impairment**

	<i>Note</i>	Year ended December 31,	
		2022	2021
Depreciation and impairment of property, plant and equipment	8	107,353	136,068
Depreciation and impairment of right-to-use assets	9	29,184	29,123
Amortization and impairment of intangible assets	11	7,942	8,670
		144,479	173,861

Depreciation, amortization and impairment have been expensed as follows:

	Year ended December 31,	
	2022	2021
Cost of sales	135,111	162,920
General and administrative	9,368	10,941
	144,479	173,861

Note 21 Employee Salaries and Benefits

	Year ended December 31,	
	2022	2021
Salaries and wages	82,146	78,839
Post-employment benefits	4,434	3,634
Share-based compensation	20,543	23,335
Termination costs	1,807	1,960
	108,930	107,768

Employee salaries and benefits have been expensed as follows:

	Year ended December 31,	
	2022	2021
Cost of sales	63,959	62,079
General and administrative	44,971	45,689
	108,930	107,768

Compensation of key management

Key management includes the Company's directors and senior executive officers. Compensation awarded to key management was:

	Year ended December 31,	
	2022	2021
Salaries and wages	6,287	6,159
Post-employment benefits	105	92
Share-based compensation	9,012	10,846
	15,404	17,097

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 22 Share-based Compensation

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

At December 31, 2022, common share awards available to grant under the equity incentive plan are approximately 3.0 million.

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

	Number of Shares	Weighted Average Exercise Price (in dollars)
Stock Options		
At January 1, 2021	1,931,309	19.35
Granted	62,000	22.18
Exercised and released for common shares	(107,405)	19.99
Forfeited	(76,908)	28.77
At December 31, 2021	1,808,996	19.01
Granted	-	-
Exercised and released for common shares	(1,321,639)	18.21
Forfeited	(34,680)	24.90
At December 31, 2022	452,677	20.88
Vested and exercisable at December 31, 2021	1,295,532	17.73
Vested and exercisable at December 31, 2022	432,673	21.03

Additional information regarding stock options outstanding as of December 31, 2022 is as follows:

Outstanding			Exercisable		
Number	Weighted Average	Exercise Price	Number	Weighted Average	Exercise Price
Outstanding	contractual life	(in dollars)	Outstanding	contractual life	(in dollars)
	(years)			(years)	
84,906	0.20	16.70	84,906	0.20	16.70
36,102	2.20	17.53	16,098	2.20	17.53
42,000	1.20	19.97	42,000	1.20	19.97
26,000	3.20	22.18	26,000	3.20	22.18
263,669	1.20	22.70	263,669	1.20	22.70
452,677	1.20		432,673	1.20	

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

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

	Number of Units		
	Restricted Share Units	Performance Share Units	Deferred Share Units
At January 1, 2021	830,440	984,619	583,937
Granted	399,785	552,500	165,790
Exercised and released for common shares	(402,630)	(526,812)	(18,778)
Forfeited	(71,859)	(74,456)	-
At December 31, 2021	755,736	935,851	730,949
Granted	357,254	490,430	149,133
Exercised and released for common shares	(390,406)	(502,560)	(108,092)
Forfeited	(91,452)	(83,848)	-
At December 31, 2022	631,132	839,873	771,990
Vested and exercisable at December 31, 2021			730,949
Vested and exercisable at December 31, 2022			771,990

Share-based compensation expense was \$18.2 million and \$20.9 million for the years ended December 31, 2022, and 2021, respectively, and is included in general and administrative expenses.

During the year ended December 31, 2022, the Company did not award any options. For options granted in the comparative period, the fair value of the options granted was estimated at \$4.07 per option, based on an expected dividend rate of 6.1%, an expected volatility of 41.1%, a risk free interest rate of 0.5% and an expected life of the option of three years, calculated by using the Black-Scholes model.

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

Note 23 Post-retirement Benefits**a) Defined benefit plans**

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

The Company's defined benefit pension plans are funded based upon the advice of independent actuaries. The Company is required to file an actuarial valuation of the defined benefit pension plan with the provincial regulator triennially, with the most recent actuarial valuation completed as at December 31, 2021. The OPRB plan continues to expose the Company to actuarial risks such as longevity risk, interest rate risk, and market (investment) risk.

During the year, the Company settled the benefit obligations and plan assets as part of a partial wind-up of the defined benefit pension plan. The settlement was completed by entering into an agreement with a third-party insurance company to purchase an annuity for the plan participants in receipt of pension funds. The cost of the annuity purchase was funded with the existing plan assets. As a result of the settlement, the defined benefit plan assets and obligations reduced by \$12.2 million and \$11.4 million, respectively, which also resulted in recognizing a non-cash expense on settlement of \$0.8 million in the consolidated statements of operations during the year.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Based on valuations by the Company's actuaries as at December 31, 2022, and 2021, the status of the defined benefit plans is as follows:

	Year ended December 31,			
	2022		2021	
	Pension	OPRB	Pension	OPRB
Accrued benefit obligation, January 1	15,972	4,094	17,255	4,398
Current service cost	63	276	76	310
Past service cost	742	-	-	-
Interest cost	455	131	416	122
Benefits paid	(12,784)	(33)	(707)	(65)
Actuarial gain	(3,062)	(2,198)	(1,072)	(671)
Other	4	-	4	-
Accrued benefit obligation, December 31	1,390	2,270	15,972	4,094
Fair value of pension plan assets, January 1	16,525	-	14,869	-
Interest on plan assets	473	-	356	-
Actual contributions	144	33	626	65
Actual benefits paid	(12,784)	(33)	(707)	(65)
Actuarial (gain) loss	(2,224)	-	1,414	-
Other	(42)	-	(33)	-
Fair value of pension plan assets, December 31	2,092	-	16,525	-
Accrued benefit obligation	(1,390)	(2,270)	(15,972)	(4,095)
Fair value of plan assets	2,092	-	16,525	-
Accrued benefit asset (liability) ⁽¹⁾	702	(2,270)	553	(4,094)

(1) Included on balance sheet within other assets and other liabilities

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

	Year ended December 31,	
	2022	2021
Discount rate	5.1%	2.9%
Rate of compensation increase	3.0%	3.0%

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

	One % point increase	One % point decrease
(Decrease) / increase in defined benefit plans	(477)	590

b) Defined contribution pension plans

The Company operates defined contribution plans whereby, in some cases, contributions made by participants are matched by the Company up to specified annual limits and in other cases, contributions are fully funded by the Company. The total expense recorded for the defined contribution pension plans was \$2.9 million for both the year ended December 31, 2022, and 2021, respectively.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 24 Financial Instruments, Risk Management and Capital Management

a) Non-Derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, trade and other receivables, net investment in finance lease, trade payables and accrued charges, dividends payable and long-term debt.

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

Long-term debt, including the revolving credit facility, are recorded at amortized cost using the effective interest method of amortization. As at December 31, 2022, the carrying amount of long-term debt was \$1,655.0 million less debt discount and issue costs of \$8.2 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,513.2 million. As at December 31, 2021, the carrying amount of long-term debt was \$1,670.0 million less debt discount and issue costs of \$9.4 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,704.7 million.

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

	December 31,			
	2022		2021	
	Trade and Other Receivables	Trade Payable and Accrued Charges	Trade and Other Receivables	Trade Payable and Accrued Charges
Gross amounts	932,688	1,093,643	980,772	1,004,066
Amount offset	(810,032)	(810,032)	(827,370)	(827,370)
Net amount	122,656	283,611	153,402	176,696

b) Derivative financial instruments (recurring fair value measurements)

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

As at December 31, 2022	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Commodity futures	414	414	-	-
Commodity swaps	45	45	-	-
WTI differential futures	2,236	2,236	-	-
Foreign currency forwards	1,475	-	1,475	-
Financial assets (carried at fair value)	4,170	2,695	1,475	-
Commodity futures	4,558	4,558	-	-
Commodity swaps	1,758	1,758	-	-
WTI differential futures	976	976	-	-
Foreign currency forwards	935	-	935	-
Financial liabilities (carried at fair value)	8,227	7,292	935	-
Long-term debt (carried at amortized cost)	1,646,772	-	1,513,243	-

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

As at December 31, 2021	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Commodity futures	1,290	1,290	-	-
Commodity swaps	36	36	-	-
WTI differential futures	645	645	-	-
Foreign currency forwards	2,505	-	2,505	-
Financial assets (carried at fair value)	4,476	1,971	2,505	-
Commodity futures	9,410	9,410	-	-
Commodity swaps	264	264	-	-
WTI differential futures	1,282	1,282	-	-
Foreign currency forwards	755	-	755	-
Financial liabilities (carried at fair value)	11,711	10,956	755	-
Long-term debt (carried at amortized cost)	1,660,609	-	1,704,673	-

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

The impact of the movement in the fair value of financial instruments has been recognized within cost of sales in the consolidated statements of operations.

i) Commodity financial instruments

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

ii) Foreign currency forwards

The Company enters into foreign currency forwards from time to time to manage the foreign currency risk pertaining to future transactions and cash flows denominated in foreign currencies, primarily in US\$.

The value of the Company's derivative financial instruments is determined using inputs that are either readily available in public markets or are quoted by counterparties to these contracts. In situations where the Company obtains inputs via quotes from its counterparties, these quotes are verified for reasonableness via similar quotes from another source for each date for which financial statements are presented. The Company has consistently applied these valuation techniques in all periods presented and the Company believes it has obtained the most accurate information available for the types of financial instrument contracts held. The Company has categorized the inputs for these contracts as Level 1, defined as observable inputs such as quoted prices in active markets; Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; or Level 3 defined as unobservable inputs in which little or no market data exists therefore requiring an entity to develop its own assumptions.

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

- The fair value of foreign currency forward contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present values.

c) Financial Risk Management

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

There are clearly defined objectives and principles for managing financial risk, with policies, parameters and procedures covering the specific areas of funding, banking relationships, interest rate exposures and cash management. The Company's treasury and risk

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

management functions are responsible for implementing the policies and providing a centralised service to the Company for identifying, evaluating and monitoring financial risks.

i) Foreign currency risk

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

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

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

	2022	December 31, 2021
U.S. Dollar Forwards		
Favorable 5% change	10,206	11,402
Unfavorable 5% change	(10,206)	(11,402)

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

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

ii) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will be affected by changes in market interest rates. A 1% increase or decrease in interest rates would, based on current rates and balances, decrease or increase the Company's net income by \$2.6 million (as at December 31, 2021 – \$2.7 million).

iii) Commodity price risk

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

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

	2022	December 31, 2021
Crude oil and NGL related prices		
Favorable 15% change	34,249	21,155
Unfavorable 15% change	(34,249)	(21,155)

iv) Credit risk

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

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

The Company establishes guidelines for customer credit limits and terms. The Company review includes financial statements and external ratings when available. The Company provides adequate provisions for expected losses from the credit risks associated with trade receivables. Historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables. The provision is based on an individual account-by-account analysis and prior credit history.

The carrying amount of the Company's net trade and other receivables represents the maximum counterparty credit exposure, without taking into account any security held. The Company defines current as outstanding accounts receivable under 30 days past due. The Company believes the unimpaired amounts that are past due by greater than 30 days are fully collectible based on historical default rates of customers and assessment of counterparty credit risk through established credit management techniques as discussed above. The following table details the aging of trade and other receivables:

	December 31,	
	2022	2021
Current	461,609	662,302
Past due 31-60 days	875	1,437
Past due over 60 days	1,821	3,849
Total trade and other receivables	464,305	667,588

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

v) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. The Company's process for managing liquidity risk includes preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures and authorization of contractual agreements. The Company may seek additional financing based on the results of these processes. The budgets are updated with forecasts when required and as conditions change. Cash and cash equivalents and the revolving credit facility are available and are expected to be available to satisfy the Company's short and long-term requirements. As at December 31, 2022, the Company had a revolving credit facility of \$750.0 million and two credit facilities totaling \$150.0 million. As at December 31, 2022, \$255.0 million (December 31, 2021 – \$270.0 million) was drawn against the revolving credit facility and the Company had outstanding issued letters of credit of \$37.5 million (December 31, 2021 – \$35.0 million).

The terms of the unsecured senior notes, unsecured hybrid notes and revolving credit facility require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default. As at December 31, 2022, the Company was in compliance with these covenants.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Set out below is a maturity analyses of certain of the Company's financial contractual obligations as at December 31, 2022. The maturity dates are the contractual maturities of the obligations, and the amounts are the contractual undiscounted cash flows.

	On demand or within one year	Between one and three years	Between three and five years	After five years	Total
Trade payables and accrued charges ⁽¹⁾	552,372	-	-	-	552,372
Dividend payable	52,896	-	-	-	52,896
Long-term debt	-	325,000	580,000	750,000	1,655,000
Interest on long-term debt	48,350	93,382	76,916	727,125	945,773
Financial instruments liabilities	8,227	-	-	-	8,227
Lease liabilities	30,142	33,208	11,299	861	75,510
	691,987	451,590	668,215	1,477,986	3,289,778

(1) Excludes accrued interest and financial instruments liabilities.

d) Capital management

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

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

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

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

	2022	December 31, 2021
Total financial liability borrowings	1,718,472	1,742,388
Less: cash and cash equivalents	(83,596)	(62,688)
Net debt ⁽¹⁾	1,634,876	1,679,700
Total share capital	1,964,515	1,997,255
Total capital	3,599,391	3,676,955

(1) The unsecured hybrid notes are included in the above total capital calculation in accordance with the Company's view of its capital structure which includes shareholders' equity and long-term debt. The unsecured hybrid notes, and associated interest payments, are excluded from the definition of consolidated debt for the purposes of debt to capitalization as well as the consolidated interest coverage covenant ratios.

If the Company is in a net debt position, the Company will assess whether the projected cash flow and availability under the revolving credit facility are sufficient to service this debt and support ongoing operations.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

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

Note 25 Commitments and Contingencies

a) Commitments

Minimum payments required under commitments, net of sub-lease income, are as follows:

	Payments due by period				
	Total	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
Long-term debt	1,655,000	-	325,000	580,000	750,000
Interest payments on long-term debt	945,773	48,350	93,382	76,916	727,125
Lease and other commitments ⁽¹⁾	82,925	36,801	33,964	11,299	861
Total contractual obligations	2,683,698	85,151	452,346	668,215	1,477,986

(1) Lease and other commitments relate to office leases, rail cars, vehicles, field buildings, various equipment leases and terminal services arrangements.

b) Commitments to Equity Accounted Investees

The Company does not have a commitment for additional funding for its equity investments as at December 31, 2022.

c) Contingencies

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

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

Note 26 Subsequent Events

On February 10, 2023, the Company amended its \$750 million sustainability-linked revolving credit facility and extended its maturity date from April 2027 to February 2028, amongst other amendments.

On February 21, 2023, the Board declared a quarterly dividend of \$0.39 per common share, an increase of \$0.02 per common share, for the first quarter on its outstanding common shares. The dividend is payable on April 17, 2023, to shareholders of record at the close of business on March 31, 2023.

Subsequent to year end, the Company purchased for cancellation an additional 0.7 million common shares for total consideration of \$17.4 million.

Gibson Energy Inc.

Notes to Consolidated Financial Statements

*(Amounts in thousands of Canadian dollars, except per share amounts)***Note 27 Supplemental Cash Flow Information**

	<i>Note</i>	Year ended December 31,	
		2022	2021
Cash flows from operating activities			
Net income		223,245	145,053
Adjustments:			
Finance costs, net		64,939	61,344
Income tax expense		66,890	36,184
Depreciation and impairment of property, plant and equipment	8	107,353	136,068
Depreciation and impairment of right-of-use asset	9	29,184	29,123
Amortization and impairment of intangible assets	11	7,942	8,670
Share-based compensation	22	20,543	23,335
Share of profit from investments in equity accounted investees	10	(20,926)	(6,083)
Distributions from equity accounted investees		32,324	4,909
Gain on sale of property, plant and equipment	8	(5,285)	(2,942)
Provisions	16	(934)	(168)
Net (gain) / loss on fair value movement of financial instruments		(4,027)	1,952
Other		(4,512)	(7,814)
		293,491	284,578
Changes in items of working capital:			
Trade and other receivables	5	234,918	(335,176)
Inventories	6	(174)	(92,113)
Other current assets		6,142	8,703
Trade payables and accrued charges	15	(109,931)	249,062
Contract liabilities		(11,758)	(13,579)
		119,197	(183,103)
Income tax payment, net		(37,621)	(29,722)
Net cash inflow from operating activities		598,312	216,806



GIBSONENERGY.COM

