



CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019



Gibson Energy Inc.
Condensed Consolidated Balance Sheets

(tabular amounts in thousands of Canadian dollars)

	As at	
	March 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 55,133	\$ 47,231
Trade and other receivables	309,131	428,892
Inventories	72,120	137,168
Income taxes receivable.....	5,629	8,592
Prepaid and other assets.....	8,934	6,227
Net investment in finance leases	8,280	7,476
Assets held for sale	46,474	49,394
Total current assets	505,701	684,980
Non-current assets		
Property, plant and equipment (note 4)	1,618,321	1,558,762
Right-of-use assets	96,487	95,485
Long-term prepaid and other assets	1,022	2,757
Net investment in finance leases	178,381	181,074
Investment in equity accounted investee	26,147	20,519
Deferred income tax assets	41,750	38,869
Intangible assets	35,210	33,597
Goodwill (note 5)	363,534	360,647
Total non-current assets	2,360,852	2,291,710
Total assets	\$ 2,866,553	\$ 2,976,690
Liabilities		
Current liabilities		
Trade payables and accrued charges	\$ 305,400	\$ 432,067
Dividends payable	49,711	48,073
Contract liabilities	42,811	66,147
Lease liabilities – current portion.....	39,820	36,308
Liabilities related to assets held for sale	4,215	6,569
Total current liabilities	441,957	589,164
Non-current liabilities		
Long-term debt (note 6).....	1,139,133	1,148,707
Lease liabilities – non-current portion	98,130	95,500
Convertible debentures	95,302	95,129
Provisions (note 7)	214,237	197,002
Other long-term liabilities	6,205	6,169
Deferred income tax liabilities	90,468	84,409
Total non-current liabilities	1,643,475	1,626,916
Total liabilities	\$ 2,085,432	\$ 2,216,080
Equity		
Share capital (note 8)	1,984,140	1,973,827
Contributed surplus	42,411	46,316
Accumulated other comprehensive income	46,405	32,594
Convertible debentures	7,023	7,023
Deficit	(1,298,858)	(1,299,150)
Total equity	781,121	760,610
Total liabilities and equity	\$ 2,866,553	\$ 2,976,690

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.
Condensed Consolidated Statements of Operations

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

	Three months ended March 31,	
	2020	2019
Continuing operations		
Revenue (note 11).....	\$ 1,458,690	\$ 1,748,688
Cost of sales	1,358,091	1,647,071
Gross profit.....	100,599	101,617
General and administrative expenses.....	18,161	16,419
Other income	(4,214)	(1,326)
Operating income	86,652	86,524
Finance costs, net (note 6).....	19,332	17,600
Income before income taxes.....	67,320	68,924
Income tax expense (note 9).....	17,317	10,247
Net income from continuing operations.....	50,003	58,677
Net income from discontinued operations, after tax.....	-	3,622
Net income	\$ 50,003	\$ 62,299
Earnings per share		
Basic earnings per share from continuing operations	\$ 0.34	\$ 0.41
Basic earnings per share from discontinued operations.....	-	0.03
Basic earnings per share.....	\$ 0.34	\$ 0.44
Diluted earnings per share from continuing operations.....	\$ 0.34	\$ 0.40
Diluted earnings per share from discontinued operations	-	0.02
Diluted earnings per share	\$ 0.34	\$ 0.42

See accompanying notes to the condensed consolidated financial statements

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

(tabular amounts in thousands of Canadian dollars)

	Three months ended	
	March 31,	
	2020	2019
Net income	\$ 50,003	\$ 62,299
Other comprehensive income (loss)		
<i>Items that may be reclassified subsequently to statement of operations</i>		
Exchange differences on translating foreign operations	13,811	(3,361)
Other comprehensive income (loss), net of tax	13,811	(3,361)
Comprehensive income	\$ 63,814	\$ 58,938

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.
Condensed Consolidated Statements of Changes in Equity

(tabular amounts in thousands of Canadian dollars)

	Share capital (note 8)	Contributed surplus	Accumulated other comprehensive income (loss)	Convertible debentures	Deficit	Total Equity
Balance – January 1, 2019	\$ 1,955,146	\$ 44,461	\$ 41,650	\$ 7,023	\$(1,290,050)	\$ 758,230
Net income	-	-	-	-	62,299	62,299
Other comprehensive loss, net of tax.....	-	-	(3,361)	-	-	(3,361)
Comprehensive (loss) income.....	-	-	(3,361)	-	62,299	58,938
Exercise of debentures conversion option ..	40	-	-	-	-	40
Stock based compensation.....	-	6,234	-	-	-	6,234
Proceeds from exercise of stock options.....	648	-	-	-	-	648
Reclassification of contributed surplus on issuance of awards under equity incentive plan	10,847	(10,847)	-	-	-	-
Dividends on common shares (\$0.33 per common share)	-	-	-	-	(47,937)	(47,937)
Balance – March 31, 2019	<u>\$ 1,966,681</u>	<u>\$ 39,848</u>	<u>\$ 38,289</u>	<u>\$ 7,023</u>	<u>\$(1,275,688)</u>	<u>\$ 776,153</u>
Balance – January 1, 2020	\$ 1,973,827	\$ 46,316	\$ 32,594	\$ 7,023	\$(1,299,150)	\$ 760,610
Net income	-	-	-	-	50,003	50,003
Other comprehensive income, net of tax....	-	-	13,811	-	-	13,811
Comprehensive income	-	-	13,811	-	50,003	63,814
Exercise of debentures conversion option ..	559	-	-	-	-	559
Stock based compensation.....	-	5,374	-	-	-	5,374
Excess deferred tax on equity settled awards.....	80	-	-	-	-	80
Proceeds from exercise of stock options.....	395	-	-	-	-	395
Reclassification of contributed surplus on issuance of awards under equity incentive plan	9,279	(9,279)	-	-	-	-
Dividends on common shares (\$0.34 per common share)	-	-	-	-	(49,711)	(49,711)
Balance – March 31, 2020	<u>\$ 1,984,140</u>	<u>\$ 42,411</u>	<u>\$ 46,405</u>	<u>\$ 7,023</u>	<u>\$(1,298,858)</u>	<u>\$ 781,121</u>

See accompanying notes to the condensed consolidated financial statements

Gibson Energy Inc.**Condensed Consolidated Statements of Cash Flows***(tabular amounts in thousands of Canadian dollars)*

	Three months ended	
	March 31,	
	2020	2019
Cash flows from operating activities		
Net income from continuing operations	\$ 50,003	\$ 58,677
Adjustments for non-cash items (note 14)	81,402	58,983
Changes in items of working capital (note 14)	30,512	(52,943)
Income taxes paid, net (note 14)	(6,218)	(77,211)
Cash provided by (used in) operating activities from continuing operations	155,699	(12,494)
Cash provided by discontinued operations	-	9,192
Net cash provided by (used in) operating activities	155,699	(3,302)
Cash flows from investing activities		
Purchase of property, plant and equipment	(47,866)	(65,428)
Purchase of intangible assets	(2,483)	(1,765)
Proceeds from sale of assets held for sale, net	-	48,539
Proceeds on sale of assets	12	1,211
Cash used in by investing activities from continuing operations	(50,337)	(17,443)
Cash provided by discontinued operations	-	63
Net cash used in investing activities	(50,337)	(17,380)
Cash flows from financing activities		
Payment of shareholder dividends	(48,073)	(47,704)
Interest paid, net	(29,142)	(28,748)
Proceeds from exercise of stock options	395	648
Finance lease payments	(12,780)	(13,025)
(Draw) repayment of credit facility, net	(10,000)	85,000
Cash used in financing activities from continuing operations	(99,600)	(3,829)
Cash used in financing activities from discontinued operations	-	(489)
Net cash used in financing activities	(99,600)	(4,318)
Net increase (decrease) in cash and cash equivalents	5,762	(25,000)
Effect of exchange rate on cash and cash equivalents	2,140	(1,531)
Cash and cash equivalents – beginning of year	47,231	95,301
Cash and cash equivalents – end of quarter	\$ 55,133	\$ 68,770

*See accompanying notes to the condensed consolidated financial statements**See note 14 for supplemental disclosures*

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

1 Description of the business and segmented disclosure

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

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

The Company’s reportable segments are:

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

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

Accounting policies used for segment reporting are consistent with the accounting policies used for the preparation of the Company’s condensed 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 Condensed Consolidated Financial Statements

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

Three months ended March 31, 2020

	Infrastructure	Marketing	Total
Statement of operations			
Revenue			
External.....	\$ 79,117	\$ 1,379,573	\$ 1,458,690
Inter-segmental	40,933	6,618	47,551
External and inter-segmental	120,050	1,386,191	1,506,241
Segment profit ⁽¹⁾	\$ 98,072	\$ 36,039	\$ 134,111

Corporate & other reconciling items

Depreciation and impairment of property, plant and equipment	28,556
Depreciation of right-of-use assets.....	9,561
Amortization and impairment of intangible assets	2,020
General and administrative	8,923
Stock based compensation	6,025
Corporate foreign exchange gain	(7,626)
Interest expense, net	19,332
Net income from continuing operations before income tax	67,320
Income tax expense.....	17,317
Net income from operations	\$ 50,003

Three months ended March 31, 2019

	Infrastructure	Marketing	Total
Statement of operations			
Revenue			
External.....	\$ 64,249	\$ 1,684,439	\$ 1,748,688
Inter-segmental	35,262	122,124	157,386
External and inter-segmental	99,511	1,806,563	1,906,074
Segment profit ⁽¹⁾	\$ 74,588	\$ 61,186	\$ 135,774

Corporate & other reconciling items

Depreciation and impairment of property, plant and equipment	24,386
Depreciation of right-of-use assets.....	9,770
Amortization and impairment of intangible assets	3,059
General and administrative	11,031
Stock based compensation	606
Corporate foreign exchange loss	3,142
Interest expense, net	17,600
Gain on sale of assets held for sale	(2,744)
Net income from continuing operations before income tax	68,924
Income tax expense.....	10,247
Net income from continuing operations	58,677
Net income from discontinued operations, after tax	3,622
Net income from operations	\$ 62,299

(1) During the three months ended March 31, 2020 the Company recorded \$25.7 million (March 31, 2019 - \$0.8 million) as a result of a write-down of inventories to net realizable value. These were recognized as an expense during the period and included in cost of sales in the condensed consolidated statements of operations.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

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

	Three months ended March 31			
	2020		2019	
	Property, plant and equipment	Intangible Assets	Property, plant and equipment	Intangible Assets
Infrastructure.....	\$ 62,875	\$ 40	\$ 43,574	\$ -
Marketing.....	-	911	500	735
Corporate.....	319	1,206	368	929
	<u>\$ 63,194</u>	<u>\$ 2,157</u>	<u>\$ 44,442</u>	<u>\$ 1,664</u>

Other Geographic Data

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with \$170.5 million and \$ 145.2 million in the United States as at March 31, 2020 and December 31, 2019, respectively.

2 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, as set out in IAS 34, "Interim Financial Reporting". The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB. These condensed consolidated financial statements were approved for issuance by the Company's board of directors ("Board") on May 4, 2020. These condensed consolidated financial statements are presented in Canadian dollars, the Company's functional and presentation currency, and all values are rounded to the nearest thousands of dollars, except where indicated otherwise. All references to \$ are to Canadian dollars and references to U.S.\$ are to United States dollars.

3 Estimation uncertainties and changes in accounting policies and disclosures

Estimation uncertainties

Corona virus ("COVID-19") and volatility in the oil and gas industry

The preparation of these condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates. Specifically, the current COVID-19 global health pandemic is significantly impacting the global economy including demand for hydrocarbon products. This demand destruction has had a significant impact on global energy markets and has resulted in a significant drop in crude based commodity prices. The full extent and impact of the COVID-19 pandemic is unknown at this time and to date has resulted in extreme volatility in financial markets and a slowdown in economic activity, as well as extreme volatility in commodity prices.

During the three months ended March 31, 2020, the Company has evaluated the impacts of these events on the Q1 2020 condensed consolidated financial statements and the results of its assessment and any material impacts noted on the recognition or disclosure of assets and liabilities is included in the relevant notes as follows:

- Long-term assets: Certain triggers for impairment indicators resulted in performing select impairment tests, please refer to note 5 for further details on key assumptions and estimates used in the impairment test. However, no impairment charges were recorded during the period. In addition, no triggers were noted for the right-of-use assets, equity investment or net investment in finance lease.
- Inventory: Inventory balances were written down to the lower of cost and net realizable value as referenced in note 1.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

- Credit risk and liquidity: The Company assessed the impacts of these events on its credit risk and liquidity disclosures and provide an un update on how it managed to address these risks as detailed in note 12.

Changes in accounting policies and disclosures

A. New interpretations and amended standards adopted by the Company

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

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

B. New standards and interpretations issued but not yet adopted

- IAS 1 – Presentation of Financial Statements (“IAS 1”), has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.

4 Property, plant and equipment

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant and Equipment	Work in Progress	Total
Cost:							
At January 1, 2020	\$125,414	\$ 413,590	\$ 727,660	\$ 3,328	\$ 779,760	\$ 110,343	\$ 2,160,095
Additions.....	69	1,678	511	-	2,516	58,420	63,194
Reclassifications.....	512	4,404	1,105	-	13,152	(19,173)	-
Change in decommissioning provision (note 7)	-	2,751	7,254	-	6,275	-	16,280
Transferred to held for sale	105	-	(1,033)	(4,469)	(1,567)	-	(6,964)
Effect of movements in exchange rates.....	326	5,094	540	4,244	2,145	2,498	14,847
At March 31, 2020	<u>\$126,426</u>	<u>\$ 427,517</u>	<u>\$ 736,037</u>	<u>\$ 3,103</u>	<u>\$ 802,281</u>	<u>\$152,088</u>	<u>\$ 2,247,452</u>

Accumulated depreciation and impairment:

At January 1, 2020	\$ 22,923	\$ 106,125	\$ 154,506	\$ 2,076	\$ 315,703	\$ -	\$ 601,333
Depreciation	1,198	4,991	7,145	56	15,166	-	28,556
Transferred to held for sale							
Effect of movements in exchange rates.....	29	-	(727)	(3,978)	(1,358)		(6,034)
	3	51	231	3,767	1,224	-	(5,276)
At March 31, 2020	<u>\$ 24,153</u>	<u>\$ 111,167</u>	<u>\$ 161,155</u>	<u>\$ 1,921</u>	<u>\$ 330,735</u>	<u>\$ -</u>	<u>\$ 629,131</u>

Carrying amounts:

At January 1, 2020	\$ 102,491	\$ 307,465	\$ 573,154	\$ 1,252	\$ 464,057	\$110,343	\$ 1,558,762
At March 31, 2020	<u>\$ 102,273</u>	<u>\$ 316,350</u>	<u>\$ 574,882</u>	<u>\$ 1,182</u>	<u>\$ 471,546</u>	<u>\$ 152,08</u>	<u>\$ 1,618,321</u>

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

Additions to property, plant and equipment include capitalization of interest of \$0.7 million and \$1.8 million for the three months ended March 31, 2020 and 2019, respectively. Amounts in relation to tanks are under operating lease arrangements. Refer to note 5 for details on impairment test and key assumptions used for long term assets included in certain operating segments, triggered by the change in economic environment during the first quarter of 2020.

5 Goodwill

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

	As at,	
	March 31, 2020	December 31, 2019
Opening balance	\$ 360,647	\$ 362,348
Effect of changes in foreign exchange rates	2,887	(1,701)
Closing balance	\$ 363,534	\$ 360,647

During March 31, 2020, as a result of the deterioration of certain economic indicators related to the COVID-19 pandemic and the reduction in global crude oil prices, the Company carried out an impairment test with respect to goodwill, property plant and equipment and intangible assets related to its U.S. Pipelines and Refined Product operating segments. There were no triggers noted for remainder of the operating segments.

Key assumptions used

To calculate the recoverable amount, management uses the higher of the fair value less costs of disposal (FVLCD) and its value in use (VIU). The recoverable amount was determined using either a discounted cash flow approach, an earnings multiple approach, or market based approach. The Company references Board approved budgets and cash flow forecasts, trailing twelve-month (TTM) earnings before interest, taxes, depreciation and amortization and impairment (EBITDA), implied multiples and appropriate discount rates in the valuation calculations. The implied multiple is calculated by utilizing multiples of comparable public companies by operating segment. To determine fair value, an implied forward multiple was applied to the relevant operating segment's budgeted EBITDA less corporate expenses. In calculating fair value for the Refined Product operating segment, the Company used an implied forward multiple. Cash flows were projected based on past experience, actual operating results and the 2020 budget.

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

	U.S. Pipelines
Pre- tax discount rate	10.5%
Terminal value growth rate	1.0%

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

The fair value of the U.S. Pipelines and Refined Product operating segments was categorized as Level 3 fair value based on the unobservable inputs.

Gibson Energy Inc.**Notes to Condensed Consolidated Financial Statements**

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

As at March 31, 2020 the Refined Product and U.S. Pipelines operating segment recoverable amounts were greater than their carrying value, including goodwill.

6 Loans and borrowings

The Company had \$50.0 million and \$60.0 million drawn on its unsecured revolving credit facility ("Revolving Credit Facility") as of March 31, 2020 and December 31, 2019, respectively, and had issued letters of credit totaling \$35.2 million and \$36.9 million under its bilateral demand letter of credit facilities as at March 31, 2020 and December 31, 2019, respectively.

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

Long-term debt

	March 31, 2020	December 31, 2019
Revolving Credit Facility, due February, 2025	\$ 50,000	\$ 60,000
2024 Notes	600,000	600,000
2029 Notes	500,000	500,000
Unamortized issue discount and debt issue costs.....	(10,867)	(11,293)
Total debt	<u>\$ 1,139,133</u>	<u>\$ 1,148,707</u>

The Company is required to meet certain specific and customary affirmative and negative financial covenants under its Revolving Credit Facility and 2029 Notes, including the maintenance of certain financial ratios as noted above. As of March 31, 2020 and December 31, 2019, the Company was in compliance with all of its covenants.

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

The components of finance costs are as follows:

	Three months ended March 31,	
	2020	2019
Interest expense.....	\$ 18,805	\$ 18,583
Capitalized interest	(699)	(1,844)
Interest expense, finance lease	1,371	1,173
Interest income	(145)	(312)
Total finance cost, net.....	<u>\$ 19,332</u>	<u>\$ 17,600</u>

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

7 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:

	As at,	
	March 31, 2020	December 31, 2019
Opening balance.....	\$ 197,002	\$ 162,811
Settlements	(605)	(5,023)
Additions	1,057	28,310
Change in estimated future cash flows	-	(16,000)
Change in discount rate (March 31, 2020 – 1.4%, December 31, 2019 – 1.7%)	15,529	27,167
Unwinding of discount	839	3,325
Transfer to liabilities held for sale	-	(3,332)
Effect of changes in foreign exchange rates.....	415	(256)
Closing balance.....	<u>\$ 214,237</u>	<u>\$ 197,002</u>

8 Share capital

Common Shares – Issued and Outstanding

	Common Shares	
	Number of Common shares	Amount
At January 1, 2020.....	145,675,481	\$ 1,973,827
Proceeds on exercise of stock options	15,644	395
Exercise of debentures conversion option.....	25,818	559
Excess deferred tax on equity settled awards	-	80
Reclassification of contributed surplus on issuance of awards under equity incentive plans	491,772	9,279
At March 31, 2020.....	<u>146,208,715</u>	<u>\$ 1,984,140</u>

Share based compensation

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

	Stock Options		Restricted Share Units	Performance Share Units	Deferred Share Units
	Number of shares	Weighted average exercise price (in dollars)	Number of Shares		
Balance at January 1, 2020.....	2,014,943	\$ 19.81	618,274	682,601	457,578
Granted	65,000	17.53	551,147	523,594	52,514
Exercised and released for common shares	(15,644)	25.33	(286,382)	(186,410)	(18,980)
Forfeited	(48,839)	26.34	(5,181)	(3,575)	-
Balance at March 31, 2020.....	<u>2,015,460</u>	<u>\$ 19.54</u>	<u>877,858</u>	<u>1,016,210</u>	<u>491,112</u>
Vested.....	<u>1,484,986</u>	<u>\$ 18.64</u>	<u>-</u>	<u>-</u>	<u>491,112</u>

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

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

	Three months ended March 31,	
	2020	2019
Weighted average common shares outstanding – Basic.....	145,791,049	144,673,465
Dilutive effect of:		
Stock options and other awards	2,316,210	2,387,548
Weighted average common shares outstanding – Diluted	<u>148,107,259</u>	<u>147,061,013</u>

The dilutive effect of 2.3 million (March 31, 2019 – 2.4 million) stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the three months ended March 31, 2020 have been included in the determination of the weighted average number of common shares outstanding for continuing operations. The impact of 0.2 million (2019 – 1.5 million) stock options have not been included in the determination of weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net income from continuing operations per share.

9 Income tax provision

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

	Three months ended March 31,	
	2020	2019
Current	\$ 11,384	\$ 4,542
Deferred	5,933	5,705
	<u>\$ 17,317</u>	<u>\$ 10,247</u>
 Total current and deferred.....	 \$ 17,317	 \$ 10,247
Effective income tax rate.....	25.7%	14.9%

10 Employee salaries and benefits

Employee salaries and benefits have been expensed as follows:

	Three months ended March 31,	
	2020	2019
Cost of sales.....	\$ 18,940	\$ 18,974
General and administrative	12,054	8,439
	<u>\$ 30,994</u>	<u>\$ 27,413</u>

Gibson Energy Inc.**Notes to Condensed Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)***11 Revenue**

	Three months ended March 31,	
	2020	2019
Revenue from contracts with customers recognized at a point in time	\$ 1,378,828	\$ 1,682,668
Revenue from contracts with customers recognized over time	37,393	36,070
Total revenue from contracts with customers	1,416,221	1,718,738
Total revenue from lease arrangements	42,469	29,950
	<u>\$ 1,458,690</u>	<u>\$ 1,748,688</u>

Disaggregation of revenue from contracts with customers are as follows:

Three months ended March 31, 2020

	Infrastructure	Marketing	Total
Statement of operations			
<u>Canada</u>			
External Service Revenue			
Terminals storage and throughput/pipeline transportation	\$ 18,759	\$ -	\$ 18,759
Rail	17,104	-	17,104
Other	697	-	697
External Product Revenue			
Crude, diluent and other products	-	919,872	919,872
Refined products	-	6,148	6,148
Total revenue – Canada	<u>\$ 36,560</u>	<u>\$ 926,020</u>	<u>\$ 962,580</u>
<u>United States</u>			
External Service Revenue			
Hauling, transportation and other	\$ 89	\$744	\$ 833
External Product Revenue			
Crude, diluent and other products	-	361,199	361,199
Refined products	-	91,609	91,609
Total revenue – U.S.	<u>89</u>	<u>453,552</u>	<u>453,641</u>
Total Revenue from contracts with customers	<u>\$ 36,649</u>	<u>\$ 1,379,572</u>	<u>\$1,416,221</u>

Gibson Energy Inc.
Notes to Condensed Consolidated Financial Statements
(tabular amounts in thousands of Canadian dollars, except where noted)
Three months ended March 31, 2019

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
Statement of operations			
<u>Canada</u>			
External Service Revenue			
Terminals storage and throughput/pipeline transportation	\$ 19,594	\$ -	\$ 19,594
Rail	10,269	-	10,269
Other	3,134	-	3,134
External Product Revenue			
Crude, diluent and other products	-	1,298,476	1,298,476
Refined products		21,077	21,077
Other	1,108	-	1,108
Total revenue – Canada	<u>\$ 34,105</u>	<u>\$ 1,319,553</u>	<u>\$ 1,353,658</u>
<u>United States</u>			
External Service Revenue			
Hauling, transportation and other	\$ 194	\$ 2,879	\$ 3,073
External Product Revenue			
Crude, diluent and other products	-	300,969	300,969
Refined products	-	61,038	61,038
Total revenue – U.S.	<u>194</u>	<u>364,886</u>	<u>365,080</u>
Total Revenue from contracts with customers	<u>\$ 34,299</u>	<u>\$ 1,684,439</u>	<u>\$ 1,718,738</u>

12 Financial instruments
Derivative financial instruments (recurring fair value measurements)

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

	March 31, 2020		December 31, 2019	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Commodity futures	\$ 14,598	\$ 4	\$ 1,069	\$ 700
Commodity swaps	1,755	4,736	1,119	1,212
WTI differential futures	2,110	6,369	1,042	92
Foreign currency forwards	238	801	1,419	171
Total	<u>\$ 18,701</u>	<u>\$ 11,910</u>	<u>\$ 4,649</u>	<u>\$ 2,175</u>
Less non-current portion:				
Commodity swaps	-	-	(15)	(81)
Current portion	<u>\$ 18,701</u>	<u>\$11,910</u>	<u>\$ 4,634</u>	<u>\$ 2,094</u>

Gibson Energy Inc.
Notes to Condensed Consolidated Financial Statements

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

The fair value of financial instrument contracts by fair value hierarchy at March 31, 2020 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets from financial instrument contracts				
Commodity swaps.....	\$ 14,598	\$ 14,598	\$ -	\$ -
Commodity swaps.....	1,755	-	1,755	-
WTI differential futures	2,110	2,110	-	-
Foreign currency forward	238	-	238	-
Total assets	18,701	16,708	1,993	-
Liabilities from financial instrument contracts				
Commodity futures.....	4	4	-	-
Commodity swaps.....	4,736	-	4,736	-
WTI differential futures	6,369	6,369	-	-
Foreign currency forwards.....	801	-	801	-
Total liabilities.....	\$ 11,910	\$ 6,373	\$ 5,537	\$ -

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

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

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

	Three months ended March 31,	
	<u>2020</u>	<u>2019</u>
Cost of sales	\$ 4,262	\$ 3,430
Stock based compensation	-	6,159
	\$ 4,262	\$ 9,589

As at March 31, 2020 and December 31, 2019, the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,086.0 million and \$1,195.6 million, respectively.

As at March 31, 2020 and December 31, 2019, the fair value of the Debentures based on period end trading prices on the secondary market (Level 2) was \$100.0 million and \$125.3 million, respectively.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

Sensitivity

U.S. Dollar Forwards and Options

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:

	March 31,	
	2020	2019
Favorable 5% change.....	\$ 724	\$ 1,379
Unfavorable 5% change.....	(724)	(1,379)

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.

Crude oil and NGL related 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.

	March 31,	
	2020	2019
Favorable 15% change.....	\$ 11,948	\$ 8,745
Unfavorable 15% change.....	(11,948)	(8,745)

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. The Company establishes guidelines for customer credit limits and terms. The Company review includes financial statements and external ratings when available. The Company does not usually require collateral in respect of trade and other receivables. The Company provides adequate provisions for expected losses from the credit risks associated with trade receivables. The provision is based on an individual account-by-account analysis and prior credit history. The Company is exposed to credit risk associated with possible non-performance by financial instrument counterparties. The Company does not generally require collateral from its counterparties but believes the risk of non-performance is low. The counterparties are generally major financial institutions or commodity brokers with investment grade credit ratings as determined by recognized credit rating agencies.

In order to appropriately address the credit risk in light of the recent market impacts from the COVID-19 pandemic and the reduction in crude oil prices, the Company completed a comprehensive analysis in accordance with the policy noted above. As a result of this analysis, certain immaterial accounts receivable balances were deemed uncollectible and were written-off as at March 31, 2020. As at March 31, 2020, 4% (December 31, 2019 – 3%) of net trade receivables were 30 days past the due date but not considered impaired. The maximum exposure to credit risk related to the trade receivables is their carrying value which was \$271.1 million as March 31, 2020, of which the majority was classified as current. Furthermore, the Company reassessed certain assumptions included within its expected credit loss model as noted earlier. This reassessment resulted in an immaterial

Gibson Energy Inc.**Notes to Condensed Consolidated Financial Statements**

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

increase in the expected credit loss provision. The Company's cash equivalents are placed in time deposits with investment grade international banks and financial institutions, which resulted in no material changes to the exposure.

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 March 31, 2020, the Company had a Revolving Credit Facility of \$750.0 million and three bilateral demand letter of credit facilities totaling \$150.0 million. At March 31, 2020 \$50.0 million (December 31, 2019 - \$60.0 million) was drawn against the Revolving Credit Facility and the Company had outstanding issued letters of credit of \$35.2 million (December 31, 2019 - \$36.9 million). Set out below is a maturity analyses of certain of the Company's financial contractual obligations as at March 31, 2020. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

	On demand or within one year	Between one and three years	Between three and five years	After five years	Total
Trade payables and accrued charges, excluding derivative financial instruments and accrued interest	\$ 284,808	\$ -	\$ -	\$ -	\$ 284,808
Dividend payable	49,711	-	-	-	49,711
Long-term debt	-	-	600,000	500,000	1,100,000
Credit facilities	-	-	50,000	-	50,000
Debentures (debt and equity component)	-	99,331	-	-	99,331
Interest on long-term debt and Debentures ..	54,750	100,517	78,000	81,000	314,267
Financial instruments	11,910	-	-	-	11,910
Lease liabilities	44,689	58,552	32,151	14,868	150,260
	<u>\$ 445,868</u>	<u>\$ 258,400</u>	<u>\$760,151</u>	<u>\$ 595,868</u>	<u>\$ 2,060,287</u>

13 Subsequent Events

On May 4, 2020, the Board declared a quarterly dividend of \$0.34 per common share for the second quarter on its outstanding common shares. The dividend is payable on July 17, 2020 to shareholders of record at the close of business on June 30, 2020.

Gibson Energy Inc.**Notes to Condensed Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)***14 Supplemental cash flow information**

	Three months ended March 31,	
	2020	2019
Cash flows from operating activities		
Net income from continuing operations	\$ 50,003	\$ 58,677
Adjustments for non-cash items:		
Finance costs, net	19,332	17,600
Income tax expense	17,317	10,247
Depreciation and impairment of property, plant and equipment.....	28,556	24,386
Depreciation on right-of-use assets.....	9,561	9,770
Amortization and impairment of intangible assets	2,020	3,059
Stock based compensation	6,025	606
Share of profit from investments in equity accounted investees.....	(3,756)	-
Loss (gain) on sale of property, plant and equipment.....	57	(172)
Net gain on fair value movement of financial instruments	(4,262)	(3,430)
Other	6,552	(3,083)
Subtotal of adjustments	81,402	58,983
Changes in items of working capital:		
Trade and other receivables	117,905	(167,721)
Inventories	68,525	(93,003)
Other current assets	(1,130)	(475)
Trade payables and accrued charges	(130,787)	210,567
Contract liabilities	(24,001)	(2,311)
Subtotal of changes in items of working capital.....	30,512	(52,943)
Income taxes paid, net	(6,218)	(77,211)
Cash provided by (used in) operating activities from continuing operations.....	\$ 155,699	\$ (12,494)
Cash provided by operating activities from discontinued operations.....	-	9,192
Net cash provided by (used in) operating activities	\$ 155,699	\$ (3,302)