

Economic Development Section Feature
February 2020 Newsletter

Submission by: Scott Walburn, Kansas City Southern Railway Company

Gibson Energy and USD Announce Joint Venture to Construct DRU at Hardisty Utilizing Innovative DRUbit™ Technology and Agreement with ConocoPhillips for 50,000 bbl/d of Capacity.

Patented Diluent Recovery Unit Produces DRUbit™ Designed for Rail Transport and Reuse of Diluent Providing a Bitumen Market Access Solution with Significant Safety and Environmental Benefits and Increased Takeaway Capacity at a Cost Competitive with Pipelines.

CALGARY, Alberta, Dec. 03, 2019 (GLOBE NEWSWIRE) -- US Development Group, LLC (through a wholly-owned affiliate, collectively **USD**) and Gibson Energy Inc. (**Gibson**) (TSX: GEI) jointly announced today an agreement to construct and operate a diluent recovery unit (**DRU**) near Hardisty, Alberta, Canada. ConocoPhillips Canada has contracted to process 50,000 barrels per day of inlet bitumen blend through the DRU to be shipped by Canadian Pacific (**CP**) (TSX: CP) (NYSE: CP) and Kansas City Southern Railway Company (**KCS**) (NYSE: KSU) to the U.S. Gulf Coast. USD and Gibson are currently in commercial discussions with other potential producer and refiner customers to secure long-term, take-or-pay agreements for an additional 50,000 barrels per day at the proposed DRU.

USD's patented DRU technology separates the diluent that has been added to the raw bitumen in the production process which meets two important market needs – it returns the recovered diluent for reuse in the Alberta market, reducing delivered costs for diluent, and it creates **DRUbit™**, a proprietary heavy Canadian crude oil specifically designed for rail transportation. DRUbit™ is crude oil or bitumen that has been returned to a more concentrated, viscous state that creates safety and environmental benefits when transported by rail in Canada and the U.S. DRUbit™ is a market access solution that will satisfy demand for heavy Canadian crude oil on the U.S. Gulf Coast and in other markets at a cost that is economically competitive to the crude oil that is transported by pipeline today.

“Our DRU technology provides a sustainable, long-term solution for shipping Canadian crude oil to the U.S. Gulf Coast. DRUbit™ offers safety and environmental benefits in transportation, provides greater take-away capacity and improved economics for all parties,” said USD CEO, Dan Borgen. “USD is a company that provides solutions for energy infrastructure and our patented DRU technology is another valuable solution. We are thrilled to work with ConocoPhillips Canada, our JV partner Gibson, and both CP and KCS to deliver this DRU and DRUbit™ solution as part of a networked system that provides direct market access for Canadian producers.”

“The DRU process is an innovative solution that competes with pipeline economics and secures improved netbacks across the seasonality and widely varying differentials experienced in the Western Canadian spot market,” said Kirk Johnson, President, ConocoPhillips Canada. “It helps address a critical challenge to Canada’s oil producers — constrained market access — to the benefit of all Canadians.”

“We expect DRUs to be a critical part of solving the egress challenges Western Canadian producers are facing, both today and over the long-term,” said Steve Spaulding, Gibson’s President and Chief Executive Officer. “Improved netbacks for producers will drive increased oilfield and related business activity, create new jobs and help revive communities as well as positively benefit all levels of government through increased royalties and other levies.”

Following separation at the DRU, the DRUbit™ owned by ConocoPhillips will be railed by CP and KCS from the existing Hardisty Rail Terminal to a new terminal in Port Arthur, Texas under a long-term contract with CP, subject to standard conditions. The new terminal in Port Arthur will be constructed, owned and operated solely by USD. It will have capability for rail unloading, barge dock loading and unloading, tank storage and blending, and will be pipeline connected to Phillips 66’s Beaumont Terminal, providing customers access to a large network of refining and marine facilities. ConocoPhillips will re-blend the DRUbit™ with a variety of diluents to create higher-value customized blends that better meet the needs of its customers.

“From an innovation, sustainability and safety perspective, this is a game changer,” said Keith Creel, CP President and CEO. “This process removes diluent from the crude-by-rail supply chain, and as a result, we end up moving a non-hazardous commodity. This will further increase the safety of crude-by-rail, to the benefit of the communities we operate in and through.”

“KCS is pleased to be a strategic partner in this innovative solution to improve the economics and safety of moving crude oil,” said KCS President and Chief Executive Officer Patrick J. Ottensmeyer. “It’s also a great opportunity to grow our business in the Gulf Coast area and develop our Port Arthur asset.”

Construction of the DRU is expected to take approximately 18 to 24 months and is subject to certain conditions, including obtaining agreements to underpin the economics of the project and receipt of required regulatory approvals, including from the Alberta Energy Regulator. The DRU could be placed into service as early as the second quarter of 2021.

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About USD Group LLC

US Development Group, LLC (“USD”) and its affiliates are engaged in designing, developing, owning, and managing large-scale multi-modal logistics centers and energy-related infrastructure across North America. USD solutions create flexible market access for customers in significant growth areas and key demand centers, including Western Canada, the U.S. Gulf Coast and Mexico. Among other projects, USD is currently pursuing the development of a premier energy logistics terminal on the Houston Ship Channel with capacity for substantial tank storage, multiple docks (including barge and deepwater), inbound and outbound pipeline connectivity, as well as a rail terminal with unit train capabilities. For additional information, please visit www.usdg.com. Information on websites referenced in this release are not part of this release. DRUbit™ is a trademark of DRU Assets LLC, a subsidiary of USD, and is used by permission. All rights reserved.

About Gibson

Gibson is a Canadian-based oil infrastructure company with its principal businesses consisting of the storage, optimization, processing, and gathering of crude oil and refined products. Headquartered in Calgary, Alberta, the Company's operations are focused around its core terminal assets located at Hardisty and Edmonton, Alberta, and also include the Moose Jaw Facility and an infrastructure position in the U.S. Gibson shares trade under the symbol GEI and are listed on the Toronto Stock Exchange. For more information regarding Gibson as well as the DRU project visit www.gibsonenergy.com and Gibson's profile on SEDAR at www.sedar.com.

About ConocoPhillips

Headquartered in Houston, Texas, ConocoPhillips had operations and activities in 17 countries, \$70 billion of total assets, and approximately 10,400 employees as of Sept. 30, 2019. Production excluding Libya averaged 1,310 MBOED for the nine months ended Sept. 30, 2019, and proved reserves were 5.3 BBOE as of Dec. 31, 2018. Our Canadian operations are focused on developing our world-class portfolio including the ConocoPhillips-operated Surmont Joint Venture with TOTAL E&P Canada in the Athabasca region of northeast Alberta and exciting opportunities in the liquids-rich Montney play in northeast British Columbia. For more information, go to www.conocophillips.ca.

About Canadian Pacific

Canadian Pacific (CP) is a transcontinental railway in Canada and the United States with direct links to major ports on the west and east coasts. CP provides North American customers a competitive rail service with access to key markets in every corner of the globe. CP is growing with its customers, offering a suite of freight transportation services, logistics solutions and supply chain expertise. Visit www.cpr.ca to see the rail advantages of CP.

About the Kansas City Southern Railway Company

Headquartered in Kansas City, Mo., Kansas City Southern (KCS) (NYSE: KSU) is a transportation holding company that has railroad investments in the U.S., Mexico and Panama. Its primary U.S. holding is The Kansas City Southern Railway Company, serving the central and south central U.S. Its international holdings include Kansas City Southern de Mexico, S.A. de C.V., serving northeastern and central Mexico and the port cities of Lázaro Cárdenas, Tampico and Veracruz, and a 50 percent interest in Panama Canal Railway Company, providing ocean-to-ocean freight and passenger service along the Panama Canal. KCS' North American rail holdings and strategic alliances with other North American rail partners are primary components of a unique railway system, linking the commercial and industrial centers of the U.S., Mexico and Canada. More information about KCS can be found at www.kcsouthern.com.

Forward Looking Statements

*Certain statements contained in this press release constitute forward-looking information and statements (collectively, **forward-looking statements**) including, but not limited to, statements concerning the proposed construction and operations of the DRU, the anticipated benefits, opportunities and sustainability of the DRU and DRUbit™ for project participants, oil field and related business activities, market participants, local communities and governments, the methods of transportation of DRUbit™ and contribution of the DRU to the improvement of market access for oil producers, construction, ownership and operation of USD's Port Arthur terminal and the plans for such terminal, improved industry economics associated with the DRU and transportation of DRUbit™, the safety features of the transportation of DRUbit™ and expectations with respect to the business and financial prospects and opportunities related to the DRU and DRUbit™ transportation.*

These statements relate to future events or future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "aim", "target", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may",

“will”, “shall”, “project”, “should”, “could”, “would”, “believe”, “predict”, “forecast”, “pursue”, “potential” and “capable” and similar expressions are intended to identify forward-looking statements. The forward looking statements reflect the project participant's beliefs and assumptions with respect to, among other things, the ability to obtain necessary commercial support and regulatory approvals in connection with the DRU and Port Arthur terminal, the timing of completion of the DRU and Port Arthur terminal, continued market demand, general economic trends, industry trends, commodity prices, capital markets, the governmental, regulatory and legal environment in the various jurisdictions in which they individually, or collectively, conduct and will conduct their respective business, ability to obtain qualified personnel and equipment in a timely and cost-efficient manner, ability to generate sufficient cash to meet its current and future obligations, ability to obtain financing for capital programs and the DRU and Port Arthur terminal on acceptable terms, the successful and timely implementation of capital projects in a manner consistent with financial expectations and the other business activities of the participants, and other assumptions inherent in management's expectations of future operating and financial results and other forward-looking statements identified herein.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Although the project participants believe these statements to be reasonable, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this press release should not be unduly relied upon. Actual results could differ materially from those anticipated in these forward looking statements as a result of, among other things, risks inherent in the businesses conducted by each of the project participants, ability for Gibson and USD to secure additional long-term, take-or-pay agreements with other producer and refiner customers to fully underpin the economics of the project, the ability to satisfy the commercial conditions relating to ConocoPhillips' participation in the DRU project and other conditions associated with the DRU and its construction and operation, the ability of customers to discover and market reserves, construction costs in respect of the DRU and USD's Port Arthur terminal, regulatory decisions, competitive factors in the industries in which the project participants operate, prevailing economic conditions, world-wide demand for crude oil and petroleum products, volatility of commodity prices, currency and interest rates fluctuations, product supply and demand (including demand for DRUbit™), changes in credit ratings applicable to any of the participants, operating costs and the accuracy of cost estimates, exposure to counterparties and partners, including ability and willingness of such parties to satisfy contractual obligations in a timely manner, future capital expenditures, ability to obtain necessary regulatory approvals for the DRU and USD's Port Arthur terminal, the availability, costs, terms and timing of or execution of, and competition for, required regulatory approvals, rail capacity and terminal access, the successful and timely implementation of construction on the DRU and Port Arthur terminal and/or stages thereof, changes to any of the project participants' business plans or strategy, ability to access various sources of debt and equity capital, generally, and on terms acceptable to the respective participant, changes in government policies, laws and regulations, including environmental and tax laws and regulations, competition for employees and other personnel, equipment, material and services related thereto, the availability and cost of employees and other personnel, equipment, materials and services, weather, including its impact on product demand, exploration, production and transportation, inherent risks associated with the exploration, development, production and transportation of bitumen, the timing and extent of changes in foreign currency exchange rates, interest rates, inflation rates, global and domestic financial market conditions and global and domestic general economic conditions, political developments around the world, including the areas in which the project participants individually, or collectively, operate, many of which are beyond the control of any of the project participants. Readers are cautioned that the foregoing lists are not exhaustive. For a full discussion of the material risk factors please refer to those included in Gibson's Annual Information Form dated March 4, 2019 as filed on SEDAR and available on the Gibson website at www.gibsonenergy.com, the more detailed information about factors that could affect future events may be found in filings by ConocoPhillips with the Securities and Exchange Commission including ConocoPhillips' Annual Report on Form 10-K for the year ended December 31, 2018 and subsequent reports, those detailed from time to time in reports filed by CP with securities regulators in Canada and

the United States under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Information" in CP's annual and interim reports on Form 10-K and 10-Q, and the more detailed information about factors that could affect future events may be found in filings by KCS with the Securities and Exchange Commission including KCS' Annual Report on Form 10-K for the year ended December 31, 2018 and subsequent reports.